Statement
of the
U.S. Chamber
of Commerce

ON: **Federal Health Care Reform**

TO: **The Pennsylvania House Insurance Committee**

DATE: **May 27, 2010**

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

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The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 71 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business – manufacturing, retailing, services, construction, wholesaling, and finance – numbers more than 10,000 members. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 101 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. Currently, some 1,800 business people participate in this process.

Statement on
Federal Health Care Reform
Hearing before
THE PENNSYLVANIA HOUSE REPRESENTATIVES
INSURANCE COMMITTEE
on behalf of the
U.S. CHAMBER OF COMMERCE (the "Chamber")
by
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U.S. Chamber of Commerce
May 27, 2010

The U.S. Chamber of Commerce would like to thank members of the Committee for the opportunity to participate in today's hearing and to submit this statement. The U.S. Chamber of Commerce is the world's largest business federation, representing more than 3 million businesses and organizations of every size, sector, and region.

Although the Chamber, and employers generally, are committed to expanding health insurance coverage and lowering health care costs for all Americans, we, along with many other business organizations, adamantly opposed the Patient Protection and Affordable Care Act (henceforth "the Act"). We do not believe this new law will achieve the goals we share with Congress and the Administration; rather, it enacts a massive morass of new mandates, bureaucracies, taxes, government controls, and expanded government programs, while ignoring many important free-market solutions and ideas that would lower health care costs.

In fact, the Congressional Budget Office predicts that the new requirements in the Act will lead to health insurance costs for individuals increasing 13 percent higher than they would have been if no law was passed. The Associated Press found that health insurance premiums for young people will increase 17 percent. The Chief Actuary at the Center for Medicare and Medicaid Services found that over ten years, the Act will cause America's national health expenditure to increase by $311 billion. These numbers make sense in the context of the major provisions of the Act.

Starting this September, every health plan sold to an individual or small business will have to meet costly new standards – plans must allow "children" up to the age of 26 to be enrolled as dependents, must restrict or remove annual and lifetime limits, must limit rescission of policies, must cover preventative services with no cost-sharing, must provide new notices, plan documents and appeals processes, are forbidden to require certain prior authorizations, and more.

Even if we assume each of these new requirements only raises health insurance premiums a couple percentage points, it is clear that they will add up quickly – which will lead to serious rate increases when small businesses and individuals go to renew their policies after September 23rd.

In 2014, even more requirements take effect – no preexisting condition exclusions, guaranteed offer of coverage, guaranteed renewals, new minimum coverage requirements, caps on out-of-pocket spending and deductibles, mandated short or no waiting periods for enrollment, new reporting requirements, and severe restrictions on the ability to underwrite policies.

While Congress and the Administration repeatedly promised that Americans would be able to keep their plans, most of these new requirements will apply to all health insurance plans. Costly new requirements will transform plans, and according to the Chief Actuary of CMS, 14 million Americans will lose their current employer-sponsored plans. Some plans may be able to avoid some of the costly new requirements by "grandfathering", but until regulations on this process are promulgated, it seems increasingly likely that it will be difficult or impossible for a plan to maintain grandfathering status. And many costly provisions will still apply even to grandfathered plans.

Perhaps the most troubling aspect of the bill, it encourages free-riding by individuals, thus ensuring rate spikes and possibly death spirals for insurance pools. In 2009, the Kaiser Family Foundation found that the average health insurance premium for an individual was about $4,800. The Act creates an environment in which an insurance company must offer coverage to all comers, and changes to underwriting rules reduce the risk of opting out. In 2014 the Act attempts to balance these new rules with an individual obligation to purchase coverage that penalizes an individual up to $695 or 2.5 percent of income per year if they refuse to purchase coverage. Thus, individuals will be able to save thousands of dollars a year by refusing to purchase health insurance, and if they have a catastrophic incident, they can purchase coverage without penalty or exclusion.

Massachusetts attempted a similar arrangement – the result was that new enrollees stay enrolled an average of three months, just long enough to pass their costs on to everyone else. The outcome was predictable – insurance rates skyrocketed, state regulators attempted to control costs by forbidding the rate increases, insurers refused to enroll consumers when doing so would threaten their financial viability, and the state's health insurance system became frozen in a stalemate. Now this same policy has been enacted on a national level, to be implemented in 2014.

It is true that there are parts of the legislation that will be beneficial to businesses and consumers. For instance, an increased flexibility in HIPAA requirements will allow employers to vary health insurance premiums, encouraging employees to participate in wellness programs. New initiatives like Accountable Care Organizations and the CMS Innovation Center will help public programs catch up to the value-driven practices that private plans are developing. Grants to help small businesses create wellness programs could spur positive change, if Congress decides in a separate bill to fund them.

However, the benefits of these provisions are far outweighed by the problems created by the Act. After all, consumers will be the ones who pay the Act's $569 billion in new taxes. Taxes on insurance policies, on medical devices, on prescription drugs, all will trickle down to consumers. Taxes on employers who cannot afford to provide coverage will result in lower salaries and lost jobs. Lowered payments to doctors and hospitals by government programs will lead to higher premiums for those with private health insurance. And new taxes aimed at the wealthy will fall squarely on small business owners. It is worth mentioning that massive tax increases are not conducive to spurring economic growth and stemming our absurdly high current unemployment.

These taxes are in addition to $500 billion in cuts to the Medicare program. While it is imperative that Medicare be put on a path to fiscal sustainability, taking $500 billion out of Medicare to spend on new programs will only exacerbate the program's already monumental problems. Medicare already has an $89 trillion dollar unfunded liability. Instead of using efficiencies to shore up Medicare and build up the Trust Fund, the Act instead takes the Medicare funds and creates a new $500 billion entitlement, one that will redistribute money from taxpayers to individuals making up to 400 percent of the Federal Poverty Level. That's about $88,000 for a family of four.

And the Act will significantly expand health insurance coverage, bringing more than 30 million people from the ranks of the uninsured into the insured, but this will not be accomplished by using market competition to make health insurance more affordable. Instead, 16 million people will be enticed or forced into coverage by subsidies and mandates, and an additional 16 million people will be added to the Medicaid program. Medicaid often pays doctors 60 cents on the dollar; they avoid it when possible and the more Medicaid patients there are, the fewer doctors are willing to accept Medicaid patients. Worse, Medicaid's underpayments lead directly to higher costs for those with private insurance, meaning that adding 16 million to the rolls will significantly increase premiums for those who purchase health insurance on their own or through an employer. Legislators in Washington DC will soon learn that giving someone a Medicaid card does not mean that they will receive needed care, and that adding millions to unsustainable programs is a temporary solution at best.

The Chamber strongly supports building more options and flexibility into the private insurance market, not expanding the public programs that are already bankrupting states and the federal government; that is why we so strongly support consumer-directed health care and programs that put employees and consumers in charge of their own health care dollars, programs like Health Savings Accounts and Flexible Spending Arrangements. Unfortunately, the Act does not make these programs more attractive; it places new mandates and limits on them, like prohibiting the use of HSA and FSA funds to purchase over-the-counter products without a prescription, and capping total FSA contributions. Yes, requiring a prescription to use one's own health care dollars to purchase Zyrtec or Benadryl. This does not lead to controlling costs or increasing efficiency.

The Act includes credits to help small businesses purchase health insurance, but these credits are small, temporary, end abruptly, and are severely limited as to exclude the vast majority of small businesses from obtaining the full 35 percent credit. The ineffective credits for the smallest employers contrast with a draconian mandate on employers with the equivalent of 50 or more employees. For them, the choice will be to continue offering health insurance and be fined $3,000 for each qualified low-income employee who opts to go to the exchange instead of enroll in the employer plan, or to just pay a fine of $2,000 times the number of full-time employees. Our experience is that employers are willing to pay for certainty and predictability, which may well lead to an increasing number of employers considering the penalty instead of offering a health insurance benefit.

The Chamber supports creation of insurance exchanges, but legislators' assertions that exchanges will result in significant savings are not based on any practical experience – the model of exchange envisioned in the Act is modeled after the Commonwealth Connector in Massachusetts, which has not prevented dangerous premium increases there.

Making health insurance affordable for all begins with real reforms – reforms that protect doctors from frivolous lawsuits, change the way we pay providers to incentivize quality and not quantity, unleash small businesses to pool their purchasing power on their own and to look for more affordable policies in other states, and making serious efforts to crack down on fraud and abuse. These are the kind of reforms that were neglected in the Act, which instead will insure 30 million people through redistribution of wealth and expansion of unsustainable government programs.

The Chamber will continue to champion initiatives that will help more individuals, small businesses, the self-employed, and others gain access to the highest quality, most affordable, and most accessible health care possible. We will participate in the regulatory process, explore legal options when appropriate, pursue legislative initiatives, and make health care a significant piece of our political program this November. Expanding coverage was a worthy goal, but because the Act did not accomplish this in a sustainable manner and did not work to contain the rising costs of health care, we must reiterate that health reform is far from over.

The U.S. Chamber of Commerce looks forward to working with your state legislators in Washington to fulfill the promise of real, responsible health reform. Thank you for the opportunity to testify at this important hearing.