

Testimony presented to the House Small Business Committee

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Cleveland, Ohio**

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Thank you for giving the Council of Smaller Enterprises (COSE), the opportunity to submit written testimony on a subject that our 16,700 members in Northeast Ohio know intimately—health care. For your reference, COSE is the small business division of the Greater Cleveland Growth Association, one of the largest regional chambers of commerce in the country. More than 250,000 lives are covered through our group-purchasing plan.

As indicated above, affordable and accessible healthcare are top priorities for COSE and the Growth Association. COSE's group health insurance plan began 30 years ago to give our members, their employees and their families access to high quality, affordable health care coverage. In addition to offering benefits to businesses in the greater Cleveland area, we also provide group health insurance services in the Toledo, Lima, Findlay, Fostoria and Mansfield areas of the state. In Northeast Ohio, U.S. Census Bureau Statistics show that there are 553,281 non-government workers over the age 16 in the Cuyahoga County, Ohio geographic area. COSE covers 84,956 of those workers, or 15.4%, through its group purchased health insurance program. Over the past 3 years, almost 4,800 employers applied for group insurance coverage with COSE. Over 3,800 accepted coverage (79%).

COSE is also a longstanding member of National Small Business United, the nation's oldest bipartisan advocacy association for small business, representing over 65,000 small businesses in all fifty states. Cliff Shannon has submitted testimony to you on behalf of

NSBU. COSE concurs with his statements; however, given our unique position in the marketplace, we felt the need to submit comments of our own.

The resurgent and dramatic rise in health insurance costs poses an especially difficult problem for small businesses. In fact, an on-line survey of COSE members in early 2002 reaffirmed that concern, with fully half of the respondents identifying health insurance as the most important short-term issue they face. Almost 70 percent of those responding said the issue was “very important ” to their business, the largest issue by far in the survey.

Of particular concern to COSE and its members are the House-passed version of the Patient’s Bill of Rights and the concept of Association Health Plans (AHPs). As you are aware, this bill passed in the House in the 107th Congress. Association Health Plans, on the surface, sound like an appealing solution to increasing healthcare costs and access to healthcare. Proponents say that AHPs will reduce healthcare costs by providing more access to less expensive plans and that the plans will be offered through “bona fide” member associations, such as chambers of commerce. COSE and other small business advocacy groups are opposed to the AHP language found in the 2002 House-passed Patients’ Bill of Rights and any other similar legislation for two primary reasons:

- ❑ Segmentation of the marketplace due to adverse risk selection;
- ❑ Increased risk of program failures and regulation by the Department of Labor.

While well intentioned, we believe AHPs may threaten the stability of the health insurance marketplace and ultimately harm those they are intended to help. From our 30 years of experience with group purchasing, we can see that AHPs will segment the marketplace through risk selection. If AHPs become law, associations that sponsor them could theoretically design their own benefit packages that would be more attractive (and less expensive) to a young, healthy population. This leaves the unhealthy to higher premiums and further segmentation of the market. We concur with the following statement from NSBU’s testimony: “Proponents claim that AHPs will save their members significant amounts of money. In fact, a Congressional Budget Office (CBO)

paper estimated that businesses switching from an existing state-regulated pool to an AHP would see their premiums decline by 13 percent, a fairly substantial savings. However, most (almost two-thirds) of those savings come from the risk selection described above. According to the CBO paper, AHPs would achieve cost savings by draining away healthier individuals from the state-regulated pools, thereby forcing premiums to go yet higher for the majority of the market. The CBO estimates costs will decline for the 20 percent of businesses that join AHPs, but will, therefore, go up for everyone else.”

Proponents of AHPs hope that premium savings will cause new individuals to be insured. However, the CBO paper cited above clearly shows that the overwhelming number of participants in AHPs would be those who switched from a traditionally insured plan to an AHP. CBO believes that these switchers would outnumber the newly insured by nearly 14-to-1. We also must point out that the higher premiums for non-AHP programs could lead to greater numbers of uninsured individuals, exactly the opposite of the outcome desired by proponents.

Based on the experience of the COSE program, AHP legislation could potentially create a catastrophic environment whereby 40% of healthy members exit the program as they find lower premiums with an AHP. To make up for their losses in our program, we would need to raise rates on remaining members by just over 20%. Conservative estimates are a 20% loss of healthy members and an additional 8% premium rate increase being needed. The costs of medical care and prescription drugs are going up over 13% per year based on surveys from national employee benefits consulting firms we speak with. We do not believe that adding another 20% to that the cost increases is not a way to stimulate small business economic growth engine .

We at COSE are also very concerned about the prospects for AHP programs to fail, leaving small employers and their workers and families without coverage. Ohio has strong protections in the form of insurance reserve requirements. AHPs will be able to avoid those requirements in a number of ways. We have watched as several Multiple

Employer Welfare Arrangements (MEWAs) have failed, despite being regulated by the Labor Department. We cannot play risky games with the health insurance of our small businesses across the country who will be unable to analyze the true financial soundness of AHP programs. When the inevitable failures occur, the consequences for faith in our market system will be severe.

COSE is not opposed to competition in health insurance marketplace. We support competition because it motivates us to continuously improve our program. Adopted and championed by COSE, the group purchased small businesses health insurance market has created programs that allow for choice. Without group purchasing, it is unlikely that many of the innovations of our own program would have come about. For example, COSE members have the ability to offer multiple health insurance programs that run within their own health insurance program. That being said, the answer to high insurance costs is not to create an uneven playing field and reduce the population across which risks are being distributed. AHPs simply will not solve the current problem and will create future ones. We would encourage the exploration of options for maximizing choice and flexibility (such as modifying Medical Savings Accounts), tort reform, increased access to information, patient responsibility, etc. before considering an Association Health Plan proposal. COSE is in the process of formalizing alternative ideas to Association Health Plans that are based on our experience with our group-purchasing program. We will make these available to the committee as soon as they are available.

Thank you for your time. In the meantime, if you have any questions about the COSE program, please contact us at ccarusso@clevegrowth.com, dpruce@clevegrowth.com or by calling 216-592-2342.