

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

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Testimony of

Mr. Warren S. Hudak, Jr.
President, Hudak and Company

before the

**Senate Health, Education, Labor, and Pensions Committee;
Subcommittee on Primary Health and Aging**

on the subject of

Small Business Health Care: Costs and Options

on the date of

June 28, 2016

Chairman Enzi, Ranking Member Sanders, and members of the Senate HELP Subcommittee on Primary Health and Aging, thank you for the opportunity to testify before you today concerning rising small business health care costs and potential options for employers and employees to mitigate these cost increases. My name is Warren Hudak, president of Hudak and Company, a central Pennsylvania-based small business accounting firm specializing in payroll services, bookkeeping, sales tax services, and advanced tax transaction analysis.

Our business is a typical small business in many ways. Hudak and Company is a growing firm, but rising health care expenses consume an increasingly significant share of our revenue. It is difficult to keep up with the constant implementation changes, which can be disruptive to our business. These changes are sometimes meant to help, but occur too late to provide substantial relief. I feel like small businesses have been placed in an impossible situation as costs increase and competition and flexibility decrease.

Costs and Limitations

Our business has always provided financial assistance to our employees for health insurance. Group health insurance was expensive and volatile for our business, but we had to offer it in order to compete with larger companies and the Pennsylvania State Government.

We were early adopters to a high-deductible group health plan paired with a health savings account (HSA). Our plan was cancelled three different times, so we began offering a health reimbursement arrangement (HRA) for employees to purchase health insurance on their own. The arrangement worked well for our employees as they could choose the appropriate plans that fit their needs, even those with pre-existing conditions. I have long been a supporter of consumer-driven health insurance arrangements, and believe they are key to curbing unsustainable health care cost increases.

In 2013, the Internal Revenue Service (IRS) issued guidance¹ that prohibited the use of employer payment plans, including stand-alone HRAs. Enforcement of the prohibition began July 1, 2015. Facing a threat of \$100 per employee per day penalties, we had to again change how we help employees. Any financial assistance must be treated as taxable income, decreasing the value of the contribution, and the contribution cannot be contingent on the purchase of health insurance. It felt like another punch in the nose.

Our family's most recent individual policy premiums increased substantially this year. We shopped around but there was only one other carrier available in our county, and it excluded some of our current doctors, so we stuck with our current plan. Insurance company competition has not improved, it feels worse. It amazes me that there are not more choices in the area. Prescriptions costs have skyrocketed, as well. Costs went up, but coverage worsened.

¹ Notice 2013-54, Application of Market Reform and other Provisions of the Affordable Care Act to HRAs, Health FSAs, and Certain other Employer Healthcare Arrangements, <https://www.irs.gov/pub/irs-drop/n-13-54.pdf>, (subsequent guidance included in Notice 2015-17).

Options for Relief

I do feel there are policy solutions that can provide relief from high costs for small businesses, provide increased options for small business employees, and provide increased competition amongst insurance companies.

Last week, the House of Representatives passed *the Small Business Health Care Relief Act of 2016* by voice vote.² The Senate should quickly consider the bipartisan companion bill.³ This bill would help employees afford health insurance, and allow employers to continue to play a role in supporting their employees through the utilization of HRAs. Certainly, lawmakers who drafted the ACA did not intend to punish small businesses for helping their employees with health care costs. Our business is proof that this arrangement worked.

In order to increase competition in my area and other places with limited options, interstate purchasing of insurance plans should be permitted. Interstate purchasing would allow new entrants into markets and force insurance companies to compete for small business and individual customers.

Initial 2017 premium filings in Pennsylvania are discouraging, as insurance companies are requesting significant increases for individual market plans and moderate increases for small business plans. According to NFIB Research Foundation, small business owner optimism remains near historic lows.⁴ The political climate continued to be the second most frequently cited reason for why owners think the current period is a bad time to expand. The Senate can begin to restore much needed confidence by quickly sending *the Small Business Health Care Relief Act* to President Obama's desk, and working toward other solutions to lower the cost of health insurance.

Thank you again for allowing me to share small business concerns before the committee today. I look forward to answering any questions.

² H.R. 5447, *the Small Business Health Care Relief Act of 2016*, introduced by Congressmen Boustany (R-LA) and Thompson (D-CA), <https://www.congress.gov/114/bills/hr5447/BILLS-114hr5447pcs.pdf>, passed on 06/21/2016 (previous version was H.R. 2911).

³ S. 3060, *the Small Business Health Care Relief Act of 2016*, introduced by Senators Grassley (R-IA) and Heitkamp (D-ND), <https://www.congress.gov/114/bills/s3060/BILLS-114s3060is.pdf>, (previous version was S. 1697).

⁴ *Small Business Economic Trends*, NFIB Research Foundation, May 2016, <http://www.nfib.com/surveys/small-business-economic-trends/>.