

**Statement of Hector V. Barreto
Administrator
U.S. Small Business Administration
Helping Small Businesses Provide Lower Health Coverage and Lower
Costs
Senate Committee on Small Business and Entrepreneurship
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Good morning, Chair Snowe, Ranking Member Kerry and distinguished Members of the Committee. Thank you for inviting me to discuss with you how to provide greater access to affordable, quality health care to small businesses.

For many small business owners, this is the most important issue they face. The problem of access to affordable health insurance has grown in recent years. Without prompt action, this crisis will only become more acute. According to a recent survey (February 2005) of small business owners by the National Federation of Independent Business (NFIB), the cost and availability of affordable insurance continues to be the biggest problem facing small businesses. Small business owners cite insurance cost (27%) more than they do even taxes (15%) or poor sales (9%) as the chief impediment to their success.

I personally experienced this crunch prior to becoming Administrator of the U.S. Small Business Administration (SBA) in 2001. Working for a small business, then as a small business employer and finally as the head of an association, I saw first-hand just how difficult it is for small businesses - - the businesses which are the backbone of our Nation's economy - - to secure the health care their employees want and need.

Running a small business, I witnessed how running your own health plan is costly, not only in terms of the administrative costs involved - - costs that these small businesses often cannot pass on to consumers - - but also because of the time spent dealing with the problems employees often faced when making claims. Employees of small businesses often speak with their boss directly when these problems arise, since the boss is in most cases the "human resources" office of a small business. For the owner, this drains time away from other activities vital to running to his or her business.

Later, as the head of an association, insurance companies constantly told me that they could not provide coverage to our members because, despite having thousands of members, we were simply not big enough. Our pool of employers was too small.

As Administrator of the SBA, I have had a chance to visit with small business owners throughout the country. No matter the topic of these discussions, small business owners inevitably ask me at these gatherings what we in Washington can do to make health care more affordable for them. They tell me time and time again that their inability to find access to affordable, quality health care is their biggest concern.

The problem of providing access to affordable health insurance often forces small business owners into a cycle of delivering increasingly bad news to their employees. Small business owners first have to inform their employees that their premiums will go up yet again for the upcoming year. Soon, that will not be all - - despite the increased premiums, choices will be more limited, as employers will have to move employees to a less generous health plan. Finally, in a number of cases, even that does not end the cycle. In those situations, small business owners are forced to tell their employees that providing any health insurance is beyond their economic means - all coverage will be eliminated. The result is that employees of these companies have to find their own coverage.

Studies bear witness to the truth of these anecdotes. Although businesses large and small have experienced rises in health insurance premiums disproportionate to inflation, small businesses have been particularly hard-hit. For instance, while premiums for the largest companies (5,000+ employees) grew by 11.6% in 2004, premiums for companies with 3-24 employees grew by 13.6% in the same time period. Even before these increases, small businesses were already struggling to keep health care affordable for their employees.

Small businesses also face much higher administrative costs. A report released by SBA's Office of Advocacy in 2003 examined 19 health care plans in two states and determined that administrative expenses for insurers of small group health plans ranged from 33% to 37% of claims versus 5% to 11% for larger companies' self-insured plans. Additionally, the report revealed that sales, underwriting and operating expenses were all higher for small group health plans studied as opposed to those designed for their larger counterparts.

This lack of readily available affordable health insurance has even forced many small business owners to stop offering insurance coverage altogether. According to the 2004 Kaiser Survey, The smallest firms are least likely to offer health insurance. Only 52% of firms with 3-9 workers offer coverage, compared to 74% of firms with 10-24 workers and 87% of firms with 25-49 workers.

As identified in a 2002 Department of Labor report, this disparity is even greater for small low-wage firms, defined as firms at which more than 50 percent of all employees earn less than \$9.50 an hour. Only 34% of all low-wage small firms offer health benefits, as opposed to 95% of all low-wage large firms.

The employees of small businesses are consequently far less likely to be covered on the job. Department of Labor (DOL) estimates show that people in families headed by self-employed and small firm workers make up 50% of all uninsured Americans.

When small companies do offer health benefits, they typically offer a narrower range of options than do larger companies. According to the Kaiser Family Foundation

Employer Health Benefits Annual Survey, in 2004 86% of small firms that provide health benefits only offer one plan to their workers, with the primary reason cited for offering just one option being that the companies receive better deals from insurers by requiring all or most employees to join the same plan.

Given these staggering costs faced by all small businesses, President Bush has placed making health care for small businesses more affordable at the top of his Small Business Agenda.

The President wants to make it easier for small business owners to pool together to offer their employees the same sort of affordable health coverage options that many large corporations and labor unions can currently offer their employees and members. To do so requires reducing the administrative costs small businesses face in providing health care to their employees. This is why the President supports lowering the barriers current law imposes on Association Health Plans (AHPs). Allowing AHPs to flourish will expand access to health benefits to millions of uninsured Americans while providing more choices to small businesses that currently only have limited choices.

Enhancing AHPs will level the playing field for small businesses. They will enable small businesses to pool their resources together across state lines to access the same discounts from higher-volume purchasing and the same flexibility to design coverage options that large firms and labor unions currently enjoy.

Small employers are forced to seek health insurance for their workers as separate entities, making it more expensive or even impossible for these firms to purchase insurance coverage. AHPs would allow these small businesses to join together, affording them the benefits of uniform federal regulation and greater economies of scale enjoyed by large employers.

Without strengthening AHPs, small businesses will not have this opportunity. Those that choose to pool their resources under current law must instead continue to cope with the requirements of 50 different state insurance regulators and state mandates that can often prove to be very costly to the point where forming AHPs is almost always cost-prohibitive.

The President's plan to strengthen AHPs would make the option of pooling together with other small businesses and within associations to purchase health insurance much more cost-effective. Participants in a panel organized by the Tomás Rivera Policy Institute (TRPI) in the wake of its report recommended such a solution for Hispanic-owned businesses due in part to these cost efficiencies. This plan will allow small businesses to have access to the same quality of health care across state lines.

Legislation introduced in the 107th Congress which would have enhanced AHPs would have allowed small businesses participating in AHPs to save, on average, somewhere between 9% to 25% of the cost of their health care premiums, according to a study by the Congressional Budget Office (CBO). With the cost to small businesses

of providing insurance decreasing so dramatically, the CBO study indicated that 330,000 people without health insurance would have been covered had Congress passed that legislation.

Lowering the costs of health insurance will also provide small businesses with better opportunities to recruit and retain the employees they need to grow and prosper. The availability and quality of health care benefits is often a deal-breaker for employees seeking places of employment. Strengthening AHPs will even the playing field for small businesses by allowing them to offer health benefit plans similar to those offered by their larger competitors.

As President Bush said last March at the Women's Entrepreneurship Summit, "I strongly support Association Health Plans. That means that small businesses will be able to pool together and spread their risk across a large employee base. It makes no sense, no sense in America, to isolate small businesses as little health care islands unto themselves. We must have Association Health Plans."

Once Congress passes legislation enhancing AHPs, SBA will seek to connect small business owners with the best solutions for providing health insurance to their employees, while DOL will implement the necessary programmatic structure. I want to thank Secretary Chao for the leadership she and DOL have shown on AHPs. Her commitment to helping small business owners overcome their biggest hurdle has been admirable. Small business owners struggling to make ends meet in the face of these ever-increasing costs are appreciative of your efforts.

I hope that Secretary Chao and I, on behalf of President Bush, can work closely with you and all Senators this year so that small businesses, and the 57 million Americans who work for them, can receive access to better, more affordable health care coverage through the strengthening of AHPs. Until we come up with an affordable solution that crosses state lines, I do not think we can solve this problem for small businesses. The time to act is now. Continuing to do nothing to address this crisis is unacceptable for millions of small business owners.

Thank you, Chair Snowe, for the opportunity to speak to you today about this very important topic. I now look forward to answering your questions.