



**Testimony of Ryan Thorn on Behalf of the National Association of Health Underwriters before the
U. S. House of Representatives Small Business Committee
Health and Technology Subcommittee
Hearing on "The Health Insurance Fee: Impact on Small Businesses"
May 9, 2013**

Good Morning. My name is Ryan Thorn and I am a small-business owner from a suburb of Salt Lake City, Utah, called South Jordan. I own an insurance agency called Ryan P. Thorn Insurance Planning and, like more than 20 million other Americans, I am self-employed and have just one part-time employee. I am here on behalf of my professional association, the National Association of Health Underwriters (NAHU), which represents approximately 100,000 health insurance agents, brokers, general agents, consultants and other employee benefit specialists from all over the United States. I have been involved with NAHU and its Utah affiliate since 1993, and I am honored to currently serve as the vice president of NAHU's Board of Trustees.

First of all, I would like to thank the House Small Business Committee and, in particular, Chairman Graves, Ranking Member Velazquez, Subcommittee Chairman Collins and Ranking Member Hahn for inviting me here today and for electing to hold this public hearing. The impact of the Patient Protection and Affordable Care Act (PPACA) and the new fees it will impose on small-business owners like me will be profound. I appreciate your committee's recognition of the issue and bipartisan willingness to bring it to the public's attention.

I would also like to thank my congressman, Representative Jim Matheson, for reaching across the aisle and working with his colleague Representative Charles Boustany to be the two original co-authors of H.R. 763. This measure would repeal the annual fee on health insurance providers enacted by PPACA. I am also proud to say that my senator, Orrin Hatch, is an original co-sponsor of S. 603, the companion legislation currently pending in the U.S. Senate. Both of these great men know the serious financial consequences this tax will have on Utah businesses and the people who work for them.

As I mentioned, I am the owner of a small family business, but I also have a client base composed of many other small-business owners. I serve the health coverage needs of my clients by helping them purchase, administer, service and utilize health insurance policies and other related benefits. Almost all of my clients are either self-employed or have businesses with under 25 employees, which, as you know, is representative of the vast majority of American employers.

The new national health insurance fee that will be imposed on all individual and fully insured group health insurance policies sold in this country from 2014 and forward will impact about 45% of all insured residents of Utah. These are the people who are covered by individual, private Medicare and group policies that are fully insured. This means that all risk for the policies is borne by the insurance company. These are the only type of policies that are impacted by the new tax, which means that the Americans who work for and own small businesses around the country are disproportionately affected. While the tax technically falls on insurers, the Congressional Budget Office has confirmed that the tax "would be largely passed through to consumers [small-business owners and their employees] in the form of higher premiums for private coverage." That the tax will be passed on directly to purchasers has also been confirmed to me by local insurance companies in Utah.



A recent study about the impact of the tax shows that it will cost Utah residents who buy individual coverage on average \$1,802 more for single and \$4,305 more for family coverage over the next 10 years. For those with small-employer coverage, the average single person will pay \$2,173 more over the next 10 years just from this tax, and a family in Utah will pay \$5,365 extra.¹ There are similar projected cost increases for people in fully insured large employer plans, those with private Medicare plans and those in Medicaid managed care arrangements. Due to the way the tax is assessed, the amounts will vary somewhat by state and by insurance carrier, and I only cited the numbers for my particular state. But I have looked at the data, and these projected numbers are pretty typical for fully insured consumers in all states.

Among my client base, the cost of health insurance coverage is a huge concern. In preparation for the honor of testifying before this committee today, I contacted all of my clients to make sure that they were aware of the new health insurance tax, or the HIT, as many business owners are calling it. I also asked if they had any thoughts they would like me to share with all of you today about how the tax and the overall implementation of the health reform law will impact them and their employees. This reaction from a long-time client was the most succinct. He wrote: "We have always tried to take care of our employees but it is becoming impossible at this rate."

Another client asked me to share this with you. He said:

"I run a small accounting business that has four employees. It is very difficult to keep providing benefits and this new HIT tax will make it very difficult to continue as I have. If I could say anything it would be this: Freedom brings happiness. I just don't find happiness any more from what the government is doing to me."

Two other small-business clients I have shared more detail about how the new tax will impact their businesses and specifically their benefit decisions. One wrote:

"We currently pay 75% of the insurance premiums for all of our employees and their families while many of our peer companies elect to pay 50%, or less, of the premiums for employee coverage only. We have historically provided this degree of benefit because of our strong commitment to our most valuable asset, our employees. Frankly, ObamaCare's 21 new direct taxes and multiple hidden taxes, such as the 'HIT,' scare the daylights out of us and threaten not only our ability to provide adequate insurance coverage for our employees and their families, but also the very existence of our companies, which have performed marginally since the housing bubble burst in early 2006. Washington needs to understand that more money taken away from our companies and our employees, in the form of taxes, fees, penalties, etc., means less money available to pay our employees so that they can provide for their families."

The other said:

"Our board has had lengthy discussions regarding the rising cost of health insurance. Even in the current climate, we are forced to look at either reducing benefits or having employees purchase their own insurance. The so-called 'HIT' will hasten the decision to move away from providing group coverage for our employees. At the very least, it will mean increased out-of-pocket expenses for employees."

¹ http://www.ahipcoverage.com/wp-content/uploads/2013/04/HIT_Utah_4_1_13.jpg



A final client wanted me to tell you:

“Simply put: The activation of this law is likely to prevent me from hiring a staff member in the future due to my obligations and this tax imposed from hiring a worker. Put another way: New hires will be affected in a negative way.”

The bottom line is: The new law, which includes this new national health insurance sales tax, has great potential to add cost and complication to employee benefit plans. Its compliance and cost burden is causing a great deal of anxiety on the part of most American employers. It is making employers large and small change their hiring practices, begin investigating other new means of providing coverage to their employees that the private market may offer, and consider dropping coverage altogether.

Unlike some of the other cost drivers in the health reform law, this new health insurance fee has no purpose but to increase federal revenues. It doesn't make the markets work better or attempt to disincent a poor behavior choice like smoking. Instead, it is just a direct fee that increases every year and will be passed on to the companies that offer health insurance to individuals and small businesses. It is a huge new tax -- larger than the medical device tax and the prescription drug tax combined. And it will make health insurance coverage for people like me and my clients cost much more, which raises a larger concern—that businesses will possibly drop their coverage altogether.

All of the members of NAHU and I believe there is an inherent unfairness in the concept of financing health reform on the backs of people who are doing the right thing by buying private coverage. I also have to say that it is nonsensical to raise taxes on individual and small-group health insurance products to pay for the law's new coverage subsidies and Medicaid expansion, when the subsidized products and Medicaid managed care plans will be amongst the ones being taxed. In essence, the federal government is heavily taxing itself, which, to me, is not good business.

Since I've made my living helping people buy private health insurance coverage for nearly 30 years, I can tell you with absolute certainty that when prices go up, people buy less health insurance coverage or simply forgo it altogether. Since the financial impact of the new health insurance tax alone will be much greater than the minimum penalty for those who choose not to buy health insurance, I am very worried that that it will tip people over the edge and they will decide to go bare. Given that the law's new guaranteed-issue requirements mean that people will be able to pop back into the coverage system without regard to any preexisting condition, there is a real concern that this tax and other cost-drivers will incentivize younger and healthier people to forgo purchasing insurance until they need medical care. In the insurance industry, that phenomenon is called adverse selection, and it will make the cost of health insurance even higher for everyone.

Another consequence I see from this tax and the other provisions of the law that may make health insurance premiums more expensive for businesses owner is the impact on jobs. Here's another direct quote from one of my clients: “The activation of this law will likely prevent me from hiring new employees.” When the cost of coverage goes up, it impacts hiring, particularly in a small business. The tax and other cost increases may very well incent more employers to change positions from full-time to part-time, since most part-time employees aren't offered health insurance coverage. Employers will consider making this change not only because of health insurance premium costs, but also because it



could help them with participation requirements. Of course, all this would be at the detriment of the employee who now moves from full-time working hours to part-time hours.

Another unintended consequence of the health reform that few people are talking about, but is something that I think this tax and the other cost-drivers in the law will impact directly, is group insurance participation. The reason that many small (and even some large) employers do not offer coverage today, or only offer it to full-time employees or certain classes of employees, is not just price. It's also the difficulty of ensuring that the group will be able to continually meet participation requirements. Participation requirements across the United States vary but, in general, you must have at least two-thirds of your employees accept coverage or document that they have other employer coverage (like through a spouse) in place. If the cost of this new tax and other factors in the law make health insurance coverage a lot more expensive for some employees in the next year or two, and those employees decide to drop their group coverage, either to go to the exchange and try and get subsidized coverage or just drop coverage altogether, it could make it impossible for business owners to offer coverage to any of their employees.

Here's an example of how this problem could play out in real life: A woman owns a small company and she offers coverage to her nine full-time employees, none of whom make more than the average annual wage of about \$43,000 per year. She pays what she can toward her employees' coverage costs, but premiums are still expensive and a \$500-per-year increase just for this new tax isn't helping matters. If four of her employees say "no thank you" to the group health plan she's offered, she may not be able to offer her group health coverage to any of her employees anymore. My example is for a very small business, but the example has applicability for businesses of all sizes.

To end on a personal note, my wife, Robin, and I have four children, two of whom are still at home and covered by our individual family health insurance policy. The cost of our \$4,000 deductible HSA coverage is just under \$500 a month, which is a significant expense for us. The prospect of adding approximately \$500 to our annual premium next year to pay for this new national premium tax, in addition to the new national reinsurance fee that will add about \$240 a year to our coverage, is daunting. Plus, as a health insurance agent, I know that changes to the way individual and small-group health insurance policies will be priced in Utah in 2014 and beyond is expected to raise the cost of health insurance premiums for families like mine in our state by up to 28% next year. That expected 28% increase is on top of the new taxes and fees. As far as my family and I are concerned, the looming fees and pricing changes to pay for health reform that will impact us in the future amounts to a huge middle-class tax increase. When you also factor in the other tough financial consequences health reform has had and will continue to have on my business unless addressed by this Congress, such as the law's medical loss ratio requirements, which decreased my personal business income by 30%, it's hard to say this measure has been the Affordable Care Act, at least for the Thorn family.

I truly appreciate the opportunity to provide testimony to your committee today. I consider it a huge honor to be here and a privilege to be able to let you, our elected representatives, know about how the cost of health reform is impacting small-business owners like me. If you have any questions, or if I can be of additional assistance to you as you continue your important work representing American small-business owners, please do not hesitate to contact me. Thank you.