



Statement of the U.S. Chamber of Commerce

ON: "Lip Service but Little Else: Failure of the Small Business Health Insurance Tax Credit "

TO: THE HOUSE SMALL BUSINESS COMMITTEE'S SUBCOMMITTEE ON ECONOMIC GROWTH, TAX AND CAPITAL ACCESS

DATE: March 22, 2016

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Statement on
“Lip Service but Little Else:
Failure of the Small Business Health Insurance Tax Credit”
Submitted to
THE HOUSE SMALL BUSINESS COMMITTEE’S
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX AND CAPITAL ACCESS
on behalf of the
U.S. CHAMBER OF COMMERCE
By
Harold Jackson
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Buffalo Supply, Inc.
Lafayette, Colorado
March 22, 2016

Chairman Huelskamp, Ranking Member Chu and distinguished members of the Subcommittee, thank you for inviting me to testify before you today about my experiences with the small business health insurance tax credit. I hope that my testimony and remarks will help provide a concrete real life example as to the shortfalls of this premium tax credit which is unfortunately illusive to most small businesses. I understand that most tax credits are designed to incent or change behavior and - to be clear - we have always provided health insurance for our employees. But the fact is prices have increased so dramatically year after year that we may not be able to continue to provide health insurance in the future. Because we are ineligible, this tax credit does not help me in any way to provide affordable health coverage to my employees now. And unfortunately, it will not encourage me to do so in the future - if and when - I may be forced to stop offering insurance because of prohibitively escalating costs. Despite efforts to encourage employers to provide health insurance and bolster the small group and individual markets, this premium tax

credit helps with neither goal. Instead, we are unable to mitigate increasing costs to our company and our employees as we strive to provide our Buffalo Supply family with health insurance.

My name is Harold Jackson. I am the Executive Chairman of Buffalo Supply, Inc., a 20-employee small business located in Lafayette, Colorado, specializing in federal contracting for medical supplies and equipment. I am honored to speak with you today on behalf of the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses and organizations of every size, sector, and region. As you might know, more than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, just like mine, and 70 percent of which have 10 or fewer employees.

Company Background

Since 1983, our family-owned business has been devoted to providing high-tech medical supplies and high-tech medical equipment to the federal government. While our company has grown to be successful, we began in the basement of my brother Stonewall's home. With a strong belief that he could help companies understand the federal procurement process and bring value to federal customers, my brother established Buffalo Supply with originally just one supplier partner. Over the past 33 years, we have grown to be one of the top 20 federal contractors for medical supplies and equipment and are currently the exclusive small business federal distributor for many well-recognized brands, such as Integra Lifesciences, Stryker Spine, STERIS Corporation, and Bausch + Lomb Storz (to name a few). Today, we have 16 full-time employees and four part-time employees.

At Buffalo Supply, Inc. (BSI), we understand the complexities of federal contracting and work closely with our supplier partners to ensure that we are bringing high quality medical supplies

and equipment to our Veterans and warfighters, while also helping our supplier partners remain compliant with all Federal Acquisition Regulations. We hold multiple FSS Contracts, ECAT and DAPA contracts, and Blanket Purchase Agreements (BPAs) to ensure that federal customers are able to purchase the products they need through their preferred contract platform.

BSI has numerous Federal Supply Schedule contracts with products to satisfy a wide variety of operating room and health care needs. Through our diligent work and extensive experience in the federal marketplace, BSI has developed a high level of expertise in helping federal institutions efficiently meet their objectives of providing high quality health care **equipment** at competitive prices. We primarily provide our goods and services to federal medical facilities, mainly within the Department of Veterans Affairs, Department of Defense, and Department of Health and Human Services.

We pride ourselves not only on providing exceptional customer service to our customers and a deep level of expertise to our supplier partners, but also on providing a high quality workplace for our employees. We spend a lot of time and effort in training our employees to stay up to date on changes to regulations, changes in the federal market, etc. When you call BSI, you always get a live person. Even if you ask for something we can't provide, we'll help you find it. We want to be the government buyers' partner in providing the products our vets and warfighters deserve, helping however we can. And to help us do this, we spend a lot of time and effort on hiring. It's extremely important to not just find people with the right education level and the skill levels, but also with the personality that will complement our organization—to keep the attitude positive and moving forward. We're a family at our small business – our average customer service rep has been with BSI for nearly 10 years.

Additionally, we also share the profits with the employees through bonus programs. If we

grow the business to the projections, then everyone gets a couple hundred dollars a month in addition to their normal check – and it is amazing how that creates a positive attitude. At the end of the year there is an additional profit share program – we are all pulling towards the same cause and when the company is successful, each of our members should benefit.

While our primary measure of success is the happiness of our employees and our customers, we have been honored to receive some external praise as well. Colorado Biz Magazine named BSI as one of its top 10 small businesses to work for in Colorado. The DC-based Coalition for Government Procurement and the US General Services Administration gave BSI their "Excellence In Partnership - Most Innovative Small Business Award" for 2003.

Personally, I have served as an advisor for the University of Colorado, Denver School of Business for Entrepreneurship. I am an active member of: The U.S. Chamber of Commerce (where I serve on the Small Business Council and the Government Procurement Sub-Council); the Coalition for Government Procurement; and the NFIB Leadership Council of Colorado. In 2006, the Bush Administration appointed me to the Small Business Administration's Regulatory Fairness Board, where I served for two years. In 2012, I was honored by the Leadership Council of NFIB/Colorado as Colorado's Small Business Champion of the Year. On November 6, 2013, I received an award for a Lifetime of Service to Small Business. I am grateful for these accolades but recognize the company and our employees made all of this possible.

In my leisure time, I love to fill my days camping, "Jeeping," and as an amateur photographer. Once a year, I take off with my 4X4 crew and disappear into the wilderness of Utah and Arizona. I am eager to teach my grandson how to participate in all of these activities – if I can get my daughter Kara's permission.

Health Care: My Experience with Premium Increases

We have offered health care coverage to our employees for many, many years ever since we started hiring additional employees – probably back in 1990. Since then, providing health insurance to our workers has always been a priority – it is part of our culture and important for attracting and maintaining the best employees. But, it hasn't been easy, and in fact, each year it gets harder and harder for us financially.

As an employer committed to providing insurance to our employees and their families, our history with offering health insurance has been somewhat tumultuous. We try to shield our employees as much as possible to the challenges we have faced. For many years we provided our employees with health insurance coverage through a PPO plan, which allowed employees to pay a bit extra to go to out-of-network providers – giving them a greater level of choice.

We came to a point in the mid-2000s where we were growing quickly and insurance premiums were increasing so much that we had to try to find some new solutions. Health Savings Accounts, or HSAs, were new to the market place and we did a lot of research to understand if offering a High-Deductible Health Plan in conjunction with an HSA would be good for our employees. A few members in our management team volunteered to review their medical expenses for the previous year and compare how much they would have spent out-of-pocket with the two different types of plans. After reviewing the comparisons, we decided to offer an HDHP plan and fully fund our employees' HSAs to cover the cost of the associated HDHP's deductible. Unfortunately, as premiums have increased, our company's ability to fund the HSA to cover the associated HDHP's deductible has waned – at first down to 50% of the deductible and now to zero.

However, we continue to pay 100% of the premiums for our employees and their dependents – which continues to make BSI stand out to job applicants.

In addition to changing plan types and HSA contributions, we have also had to change carriers, on average every 1-3 years. We have rotated between Anthem, United, Aetna and Rocky Mountain Health in an effort to find more affordable coverage.

Beyond changes in plan design and carriers, we have seen tremendous cost increases despite modest decreases in benefits. For example, in 2010 our average premium was under \$12,840 annually for family coverage. This average premium skyrocketed to a \$16,380 annual premium for family coverage this year (over a 25% increase). This increase accompanies less robust coverage. Now our health insurance plan has a higher family deductible (up from \$3,000 to \$5,000) and a new out-of-pocket maximum of \$6,800 – up from \$4,000 in 2010. So we are paying more in premiums and sadly – our employees are also paying more when they need medical care and services.

My Limited Experience with the Elusive Small Business Premium Tax Credit

When the Colorado Exchange “Connect for Health Colorado” opened its Small Business Health Options Plan in 2015, I went on-line and tried to enroll. I learned through my colleagues at the U.S. Chamber and NFIB that small businesses with 25 or fewer employees may be eligible for a small business premium tax credit provided coverage was purchased through the SHOP. Unfortunately, the amount of information that the SHOP asked for in its on-line application process was incredible; much of the information requested – I didn’t have. They wanted a lot of information about spouses and dependents that we don’t have or maintain – such as dependent’s and spouse’s Social Security numbers, dates of birth, and tobacco use. It took me two or three days to

gather up this information. I spent about 10 hours entering this information into the system, after which I couldn't figure out how to review the plans available or get quotes.

I called the 800 number and they told me that they don't give quotes to small business. The SHOP representative said that I needed to go through a broker. When I called a broker, clearly he had heard from other businesses like me about the SHOP – even though SHOP referred me to him - he told me “I can get you a quote, but I don't want to go through the exchange, it's too much hassle.”

I mention all of this because – as you know – the small business premium tax credit is only available to small businesses (those with 25 or fewer employees earning on average less than \$50,000 per year) that purchase coverage for their employees on the SHOP. Clearly, based on my experience, this is an onerous “hoop” in and of itself as a requirement. Unfortunately, it is not the only hoop that makes the prospect of obtaining a small business tax credit elusive. The other -- and bigger -- hurdle for small businesses is the annual average earning cap. The average annual earning threshold is simply too low.

Possible Solutions/Improvements?

I do believe small businesses need help, both to encourage others (like we do) to provide health insurance and also to help those who (perhaps also like we) may one day find that they cannot continue to provide health insurance to their employees. I am certainly not a tax expert – although lord knows I pay taxes and wish I were – but it seems to me like there are several ways to make this tax credit more useful to small businesses.

- First, it should be available to small businesses that purchase coverage on or off the SHOP – this would level the playing field a bit.

- Second, the average earning level must be raised.
- Third, the tax credit should be available for more than 2 consecutive years.
- In any event, the benefit of this tax credit needs to be easier for businesses to assess and the hoops should be simplified for businesses to more easily satisfy.

Conclusion

I am proud of the company that my brother started and that we as a family have built. I am proud of the employees that we have – our broader family. I am concerned about the ability of our company and others around the country to continue to provide health insurance and I think this premium tax credit may be increasingly necessary to encourage companies to provide coverage – particularly given the premium increases we continue to see year over year. Based on my experience, I think part of the problem is that the rules for the tax credit are so confusing that small businesses cannot assess benefit of the tax credit without hiring outside counsel. Ultimately, any changes should not only increase the tax benefit to help small businesses provide health insurance for their employees, but must be simple and easily understood. As my brothers and I transition our company to our children, I hope that they will be able to benefit from the struggles we have had in many areas and learn from our successes as well. Unfortunately, at this point, providing health insurance continues to be a struggle.

Thank you for this opportunity to testify, and I look forward to your questions.