

SMALL BUSINESSES ACCESS TO HEALTH INSURANCE: LESSONS FROM NEBRASKA?

HEARING

BEFORE THE

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MONDAY, JUNE 6, 2005

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
Washington, DC

The Committee met, pursuant to call, at 11:05 a.m., at the Cornhusker Hotel, 301 South 13th Street, Lincoln, Nebraska., Hon. Donald A. Manzullo [chair of the Committee] Presiding.

Present: Representatives Manzullo and Fortenberry.

Also Present: Representatives Osborne and Terry.

Mr. MANZULLO. We know the gavel works. Welcome to our hearing here. I don't know if you're going to have enough chairs.

Mr. FORTENBERRY. That's a good problem.

Mr. MANZULLO. We need to have the chair committee bring in more chairs.

I am Congressman Don Manzullo from the 16th District of Illinois, chairman of the small business committee. And we have been having hearings literally all over the country on the issue of affordability of health care.

One of the outstanding members of our committee is Jeff Fortenberry, your congressman from Lincoln. Now let's all give him a nice round of applause.

[Applause.]

Mr. MANZULLO. Let me say it's a real pleasure to have Jeff as a member of the small business committee. He's one of those members that shows up quite a bit, asks all kinds of questions, causes all kinds of trouble, which is good because you didn't send him to town just to sit there but to raise the hackles of the people that are trying to make a policy.

Here are the rules. The witnesses will speak for five minutes. I am going to be the timekeeper. And when I go like this, that's four minutes. Okay? When I am getting ready to do this, all right, I'll bet that's five minutes. And those are the rules on it, and I am going to turn the table over to Congressman Fortenberry.

[Chairman Manzullo's opening statement may be found in the appendix.]

Mr. FORTENBERRY. Thank you so much, Mr. Chair. What a privilege we have today in welcoming Chairman Don Manzullo to join us for this official field hearing on the house small business committee. Chairman Manzullo is from northern Illinois, the 16th District. He lives in the town of Egan. We are desperately trying to find a map to figure out where that is because 39 people live there. He won't tell us.

Welcome, Mr. Chairman. Thank you so much. We are glad to have you in Nebraska. We are also joined by my colleague, the Second District representative, Congressman Lee Terry. Thank you, Mr. Terry, for being here today. We appreciate all of your willingness to come out today and talk and hear about this important topic of health care coverage and small business.

And, Mr. Chairman, everywhere I go, this topic does come up. We are very happy that you are here to address it with us because we know you have significant interest in this issue as well.

So as I mentioned today, we will examine the issue of small business and health care coverage, health care costs, as well as employees who are affected by this.

Small businesses represent the heart of entrepreneurship. Small businesses, including family farms, is where most families are trying to get a little bit ahead in life. Products are made and delivered with the imprint of a real person where workers and owners can most directly take responsibility for production and service and receive the full fruit of their labor.

Often closer to their customers, small family owned businesses often see opportunities in niche markets and provide personalized service. Small business is the key to long term economic well-being for families, and that's why I am so privileged to be a part of this important committee in Congress.

For every single large corporation in America, there are 300 smaller ones. These smaller companies employ half of the total private work force and consistently produce around 75 percent of the new jobs in the country.

I believe we should seek to reward this efficiency and dynamism encouraging the creative entrepreneurship that the risk takers undergo. Yet as I often talk to small business owners or budding entrepreneurs a consistent concern arises, how to deal with the cost of health insurance. The rising cost of providing health coverage for employees is a growing obstacle for many small business persons, as you're well aware, or those who may wish to join their ranks.

Insurance premiums for small businesses doubled between 1994 and 1999, a much more dramatic rise than faced by large other corporations. It's no surprise that only 63 percent of smaller companies can even afford to offer health insurance, one reason that three out of five uninsured persons in our nation are either small business owners, employees, or their families.

A decade ago government regulation was most often listed as the single most important problem that small businesses face. Today the cost and availability of health insurance is the top complaint. Some 30 percent of small businesses fear this more than anything else. This fact discourages the creation of small businesses, keeps them from hiring, and limits those who can attract—limits who they can attract to work for them.

Of course, a number of innovative solutions have been proposed, and it is important that we promote those that make the most sense to hard working Americans in the small business communities.

Some proposals would seek to provide relief to small businesses by the tax code, including additional measures of support for health savings accounts as an example. By involving consumers more di-

rectly in medical decisions, the rising costs may be mitigated and insurance savings achieved. Also, better use of technology for medical administration, as well as loss of abuse as to foreign measures can also reduce costs.

You get used to this in Washington. I will try not to ramble, Mr. Chairman.

America provides the finest health care in the world, and yet rising costs to a growing number of younger workers are scared of the expense and opt out of the system of insuring themselves.

[Congressman Fortenberry's opening statement may be found in the appendix.]

Again, I thank you all for joining us today for this important discussion, and I am especially grateful to our witnesses who have come from all across the First District of Nebraska. I look forward to your testimony, and, Mr. Terry, if you would like to make an opening comment, then I will proceed with introductions of our panel.

Mr. TERRY. Very good. Thank you, Congressman Fortenberry, and let me just start off with complimenting you in putting together this field hearing and getting the esteemed chairman of the small business committee to our great state. He is your chairman, and he is my friend. In fact, we are neighbors.

Mr. MANZULLO. Illinois hasn't had much to crow about. I observed there was something going on in this city.

Mr. TERRY. Yes. If you need to attend the football 101 clinic, as we know somebody from Illinois may need instruction.

But, Jeff, you've done a good job in putting this hearing together. On the drive down here studying your panelists, it's an impressive panel that you have here. I think it's going to cover a wide variety of Nebraska's economy and interests. And so, Mr. Chairman, I think you will learn a lot. We are a small business state, ag-based economy, but small business especially. That's what drives us.

Yes, we have Fortune 500 companies located in Nebraska, but even those companies started as Nebraska's small businesses and grew, some very large with lots of railroad tracks and other assets, but nonetheless, locally grown companies. That's the heart of Nebraska.

So to the panelists the Fortenberry team has impaneled here, thank you for spending your day with us. You are an important cog in democracy here so that we can learn of your issues, your ideas. And most good ideas—I had to admit this to a student group. We actually have a young group of boys in the back and some college students attending here. I had to admit to them that congressmen don't come up with all of the good ideas, although we claim it. They start with panelists like you that offer testimony and your time and talents before us. So thank you for this.

Jeff, I will turn it back to you, Acting Chairman Fortenberry.

Mr. FORTENBERRY. Thank you, Mr. Terry. Again, we appreciate your input today.

I will introduce the entire panel. And, Ms. Green, if you will start. We have with us Ms. Peggy Green, President and CEO of Green's Plumbing and Heating here in Lincoln. Green's Plumbing and Heating was founded in 1921 by your grandfather. Welcome.

We also have Bob Lanik. He is president and CEO of St. Elizabeth's Regional Medical Center here in Lincoln, 242 bed hospital, 90-person physician network. And Mr. Lanik has been the CEO for 20 years now, I understand.

Mr. LANIK. Yes, sir.

Mr. FORTENBERRY. Welcome. Mr. Charlie Janssen is also with us. We're glad to have Mr. Janssen here. He is CEO/chairman, I believe founder as well, of RTG Medical. They employ 39 people in Fremont, founded in 2001. Welcome.

Ms. Debi Durham is here representing the—she is president of Siouxland Chamber of Commerce working on some innovative ideas in the area of health care coverage for the Siouxland region. You reside in Sioux City, Iowa, but as we call South Sioux City and Sioux City, we call it the neighborhood. Welcome.

Mr. John Miller is here. He is president and founder of Oxbow Hay Company. Oxbow is located in Murdock, Nebraska, a small but important community in the First District of 250 people. John hired his first employee seven years ago and now has 40, turning a former grain farm into a thriving export of specialized agricultural products. So Oxbow is an exporter of specialized agricultural products. Welcome. Thank you for coming today.

Mr. Robert Moline is CEO of HomeServices of Nebraska. They employ 600 real estate agents as independent contractors throughout the state and are based here in Lincoln, Nebraska. Thank you, Mr. Moline for joining us today.

Ms. Green, if you would proceed with your testimony.

STATEMENT OF PEGGY GREEN, GREEN'S PLUMBING, HEATING, COOLING AND REMODELING

Ms. GREEN. I would be happy to. Thank you for inviting me. I am actually asked to also represent today Associated Builders & Contractors, and I will explain a little bit about that association. We also refer to them as ABC contractors. It's a national association, and it represents 23,000 merit shop construction and construction related firms in 79 chapters across the United States. And here in Nebraska we do represent 240 member firms. Green's has been a member since 1978.

I would like to also say that I think I represent employees. Employees to me are my best asset, and I want to share a little story that prompted me to be willing to participate in something like this. We provide a physical for each employee before we hire them, part of our prescreening plan, and we also do drug screens. And we hired an employee that participated in our physical, and when the nurses called me, they said that this particular person had a fairly serious medical problem and that we would not be able to employ him unless something—some action was taken.

And the problem resulted because he was not taking his medication, and the employee was not taking his medication because where he was at prior he was not participating in any type of health plan. He could not afford health insurance. His employer did not provide it, and he couldn't afford prescription medication. We proceeded to negotiate and did hire the employee. He was able to join our health plan. We were able to pay for it, get him on our

prescription drug plan which, by the way, is just \$10 per generic drug and get him back on a wellness track. So he's now part of our team, and we're very pleased that we could do that not just for him but for what he contributes to our business.

So that's a little story I wanted to share with you because I feel I represent a lot more than just small business.

I will go ahead and kind of go through a few things about my company. We are mechanical contractors. So I am representing the construction industry, and the construction industry is pretty small. My people do maybe a small service call in your home. We're in people's homes that have health issues as well. They might be sick, may not. We're at construction sites that may be safe, may not be safe. And so we're very much aware of the importance of wellness because we have people that are involved in a crew, and we're working with teams. And if someone is not able to get work one day, then we're not as productive as we should be.

I am going to tell you a little bit about our costs, and I want to say that in the Lincoln environment, I am fortunate because I benefit from some of the larger major employers. I do provide insurance for my employees.

Over the years we have had to change our approach to that. Being third generation, been at my employer—or in my company for over 35 years. We started out by providing full family coverage. That would include the entire family. Over the years it got too expensive. We went to finally providing insurance for the single employee.

At this point we were taking advantage of the other employers in Lincoln, though, because we are a city government. We have the Capitol of Lincoln right here. So we have many of our spouses that are employed by the state, federal or county employers. We have three hospitals, three universities, and we have several headquarters of insurance companies here in Lincoln. So I benefit by the major employers, but that's not what the advantage is for other people across the state of Nebraska. So I do have that savings.

If I were to pay for all of my employees, there would be a substantial change in the financial condition of my company. But on the other hand, if I don't pay for insurance for my employees, I have another challenge of not having healthy, well employees that can show up for work.

I am going to move ahead because of my time. My insurance company—and I want to say good things about my insurance agent because he did help me with my testimony. On one of the pages it will show you some comparison of what my rates are, and it shows the increases. And they were very polite in providing me with some numbers here showing how over the years the rates have changed 18 percent, 13 percent, and 20 percent.

Those increases every year, of course, they don't compare with any of my other costs. That's a lot of increases every year. And this year they're predicting—or next year they're predicting my rates will go up again anywhere from 15 to 20 percent. You have a chart in front of you that kind of shows that, a graph that I think will visually give you some kind of idea of what we look at, and especially if you want to look at the graph that shows monthly premiums that compares three years.

You know, the ones that show some family—it looks like that. It shows this year anybody that is participating in my family coverage, that I am able to provide—do you see that? I am sorry.

Mr. FORTENBERRY. Yes.

Ms. GREEN. Okay. A family plan would cost \$903. To me, I know some of my employees that's probably about what they pay for a mortgage payment per month. So it's a substantial part of their—their annual expense.

The next page, the bar graph, in order to maintain some of the premiums, which I am hoping you will review some of the costs later, we have had to make changes in what the deductibles are, out-of-pocket expense. We're always having to shop insurance every year to try to make it as affordable to us as a small business but also to my employees. Like I said, I am no longer able to pay for the family plan.

And as you continue with the packet, it shows the actual plan that we have and the different benefits. I am very proud to be able to say that what we provide for our employees is if they need to visit the doctor, they only have to pay \$25, and, again, we're encouraging them to see a doctor. It doesn't do any good for me to provide health insurance to an employee that they can't even afford to use. So the co-pay is \$25, and then generic prescription drugs are \$10.

And on the final page it does show you—excuse me. Not the final page, but it continues to show you in these charts the cost comparisons, different premium, different policies they could purchase.

The next chart will give you some ideas if you want to compare other carriers that I had choices that I could choose. And I could choose insurance policies that cost less.

Mr. MANZULLO. Now, we have to choose to end your testimony.

Ms. GREEN. In closing, I am very glad that this is happening because I am concerned about the future. The financial burden, the small businesses have it now, that is if they are even providing for their employees. And I think in the future we have to make some tough decisions what we're going to do as other costs of doing business are arising as well. Thank you.

[Ms. Green's statement may be found in the appendix.]

Mr. FORTENBERRY. Thank you for your testimony. And, for the record, please note that your full written statement from each witness will be a part of this formal record.

Mr. Lanik?

STATEMENT OF BOB LANIK, ST. ELIZABETH'S REGIONAL MEDICAL CENTER

Mr. LANIK. Thank you, Congressman, and thank you for the opportunity to speak before this committee on the—on the committee of small business on providing health coverage for employees. My testimony today will try to provide some insight into the drivers of costs.

The issue of increasing health care costs is very complex, and I will only be able to scratch the surface during my testimony.

Mr. MANZULLO. Bob, could you pull the mike closer to your mouth.

Mr. LANIK. Sure. Thank you. I also am sensitized to the increasing cost of health care insurance as we have seen double digit increases in our own health insurance plan.

The key drivers that I will talk about today are labor, supplies, pharmaceuticals, technology, regulation, defensive medicine, malpractice, increased utilization, and the practice of cost shifting which directly impacts the premiums paid by employers.

In our hospital benefits and wages comprise 42 percent of our expenses. That's pretty similar to other hospitals. Nationally, according to the American Hospital Association, there is an 8.1 percent of vacancies in registered nurses. These shortages have forced hospitals to provide higher wages. When vacancies can't be filled by employment, at St. Elizabeth and other hospitals we use temporary staffing from agencies. At St. Elizabeth we pay a 70 percent premium for the cost of those agency nurses.

Supplies is another area of rapid increases in cost. To give you an example of some of the devices that we're providing patients these days, a biventricular pacemaker costs us 23,750 for some of our cardiology patients. A cochlear implant for a deaf person costs almost \$27,000, and a knee implant can run from 5,000 to 8,500 depending upon whether it's made of metal or ceramic. And you may have noticed that the manufacturers are running TV ads marketing directly to the public promoting the ceramic model.

During 1998 to 2003, prescription drugs accounted for about 18 percent of the spending growth in health care. The federal government estimates during the 1990s 10 percent to 40 percent of the annual growth in personal health care spending was attributable to technology.

Let me give you a couple of examples of regulation that costs the health care bills to rise. According to the American Hospital Association, in California new seismic standards will cost the hospitals an estimated \$24 billion, and compliance with just a handful of HIPAA privacy requirements alone will cost hospitals in the nation up to 22 billion over five years.

In a recent publication by Blue Cross/Blue Shield Plans, they report that rising malpractice insurance premiums are driving up provider fees especially in the areas of obstetrics and gynecology and surgery.

The AMA in March of 2004 identified 19 states that they categorized as crisis states because of the availability and affordability of malpractice insurance.

A related issue is that of defensive medicine. In a recent study published by the Journal of the American Medical Association, 93 percent of the 824 physician respondents reported using some form of defensive medicine.

And, finally, I would like to speak to the issue of the cost of the uninsured and underinsured and inadequate reimbursement by Federal and State programs that also drive up the cost of health care, particularly to other purchasers, including small businesses. 5.6 percent of the patients in the United States that are hospitalized are uninsured. There is also a large number of underinsured. And we're certainly pleased to provide charity care; however, there is a cost, and that cost needs to be passed on to someone.

At St. Elizabeth Medicare pays us about 85 percent of the cost of providing care. Medicaid provides us about 65 percent of the cost for providing care. The way we have traditionally dealt with that is to shift costs to another payor.

You can see that there are many factors that drive up health care costs. Again, I can only touch on these briefly with this time. But thank you for allowing me to testify this morning.

[Mr. Lanik's statement may be found in the appendix.]

Mr. FORTENBERRY. Thank you, Mr. Lanik. We appreciate your insight.

For the record as well, Mr. Chairman, without objection, the mayor of Lincoln, Coleen Seng, sent a welcoming letter. We would like to include that as a formal part of the proceeding.

[Mayor Seng's letter may be found in the appendix.]

Mr. FORTENBERRY. Mr. Janssen?

STATEMENT OF CHARLIE JANSSEN, RTG MEDICAL

Mr. JANSSEN. I would like to thank Congressman Manzullo, Congressman Fortenberry and Congressman Terry and the Committee on Small Business for recognizing that affordability of health care insurance is a pressing issue for small businesses.

RTG Medical is a Nebraska-based nationwide temporary health care staffing company that began operations in 2001. And we agree that affordability of quality health care insurance has become an issue of expanding our own business in Fremont, Nebraska.

In 2004, we asked six different insurance companies for competitive bids for health insurance. At the time of the bid, November of 2004, we had 39 employees eligible for insurance of which 18 were on our PPO plan that was administered through United Healthcare. We got the following response from the following companies:

AMS, declined a bid due to low participation.

Coventry, declined a bid, no explanation.

Humana, a non-competitive bid.

United Healthcare, our 2003 plan carrier, bid, 90 percent increase over their own 2003 rate.

Principal Financial, bid, 93.5 percent over our 2003 rate.

Blue Cross/Blue Shield, bid, 96.8 percent over our 2003 rates.

With few options, we stayed with United Healthcare's PPO plan at the 90 percent increase, and we also offered a qualified high deductible health plan which had premiums that were 43 percent higher than our 2003 PPO plan but also allowed employees to open a health savings account which they have taken advantage of.

As of June 2005, we currently have 100 eligible employees with 35 participants in our plan. One factor that led to the increase in our number of eligible employees from 39 in November of '04 to 100 today is that the waiting period of 90 days was adjusted for RTG Medical employees, plus the business has grown exponentially over the past year as well.

The participation rate in the RTG plan is also affected by the fact that a spouse may have a plan that provides family coverage at a lower cost than we can provide, and our traveling employees that work across the nation also work on 13-week contracts and

may obtain their own individual insurance based on sex and age at a lower rate than our composite rates could offer to them.

The temporary medical staffing business is a highly competitive one which makes it very difficult to pass the cost increases on to our client facilities. Insurance costs have been spiraling out of control for several years. We have determined the only way we can control costs for the company is to limit our reimbursement to employees, in essence, passing the cost increase on to employees and provide them the opportunity to control their costs through wise usage of health care providers.

Rising insurance affects—rising insurance costs affect the ability of small businesses to hire talented individuals. They need to grow to grow their business. Larger companies have the option of self-insuring medical costs and just paying the insurance company for administration. This allows larger companies to deliver a lower cost insurance benefit to an employee than a small business can.

In some ways small businesses are subsidizing the rates or costs of larger companies by paying higher rates for individuals based on group size, providing better insurance, buying groups for small businesses where they can pool their employees to buy down a rate that could assist in this. This would provide access to more carriers, and that competition would push rates down.

In our industry, affordability of health care is a major issue for our traveling employees. COBRA provides portability for 18 months, but it is at a great administrative cost to the small business, in our case requires a small staff to comply with those regulations. We would like to see COBRA compliance become the responsibility of the insurance provider. The small business would only have to notify the insurance provider to change the employment status and all notifications, billings, and collections would be taken care of by the insurance company. The small business gets no benefit from providing COBRA. It is a cost.

The employee should have affordability of insurance. The insurance company is the entity making the insurance premium, and it would seem appropriate to push the cost of administration to them.

If this committee were looking for a way to make an immediate impact on helping small business, this minor change would have a tremendous impact. It would allow our extremely small and overworked administrative employees more time to concentrate on growing our business and less time spent conforming to strict COBRA compliance regulations that ultimately benefit the insurance companies.

It seems a little suspect myself that United Healthcare would raise our premiums 90 percent and then expect us to invoice and collect premiums from their clients, and if we don't do that, face huge fines. We would like to point out that we have nothing against large corporations or insurance companies. We are simply hopeful that we can all work together in order to find a solution in making health care insurance more affordable for all involved.

We believe a potential employee should base their employment decision upon the direction and integrity of the company as opposed to the health care plan and co-pay of a company.

Mr. FORTENBERRY. Thank you, Mr. Janssen. We appreciate you coming today, for your insightful testimony.

Ms. Durham.

**STATEMENT OF DEBI DURHAM, SIOUXLAND CHAMBER OF
COMMERCE**

Ms. DURHAM. Mr. Chairman, Congressman Terry, Congressman Fortenberry, I also thank you for this opportunity. Siouxland is a regional banner branded to include the tri-state area of Sioux City, Iowa, South Sioux City, Nebraska, and North Sioux City, South Dakota. With a combined population of approximately 150,000, our region functions largely as a single economy operating across state lines in economic development, marketing, transportation, and long-term strategic planning.

In Siouxland our employers are burdened by dramatically increasing health insurance costs. Many of our small businesses are currently faced with rather unpalatable choices of reducing the work force, reducing employee benefits, passing on increasing health insurance costs to their employers, employees, or even canceling insurance coverage in order to remain viable.

Many factors influence this trend already spoken of today. With the aging of our local population, growing number of working uninsured, and an overall increase in the number of people lacking health insurance, the situation in Siouxland has grown from disconcerting to critical.

Like you, we also realized this would be a difficult and demanding process requiring innovative and collaborative approaches. Our Chamber of Commerce brought together a coalition of community health care providers, business leaders, and governmental partners to develop a multifaceted approach to address both escalating health insurance costs and improved access to affordable health care in Siouxland.

In the 2004 Siouxland Laborshed analysis, our research demonstrated that certain benefits offered in lieu of higher wages could be the catalyst driving an employee to change employment. In fact, the survey confirmed that 72.8 percent of respondents would be influenced to either maintain or change employment if the employer would share the premium for health insurance. This data confirmed that those businesses that provided employee health insurance plans enhanced their recruiting efforts and maintained a more stable work force.

In the essence of time, I will highlight a few strategies that capture the collaborative tactics of how we believe affordable health care can be provided for small business employers and the self-employed.

First of all, bundling of insured lives. Provide true purchasing pool for small businesses to band together as a purchasing block to lower premium costs. Of the Chamber's 1,100 members, 56 percent represent small businesses with less than 10 employees, a number that makes it difficult to find a competitive plan. The support we would request is allow for a tri-state association of insurance purchaser plans to be developed.

Gap health care coverage for the working uninsured. Our concern for the growing number of working uninsured in our community led us to the Muskegon, Michigan Community Health Non Profit

Program, a plan that markets to the uninsured small business population. The plan instills personal responsibility with a three share pay model divided so the employer pays 30 percent, the employee pays 30 percent, and the community pays the remaining 40 percent funded by the disproportionate hospital fund.

Coverage is comprehensive, less a few catastrophic care items. In fact, at times the coverage is non-conventional and holistic in its approach. Costs are managed with the utilization of case workers from the local nursing school assigned to individuals covered in the plan, a true managed care oversight.

The Siouxland region is seeking a pilot project status with an appropriation to implement a small business coverage plan designed to narrow the gap between public and private insurance coverage patterned after the Muskegon model. This plan would make health care insurance obtainable for the growing number of working uninsured in our region and encourage healthy choices by the consumer.

Health savings accounts. The business community is intrigued by the consumer directed component of the health savings account initiative. However, implementation in the first two years for small businesses is a hurdle that many employers are unable to overcome making greater utilization difficult. Price savings for employers is not significant enough to create an implementation incentive. So we would ask to increase utilization of the health savings accounts by providing for significant tax incentives for the employers, and also require financial participation by the employee.

Medicare reimbursement. The tri-state region continues to experience a low Medicare reimbursement for all aspects of medical care, despite providing demonstratable high quality health care. It has become a vicious cycle. The more the government payers reduce what they pay, the more the health care providers try to shift it to the private payers.

The support that we would request is to implement a tri-state Medicare reimbursement rate for the Siouxland region. At the current Nebraska rate, the highest in the region today, include quality monitors and patient outcome measures as variables in the Medicare reimbursement formula, increase compensation rates for providers who insure better outcomes.

Thank you for this opportunity to significantly raise the awareness of the difficult plight of our small businesses in assessing affordable health care in our communities.

[Ms. Durham's statement may be found in the appendix.]

Mr. FORTENBERRY. Thank you, Mrs. Durham. We appreciate that. As you can see, Mr. Chair, the chairman of the Siouxland region was very active and definitive. Thank you for your insightful testimony.

STATEMENT OF JOHN MILLER, OXBOW HAY COMPANY

Mr. MILLER. Yes, good morning, and thank you for allowing me to come and speak a little bit about a few of our small companies' problems.

As Mr. Fortenberry was explaining to you at the beginning, Oxbow Pet Products is a small pet food company that specializes

in proper nutrition and supportive care for small pet herbivores, better known as rabbits, guinea pigs, chinchillas, and a few other similar exotic pets.

Our company is located close to Murdock, Nebraska, which is a small farming community of 250 people. The business is located on our family farm from which the business evolved starting in our garage, then moving to our old barn. Our business is now housed in the refurbished barn as offices and in two other new buildings which serve as production and the warehouse.

The pet food idea started about 12 years ago evolving out of my alfalfa hay business, which was a large part of our farming operation at that time. We have experienced phenomenal growth over these last 12 years. We started with just one little bag of alfalfa, and now we have 22 products that are distributed all over the world.

We hired our first employee seven years ago and now employ over 40 people. We are the largest non-governmental employer of women in our county. Our payroll surpasses \$1 million per year, most of which is paid into the surrounding community.

The pet food business grew with part-time help from neighbors who were looking for part-time work. Most of these early part-time employees were able to get health insurance through their spouses at other locations. Even though these people were always interested in health insurance as a benefit, the lack of insurance in those early years was not too big of a problem.

As the business grew, we needed more and more full-time employees for the continuity that full-time employees bring to the job. Our payroll has had to increase dramatically to attract the caliber of people that we need to succeed. Full-time people expect and need health insurance. This has been a huge issue for us and the survival of our small company.

Early efforts to obtain small group insurance that would work for a large percentage of our employees plus be affordable for our small company were very frustrating. We have had health insurance now for a little over two years.

During those early periods of determining what we were going to offer, it was very confusing for a small family business to sort out the options that are available and which of those options are of good value. We really didn't have the experience that we needed to know what was good and what wasn't, plus we had a couple of early large claims into our small group plan which compounded our problems.

Approximately one year ago we changed health coverage to a plan that was more inclusive for all of our employees but which also carried a very high deductible that was designed to be covered by a health savings plan. We were assured that by going to this high deductible, which we understand is a hardship on our employees that we wish was not there, that our premium would remain basically unchanged for a period of two to three years.

This month, only one year into our coverage, we just received notice that our premium was going up 12 percent for the coming year. I can guarantee that double digit growth in our health insurance premium is not going to be long-term sustainable for our little company.

As owners, my wife and I want Oxbow to be a special place to work. We have worked hard over these 12 years to create a culture of caring for our employees. Obtaining and expanding our benefit—our employee benefit package is a high priority for us. Last year we added additional PTO days that are more easily obtainable, a simple IRA and life insurance in addition to our new health insurance that revolves around this health savings account. In order to get the monthly premium down to an affordable price, we did have to sacrifice our dental plan and go to a \$2,000 deductible plan and add the health savings account option.

We feel sometimes we are taking one step forward and two steps back, a more affordable offering but less coverage. We want rural Murdock, Nebraska to be a great place to work and raise your family. We want Oxbow Pet Products to be a long-term employer in rural Nebraska for decades to come. It will be imperative that solutions be found that will help to make health insurance affordable.

[Mr. Miller's statement may be found in the appendix.]

Mr. MANZULLO. I guess I am going to be the bad guy and say you're out of time.

Mr. MILLER. Is that right?

Mr. TERRY. It goes quick, doesn't it.

Mr. MILLER. Sorry.

Mr. FORTENBERRY. Mr. Moline.

STATEMENT OF ROBERT MOLINE, HOMESERVICES OF NEBRASKA

Mr. MOLINE. Thank you, Mr. Chairman, committee members for allowing me to testify today before you in on small business health plans. I have been involved with the real estate brokerage business for over 18 years. Currently I am involved with the real estate brokerage that employs over 600 real estate agents who are independent contractors across the state of Nebraska. Essentially, each of these real estate agents are a small independent business with the same needs and desires of any other business in the United States today.

Unfortunately, health insurance for them is non-existent, unaffordable, or even unavailable. The National Association of Realtor's data shows that one out of four realtors have no health coverage, and the number of realtors without health coverage has doubled in the past eight years. Seventy-four percent of realtors without health insurance said the reason they lack it is because of high cost.

Twice in my career I have attempted to provide health insurance coverage to our real estate agents through some form of modified group type plan. I was turned away by most insurance companies since our real estate agents were not salaried employees of a real estate brokerage. However, we were able to contract with a health maintenance organization for our real estate agents if we included our salaried employees. This health contract worked reasonably well for several years until an HMO was purchased by a large insurance company. After the sale of the health maintenance organization, we were informed that we would no longer be allowed to put new real estate agents on our plan. As a consequence, our

health plan lost participants and started shrinking. Health insurance premiums increased substantially, and it led to adverse selection because the healthy participants in our health plan found insurance elsewhere.

We were unable to receive any other health insurance quotes because of the small number of real estate agents that were remaining on our plan. Eventually, we were forced to end the health insurance plan because of high costs and move to different health insurance for our salaried employees.

Mr. Chairman, I was responsible for telling 16 real estate agents and their families that they no longer had health insurance. That was one of the most difficult things I have ever done in my life. They had fear, despair. They didn't know where to go because there were no opportunities for them.

So what do we do in the future to correct this problem? We need to pass legislation like the Small Business Health Fairness Act, which would provide small businesses and the self-employed access to the same health benefits that labor unions and large corporations currently enjoy under federal law.

I've listed out 10 points. I would like to share some of them with you. This plan should create federally-certified small business health plans, sometimes also referred to as association health plans.

2, under SBHPs small businesses could band together through their professional or trade organizations to either purchase coverage from established insurance companies, or if they cover enough participants, they could self-insure.

SBHPs would be subject to the same—they should be subject to the same federal and state regulations by which large companies and unions are compelled.

They could reduce health cost insurance—excuse me. SBHPs would reduce the cost of health insurance coverage by allowing for the creation of larger pools of insured workers, thus increasing the bargaining power of these individuals. We should only allow legitimate industry or trade organizations that have been in operation for a number of years to sponsor SBHPs, and they should be certified by the US Department of Labor and be required to meet some certification.

SBHPs should be subject to regulation by state insurance regulators and the US Department of Labor.

SBHPs should be subject to the Health Insurance Portability and Accountability Act, HIPAA, which makes it illegal to deny coverage to any eligible participant based on health status of an individual employee or employer.

And I would agree with the person that testified earlier that some parts of HIPAA are a little bit overbearing and could be made more efficient.

SBHPs would reduce the cost of health insurance coverage by allowing for the creation of larger pools of insured workers, increasing the bargaining power of these individuals creating options we have never had before, lowering per capita administration costs, spreading risks over a larger pool of participants, making use of existing marketing/communication mechanisms of associations.

Allowing associations to create groups of insureds across state boundaries will allow associations to create larger groups, spread the risk, and increase more bargaining power.

In the end, the congressional budget office estimates that small businesses obtaining insurance through SBHPs will enjoy premium reductions between 9 and 25 percent. That's huge. That's huge for us.

The continued problems with rising health insurance costs are not going to be solved today by passing Small Business Health Plan legislation. However, I do believe it will provide a good first step allowing small businesses to have new tools to combat rising health insurance costs and increased access to insurance.

The time to move forward is now. We have seen great debate on this issue time and time again through several sessions of Congress, and it's time for everyone to come together, clarify the remaining issues and find a solution. Each day the debate continues, many employees of small businesses are going without health insurance and just hoping that a major health insurance concern does not land at their doorstep that day.

Thank you for allowing me to testify. I would be happy to answer any questions you might have.

[Mr. Moline's statement may be found in the appendix.]

Mr. FORTENBERRY. Thank you so much, Mr. Moline, for your testimony today. Mr. Chairman, if it's acceptable to you, I will ask the first question.

By the way, for those of you who may be interested in submitting questions to us who are with us in the audience today, you can e-mail my Web site. I will give you that Web site address. It's JeffFortenberry.house.gov. And then we will try as best we can to answer your questions. That Web address will get you to our e-mail address.

Mr. Lanik, if I could start with you. You did a very comprehensive job of obviously reviewing the main drivers of ever increasing health care costs. This is going to be a very difficult question. If it's impossible to answer, I completely understand. But could you assign a percentage to that list to weight each one of those variables in terms of their impact on health care costs?

And, secondly, it's related to something that several panelists have said, including Ms. Green, in terms of cost shifting, and overutilization as another one of the panelists had suggested, and then the solutions that are out there that again involve the consumer of health care a little more directly in controlling their own cost, how have you seen that—have you seen that as a successful way in your experience in administering a hospital in which again the consumer of health care is in a better position to help you and them manager costs?

Mr. LANIK. That's—

Mr. FORTENBERRY. Is that narrow enough for you.

Mr. LANIK. Just help me along. I did have government references to two of the drivers. One was pharmaceuticals, I believe, and one was technology. And I think technology, depending upon the year, was 10 to 40 percent of the inflation. And I believe that the government office of—I think it's Medicare/Medicaid services actuary of—

fice predicted 18 percent of that was for prescription drugs. So there is 38 to 68 percent right there.

That's a very difficult question. I think utilization is a bigger number than we can get our hands around because as we age particularly we are consuming more resources. I think about the lifestyle issues that we deal with, obesity and smoking being two of the largest, and I see what happens in our hospital every day. I think about our own employees every day.

So I think that's probably a very significant driver in the increase in health care costs. I don't have—I don't have a way to quantify that.

Mr. FORTENBERRY. I was speaking with an emergency room physician in a rural—on staff of a rural hospital. He told me that approximately 50 percent of the patients that he sees in the emergency room, the issue could be dealt with at home. Does this track with your findings as well.

Mr. LANIK. That certainly is an issue, and our—a couple things are happening. Sometimes our emergency departments are being used for routine care where they could have made an appointment at the physician's office or found a less expensive urgent care center to receive care.

The other thing that happens is that people that don't have insurance sometimes will put off care, and then when they do show up to the emergency department, their situation is much more acute and it's a much more expensive intervention. But that—

Mr. FORTENBERRY. I guess that's under cost shifting, and somebody is going to pick up the cost somewhere.

Mr. LANIK. There are costs to providing care. We do provide charity care. In some sense, maybe if there was a way to provide some support to underinsured, uninsured, we might be able to then substitute the cost of helping there because we are providing it now in the way of charity, and we are cost shifting.

Mr. FORTENBERRY. If you would make a comment regarding overutilization. Again, I think what you have seen in the industry is businesses being effectively forced into cost shifting or sharing that burden with the employees because it's simply not affordable. But does that lead to actually some better outcomes, better decisions that are made by consumers if they're in control of their own dollars, such as you mentioned the health savings account.

It's a balance there, obviously. You're trying to provide the coverage that people need but shifting some cost to employees and helping to manage that through HSA is another intervention primarily.

Mr. LANIK. I think personal participation is very important in whatever health care arrangements we have because it does force people to think a little bit more about the options that they use, how often they go for care, where they go for care. So whether that's deductibles, co-pays, some participation, I think, is—I think it would be a very important piece of any kind of health care plan.

Mr. FORTENBERRY. Thank you.

Mr. MANZULLO. I just have a couple comments.

Mr. Lanik, we have had hearings on this topic now five years, and you're the only witness that I can remember that's talked about the high cost of technology. And the cost of technology has

always vastly outpaced the increase in the cost of living. And based upon your factor here that technology increased amounts between 10 and 40 percent, that means you start out with the basis that the cost of increase in health care premiums will always vastly outpace the cost of living. You have to start there. That means you have to look to different media or different forms as, I guess, a way to bring the cost of health care under control. Because if you don't use the best, you know what happens. The patients aren't getting the best that's available.

The other comment I had was Debi Durham, my district had the first pilot of the tri-care or of the three share, and that's down to two share. You can't have a government component. You just can't get a government subsidy to run the health care system because it's unreliable, it will not last, there is no assurance, and Washington is broke.

In the Rockford, Illinois model, a small employer qualified only if that employer had not been able to offer health and accident insurance for one year. That was done purposely to get people from switching from the other plans to this. It's modestly successful. Certainly not—you know, not what everybody wants. The area we're really starting to see in Congress is Pete Hoekstra's district on the western side of Michigan where people came together on that. But it's an innovative approach, and it's certainly worth pursuing.

The other thing that I would like to say is that we have never had a hearing with so many people attending either in Washington or any field hearing throughout the country. This is the largest number of people. (Applause.) It's obviously a testament to Congressman Fortenberry, plus the interest that has been peaked by this.

The other thing I would suggest is this. We held a hearing in my hometown of Rockford, Illinois, and a man by the name of Phil Bartman, who is a Cellular One dealer, testified he had gotten a bill with a dramatic increase for health and accident insurance for his employees. Sitting in the audience was a fellow by the name of Scott Shelley from Greenwood, Illinois in the US district I represent. He came up to him afterwards and said have you thought about getting a second carrier to write your deductible.

I have seen rates of insurance vacillate based upon the salesman that you talk to. And I am not here to take a book away from any salesperson, but I would shop, shop, shop. There are so many different plans out there available. In fact, sometimes you can get a cheaper rate from a salesperson who works directly for a company than from an independent agent. Again, I am not criticizing anybody. I am just saying that it's very interesting how these rates will vacillate throughout the country.

I don't want any independents to get upset with me because sometimes independents can shop and get a better price than people that are directly related to a company. Nobody is doing anything wrong. It's just weird the way that pricing is done.

Mr. TERRY. All right. Thank you, Mr. Chairman.

Ms. Green, I am going to start with you, and just if you can go down. I ask this to all of the small businesses that I meet with, particularly when we talk about health care costs. I am just curi-

ous, what percentage of your budget do you reserve for health care in your business? And to put it in further context for us, compare that to whatever your—10 years ago, one year ago on just a percentage that you spend on health care.

Ms. GREEN. I am going to answer that by saying that it's just out of the budget. I mean, you can't budget for something that's going to increase 20 percent and every year you try to reallocate it. We base it on our labor burden and what we can afford because we are a construction company where we're trying to bid projects against other competitors that don't even offer health insurance. So we try to base it on what we can afford for our labor burden and be competitive.

So this year, for example, we just hit a mark where we estimate that per employee we're going to pay about \$300 per employee per month, and that gives us a labor total that we're averaging what we can afford.

In terms of other costs, they're rising so high it's kind of hard for me to answer as well. This year we have had the burden of gasoline fuel costs. As a construction company, it's been very difficult. I have a fleet of over 30 trucks. My gasoline costs have increased tremendously.

We have health insurance, workman's comp. Budgeting right now—I didn't bring those numbers. Let's just say in my company it's in the top four. That's including, like I said, labor, other business insurance, liability insurance. It's in the top four.

Mr. TERRY. All right. I know you represent a whole service entity, but you still have employees. What do you think.

Mr. LANIK. Our benefit costs are 27 percent of our wages and salaries, and health is clearly the largest. The second would probably be our contribution to the retirement plan. But health care is clearly the largest and the one that drives the increase the most.

Mr. TERRY. Mr. Janssen.

Mr. JANSSEN. We always try to hold it within 20 and 25 percent, and sometimes that makes us do some cost shifting. And one of the best things we did last year were the HSA accounts, although I have feared that a lot of our younger employees are not taking full advantage of those accounts. They're getting the—they're getting on the plan.

Mr. TERRY. I am going to come back to you and John about that. Debi.

Ms. DURHAM. Ours is running between 25 and 30 percent, and we're seeing double digit increases and have for the last few years having less than 10 employees. So what we are doing is basically backloading the plan, and I pray every day that none of my employees actually have to use it because of the high deductibles and larger co-pays.

Mr. MILLER. Okay. We have approximately 25 of our employees who take our health insurance, and that cost is a little over 10 percent of our total payroll.

Mr. TERRY. I am sorry. I missed that. We had a slight interruption up here. One of the lesser known members of the house of representatives is here.

Mr. MILLER. So I suppose we get to do this all again.

Mr. TERRY. Yes. Please start over. John, give me what you feel is a ballpark of your percentage.

Mr. MILLER. We're paying about 12 percent of our total payroll in health insurance benefits or in costs. But we only have about 52 percent of our employees that are taking health insurance. We have—oh, a fairly large percentage of our employees are Hispanic who don't necessarily want to take the insurance.

Mr. TERRY. Very good. Bob, is there any way to calculate for your entity with the independent brokers.

Mr. MILLER. Mr. Terry, I can probably do a good job on our salaried employees. It's been between 10 and 25 percent a year in the last 10 years. When you asked that question, sir, I need to modify that answer and also remind you that during that time, we have taken substantial increases in deductibles and a watering down of the actual benefits that the health insurance pays.

Mr. TERRY. Good point.

Mr. MILLER. To keep it in tier, things that our employees can pay. And during that time also, we have had to shift more costs to our employees. On the independent contractor side, it really comes down to accessibility to health insurance rather than what it costs. It's just not there because they don't fit into—

Mr. TERRY. Individual and family policies are the hardest. In fact, some of our own Nebraska companies have gotten out of that business mostly because of the regulatory burdens.

Go ahead. Thank you.

Mr. MANZULLO. Do you have some questions, Coach.

Mr. OSBORNE. I don't have a mike. You won't let me talk. It's hard to get the microphone away.

I just want to say a couple things. First of all, thank Don for coming. Don has been a good friend, a great friend of Lee's and mine, and also mention that Jeff is doing a good job of representing you, all of us here about the cost of health care. It's gone out of sight.

I know you've talked about association health plans, at least I am assuming you have at this point. One thing that you may not have talked about, which is of great interest to me, is the issue of reimportation of drugs. Have you talked about that?

Mr. MANZULLO. No.

Mr. OSBORNE. Okay. The reason that's so important is the cost of drugs is going up about 18 percent a year. It's a huge portion of our health care. And the House did pass a bill calling for reimportation regulation where a pharmaceutical company could not sell drugs at a higher price than what they charge in Canada, which, generally speaking, is 40 to 50 percent higher than in the US. And so I am continuing to push that. I think most of us here are in favor. I can't speak for the other gentlemen here.

But one of the problems we're running into, there are twice as many lobbyists from the pharmaceutical industry in Washington as there are members of Congress. So you add that up, and you see what the problem is. But it just doesn't make sense because a lot of your health care costs are bound up in the price of drugs.

And the other thing I just wanted to mention real quickly is the importance of electronic medical records. I think we could all save a lot of money if that was implemented.

And so not having heard your testimony, I am at a little bit of a disadvantage, but I guess I can say we feel your pain. We understand what you're going through. My family is a small business company, and I hear this from my brother all the time. So I think we're, all of us, committed to do whatever we can. It's a difficult playing field right now.

So I will turn it back over and not ask any other questions. Thank you.

Mr. MANZULLO. You come in and you stir the pot, huh, Coach? Anybody want to ask the Coach's favorite color.

Mr. FORTENBERRY. Again, this has been extraordinarily insightful, and one of the difficulties with this type of hearing, even in Washington, is the limits of time. So we only have a few more moments left.

And all of you have pointed out specific things that are impacting you but also that potentially could be done. I think there is an important underlying point that is spread through all of your testimony, is that health insurance is a big sociological factor. In other words, people are making decisions about what they want to produce, where they want to make their livelihood, how they want to use the fruit of their own labor based upon not a desire of heart but where they can potentially obtain health insurance.

As you mentioned, you have spouses shifting the cost. You have one spouse being employed with areas of coverage that are traditionally more stable, such as the government or larger employers, making, in other words, economic decisions based on benefit, not based upon necessarily where a person would choose to use their talents if the playing field was level.

I think all of you have pointed out some of those types of sociological factors. You see this very much in farm communities as well where one spouse may have to drive 30, 40, 50 miles simply to be employed to get health insurance coverage. So that is a very big factor in rural America.

Mr. MANZULLO. Jeff, let me exercise my prerogative and close the hearing. Is that okay with you.

Mr. FORTENBERRY. Absolutely.

Mr. MANZULLO. Again, we want to thank you all for coming.

Let me take a couple minutes. I want to share one thing with Congressman Fortenberry, what he has meant to me on the small business committee. Jeff also serves on the international relations committee. Sometimes people say, well, what does that got to do with the price of corn? A lot. But what does that have to do with Lincoln, Nebraska and the rest of the counties that you represent? I have a rural area, and also I am on leave of absence from the international relations committee.

Jeff has done something extraordinary in going to Iraq with this war going on. It's extremely important that members of Congress obviously concentrate on the issues that are dear to you, health care, agricultural issues, and Jeff does an excellent job on that. But one of the reasons that he is on the international relations is that he's one of the people that has to do the intensive studies, make the marks, and lead all of us into the very difficult positions, decisions as to the next theatre of conflict where young men and women may have to take up arms. So that's the most difficult part

of being a member of Congress is voting to send these young people off to war.

Jeff went to Iraq because when he faces you, the people that he represents, he wants to be able to look you in the eye and say I went there, I seen what's going on personally. And that's important when you have children and grandchildren that face the prospects of going overseas.

So, Jeff, I want to take the time to thank you for your distinguished service after being in Congress just a very short period of time. You're a pup compared to me. And, Coach, I want to thank you for your great service. And Lee as well, you are all doing a tremendous amount of work. We have 19 members—

[Applause.]

Mr. MANZULLO. These people represent you exceedingly well.

We're going to have to close. We're going to do a little press over here, and then we have to be out the door at 12:10. I am on my way from here to Dayton, Ohio where we have to do a manufacturing conference and then back to Washington where we have to do war on Tuesday evening with the votes again. Thank you again for coming here, and this hearing is adjourned.

[Whereupon, the committee was adjourned.]

Opening Statement of Chairman Manzullo:

Today I am pleased to be in Lincoln with my friend Jeff Fortenberry to hear for myself about the problems faced by small businesses in our nation's heartland. As you know, since coming to Congress, Jeff has been a tireless advocate for small business in the Congress and he has worked closely with me on the committee to try and get after many of the issues we are going to hear about today. We are very lucky this morning also to be joined by two of the most respected members of the House. Both Coach Tom Osborn and Lee Terry have gone out of their way to be with us today and I am very grateful for their friendship and support. I don't know what you folks have in the water out here, but you seem to bring up a good crop of Republican congressmen. All of us here, Members of the House and Americans who care about our economy and the ability of ordinary Americans to start and grow a small business want to improve access and affordability of health care insurance. It is one of my top priorities for this committee.

Year after year, small business owners of every stripe rate access and affordability of health care as the most important issue facing their company.

Of the 43 million Americans with no health insurance, 60 percent are small entrepreneurs, their families and their employees.

Affordability is always the major concern for small employers and the self-employed.

Exorbitant health care costs are one of the biggest expenses small businesses and the self-employed incur as they struggle to provide coverage for their employees. As Congress continues to examine our nation's health care problems, we need to remember that 60 percent of the estimated 43 million uninsured are small business owners, their employees and families.

Small business owners are unable to absorb spiraling health care costs and find themselves priced out of the health insurance market. Many owners are faced with the choice of staying in business or providing their employees with insurance.

My own brother was nearly driven to close the doors on our family run business because of the exorbitant cost of health care insurance.

Our current health care system does not provide equal access to affordable and quality healthcare for small businesses.

One of the reasons small businesses cannot afford health coverage for their employees is that they are unable to achieve the economies of scale and purchasing power of larger corporations and unions. Small businesses suffer from unequal treatment – what they want most is a level playing field when it comes to health care.

Large corporations use the purchasing power of thousands of employees to offer affordable health insurance to their workers. Small business owners, on the other hand,

have to find their insurance on an individual basis, making it very difficult and expensive to find affordable health coverage.

President Bush, both in the Campaign last year and during National Small Business week in May again championed his plan for helping small businesses prosper in our economy. The President is aware of the health care access and affordability problems facing small business, and his plan includes concrete steps to increase health security for employees of small businesses. His agenda prescribes Association Health Plans or AHPs to be available to all small businesses. This simple change in the law will allow the many dozens of small business industry associations in this country to offer a new benefit its membership. These associations want to provide health coverage for their members and they want to help address this growing competitiveness crisis, unfortunately as in many similar cases, it is government that is standing in the way.

I am an original co-sponsor of the AHP bill and hope to see its quick adoption in the Senate.

Also, the President's Small Business agenda also calls for a permanent extension of Medical Savings Accounts, including a significant reduction in the required deductible for these health accounts.

Congress needs to ensure that there are many different health insurance options for small business owners to utilize. We need to help our businesses attract and keep employees, and nothing helps more than the ability to provide health insurance.

I look forward to the testimony of all the witnesses and I would now like to call on Mr. Fortenberry to make some opening remarks of his own. Soon after both Mr. Terry and Mr. Osborn will make a few brief remarks. Thank you for having us all here Rep. Fortenberry. Also, one housekeeping note, all Members are reminded that following today's hearing, they will have five business days to submit statement's in writing or other supporting materials that without objection will be made a part of the hearing transcript at the appropriate time.

**Congressman Jeff Fortenberry
OPENING STATEMENT**

**Field Hearing of the House Small Business Committee
June 6, 2005**

Good morning. It is my pleasure to be joined by Chairman Don Manzullo of the Small Business Committee, and my House colleagues from Nebraska, the Honorable Tom Osborne and Lee Terry. Chairman Manzullo has graciously come to Nebraska's first district in order to preside over this field hearing of the House Small Business Committee.

Mr. Chairman, everywhere I go the topic of healthcare cost comes up. We are very happy you are here as I know this topic is of significant interest to you as well. Today we examine the issue of small businesses and health coverage.

Small businesses represent the heart of entrepreneurship. Small business, including family farms, is where most families are trying to get a little bit ahead in life. This is where products are made and delivered with the imprint of a person, where workers and owners can most directly take responsibility for production and service, and where they receive the full fruit of their labor. Often closer to their customers, small, family-owned businesses often see opportunities in niche markets, and provide personalized service. Small business is the key to long-term economic well-being for families.

For every single large corporation in America, there are 300 smaller ones. These smaller companies employ half of the total private work force, and consistently produce around 75 percent of the new jobs in our country.

We should seek to reward this efficiency and dynamism, encouraging the creativity that entrepreneurs represent. Yet as I often talk to small business owners or budding entrepreneurs, a consistent concern arises: how to deal with the rising cost of health insurance.

The rising cost of providing health coverage for employees is a growing obstacle for small businesspersons, or those who might wish to join their ranks. Insurance premiums for small business doubled between 1994 and 1999, a much more dramatic rise than that faced by larger corporations. It is no surprise that only 63 percent of smaller companies can even afford to offer health insurance, one reason that three out of five uninsured persons in our nation are small business owners, employees, and their families.

A decade ago, government regulation was most often listed as the single most important problem that small businesses faced. Today the cost and availability of health insurance is a top complaint — some 30 percent of small businesses fear this more than anything else. This fact discourages the creation of small businesses, keeps them from hiring, and limits who they can attract to work for them.

A number of innovative solutions have been proposed, and it is important that we promote those that make the most sense to the hard-working Americans in the small business community.

Some proposals would seek to provide relief to small businesses via the tax code, including additional measures of support for Health Savings Accounts (HSAs). By involving consumers more directly in medical decisions, rising costs can be mitigated and insurance savings achieved. Better use of technology for medical administration as well as lawsuit abuse reform measures can also reduce costs.

America provides the finest health care in the world, yet rising cost lead a growing number of young workers to spare the expense and opt out of insuring themselves. We need to work hard to provide them with common sense options that allow them to provide themselves with the protection they deserve.

I thank you all for joining us for this important discussion today, and I am especially grateful for our witnesses who have come from all across the first district of Nebraska. I look forward to your testimony, and to the discussion that is to come.

House Committee Hearing on Small Business
Chairman Donald A. Manzullo

June 6, 2005
Lincoln, NE

“Small Businesses Access to Health Insurance: Lessons from Nebraska”

Testimony from Peggy L. Green
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Representing Associated Builders & Contractors
Dick Johnson
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My name is Peggy L. Green.

Today I am representing Associated Building & Contractors, and my company, Green Furnace & Plumbing.

Associated Builders & Contractors (ABC) is a national association representing 23,000 merit shop construction, and construction related firms in 79 chapters across the United States. The Nebraska Chapter represents 240 member firms. Green's has been a member of ABC since 1978,

I am a third generation owner of Green Furnace & Plumbing Co., Inc. Located at 4200 North 48, Lincoln, Nebraska. Green's was established in 1921 by my grandfather. I succeeded my father as president in 1987.

We are classified as a mechanical contractor. Our scope of work includes the plumbing, heating and cooling industries. We are active in the residential and commercial markets, new construction, remodeling and service. The value of our projects can ranged from a minimum service call of \$85.00 to a major project of \$500,000.

Number of employees will range from 45 to 60 depending on the time of year and the business climate. Approximately 60% of my employees will participate in our health insurance benefit plan. The other 40% will participate in a plan with their spouse. All of my employees have health insurance from either source. I believe I would be providing health care benefits to more employees if my business were not located here in our capital city of Lincoln. Some of the other major employers include city, state and federal governments, three universities three hospitals, and several insurance headquarters. Lincoln's population is close to 250,000.

Last year I paid \$125,472 in health insurance premiums. If my business were located in another city that did not have similar major employers, I could be paying for up to 100% participation. I do not have the buying power of large business. Simply because of my location, I benefit from their power. Employees that have no access to large business benefit plans do not. This is not fair to my employees.

Green's has provided a health care benefits to employees for as long as I can remember. I have worked for the family business for over thirty five years. We have had to make some changes due to increase costs. For many years we provided full family benefits. In the 90's, we changed, providing only for the employee, with the option for employees to pay for dependents coverage through payroll deductions. This then became an additional administration expense.

Over the years we have had experience in purchasing insurance through associations such as Associated Builder & Contractors, or HMO's, and PPO's. Our goal has always been to provide quality insurance to our employees. We have been willing to pay for the coverage that satisfied the needs of our employees. The costs to do that continue to rise.

My insurance agent has informed me that the rates for 2005-2006 are estimated to increase 15-20%. Last year rates increased 20.6%, 13.96% the prior year. That was after adjusting some of the benefits such as the deductible. We try to keep the co-pays affordable and prescription drugs to a minimum. Currently my employees pay \$25.00 per office visit. A thirty day supply of a generic prescription drug is only \$10.00

If there was an Association Health Plan, businesses would be able to improve their ability to manage health insurance costs. If the employee was paying for all, or part of the insurance premium, they would directly benefit from the reduced costs. Any savings that would benefit the small business could be used to fund other benefits to their employees such as disability insurance, or education opportunities, and 401K contributions.

My small business is dependent on a healthy workforce. The costs continue to rise. Something needs to happen soon. I believe AHP's would make insurance more affordable through reduced premiums.

**Testimony Before House Small Business Committee
11:00 a.m.
June 6, 2005
Lincoln, Nebraska**

Good morning. My name is Bob Lanik and I am the President of Saint Elizabeth Health Systems, which operates as a 242 bed hospital and a 90 person physician network. I have been at Saint Elizabeth for 30 years and have been the Chief Executive Officer for the past 20. I appreciate the opportunity to testify before this committee on the question of why more small businesses do not provide health coverage for employees.

My testimony today will try to provide some insight into the drivers of health care costs. The issue of increasing health care costs is very complex and I will only be able to scratch the surface during my 3-5 minute testimony. I will also tell you that I am sensitized to the increasing cost of health care insurance as we have seen double digit cost increases in our own health

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insurance plan over the last couple of years, with similar expectation going forward at least next year.

Key drivers of health care costs that I will talk about today are labor, supplies, particularly devices, pharmaceuticals, technology, regulation, defensive medicine, malpractice, increased utilization driven by changing demographics, impact of lifestyle

issues, including smoking and obesity, and the practice of cost shifting which directly impacts the premiums paid by employers.

In our hospital wages and benefits comprise 42% of our expenses, which is similar to other hospitals. Nationwide there is a shortage of nurses, pharmacists, lab technicians, and radiology personnel. Nationally there is an 8.1% vacancy rate for registered nurses (American Hospital Association). These shortages have forced hospitals to provide higher wages and incentives like hiring bonuses. When vacancies can't be filled through employment, we use temporary staffing through staffing agencies. At Saint Elizabeth an agency nurse costs us an

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additional 70%. At Saint Elizabeth we are fortunate enough to have a low turnover rate and have been able to get by with a minimum number of agency nurses, but you can certainly see the impact of labor shortages on the cost of providing health care.

Supply costs are another area where we have seen rapidly escalating costs. To give you a couple of examples of the expensive devices provided to patients these days, a biventricular pacemaker costs us \$23,750 for cardiology patients; a cochlear ear implant costs almost \$27,000 for deaf patients; and knee implants can run from \$5,000 to \$8,500, depending upon whether its metal or ceramic. You may have noticed the manufacturers direct marketing ads to the public promoting the ceramic implant.

Over the past 20 years there has been a steady increase in pharmaceuticals. The three factors driving the increase in subscription drug costs include increased utilization,

price inflation, and the use of higher cost drugs. According to the Centers for Medicare and Medicaid Services Office of Actuary,

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during the period 1998-2003, prescription drugs accounted for 18% of the spending growth in health care.

The Federal Government estimates that during the 1990's about 10-40% (depending upon the year) of the annual growth in personal health care spending was attributed to changes in technology. In the 2003 edition of the Booz Hamilton Analysis of Medical and Health Care Market Place Guide, they estimated the projected growth in expenditures from 2000-2005 for diagnostic imaging would increase 28%; cardiovascular services 100%; and minimally invasive surgery 100%. Many would probably argue that that projected increase in diagnostic imaging would fall way short of the mark. An example of the rapid changes in technology is a C.T. scanner. During the first 25 years of this technology, there were five different generations. During the last five years there have been another five generations. Besides clinical technologies, there is the need for information technology, some of which is encouraged or mandated by Federal Government, and groups advocating quality.

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The First Consulting Group estimates the one time cost of a computerized physician order entry system for a 500 bed

hospital to approximate \$8,000,000, with an additional annual operating costs of \$1.3 million. Regulation, while mandated, never generates any additional funding or reimbursement. According to the American Hospital Association, in California new seismic standards will cost the hospitals an estimated \$24 billion. Compliance with just a handful of HIPAA privacy requirements, alone, will cost hospitals in the nation up to \$22 billion over five years. To give you a HIPAA example, in our hospital every time a patient registers, we need to give them a seven page "notice of privacy practice." Nobody reads them. We also have to provide an accounting of disclosures. Every time we release information, for other than payment, treatment or operations, we need to log what was sent to whom and for what purpose. No one can question the principle of treating personal health information with confidentiality. However, I believe that many of the implementation requirements, while extremely expensive, provide very limited value to our patients.

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In a recent publication by Blue Cross/Blue Shield Plans, they report that rising malpractice insurance premiums are driving up provider fees, especially in the areas of obstetrics and gynecology and surgery. Our own costs for professional liability insurance increased by 63.2% in 2004, and we estimate by 27.2% in 2005. The American Medical Association, in March, 2004, identified 19 states that they categorized as crisis states relative to the availability and affordability of medical malpractice insurance.

A related issue, which also drives up the costs, is defensive medicine where interventions or additional tests and procedures are provided in order to better position

the physician from the risk of a malpractice claim. In a study published by the Journal of the American Medical Association, 93% of the 824 physician respondents reported using some form of defensive medicine.

A driver of costs that we have seen over a period of time that has long term implications, is the whole area of utilization of health care resources. Utilization is impacted by many factors.

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Certainly the aging of our population, smoking, obesity, and lack of exercise. Sources have publicized the effect of obesity on a person, similar to 20-30 years of aging. The number of bariatric or obesity surgeries is on a very steep growth incline. Obesity also affects the cost of providing care as we, at the hospital, need to buy larger beds, larger wheelchairs, and mechanical lifts to help move these patients. I think the availability and public expectation drives up utilization. People want and expect what is available.

Finally, I want to speak to the cost of the uninsured and the inadequate reimbursement by federal and state programs, driving up the cost of health care to other purchasers, including small businesses. 5.6% of the patients in the United States hospitals are uninsured (American Hospital Association). There is also a large number of underinsured. We are pleased to provide charity care. However, there is a cost that needs to be passed on to someone. At Saint Elizabeth Medicare pays us 85% of the cost of providing the care. Medicaid pays approximately 65% of the cost of providing care. The way health care providers

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typically deal with this is the old traditional cost shift, where those shortfalls are passed on to other payors. You can see many factors drive up costs in a very complicated health care delivery system. Again, I have only been able to touch on these issues.

There are, as I have indicated, sources that can provide much more detailed information about the costs of health care.

Thank you for allowing me to present this testimony.

TESTIMONY BY DEBI DURHAM
PRESIDENT, SIOUXLAND CHAMBER OF COMMERCE
HOUSE COMMITTEE ON SMALL BUSINESS
“SMALL BUSINESSES ACCESS TO HEALTH INSURANCE:
LESSONS FROM NEBRASKA”
JUNE 6, 2005

Mr. Chairman, committee members, staff and distinguished guests. Thank you for this opportunity to present testimony concerning the rising costs and diminishing accessibility associated with affordable health insurance in our region of the Midwestern portion of the United States.

My name is Debi Durham and I serve as the President of the Siouxland Chamber of Commerce and The Siouxland Initiative. Siouxland is a regional banner branded to include the tri-state area comprised of Sioux City and Sergeant Bluff, Iowa; South Sioux City and Dakota City, Nebraska; and North Sioux City and Dakota Dunes, South Dakota. With a combined population of approximately 150,000, our region functions largely as a single economy, operating across state lines in economic development, marketing, transportation, and long-term strategic planning.

BACKGROUND AND ISSUE

In Siouxland, our employers are consistently communicating that they are burdened by dramatically increasing health insurance costs. Many of our small businesses are currently faced with the rather unpalatable choices of reducing their workforce, reducing employee benefits, passing increasing health insurance costs on to their employees, “back loading” plan operational expenses, or even canceling insurance coverage in order to remain viable.

Many factors influence this trend including uncontrolled medical malpractice claims, direct-to-consumer pharmaceutical marketing campaigns, complex state/federal insurance regulatory barriers, medical and prescription medication inflation, the leveraging effect of fixed deductibles and co-payments, cost shifting, utilization, the availability and use of more expensive drugs and new technologies, government mandated benefits and their impact on the intensity of care.

Couple this with the fact that our tri-state region continues to experience a disproportionately low Medicare reimbursement for all aspects of medical care, despite providing a demonstrably high quality of healthcare. Our physicians and hospitals can no longer bare the continued cost shifting and reduction in reimbursement. It has become a vicious cycle: the more the government payers reduce what they pay, the more the healthcare providers try to shift it to the private payers. Consequently, the uninsured population continues to grow, as the working poor lose their coverage; and, as a result, the pressure on the healthcare system escalates.

With the aging of our local population and the dramatic increase in the number of people lacking health insurance, the situation has grown from disconcerting to critical.

The task before our community remains to bring much-needed reform and, ultimately, relief to our Chamber of Commerce partners and investors. Like you, we also realized this would be a difficult and demanding process requiring creative, innovative, and predominantly untested solutions. Recognizing the urgency of the situation, our Chamber of Commerce brought together a collaboration of community health care providers, business leaders, and governmental partners to develop a multifaceted approach to address both escalating health insurance costs and improved access to affordable healthcare in Siouxland.

STRATEGIES

In the 2004 Siouxland Laborshed analysis, our research demonstrated that certain benefits offered in lieu of higher wages can be the catalyst driving an employee to change employment. In fact, this survey confirmed that 72.8% of respondents would be influenced to either maintain or change employment if the employer would share the premium for health/medical insurance.

The strategies and comments below capture the collective tactics of how we believe affordable healthcare can be provided for small business employers and the self-employed.

- **BUNDLING OF INSURED LIVES**

Provide true purchasing pools for small businesses to band together as a purchasing block to lower premium costs. Of the Chamber's membership, 56% represent small businesses with less than ten employees, which is the number that prevents them from receiving competitive insurance rates.

- **PRESCRIPTION MEDICATIONS BUNDLING**

Reduce the costs of prescription medications through the implementation of group purchasing pools leveraged with the massive purchasing power of the government (the VA model).

- **GAP HEALTHCARE COVERAGE FOR THE WORKING UNINSURED**

Our concern for the growing number of working uninsured in our community led us to the Muskegon, Michigan Community Health Non-profit Program, a plan that markets to the small business uninsured population. It has many redeeming qualities that make it worth replicating in other markets. The plan instills personal responsibility with the three share pay model divided so the employer pays 30%, employee pays 30% and the community pays 40%. Coverage is comprehensive, less a few catastrophic care items and is limited to local providers. Costs are managed with the utilization of case workers assigned to individuals covered in the plan...true managed-care oversight. This plan is designed to close the gap between public and private insurance coverage, and it works.

- **HEALTH SAVINGS ACCOUNTS**

The business community is intrigued by the consumer directed component of the Health Savings Accounts initiative. However, implementation in the first two years for small businesses is a hurdle that many employers are unable to overcome making greater

utilization difficult. Price savings for employers is not significant enough to create an implementation incentive.

OTHER INSURANCE COST REDUCTION STRATEGIES

- Direct all insurance carriers, third-party administrators, and state/federal healthcare programs to utilize one standardized form. This will reduce or eliminate the myriad of forms and various requirements and result in less confusion and ultimately improved efficiency.
- Do not mandate overtime and staffing patterns. Not all healthcare providers practice in the same manner. Our region already provides outstanding healthcare at among the most competitive costs in the United States. Mandating staffing patterns will not improve quality, but it will increase costs.
- Support for regional tertiary medical facilities that support Critical Access Hospitals remains a concern. Additional legislation is needed to ensure all Americans have long-term access to tertiary care facilities.

SUPPORT REQUESTED

Implement a tri-state Medicare reimbursement rate for the Siouxland Metropolitan Area at the current Nebraska rate, the highest in the region. Include quality monitors and patient outcome measures as variables in the Medicare reimbursement formula. Increase compensation rates for providers who ensure better outcomes.

The Siouxland region is seeking Pilot Project status with an appropriation to implement a small business coverage plan designed to narrow the gap between public and private insurance coverage, patterned after the Muskegon model. This plan would make healthcare insurance obtainable for the growing number of working uninsured in our region and encourage healthy choices by the consumers.

Allow for a tri-state association insurance purchaser plan to be developed.

Increase utilization of the Health Savings Accounts by providing for significant tax incentives for employers and require a financial participation by the employee.

The elimination of the direct marketing to consumers by pharmaceutical companies should be considered.

Thank you for this opportunity to significantly raise the level of understanding and awareness of the difficult plight of our small businesses in accessing affordable healthcare in our communities.

The Siouxland Chamber of Commerce and The Siouxland Initiative have not received any federal grants or contracts during the previous two years.

**Access to Health Insurance Hearing
Mr. John Miller, President
Oxbow Pet Products**

**Testimony Before the House Committee on Small Business
6.06.05**

Oxbow Pet Products is a small pet food company that specializes in proper nutrition and supportive care for small pet herbivores, better known as rabbits, guinea pigs, chinchillas, pet prairie dogs, rats, tortoises, and other similar exotic pets. Our company is located close to Murdock, NE, which is a small farming community of 250 people. The business is located on our family farm, from which the business evolved, starting in our garage, then moving to our old barn. Our business is now housed in the refurbished barn (as offices) and in two other new buildings which serve as production and the warehouse. The pet food idea started about 12 years ago, evolving out of my alfalfa hay business which was a large part of our farming operation at that time. We have experienced phenomenal growth over these last 12 years. We started with one little bag of alfalfa and we now have 22 products that are distributed all over the world. We hired our first employee 7 years ago and now employee over 40 people. We are the largest "non-governmental" employer of women in our county. Our payroll surpasses \$1M per year, most of which is paid into the surrounding community.

The pet food business grew with part time help from neighbors who were looking for part time work. Most of these early part time employees were able to get health insurance through their spouses. Even though people were always interested in health insurance as a benefit, the lack of insurance in those early years was not too big of a problem. As the business grew, we needed more and more full time employees for the continuity that full time employees bring to the job. Our payroll has had to increase dramatically to attract the caliber of people that we needed to succeed. Full time people expect, and need, health insurance. This has been a huge issue for us and the survival of our small company. Early efforts to obtain small group insurance that would work for a large percentage of our employees, plus be affordable for our small company, were very frustrating. It is also very confusing for a small family business to sort out the options that are available and which of the options are a good value. We really didn't have the experience that we needed to know what was good and what wasn't. Plus, we had a couple of early large claims into our small group plan, which compounded our problems. Approximately one year ago, we changed health coverage to a plan that was more inclusive for all of our employees, but which also carried a very high deductible that was designed to be covered by a Health Savings Plan. We were also assured that by going with this high deductible, which we understand is a hardship on our employees, which our premium would remain basically, unchanged for a period of 2-3 years. This month (only one year into our coverage) we just received notice that our premium was going up 12% for the coming year. I can guarantee that double digit growth in our health insurance premium is not going to be long term sustainable for our little company.

As owners, my wife and I want Oxbow to be a special place to work. We have worked hard over these 12 years to create a “culture of caring” for our employees. Obtaining and expanding our employee benefit package is a high priority for us. Last year, we added additional PTO days that are more easily obtainable, a simple IRA, and life insurance, in addition to our new, health insurance that revolves around this Health Savings Plan. In order to get the monthly premium down to an affordable price, we did have to sacrifice our dental plan, go to a \$2,000 deductible plan and add the Health Savings Account option. We feel sometimes we are taking one step forward and two steps back – a more affordable offering, but less coverage. We want rural Murdock, NE to be a great place to work and raise your family. We want Oxbow Pet Products to be a long-term employer in rural NE for decades to come. It will be imperative that solutions be found that will help to make health insurance affordable.

A few of my thoughts about possible solutions for improved small business access to health insurance are as follows:

- It would be helpful if there were “small company plans” which could be developed by combining with other small companies to get the benefits of coverage and premium that large employers can negotiate
- It would be helpful if small businesses had access to “insurance consultants” who could help them sort out their options and determine value
- It would be helpful if there were “tax breaks” or “additional tax deductions for small business premium payments” to make it more affordable for small business to obtain the insurance, plus encourage the small business to pursue the insurance issue
- Maybe the “Health Savings Account” funds could be used for retirement type activities in addition to health related expenses, which could also be a bonus for small business. This might also encourage people to be more frugal with the money that they spend on health care, and that can only be spent on health care at this moment.

As important as it is to help small business with health insurance problems, it is still imperative that the escalating costs of our health care system be slowed down to some reasonable level, or the improvements that we are working on for helping small business with health insurance will be short lived. So, on the bigger picture, I would like to offer the following thoughts:

- People have to accept more of the responsibility for health care decisions. They have to be rewarded for saving “health care” dollars.
- There needs to be competition between the health care providers. Competition is good.
- Doctors need to be free from the fear of being sued over decisions made that might depend upon expensive tests. They still need to be responsible, but there still needs to be a limit as to how many tests are run for some of the minor diagnosis. Patients need to know that they may be rewarded if they use some common sense in the number of and type of tests that might be run.

- There needs to be a nation wide accounting network for keeping track of the list of medications that individuals are using. There appears to be many people who use different doctors and different pharmacies to obtain many and varied medications, which increases costs and affect effectiveness of the medications
- If there is room for government involvement, it may be in support for preventive health care in the form of community health centers which encourage people to do normal pro-active preventative testing
- Once again, competition is good.

I am definitely against government-controlled health care. Government funded health care would only create more and more rules and regulations, thus reducing competition and creating more bureaucracy and expense and inefficiencies.

Our four children and their spouses are actively involved in our succession plan that is designed to continue our business and our affect upon the Murdock community for years to come. Our family considers our employees as part of the "Oxbow family". I hope that we can work together to help them come up with good solutions to ensure that health insurance and health care costs are not a part of the loss of hope and opportunity that would take place if Oxbow and other small businesses were not able to exist.

HomeServices of Nebraska

Prepared Statement of

Robert R. Moline

On

Small Business Health Plans

Before the

House Small Business Committee

U.S. House of Representatives

Donald A. Manzullo, Chairman

June 6, 2005

Thank you, Mr. Chairman and Committee members, for allowing me to testify today before you on Small Business Health Plans. I have been involved with the real estate brokerage business for over eighteen years. Currently, I am involved with a real estate brokerage that employs over 600 real estate agents who are independent contractors. Essentially, each of these real estate agents are a small independent business with the same needs and desires of any other business in the United States today. Unfortunately, health insurance is unavailable or unaffordable for many of our real estate agents.

National Association of Realtor's data shows that 1 out of 4 Realtors have no health coverage and the number of Realtors without health coverage has doubled in the past 8 years. Seventy-four percent of Realtors without health insurance say the reason they lack it is because of high costs.

Twice in my career, I have attempted to provide health insurance to our real estate agents through some form of modified group type plan. I was turned away by most insurance companies since our real estate agents were not salaried employees of our real estate brokerage. However, we were able to contract with a health maintenance organization for our real estate agents if we included our salaried employees. This health contract worked reasonably well for several years until the health maintenance organization was purchased by a large insurance company. After the sale of the health maintenance organization, we were informed that they would allow no further real estate agents to join our plan. As a consequence, our health plan lost participants and started shrinking. Health insurance premiums increased substantially and it led to adverse selection because the healthy participants in our health plan found insurance elsewhere. We were unable to receive any other health insurance quotes because of the small number of real estate agents remaining on the plan. Eventually, we were forced to end the health insurance plan because of high costs and move to a different health insurance plan for our salaried employees only.

Mr. Chairman, I was responsible for telling sixteen real estate agents and their families that they would no longer have health insurance.

We came to this point because the current marketplace lacks competition. To quote an article written by Jack Faris in the June 2005, *Strictly Business* magazine, "according to the General Accounting Office, five or fewer insurers control at least three-quarters of the small-group insurance market. This lack of competition contributes to double-digit premium increases for many small businesses and forces an increase in the number of their employees who are uninsured".

What needs to be accomplished to correct this problem and level the playing field for small businesses?

We need to pass legislation like the Small Business Health Fairness Act, which would provide small businesses and the self-employed access to the same health benefits that labor unions and large corporations currently enjoy under federal law.

1. The Small Business Health Fairness Act should create federally-certified small business health plans (SBHPs), sometimes also referred to as association health plans (AHPs).
2. Under SBHPs, small businesses could band together through their professional or trade associations to either purchase coverage from established insurance companies, or if they cover enough participants they could self-insure. SBHPs would be subject to the same federal and state regulations by which large companies and unions are currently governed.
3. SBHPs would reduce the cost of health insurance coverage by allowing for the creation of larger pools of insured workers, thus increasing the bargaining power of those individuals.
4. Only legitimate industry or trade associations that have been in operation for three years or more should sponsor SBHPs. The SBHPs would be certified by the U.S. Department of Labor and would be required to meet certification standards.
5. SBHPs should be subject to regulation by the state insurance regulators and the U.S. Department of Labor.
6. SBHPs should be subject to the Health Insurance Portability and Accountability Act (HIPAA), which makes it illegal to deny coverage to any eligible participant based on the health status of an individual employee or employer. Sick or high-risk groups or individuals could not be denied coverage.
7. SBHPs would reduce the cost of health insurance coverage by allowing for the creation of larger pools of insured workers, increasing the bargaining power of those individuals, lowering per capita administrative costs, spreading risks over a larger pool of participants, making use of the existing marketing/communication mechanisms inherent in the association structure and having a non-profit status.
8. Allowing associations to create groups of insureds across state boundaries will allow associations to create larger groups, spread the risk assumed, increase the bargaining power of those groups, take advantage of the efficiencies inherent in the associations' existing marketing/communication structures and thus reduce the amount of premium dollars that will be spent on administrative costs.
9. In the small group and individual insurance market, it is estimated that one-fourth to one-third of every premium dollar is spent on administrative costs; in the larger group plans, these costs are as small as 5 to 10 percent of every premium dollar.

10. The congressional budget office estimates that small businesses obtaining insurance through SBHPs will enjoy premium reductions of between 9 and 25 percent.

The continuing problems with rising health insurance costs are not all going to be solved by passing the Small Business Health Plans legislation. However, I do believe it will provide a good first step in allowing small businesses to have new tools to combat rising health costs and increased access to more opportunities to obtain health insurance.

The time to move forward is now. We have seen great debate on this issue and it is time for everyone to come together and clarify the remaining issues. Each day the debate continues, many employees of small businesses are going without health insurance hoping that today is not the day a health concern appears.

Thank you for allowing me to testify and I would be happy to try and answer any questions you may have.

Robert R. Moline
BIO

Robert Moline is the Chief Executive Officer for HomeServices of Nebraska which is the holding company for HOME Real Estate, Woods Bros Realty, Capitol Title, Larabee School of Real Estate and Home Owners Plus. HomeServices of Nebraska employs over 600 real estate agents who are independent contractors and over 160 salaried employees.

He has been involved with the real estate brokerage business for over eighteen years and holds a BS degree in Business Administration/Accounting from the University of Nebraska. He earned his Certified Public Accountant Certificate from the State of Nebraska.

Robert has been extensively involved with the state, national and local real estate boards. He has served on numerous committees with the Nebraska REALTORS® Association, earning numerous awards including 2004 REALTOR of the Year, Outstanding Service Awards and the Outstanding Service and Dedication Award as 2003 Large Company Director.

He is an active member of the REALTORS® Association of Lincoln; he has received the Meritorious Service Award, the President's Achievement Award, and is a former president of the Midlands Multiple Listing Service (MLS) Board of Directors.

Robert is a Commissioner on the Nebraska Real Estate Commission. He is a member of the National Association of Realtors RESPA PAG, Business Issues, Public Policy and Vice Chairman of Business Technology & Information Systems Forum.

In addition to real estate, Robert was the Cornhusker Council President of the Boy Scouts of America from 1999 to 2001, and is greatly involved in Good Shepherd Lutheran Church and the Downtown Lincoln Lions Club. Robert and his wife, Deb, have three sons: Adam, Craig and Kyle.

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**CITY OF LINCOLN
NEBRASKA**

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June 6, 2005

U.S. House of Representatives Committee on Small Business
The Honorable Don Manzullo, Chair
% The Honorable Jeff Fortenberry
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Manzullo and Congressman Fortenberry:

On behalf of the citizens of Lincoln, Nebraska, I want to welcome the U.S. House of Representatives Small Business Committee to our great city to accept comments on the important topic of insurance. Insurance costs are a significant portion of the budget for government and business.

Forbes magazine rates Lincoln as number four in the nation of communities with the resources for success. Lincoln has a strong bond with the insurance industry, and the industry is a very important employer in our City and State. Lincoln is home to many insurance companies. Our goal is to make it beneficial for small businesses and insurance firms to prosper and grow in Lincoln.

Just as important is the impact of insurance costs on our local businesses wishing to grow and expand in Lincoln. Insurance can be a pivotal point in their thought process on operating costs. I look forward to the comments and suggestions to address these concerns. Thank you for your efforts on this very important topic and enjoy your visit to our City. Thank you for choosing Lincoln to hold this hearing.

Sincerely,

Coleen J. Seng
Mayor of Lincoln

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