

Statement of Todd McCracken, President and CEO
National Small Business Association
Before the House Small Business Subcommittee on Contracting and Workforce
United States House of Representatives
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Mr. Chairman, and Members of the Subcommittee:

I am Todd McCracken, President and CEO of the National Small Business Association (NSBA). The NSBA is the nation's oldest small-business association, focusing on advocacy for small companies since our beginnings in 1937.

Thank you for inviting us to speak today about one of the most vexing problems facing small businesses, the enormous costs and ongoing uncertainty surrounding our health insurance system. NSBA has long ranked health care reform and cost containment as one our highest priorities. We are deeply troubled by the ongoing difficulties our health care system creates for small businesses and their employees, and by the fact that the most recent national effort to reform the health care system has made many of these difficulties even worse.

Escalating Small Business Health Insurance Costs

In February, NSBA released its [2014 Small Business Health Care Survey](#) which shows how America's small businesses are dealing with rising health care costs, what kind of benefits they offer and how the *Patient Protection and Affordable Care Act* (PPACA) is impacting their businesses. The survey confirmed what has been widely reported about health care costs for our smallest companies: they are rising steeply, and entrepreneurs are deeply concerned about what the future might hold. Unfortunately, these rising costs are not new. Small firms have been facing, oftentimes, double-digit increases in the cost of their health care over the past two decades. Unfortunately, PPACA has done little to stem these increases, and could actually make it worse for many small firms.

Though we continue to hear that medical inflation is down and overall health care costs are rising only slowly, evidence of such trends is hard to find in the small-business community. In the NSBA survey, 91 percent of businesses reported increases in their health plan premiums at their most recent health insurance renewal, with one in four being hit with increases exceeding 20 percent.

Since 2009 (the first time NSBA conducted a similar health care survey), the average per-employee health premium reported in the survey has increased by 90-percent. During this same period, growth and profits have been stagnant. It is little wonder that small-business owners are focused on this cost center, openly wondering whether the current regime is a system they can continue to afford, and increasingly worried that PPACA will only add to their miseries.

Remember, these costs have real-world implications: the NSBA survey shows that one-third of small businesses held off on hiring a new employee and more than half say they held off on salary increases for employees as a direct result of high insurance costs. Of course, these employment decisions are both a reflection of current costs and a window into uncertainty about what the future may hold, both for the economy and the health care system.

Despite its volatile costs and complexity, health insurance is a key component to small firms' benefits package. The NSBA survey also found that while the majority of employers think offering health insurance is very important to recruiting and retaining good employees, just 51 percent of the smallest firms are able to offer health benefit. Of the 70 percent of small firms overall that do offer health insurance, the majority report paying for more than half of the cost of their employees' plans.

Today the average monthly per-employee cost of health insurance premiums for a small firm is \$1,121. When asked in 2009 for the estimated monthly cost of their health benefits package, per employee, small firms reported \$590 per month.

The Self-Employed and the Individual Health Insurance Market

Of course, we are here today to explore those particular and unique issues faced by our smallest members, the self-employed. These business owners generally do not have employees, so they purchase their health insurance in the individual market in the vast majority of states. These markets are undergoing the most significant changes as a result of PPACA.

Though the degree of change varies according to the rules previously existing in a state, PPACA has brought three areas of significant reform to the health insurance market place:

1. **Rating Rules.** PPACA has imposed much tighter “age bands” than previously existed in most states, limiting the variation of premiums between the oldest and youngest policy-holders. At the same time, the law eliminates the ability of insurers to rate on the basis of health status. While

- these changes ameliorate premiums for some older and sicker individuals, average premiums for most actually rise, in some cases quite steeply.
2. **Guaranteed Issue.** The law requires insurers to accept all applicants regardless of health status (and then set premiums without regard to health status; see above). While this provision – in theory – is necessary to achieve universal coverage under an individual mandate system, it clearly increases premiums by allowing some to circumvent the mandate and only purchase insurance once they “need” it. It is still an open question to what degree the individual mandate will limit this behavior.
 3. **Minimum Benefit Requirements.** PPACA imposes mandatory benefit requirements that are greater than had been imposed by many states, and greater than individuals might otherwise have purchased for themselves. By imposing these additional costs, the law makes it less likely that younger and healthier individuals will see the “value” in purchasing coverage, leaving higher average premiums for the rest of the market. These requirements have also been a prime driver in the cancellation of current policies, since they do not meet the new PPACA minimum benefits.

In combination with the individual mandate, the rules outlined above create a scenario where most health insurance premiums in most places for most individuals – and the self-employed – are going up, at the same time that small

businesses are being crunched to find savings and reduce spending across the board. The confluence of these forces requires our nation's self-employed individuals to make very difficult choices. And when combined with the bungled roll-out that so far has characterized PPACA and the exchanges, small businesses have little faith in the potential for improvement and an ultimate positive outcome.

The high costs and complexity they face today, combined with enormous uncertainty around any future improvement, have conspired to make many small businesses re-think whether their companies should continue to be entangled in the provision of health insurance. Of course, there is no such choice for our nation's self-employed. Whether health insurance is an individual or employer responsibility, they cannot avoid participation. So, how can we improve the current law, so that it keeps costs in check and better meets the needs of most of the self-employed?

Solutions for the Self-Employed

While we would like to see a "do-over" of this law, we think the following reforms are key changes that could specifically improve the law for the self-employed in the near-term:

- **Adjust Rating Bands.** The current 3:1 allowable age rating ratio is a primary factor in driving up premiums for current policy-holders. It would be wise to widen these age bands (perhaps to 5:1) at least until the efficacy of the employer mandate can be evaluated over time. The narrower the rating bands, the higher the average premium will be. And the biggest *increase* in premiums will be for younger (and likely healthier) workers, putting a finger on the scale of their cost/benefit analysis for purchasing coverage. Will the mandate be sufficient to keep these individuals in the market? We simply don't know. Until we have a clear sense of the effect of the mandate, we should not give more incentives for healthier individuals to flee the market.
- **Allow the Self-Employed to fully deduct health premiums against their for self-employment taxes.** In 2003, small-business owners finally were able to deduct all of their health insurance expenses against their *income* taxes. Unfortunately, we are still only part of the way to real health insurance tax equity for small businesses and the self-employed. Currently, employees are allowed to treat their contributions to health insurance premiums as "pre-tax," whereas business owners are not (owners of pass-through entities are generally not defined as "employees"). This distinction means that those premium payments for workers are subject neither to income taxes, nor to FICA taxes. While the

self-employed owner of a non-C Corporation can deduct the full premium against income taxes, that entire premium is paid after FICA taxes.

Compounding matters, these business owners pay both halves of the FICA taxes as employer and employee (the so-called self-employment tax) on their own income for a total self-employment tax burden of 15.3 percent. The average cost – nationally – of a family policy has been pegged at \$16,000 for 2013. A business owner who makes \$60,000 and purchases this plan for his or her family pays over \$2,400 in self-employment taxes on that policy. An employee who makes \$60,000 and has the same plan pays nothing in income or FICA taxes on that policy. By treating this business owner the same way that everyone else is treated in this country, we can give entrepreneurs an immediate 15-percent discount on health insurance premiums.

Thank you again for the opportunity to speak before you and to address these questions on the minds of so many of our smallest businesses and start-ups. Health insurance and its associated costs can often be a barrier to the innovation and growth that our country so desperately needs. I look forward to your questions and a continuing dialogue.