



Statement of

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Before the Committee on Health, Education, Labor and Pensions of the United States Senate

**Roundtable on Small Business Health Care Challenges and Opportunities
July 7, 2015**

Chairman Enzi, Ranking Member Sanders and Members of the Committee:

Thank you for the opportunity to participate in this roundtable discussion regarding small business health care challenges and opportunities.

I am here today in my capacity as a small business owner, but I also work on health policy. In 2009, I founded Applied Policy to help health care companies, including providers, manufacturers, suppliers, insurers, trade associations and specialty societies navigate the Centers for Medicare & Medicaid Services. We are not lobbyists, rather, we take our clients concerns into account, explain the opportunities and threats posed by new legislation and current and proposed changes to regulations that apply to those concerns. We then work with them to find solutions that not only benefit the client, but also foster a government that serves the people as intended.

When I started Applied Policy, my biggest worry was whether it would generate enough income to feed my family. My second biggest worry was how I would find health insurance for my family because I had always relied on my employer to provide that coverage.

So, when I first hung out my shingle, I had to buy health insurance for myself and family and go through the underwriting process. Fortunately, I worked with an insurance broker who helped us navigate the process and we were able to secure good coverage. After completing that process, I realized why that process caused so much angst among others and how we were fortunate to get a good result.

As I began to hire staff, I had to consider not only what salaries I would offer, but also what benefits highly qualified staff would expect. Moreover, working as a health policy consulting firm, I felt that Applied Policy should make sure all its employees had access to good health insurance. So, the first benefit I tried to add was health insurance.

The first person I hired was in 2010 and the Affordable Care Act had just passed and allowed all individuals under age 26 to remain on their parents' health insurance plan. The first person I hired was under age 26 and chose to stay on her parents' insurance. The implications of this were that I did not yet meet the "group" criteria and had to maintain my individual insurance at underwritten rates until I hired an employee willing to sign up for a group health insurance policy

Then, I hired my second employee. Our insurance broker helped me compare a number of options and select three plan options: an HMO; a point-of-service (POS) plan; and a PPO. Applied Policy decided to pay a larger subsidy than the law required so its employees could have access to a \$0 premium plan. Therefore, I paid the full cost of individual coverage for the HMO and allowed the employee to elect to have additional funds withheld from their paycheck to upgrade to the POS or PPO options. We also provided optional vision and dental insurance.

As we added more staff, Applied Policy continued its policy to provide its employees with access to a \$0 plan. By 2014, there were seven of us, with five electing one of our plans and the other two choosing to remain on other health care insurance through their spouse or parents.

That year, Applied Policy received two checks from our carrier because of the Medical Loss Ratio calculation. One was for 36 cents and the other was for 12 cents. Stern instructions accompanied the checks stating the law required Applied Policy to share the funds with our employees. Therefore, I gave each of the plan enrollees a dime.

In July 2014, when it came time for us to renew our plans for 2015, I told our broker that we would like to keep the same plans as we currently had. She informed us that the plans had been recently designated as "Platinum Plans" and the insurance premiums increased by 40 percent. The HMO option that we had based our subsidy calculation on increased by 48 percent. The year before, we had also seen double-digit increases in our rates.

Our desire to give a premium subsidy to each plan enrollee sufficient to enroll in a \$0 premium plan was affected by the new age-rating requirements. So, instead of being able to have an office-wide meeting, explain the health insurance options, show the 2015 rates and Applied Policy's contribution toward them, our broker had to have seven individual conversations. This is because the cost of the plans varies widely between young and older subscribers, and results in a greater premium subsidy the older the employee is. We do not discuss the ages of our staff at work and I believe compensation should be tied to the work the employee does, not how old they are. However, the age-rating system forced us to tie compensation to age, at least for our health insurance benefits.

We realigned our plan options, taking advantage of some of the new wellness options, and continue to provide employees with access to a \$0 premium plan, but I have changed my family vision and dental coverage to coverage just for my wife and I, since pediatric vision and dental



coverage is now included in our health insurance plan. I have not been able to determine whether the 40 percent increase was the result of additional benefits being required by law, the new rating rules, an opportunistic rate hike by the insurer, or a combination of all three.

With that as background, I would like to answer the questions you provided to me before this roundtable:

What is the current status of the health insurance market for small businesses, specifically plan options and costs in the small group market?

The current status is uncertain. Small employers are receiving mixed messages regarding what a “good” employer should do. Am I expected to continue to make employer-sponsored coverage available to its employees, should I use the SHOP exchange to make coverage available to their employees, individuals should obtain their own coverage through the individual Exchanges, or should I be able to do whatever I feel is best for my business?

In addition, the changes in rates are unpredictable from year-to-year, and one major aspect of running a business is to have recurring expenses like health insurance premiums be predictable.

I get the feeling that the rules are being developed with the assumption that small businesses do not want to provide health insurance benefits to their employees or are aiming toward the minimum requirements.

What tools and options are available and useful for small employers to offer some assistance to their employees?

Our insurance broker has been an invaluable resource. In addition to helping us renew our plans and analyze options that offer us a robust provider network, a good benefit package and the best value in terms of premiums and cost-sharing, she helps us identify and comply with legal requirements like the section 125 plan, helps us on-board new employees, and answers questions about providers, benefits and cost-sharing for my employees.

What has worked, what hasn't worked and what policy recommendations do you have for the Committee?

I encourage the Committee to recognize in its policymaking that small businesses are all different. Some want to provide health insurance to their employees that exceeds federal standards and others will take a different approach.

My employees want access to providers, a good benefit package and fair premiums and cost sharing. As an employer, I want to provide that to them. More could be done to help employers



and employees compare the total costs of coverage rather than choose the lowest premium plan and be surprised by the high out-of-pocket expenses when they visit the doctor.

Please keep in mind that our employees want stable and predictable coverage so they can keep their doctor from year-to-year, become comfortable with benefits and the cost-sharing obligations, and have confidence that if they have to go to the hospital, their insurance coverage will help pay the costs. I want my employees to have that kind of coverage so that they can focus on work, get healthcare services when they need to, and not worry about their health insurance coverage.

Thank you again for the opportunity to participate in this roundtable. I would be happy to answer your questions.



JAMES G. SCOTT

James G. Scott, President & CEO of Applied Policy, will serve as a senior advisor on the project. Mr. Scott founded Applied Policy to apply his in-depth and insider knowledge of federal health policy to help healthcare providers and companies succeed. As a member of the Washington, D.C. health policy community for over a dozen years, he has gained valuable experience and contacts in both the government and private industry.

Immediately prior to founding Applied Policy, Mr. Scott was charged with obtaining optimal Medicare coding, coverage and payment for all pharmaceutical products manufactured by Hoffmann-La Roche, Inc. While at Roche, he also worked to resolve Medicare and Medicaid reimbursement issues at the federal level and served as the company's principal point of contact with the Centers for Medicare & Medicaid Services (CMS).

Mr. Scott served as the Senior Legislative Advisor at CMS, advising the CMS Administrator on congressional intent in implementing the Medicare Modernization Act of 2003 and engaging Members of Congress in the implementation of the Act. Mr. Scott received Agency-wide awards in 2005 for his work with Congress on the successful implementation of the new Medicare prescription drug benefit and for his work with congressional appropriators on the Fiscal Year 2006 President's Budget request.

Prior to his service with CMS, Mr. Scott was an Assistant Counsel with the Office of the Legislative Counsel of the U.S. Senate, where he was a principal drafter of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 and other Medicare legislation. Mr. Scott and his work were recognized through the unanimous passage of a Senate Resolution and in numerous statements by Senators and Representatives printed in the Congressional Record.

Mr. Scott received a Bachelor of Science in Political Science from James Madison University in Harrisonburg, Virginia and received his Juris Doctor, Magna Cum Laude, from the Catholic University of America, Columbus School of Law, in Washington, D.C.

