



# Grand Rapids Area Chamber of Commerce

Creating Opportunities for Business Success

**Approved by Board of Directors**

**June 17, 2003**

**RECOMMENDATION:** The Grand Rapids Area Chamber of Commerce opposes H.R. 660 and S. 545, *The Small Business Health Fairness Act*. If enacted, this legislation would create an uneven playing field among state and national health plans that would lead to adverse selection of young, healthy risk from the existing insurance pool leaving state health plans with an unhealthy aging risk pool. Over time, this “cherry-picking” could lead to an increase in the amount of uninsured persons resulting in an overall increase in the cost of insurance.

**BACKGROUND:** These bills would allow for the establishment of association health plans (AHPs) under the same federal law (the Employee Retirement Income Security Act, or ERISA) that governs the health benefits for large employers and unions. Small businesses would be allowed to band together across state lines, and purchase policies through their associations.

Figures released by the U.S. Census Bureau in September 2002 indicate that 41.2 million Americans are without health insurance, an increase of 1.4 million people over the previous year. Many of the newly uninsured are small business employees whose employers can no longer afford to offer health care insurance. Currently, 49 percent of small businesses offer insurance, compared with 98 percent of larger firms with 100 or more employees.

In his State of the Union Address earlier this year, President Bush stated good health coverage for all Americans was at the top of his national priority agenda. Congress, in turn, saw the establishment of association health plans as a way to attack the soaring costs of health care insurance. Legislation was introduced early in February to support the President’s recommendation. The Senate introduced a similar version early in March. Both bills are currently in committee.

Currently, many employers participate in statewide association health plans, such as the one offered by the Grand Rapids Area Chamber of Commerce. Each individual state plan is subject to the different mandates and regulations imposed by each individual state. However, National AHPs would be subject to ERISA, which contains less consumer protections for the insured. Also, they are not subject to the numerous regulations or burdened with many of the costly mandates statewide plans are subject to.

Nationally, the business community is split over whether to back this legislation. The promise of cheaper health insurance has drawn the support from national trade associations. However, state organizations contend that AHPs would destabilize the market, render small employers’ health insurance reforms unworkable, and siphon healthy workers from the state-regulated market.

**RATIONALE:** The Chamber is a strong supporter of small market reform and has been fighting vigorously in Lansing for passage of state legislation similar to legislation passed in 47 other states. The main reason behind the Chamber’s support of small market reform is to stem the tide of adverse selection

or “cherry picking.” When insurance companies are not required under law to operate by similar rules and rating structures, those with a government-created advantage often skim the healthy, young risk out of a pool leaving the older and unhealthy risk for the insurance companies left to contend with state regulations and mandates.

This practice is contrary to the very notion of insurance, which is to subsidize unhealthy risk with healthy risk. The creation of AHPs on a national level, that are not subject to state regulations and mandates, may sound like a great idea, but would lead to adverse selection and could lead to a rise in the number of uninsured persons who become older or sick. In essence, the passage of AHPs on a national level would create a similar problem that the Michigan Legislature is now trying to correct.

A greater amount of uninsured individuals leads to cost shifting. Cost shifting is charging one group of patients more in order to make up for the underpayment of others. The uninsured receive health care services, while their providers are not reimbursed for their services. According to the Michigan Health and Hospital Association, in 1999 Michigan hospitals provided \$823 million in care for uninsured people, a \$150 million increase over 1998.

The Congressional Budget Office estimates costs will decline for 20 percent of the businesses joining AHPs, but will go up for the remaining 80 percent left to get their insurance through state providers.

In addition, opponents contend that after several years of claims, AHPs would be forced to increase rates to cover the increasing costs of health care, as all traditional insurers nationally have been forced to do. Federal legislation would not regulate limits on how much and how often AHPs can increase premiums.

Without some limitation on how much insurance companies can charge older and sicker populations, it is likely those people will be offered coverage, but will be priced out of the market to discourage their participation. The provisions of HIPPA will not prevent this from happening.

Other adverse implications of the proposed legislation include:

- Loss of the ability to appeal if your AHP insurance company denies your claim
- Loss of assurance that a claim will be paid because AHP insurers have no requirement to have adequate cash on hand
- Loss of guaranteed coverage for essential health care services

**PROPONENT’S RATIONALE:** Supporters contend that AHPs would create a level playing field and this approach with its “strength in numbers” would narrow the gap in benefits between small and large companies.

The bill exempts AHPs from state regulation and mandates they would operate under less onerous rules of the federal Labor Department. Proponents contend AHP insurance would be less expensive without state regulation and would reduce the number of uninsured.

A Department of Labor report citing a January 2000 paper from the Congressional Budget Office (CBO), suggests AHP participants would see a 13 percent decline in premium costs.

**CONCLUSION:** There is no question our country is facing a national health care crisis. However, association health plans will not be the fix legislators are looking for. Discussions addressing a systemic, long-term plan for health care reform should be considered. Congress should consider bipartisan

legislation to address the key factors driving health care costs ultimately providing small businesses and their employees, with access to quality, affordable health care coverage.

Congress should not pass legislation creating an uneven playing field among insurance providers and promotes cherry picking. At the very least, some national “rate bands” similar to the 47 states should be established to level the playing field if AHPs are adopted. Participation rules requiring a certain percentage of enrollment for eligible employees should be considered as well.

The Chamber also advocates that government should pay the full cost of health care for Medicare and Medicaid. Until that time, cost shifting will continue to drive up the cost of health care.

**ADVOCACY:** The Chamber will communicate this position to the Michigan Federal Delegation, as well as other appropriate federal legislators and advocate for other approaches to health care reform. In addition, the position will be communicated to Chamber members.