THE RISING COST OF HEALTH CARE

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

BUCKHANNON, WEST VIRGINIA, AUGUST 25, 2003

Serial No. 108–30

Printed for the use of the Committee on Small Business

Available via the World Wide Web: http://www.access.gpo.gov/congress/house

U.S. GOVERNMENT PRINTING OFFICE

92–793 PDF WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON SMALL BUSINESS

DONALD A. MANZULLO, Illinois, *Chairman*

ROSCOE BARTLETT, Maryland, *Vice Chairman*
SUE KELLY, New York
STEVE CHABOT, Ohio
PATRICK J. TOOMEY, Pennsylvania
JIM DEMINT, South Carolina
SAM GRAVES, Missouri
EDWARD SCHROCK, Virginia
TODD AKIN, Missouri
SHELLEY MOORE CAPITO, West Virginia
BILL SHUSTER, Pennsylvania
MARILYN MUSGRAVE, Colorado
TRENT FRANKS, Arizona
JIM GERLACH, Pennsylvania
JEB BRADLEY, New Hampshire
BOB BEAUPREZ, Colorado
CHRIS CHOCOLA, Indiana
STEVE KING, Iowa
THADDEUS MCCOTTER, Michigan

NYDIA VELÁZQUEZ, New York
JUANITA MILLENDER-MCDONALD, California
TOM UDALL, New Mexico
FRANK BALLANCE, North Carolina
DONNA CHRISTENSEN, Virgin Islands
DANNY DAVIS, Illinois
CHARLES GONZALEZ, Texas
GRACE NAPOLITANO, California
ANÍBAL ACEVEDO-VILÁ, Puerto Rico
ED CASE, Hawaii
MADELEINE BORDALLO, Guam
DENISE MAJETTE, Georgia
JIM MARSHALL, Georgia
MICHAEL MICHAUD, Maine
LINDA SANCHEZ, California
ENI FALEOMAVAEGA, American Samoa
BRAD MILLER, North Carolina

J. MATTHEW SZYMANSKI, *Chief of Staff and Chief Counsel*
PHIL ESKELAND, *Policy Director*
MICHAEL DAY, *Minority Staff Director*

CONTENTS

WITNESSES

	Page
Jones, Cynthia B., West Virginia State Chamber of Commerce	3
Elliot, Brian, McGraw-Elliot Media Group	6
Williams, Robert L., West Virginia Farm Bureau	8
Butch, James N., Eagle Research Corporation-Automation Solutions	10
Hawks, Jean, Fort Hill Child Development Center	12

APPENDIX

Opening statements:	
Manzullo, Hon. Donald A.	23
Capito, Hon. Shelley Moore	25
Prepared statements:	
Jones, Cynthia	34
Elliot, Brian	42
Wiliams, Robert	47
Butch, James	53

FIELD HEARING ON THE HIGH COST OF HEALTHINSURANCE ON SMALL BUSINESSES

MONDAY, AUGUST 25, 2003

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
Buckhannon, WV

The Committee met, pursuant to call, at 9:30 a.m., in Conference Room B, Physicians Office Center, St. Joseph's Hospital, Buckhannon, West Virginia, Honorable Don Manzullo [Chairman of the Committee] presiding.

Chairman MANZULLO. Well, good morning. What a beautiful day Mrs. Capito. The air is a lot cleaner here than Washington, and in more ways than one. Definitely. It's a real joy to be here this morning.

We continue with the Small Business Committee having a series of hearings around the country with regard to the affordability and availability of health care insurance. Of the 43 million Americans without health insurance, over 60 percent are small business people and their families, employees of those business. And according to Milliman USA, the nation's largest health care actuarial company, 40 States and the District of Columbia have virtually no small business health insurance market. And one of those States is the State of West Virginia. People just are getting out of the business of selling it.

And as you go across the country, for example in South Carolina, we will be having a second hearing down there in Congressman DeMint's district. We were there about two years ago continuing with the prices that goes on. And according to South Carolina Department of Insurance 8 out of 10 uninsured individuals are members of working families. So we see the gap continues.

And at one time the employer, at least, was an anchor where you could get health insurance. And now it's becoming increasingly difficult.

The National Association of Self Employed reports in a recent survey, 7 out of 10 small businesses do not provide health coverage to their employees and costs are cited as the chief reason for this trend.

So we work on various solutions in Washington including association health plans, different types of deductibility and tax credits to make health care insurance more affordable to small employers and their employees. Well, now we are in West Virginia and the problems here are no different than the problems of the nation.

Chairman MANZULLO. Congresswoman Shelley Moore Capito is a valuable member of our Small Business Committee.

And the only rule that we have here is try to keep your testimony to 5 minutes, more or less, but usually more. And just 5, 6, 7 minutes, that is okay. We have to be up in Pittsburgh later on this afternoon. Would like to leave here a little after 11:00 or so. So we have about an hour and a half to have the hearing.

The way it will work is each of you testify. Then at the end of that period of time we will be asking you questions here. And depending on how much time we have left, we could also, perhaps, do some audience participation.

We are going to leave the record open for 10 days. Anybody who wants to submit any testimony to be made part of this record, you can get it to our office. Here is the rule: It cannot exceed 2 pages typewritten, single spaced in 10 point type. That is elite type, okay? No footnote type because then we cannot read it. But if you keep it to 2 points. And then, Shelley, maybe they could just get it into your office? Will that be the easiest thing to do?

Ms. CAPITO. That is fine.

Chairman MANZULLO. Do you want to give them a fax number, or what would be the best place that they could send it to?

Ms. CAPITO. I have my cards here. Let me get my glasses for my 2 point type.

Chairman MANZULLO. Okay.

Ms. CAPITO. Fax number 202–225–7856. Christa Sheets in the back from our Washington office, who a lot of you know, and then also Ann McCusky, Mary Margaret Chandler, Phillip Turner and Conrad Lucas. Where is he? There he is in the back. So we should have you covered, but we do have cards that have all of our available phone numbers.

Chairman MANZULLO. Just send it to that fax number and ask that it be made a part of the testimony of this hearing.

And I will give the Chairman's gavel to Mrs. Capito and ask you to chair the meeting.

Ms. CAPITO. Thank you. Love that.

Okay. Well, I really want to thank Chairman Manzullo for coming to West Virginia, to Buckhannon, to Upshire County to address an extremely important issue to all of small business, in particular the small business I care most about, which is our West Virginia small business.

And we have in the course of our small business committee, we have heard many of the trials and tribulations of conducting small business, but when I went to visit one of my small businesses in West Virginia, that would have been Eagle Research, Mr. Butch asked me to come down and wanted to really lay out the problems and the difficulties that he was having with his health insurance, securing health insurance for his company. So that was sort of the genesis when you and I got together and you accepted the invitation to come to West Virginia very graciously. Mr. Butch was really the one in the back of my mind. And I wanted to thank him and everyone for coming. Some of you have driven several hours, and I appreciate that.

I know you have a great appreciation for the Second Congressional District because you are only half way through it when you start in Charleston and come here.

I am going to make just a brief opening statement along the lines of what the Chairman said. Small businesses make up a considerable percentage of our West Virginia workforce, but unfortunately less than half of America's small businesses offer health benefits to their employees and we all know why. And the high cost. This leaves out a huge portion of our working population that cannot afford health coverage for their families.

We have worked on a bill in Congress, the Associated Health Plans Bill which would allow small businesses and other groups to pool their resources and purchase quality coverage. As a result, small businesses would be able to enjoy the same uniform regulation and economies of scale and administrative efficiencies that large companies have. It is believed it could reduce the ranks of the uninsured by as many as 8.5 million people in the United States, which is significant.

Hopefully, this legislation has passed the full House. We had a hearing on it in our Small Business Committee at which Secretary of Labor Elaine Chao was present. The Administration is very much behind this plan, and we believe it will offer at least a ray of hope for our small businesses. But we know that no one solution is going to help the millions of uninsured.

The Small Business Committee is dedicated to exploring a variety of options to help small business, and I look forward to the continuing dialogue with our small business owners.

I would like to stop here and thank Mr. Wayne Griffith for the facility, and all of those at Saint Joe's for their hospitality. And a wonderful venue to conduct such a meeting. All of this will be on the record, will become part of the Federal record and, as the Chairman said, additions can be made. And I think it is significant.

So I was going to start with Ms. Jones. Normally I would go—tells me to go this way, but my notes has me going this way. So I will stick with my notes.

I want to recognize Cynthia Jones. She is a partner in the law firm of Steptoe & Johnson, and the leader of the firm's employee benefits practice. For over 18 years she has represented and counseled employers on a variety of employment benefit issues, including those related to medical benefits and group health insurance. She also serves on the Employee Benefits Committee of the Tax Labor and Insurance Law Sections of the American Bar Association.

Her testimony today is on behalf of the Small Business Subcommittee of the West Virginia Chamber of Commerce, of which she is a member. Welcome.

STATEMENT OF CYNTHIA B. JONES, ESQUIRE, SMALL BUSINESS SUBCOMMITTEE OF THE WEST VIRGINIA CHAMBER OF COMMERCE

Ms. JONES. Thank you.

Chairman MANZULLO. I am going to be the official timekeeper.

Ms. JONES. Do I get a little card?

Chairman MANZULLO. Well, what I am going to do is I am going to put a 4 on here. So, you know, since we make up our own clock in Washington, you see a 4 you got to 2 minutes. That is close enough to 5. Our official 15 minute vote is officially 17 minutes.

Ms. CAPITO. At least. At least.

Chairman MANZULLO. So we change the clock.

Ms. JONES. Well, I will try to limit myself to 5 minutes. Because you know for lawyers that is sometimes difficult.

On behalf of the West Virginia Chamber of Commerce and its Small Business Subcommittee, I am pleased to submit the following statement. In West Virginia, the Chamber is known as the voice of business. And primarily when we speak about business and the economy in the State of West Virginia, we are talking about small businesses.

The U.S. Census tells us that just over 89 percent of firms in this country are businesses that employed fewer than 20 people. Nearly one out of five employees in this country, or 18 percent, work for companies that, in fact, have fewer than 20 people.

In West Virginia, again according to the U.S. Census in 1999, small businesses employed 298,680 workers or 54.8 percent of the State's workers. In 1999, West Virginia had approximately 32,813 small business.

As the West Virginia economy increasingly turns more toward entrepreneurial businesses, high technology and service oriented businesses, we fully expect that the percentage of the economy represented by small business will continue to increase.

I would like to turn to why small employers want to offer health coverage. Back in the early 1970's Congress made a comprehensive review of employee benefit programs sponsored by employers. That initiative eventually led to the enactment of the Employee Retirement Income Security Act of 1974, or as we know it most frequently, ERISA. ERISA, along with the Internal Revenue Code, is the primary means of regulating the employer-provided group health benefits in this country.

Although we will celebrate 30 years of ERISA next year, for an employee benefits lawyer like me, that's an important landmark. Congressional policy that was embodied in ERISA continues to be the same driving force behind the way in which businesses offer group health benefits.

ERISA is organized around one concept, and that is that employers should voluntarily provide group health benefits and other benefits to their employees. The primary legal incentive for employers to sponsor group health plans are really twofold. First of all, tax incentives found in the Internal Revenue Code and also, importantly, the existence of a single comprehensive, uniform system of federal regulations that replaced the patchwork of pre-ERISA insurance, primarily insurance legislation that had been enacted by the State. Before ERISA, a small business person located on the borders of West Virginia that would do business in both West Virginia as well as in other States had to employ someone to focus on not one single system of regulation, but a patchwork of various States. You work in 3 States, you have 3 sets of regulations.

According to a 2002 survey by Employee Benefits Research Institute/Consumer Health Education Campaign and Blue Cross/Blue Shield about 92 percent of the employers offer group health coverage because they simply feel that it is the right thing to do. We, at the Chamber, think that West Virginia businesses want to offer group health coverage for much of the same reason. However, when

you look at small business and particularly small business in West Virginia, both law and market forces provide some powerful disincentives to employers who want to sponsor group health plans.

Why do not employers in West Virginia offer coverage? Well, the first one is obvious, and that is cost. And we all know that cost is a problem. It is a big problem in the State of West Virginia. According to an article in The State Journal of September 2, 2002, small businesses that provide insurance for employees can expect to pay $16,272 on average for health care by 2007. That's almost double what they are paying now.

Same article estimates that by 2008 West Virginia families can be charged $18,000 or more, and this is not for cadillac coverage. This is for modest health care coverage.

State Chamber has estimated on an informal basis that health care costs for some employers amounts to about 30 percent of payroll, and in some cases can go as high as 40 percent of payroll.

Let me give you a good example of what we see in West Virginia. I work with a small manufacturing company in the Northern Panhandle. The company has about 50 employees, they offer group health coverage through a group health plan. Through an HMO. They are a union company, so they have a collective bargaining agreement. And the labor agreement as to provisions relating to health care. One is that the company will provide coverage for retirees until the retiree reaches age 65, and the other is that the amount of employee contributions specified in the agreement, the difference between what the employee pays and the premium is the employer's responsibility. So any increase in premium is the problem of the company, not the employee.

Rates were relatively stable for this company throughout the mid–90's. There was one significant rate increase in 1991. In 1997 through 2000, monthly rates were increasing about 12 percent. Not particularly wonderful, but not particularly catastrophic.

In July 2001, the ceiling fell in. The company was informed that beginning September 1, 2001, its employees would be separated into two rate groups; active employees and retirees. The monthly rate for actives went up by 19 percent. The increase for retirees went by 169 percent. The company, of course, remained obligated under the labor agreement to pay everything above what the employee specified premium in the contract, and that was about 4 percent. So, again, most of the increase was falling on the heads of that company.

The company renewed its contract with the HMO for 2001/2002. In July 2002 it learned that the rate for the following one year period would be increased by 121 percent for actives and 69 percent for retirees. As it happened, during this period of extraordinary rate increases, the group had a single catastrophic loss, one single claim that amounted to half a million dollars in medical expenses. Although under federal law the company cannot take that into account, the insurance companies certainly do that.

My time is up. I would just like to say that there are many other issues that face small employers in West Virginia including concerns about the number of uninsured workers where those costs are being passed on indirectly to small businesses.

And I will submit a written statement.

[Ms. Jones' statement may be found in the appendix.]

Chairman MANZULLO. All the written statements will be a made a part of the record. What I would encourage the witnesses to do is to, 5 minutes pass very quickly, as you know.

Ms. JONES. Right.

Chairman MANZULLO. And being a lawyer, I also understand that 5 minutes converts to 10 minutes in a hurry.

Get right to the heart of your testimony. Start there. Because we want to hear the anecdotal stories. I mean, for example the last part was—all your testimony was excellent, but the last part is worth 30 hits around the head. So if you could focus on where the hammer is coming down right away, that would help us.

Ms. CAPITO. Thank you, Ms. Jones.

Next I would like to recognize Mr. Brian Elliott. Mr. Elliott is the general sales manager for McGraw-Elliott Media Group, Media Properties, which include WBRB, WBTQ, B93, WELK, K95, WBUC AM and TV3 that reach audiences in Upshire, Randolph and surrounding counties. The company employs 25 to 30 full time and part-time employees.

Thank you, Mr. Elliott.

STATEMENT OF BRIAN ELLIOTT, McGRAW-ELLIOTT MEDIA GROUP

Mr. ELLIOTT. As member of the media, if I start with a signal like this. I understand that.

My company has a health insurance plan called "Super Blue Plus" which has a tremendous amount of irony in that we find it to neither be super nor a plus. Quite frankly, the annual increases in premiums are making us all just a little blue.

As owner and Vice President of Sales of a local family owned business, I'm thankful for the opportunity to speak today.

I have three top areas of concern: The ability to retain and attract quality employees; how we as a small business are being penalized by the insurance industry, and; our inability to get competitive quotes.

As a married man and a proud new father of twins, I have recently been faced with the rising costs of insurance for our family. My premium next month will go from $274 to $747. With very few options available to me, I am faced with the decision of putting my entire family on this plan and reduce my cash flow at a time when my costs are rising. This very decision is one that my employees have made time and time again.

Unfortunately, 44 percent of our company has chosen to go without health care insurance. This makes them a little high risk for us in that we know that they are keeping their open for another opportunity, perhaps with larger companies that can afford to give them a better plan with lower premiums.

When trying to attract employees I find we are at a disadvantage competing for the main breadwinners of the families. These people are attracted to us in that they put a certain level of commitment and dedication to their careers. Well, due to the high cost in part to insurance, we cannot provide the wages that offset the high cost of insurance when they become eligible for insurance. As a result, we are often hiring the second breadwinner of these families and

new, young, inexperienced employees that can opt and not go with insurance for a period of years in lieu of the higher net income they can get.

Fortunately, we have been able to uncover some talent in these categories. But, still, we have a high amount of turnover in our company, and with a company of our size it is difficult to rebound quickly due to the time and cost of all the training these types of employees.

Currently we have 27 full-time employees, only 6 of them are on the company plan, which leads me to my next point. We are being penalized by our insurance company for being a small business with only 6 insureds.

Consider, if you will, the example of a large company with 500 people in the pool. If one of these employees should be diagnosed with, say, cancer the overall effect is spread among many and barely felt by the other participants. However, in a small company with a pool of, say, 6 should one person need surgery and be in the hospital for a week. The overall entire pool of our employees would suffer from the skyrocketing premiums in the next coming year.

This happened to us in 1997 when a gentleman had to have triple bypass heart surgery. Everything went well, but he was of the retirement age and chose not to continue working. Unfortunately, it was those left in the company and those who were the future employees who paid for that particular surgery.

Another reason our company is being penalized is due to the fact that six of these employees that are in the pool, four of them are of the age of 50 and over. As a matter of fact, Mountain State Blue Cross/Blue Shield tells us that they pay out 70 percent of what we put into the plan annually. As a result, we have been incurring approximately 25 percent annual increases in insurance for the past 5 years. As a small company, this is way out of proportion with any cost of living that we could possibly provide to these people.

Not only does having a small pool of insured employees penalize us, but it hinders us from obtaining competitive quotes from other companies.

Where does a company our size turn for reasonable health care coverage? With more and more insurance companies pulling out of the State, our options are becoming fewer by the month. Allow me to read a short memo from Steve Nafe, President of Deep South Insurance Company, that is addressed to all West Virginia agents. This might shed some light on why we are left with fewer options.

It says: "Last November "Deep South announced that we would no longer be writing new business in West Virginia. Our decision was based upon our poor underwriting results in the State coupled with the very difficult legal environment that the State presents.

Last week a survey released by the United States Chamber of Commerce assessed the fairness of liability systems for all 50 States. States were evaluated by corporate general counsels and their senior litigators. The worst perceived States included Mississippi, Alabama, Louisiana, Texas and West Virginia.

The study asked corporate attorneys what they thought was the most important issue state policy makers...should focus on to improve their State's litigation environment. The leading two issues were tort reform and punitive damages. Certainly these issues

joined by the bad faith venue that West Virginia presents, curtail economic development and deter a health insurance marketplace."

The end result of decisions like this one from Deep South leaves companies like ours with fewer competitive options to leverage lower rates. We are forced to put up with increase after increase, in some cases made to fell fortunate that anyone would provide us with coverage at all.

It is clear that West Virginia's small businesses may have challenging issues, but for us the increased cost of health care is right at the top. When a company cannot retain and attract key personnel, is being penalized for the size of its workforce and is running out of competitive options to save money, it makes it difficult to stay optimistic about a healthy business environment and future opportunities.

I thank you for the chance to speak this morning. I hope these comments will stimulate conversation and debate on how we can meet these challenges.

As a business owner that plans on staying in West Virginia, we need insurance that lives up to its name is super and a plus.

Thank you.

[Mr. Elliot's statement may be found in the appendix.]

Ms. CAPITO. Thank you, Mr. Elliott. Appreciate that.

Next we have Mr. Robert Williams. Mr. Williams is the Executive Secretary for the West Virginia Farm Bureau.

The West Virginia Farm Bureau is a nonprofit member organization that represents over 16,000 families in West Virginia. Their mission is to provide leadership, education, training, information and economic services to county farm bureaus, to enhance the quality of life for their members. The West Virginia Farm Bureau is affiliated with the American Farm Bureau Federation that represents farmers and rural folks throughout the United States.

Welcome, Bob.

STATEMENT OF ROBERT L. WILLIAMS, EXECUTIVE SECRETARY, WEST VIRGINIA FARM BUREAU

Mr. WILLIAMS. Thank you, Chairman Manzullo and Congresswoman Capito for taking the time from your schedules to hear testimony about the problems facing small business in acquiring health insurance for its workers and in the case of the West Virginia Farm Bureau our members.

As Congresswoman Capito mentioned, the West Virginia Farm Bureau represents over 16,000 families as members of our organizations, and it is our belief that there is no more important small business in the United States than the family farm. There are 20,500 family farms in the State of West Virginia and over 2.1 million farms in the United States. And I understand, Mr. Chairman, that you are a member of that class of farmers in the United States and understand some of these issues.

In West Virginia, and I suspect throughout the United States, most of the farms are managed by families in which one of the family members works off the farm. When questioned, many will respond that it is not the money that forces them to seek off farm employment, but the need for the benefits. Farming can be a dangerous occupation and health insurance is a necessity for those

families. Heavy equipment, large animals, hard work, exposure to various chemicals and dusts make health insurance a necessity for farmers.

Farms continue to operate on low or non-existent profits. And I might suggest that one of your other committees in Congress may want to look at that issue somewhere down the road regarding the profits available to the family farm.

The lack of disposable income makes a non-insured health emergency a crises for the family in terms of personal injury and concern, but even a short, non-insured stay in the hospital could easily lead to financial ruin for a small farmer. The risks of being uninsured are great.

While working for a previous employer, I had a farmer offer to work for that agency for no salary if he could qualify for the health insurance benefits.

As we sit here today, there's a young Farm Bureau member about 45 years old in the hospital at West Virginia University with a very serious illness and no insurance coverage. His family is considering selling the farm, or at least a portion of it, to pay those bills.

In West Virginia, individuals who do not qualify for Medicare cannot afford to purchase health insurance coverage. Premiums for a single-family plan can exceed $1100 a month, an amount out of reach for many full-time farmers. Those individuals often look to organizations like the Farm Bureau for help with these problems. The West Virginia Farm Bureau's experience with group health insurance plans is dismal. We have offered several plans in the past. We have met with failure, disappointment and huge liabilities for our policyholders.

In 1981, health insurance coverage was offered to the West Virginia Farm Bureau members through an agreement with Farm Family Insurance through their Member Health Plan. This plan failed when Farm Family Insurance withdrew from the health insurance market in 1994.

Our organization then moved to John Alden Health Insurance which accepted most of the members, but not all, leaving some without insurance through no fault of their own, but because they were a poor insurance risk.

In 1996, John Alden withdrew from the health insurance business in West Virginia, again leaving our members without coverage.

Later in 1996, the West Virginia Farm Bureau entered an agreement with Continental Casualty Company doing business as the CNA Insurance Company and with the International Benefit Services Corporation, which allowed the members previously insured to enter the program at the same premium rate they had been paying. This company wanted to stop insuring our members in 1999 and since they would remain in the insurance business, could not simply withdraw. Their approach was to raise the rates 20 to 40 percent in October. Another 20 percent in January, and another 30 to 35 percent in April. One member reported that he dropped his insurance on himself in order to continue to cover his wife who had a medical condition and could not get insurance at any price until the premium he was paying was over $1,000 a month.

That's 5 years, 3 carriers and at the end, no coverage at all.

Since that time the West Virginia Farm Bureau has sought other health insurance carriers without success. These results are not due to a lack of effort or good faith on our behalf or, for that matter, on behalf of the insurance company. There needs to be a solution that provides a chance to make money for the carriers while providing the needed insurance coverage for our policyholders.

Obviously, the answer to affordable health insurance must be found and it is elusive. Without some guidance from our elected officials, small business will continue to struggle with paying the costs of health insurance for their employees and run the risk of personal and business financial disaster.

We look to you for this guidance and hope that your colleagues in the Senate will approve the Association Health Plan approach which you in the House have so diligently pursued which we hope will help provide assistance for groups like the West Virginia Farm Bureau and others on this panel.

Thank you very much.

[Mr. Williams' statement may be found in the appendix.]

Ms. CAPITO. Thank you. Thank you, Mr. Williams.

I now recognize Mr. James Butch. Mr. Butch is the President and one of the original founders of Eagle Research Corporation, a small West Virginia high tech business. The company was founded in 1976 in Charleston, West Virginia. It is now located in Scott Depot, West Virginia where it designs and manufacturers electronic products for the natural gas and other industries.

Eagle has 30 full-time employees that use state-of-art engineering and manufacturing equipment to build its projects. Eagle markets its products throughout the United States and exports to 6 other countries.

Thank you, Mr. Butch.

STATEMENT OF JAMES N. BUTCH, EAGLE RESEARCH CORPORATION

Mr. BUTCH. Thank you. Thank you for inviting me here today, Chairman Manzullo and Congresswoman Capito.

I guess the points I want to summarize in this slide are that we do have 30 employees. About a third of them are engineers, about a third are technical sales and support and about a third manufacturing and administration.

Our issue is that our health insurance has more than doubled over the last 4 years. And since a third of our staff are professionals, we have to get to certain standards or expectations for them to stick with us. Small companies cannot hire a large staff, so those that we do hire must be the very best. And in order to attract and keep the very best, we have to offer a competitive benefits package, comparable to those offered by large corporations.

Now, our turnover is very low, thank goodness. Because there is a lot of training and experience involved in designing these products. This slide shows our history over the last five years for health insurance plans. I'll go over with the family portion here for purposes of savings some time. But in '98 we started with American Medical Security. And a family plan was $531. The next year it

went to $651, which was a 23 percent increase. And in 2000 it went to $1182 or a 82 percent increase.

So not being able to tolerate something like that again, we shopped around for insurance again. And the best of those was Mountain State Blue Cross/Blue Shield and they quoted $856 a month. The next year we got hit with over 26 percent increase taking it to a $1075. And then this year we got a 6 percent increase taking it almost back to where it was in 2000 at $1138. But that 6 percent increase was only after we asked the West Virginia State Insurance Commissioner Office to meet with Blue Cross/Blue Shield on our rate increases that we were experiencing. And since we have less than 50 employees our prescription drug coverage wasn't as good.

The cost of our health care insurance benefit is now at $25,000 a month and our payroll is at $104,000 a month. So that puts our health insurance benefit at 24 percent of our payroll today. Most of these employees qualify for 4 weeks of vacation, because we have low turnover. So our direct benefits on just these two benefits is over $400,000 a year or 33 percent of our wages.

And since the health insurance appears to be doubling every 4 years it really rings some alarms with us. Is it going to be 48 percent of our wages? Is health insurance going to be 50 percent of our wages in another 4 years?

These two slides summarize graphically showing that American Medical Security is more than doubling in the 3 years and Mountain State Blue Cross looks like it is doubling at every 4 or 5 years.

Okay. The problem as I see it is that health insurance companies are allowed to base rate increases on the profitability of each company plan. I realize that's the way the regulations are written right at the moment, but this is the problem.

In the case of a small business like Eagle's, one claim for a long term illness or severe accident will make our plan not profitable. You know, we have 30 people. After you have this one large claim, the other insurance providers either will not quote or quote very high rates and it effectively locks you in with your current provider. And after this, in turn, the rate increases of over 30 percent per year are possible, with our experience being between 6 percent and 80 percent per year.

So will it ever stop? Do they have a free hand to do this every year?

So I see a solution being based on passing legislation requiring health insurance companies to base rate increases on their own profitability, not the profitability of my 30 employee plan. And to require all rate increases to be equal on all their plans. And if this is insurance, is it not supposed to average out, or average the risk to all their insured clients?

And also I think it should require full disclosure of their profitability, especially those that have other types of insurance and other types of financial services. And I think there should be some kind of a rate review board.

And that's my presentation. And I hope it will spark some change in this, because we truly cannot afford our health insurance to double again.

[Mr. Butch's statement may be found in the appendix.]

Ms. CAPITO. All right. Thank you, Mr. Butch.

And our final, last but not least presenter is Ms. Jean Hawks. Ms. Hawks is the President and owner of Fort Hill Child Development Center Incorporated. She is the original owner.

The Child Development Center has 50 to 55 employees full and part-time serving 200 families in the Cannaan valley. Ms. Hawks is also a member of Charleston's Chamber of Commerce and President of Charleston's Women's Forum.

Thank you.

STATEMENT OF JEAN HAWKS, PRESIDENT/OWNER FORT HILL CHILD DEVELOPMENT CENTER INCORPORATED

Ms. HAWKS. Well, thank you.

Thank you so much for the opportunity to be here today. I am a little intimidated following Mr. Butch's high tech because my role is diapers, tears, wiping up spills. It is quite a different industry, but at the same time we share the same problems.

I do have today as we speak 53 employees. I offer a health insurance plan, but the corporation pays only 25 percent of it. So that eliminates many of my employees whose salaries range from $13,000 to $30,000 a year as the child care industry is a very low paying industry. If I were to increase that amount, I would have to pass the cost onto my clients, which might push me out of the industry in Charleston. So that is a concern to me.

Seventeen of my employees, all women, do not have any health coverage at all. A few of them have medical cards because their income is low and they have a child under the age of 18 so they are able to have a medical card. And then 7 of us have the actual insurance policy that the company subsidizes.

I for 12 years did not have any health insurance of my own at all, which was a very scary situation. Many women after divorce and being without health insurance because most of the men are in the higher paying industries. And so many women across the nation are in the area of child care and child care is so important, we know we have a lot of uninsured women working with children. And I think that is very discouraging.

Being a child care provider is a wonderful profession. It is a wonderful industry. It is fun, it is inspiring, it is a wonderful place to spend your day. But if you are sick and you do not have health insurance, it becomes a big, big problem.

I hope that there is some way that we can get coverage for all Americans, but especially for the women who do not have coverage.

Thank you.

Ms. CAPITO. Thank you.

Well, I appreciate all of your testimony. Certainly you come in from different angles, but the same angle essentially. And, Mr. Chairman, do you have some questions?

Chairman MANZULLO. Yes, I do. I want to thank you for the excellent testimony.

Mr. Butch, the question I wanted to ask you, could you go back, flip your slide back to that chart. Right there. Explain the footnote on the bottom with the asterisk.

Mr. BUTCH. Okay. When we were soliciting for proposals for our insurance which renews every May, we solicited proposals in Janu-

ary. We got several proposals in in the actual March/April time frame that were in the 30 percent increase range. And Blue Cross stated that they were going to withhold their proposal until 30 days before it had renewed.

So we talked to someone in the Governor's office. It was Roland Phillips, I believe. And he got us connected to someone in the West Virginia State Insurance Commissioner office, I believe it was a gentleman at the time. But he met with Blue Cross/Blue Shield for us to review the rate increase. And as a result of this meeting, we got 6 percent increase. He was able to manage to pull it down, but even at that it was still 6 percent more. And I guess it is better than 30 percent.

Chairman MANZULLO. Is that some quirk in West Virginia State law that allows your state insurance commissioner to become involved when these rates are filed?

Mr. BUTCH. I think it——.

Chairman MANZULLO. Shelley, can you answer my question?

Ms. CAPITO. Well, my understanding, I believe, and if there is another expert in the room that knows this more specifically than I do, our State insurance division has to rule on rates. And you may——.

Ms. JONES. That is correct.

Ms. CAPITO. Yes. And so they probably had the right to go in and investigate any kind of rate increases. And, obviously, they have the right to—well, we do not know exactly what happened, whether they turned the rate down or the company voluntarily stepped in.

You might have some experience with that legally. I do not know.

Ms. JONES. In my experience the insurance commissioner—and a lot of problems even if he is asked to do so. You can see from the testimony here rate increases are a real problem in West Virginia. And I think just the mere power alone of insurance commissioner would not possibly be able to intervene in the crisis.

Mr. BUTCH. I clearly view it as a favor. He did not have to do it.

Chairman MANZULLO. Is there legal authority to knock down an increase or could you walk us through that?

Ms. JONES. Actually, no, I do not practice in the area of State insurance law. I practice in the area of federal employee benefits. But I can tell you, as I have an anecdotal experience. I have suggested several of my clients contact the insurance commissioner. Sometimes it is helpful, sometimes it is not. But it is not, again, above the State Insurance Commissioner at all. He does have authority over insurance contracts and rate increases, but it is just when you have so many increases effecting so many businesses, there's only so much manpower available.

Chairman MANZULLO. And the other question I had is if you are a very small company going head-to-head not only with domestic companies but internationally and you are exporting—this is more of a comment than a question. But we spend a lot of our time on the Small Business Committee trying to identify the reasons why so much of our manufacturing and now engineering and architectural and accounting services are going overseas. And when you take a look at just your example, Mr. Butch, only 20 percent of your full time employees are vetting themselves of the insurance,

it is easy to see why we become more and more noncompetitive in this country.

Mr. BUTCH. I agree. And I think that is certainly another topic. But if our insurance were to double again, it would be 48 percent of our——.

Chairman MANZULLO. Well, you could not afford that. You would be out.

Mr. BUTCH. Something has to change. And if I were to, say, if we are going to pass all future rate increases on to my employees, the lower paying—my average wage is over $41,000 a year. So basically we are not a low paying company. But even at that, the lower paid manufacturing people it would take more than half their paycheck into paying for insurance rate increases. It is ridiculous. It cannot be allowed to continue.

Chairman MANZULLO. Well, one study I think, Ms. Jones, that you cited showed that by the year 2007 it is going to cost $16,000 a year to insure a family of 4. Well, that is impossible.

Ms. JONES. That is correct.

Chairman MANZULLO. Wages, obviously, are not going to increase to absorb them.

Ms. JONES. And that, again, is just for modest coverage. By no means it that the cadillac type of coverage. That is just the basic plan.

Chairman MANZULLO. You know, when I was in one of my reelection bids, a lady stood up, a component, she said "You know, I just wish that we had insurance the way the members of Congress did." She said, "I understand you have cadillac coverage." And I said "If it is a cadillac, we are in the trunk." Because, I do not know about you Shelley, we have got Blue Cross/Blue Shield.

Ms. CAPITO. Yes.

Chairman MANZULLO. Fight all the time. Always fighting with the insurance company over coverage on it. We have no coverage for—very little dental, but no orthodonture. So at that time my son stood up and I said "Neil, show the audience your teeth." So he smiles and a full set of braces on there that ran us a $100 a month for 3 years and we have no coverage on that.

But this is not what you are experiencing. I just want to assure you that members of Congress do not get different types of insurance. We get a choice, but invariably it is Blue Cross/Blue Shield. And we are not here to criticize companies because when you get involved in medical technology, the cost of innovation has always historically exceeded the cost of inflation just because people want and demand the latest products and medicines and physicians have to use those, unless they face even more crises with the medical malpractice.

Ms. CAPITO. I had a question for Mr. Elliott. And really, all of you all might be able to answer this. In terms of trying to find coverage, how much time do you spend as a business owner trying to find and then comprehend? Do people market to you, do you have to go out and find it? I mean, to me that has to be an inordinate amount of time taken away from delivering your business service?

Mr. ELLIOTT. Yes, good question. My time is best spent dealing with my employees. And really, honestly, until I had children I did

not really pay attention. My wife was on another plan at that time. So I have had to dive in head first.

And to my knowledge we do not have many insurance companies knocking on our door to give us a better choice. As a matter of fact, I have had to actually sought out the West Virginia Broadcasting Association, the National Association of Broadcasters. I would try to find some group that I could put myself into to be competitive. But even with those organizations, even our local Chamber of Commerce there does not have anything available to us.

So I spent a good bit of time researching that and only to find out that we are just an unattractive proposition for an insurance company. Well, I understand as a business owner that you got to make a profit. With our pool of people, 6 are over the age of 50. These people are going to make demands on any policy.

So, you know, I do spend a lot of—and I probably will continue to spend time researching this.

And you spoke this morning at the Governor's Inn on perhaps something opening up in terms of companies being able to jump into a larger pool. I wonder if you could speak about that?

Ms. CAPITO. Well, that is the Associated Health Plan that we have passed through the House where you would become part of a larger pool across state lines. You know, the problem that Mr. Butch has with the one, he had one person, as I recall in your company that was—and I think you said you did, too. Somebody who had a catastrophic illness or a very, very expensive illness that was just driving the cost of the entire, everybody's plan way up rather than attaching it to a larger pool.

I think your idea of—the suggestion was that the profitability of the plan should be attached to the profitability of the insurance company. There.

Chairman MANZULLO. Well, that is community based pricing what you are talking about, as opposed to individual companies.

Ms. CAPITO. I have a question for Ms. Hawks. Because I know in day care what a tremendously vital service that you provide to all of America's families. My gosh. But, you know, you are so heavily regulated in terms of how many staff members you have to have per child. And so you have got a situation where your folks are not insured. So the wellness and prevention aspect of health insurance is not there for any of the folks that are working for you; checkups, inoculations, all these kinds of things, people let go because they are not covered by their insurance and they do not have the money to pay for it. How does that not having insurance, not having so many people with insurance, how does that effect your ability to do business? Because I would imagine people get sick. They cannot take care of themselves. I mean, your employees. And then you are stuck because you probably spend a lot of your day filling in for people that cannot be there.

Ms. HAWKS. I do. I am very fortunate. I have a very long term group of employees working for the day staff, have been with me many, many years.

I do several things for the employees. I do an annual health examine that I pay for. Because State licensing for day cares requires that each employee have an annual physical and recognizing that

many of them do not have insurance, I provide that for them. And that is helpful.

I do in-house training sessions for my staff twice a year and I bring in health care professionals to talk about how women can get free mammograms, that sort of thing.

So to sort of try to make up for the fact that many of them do not have health insurance, that is the way we attack it.

I have a very broad socio-economic cross section of clients. I have some that come through DDHMR, their day care is paid for. And then I have two professionals, two doctors, two lawyers, or whatever. And I really tap into the resources that my clients have, and many of them are doctors and help us as well. If I have a client who doesn't have health insurance who just need some consultation. I realize it is a high risk thing for a medical person to do, but you know we can usually refer them to someone and get something that would prevent having to go to, you know, a higher, more less cost effective steps for it.

So I am very fortunate, but it is a problem. And so far in the 13 years we have not had anyone with major illness. We really stress; we walk at noon; but we do the little things that you can do if you are a head of a company. You know, we do not do the junk food. We put fruit plates in the teacher's lounge and try to do things to help encourage good health because we want them to teach good health attitudes to our children as well. So those are just some of the things we do.

But I would love to see these woman, as someone else mentioned my work force because they have been with me a long time, we are all getting close to that age 60. And they will start having health problems, and that is scary to me as their coworker.

Ms. CAPITO. Mr. Williams, I have a question for you. Another important industry, farmers and certainly feeding America and the world. And I would like to ask you, you know you think of the family farm and its inception or at least the way I have come to think of it, it is the family working. It is the husband and the wife, and then the children when they grow older and are able helping, and then generationally passing it on. But I would imagine that the family farm is probably being gutted in some way for the search for health insurance.

One of the principals, the husband or the wife, probably leaves the family farm to go to another source of employment so that they can get these benefits to secure for the farm. Is that a phenomena that you all are experiencing?

Mr. WILLIAMS. Absolutely, Congresswoman. It is something that occurs in West Virginia. I do not have any statistics on that, but I would be willing to predict that better than 80 percent of our family farms have one member of the family working off the farm. And the reason that they work off the farm is for the benefits and almost exclusively for the health insurance.

If they both stayed on the farm, they cannot afford to buy the insurance from current carriers that are available here in West Virginia, which also is one of the problems that we are experiencing. There are not many people, not many companies out there that are offering to pay the health insurance for an individual per-

son. That is why everyone looks to try to find a group plan where they can find insurance that is affordable for them.

One of the problems that we see, though, is that that causes the family farm to, first of all, lose one of its vital workers on the farm which then must be replaced by a hired employee who often asks, the first question asked is do you provide health insurance. It is a vicious circle that continues to exacerbate the problem.

It divides the family. It causes one of the family members to be away from the farm. And as all of us who have been on farms in the past know, that that family structure is an extraordinarily important part of that family farm. The husband and the wife and the children working together on the farm, learning the things that you learn on a farm that are so important to you as an individual and becoming a citizen in the United States.

So it is a real critical situation that we think is bearing on the family farm. And we, frankly, do not see a solution out there unless some of these innovative plans become available to us in this organization.

Ms. CAPITO. Well, I have no further questions.

I think, sort of just in a summarization in my view, you know we have got a couple of different dynamics going here. We have got the lack of people that are actually bidding and providing the service. You are handcuffed then because your rates are going up 25 and 40 percent.

Something that both Mr. Elliott and Mr. Butch talked about is how you retain your employees if you cannot compete. That, to me, is an aspect of it that I had never really thought of in terms of being able to keep your folks in a small business and not jumping ship to a larger one.

And I think this is not a West Virginia problem. This is a national problem. It is cascading. We have different problems in West Virginia associated with this that may make our dynamics a little bit different.

But I guess what I would like to say is thank you all. Obviously, when I first met Mr. Butch one of the things I remember him telling me was that because he is going for a highly specialized, highly trained individuals, engineers for the most part or computer specialists, he pays a higher wage. But he feels that in order for him to be able to keep and retain and to keep the quality of life of his business, he wants to provide as much and have the company pay for as much of the insurance as he possibly can. And, you know, the heart is in the right place for everybody here.

I mean, Ms. Hawks is over there offering a lot of preventional wellness and checkups. And, you know, you are going the extra mile. How many employees in West Virginia and across the country are not doing that, are getting by on the bear minimum. It is a scary proposition.

And the other dynamic to me is this catastrophic illness. You have one person in your pool that just drives the cost so way out of control that the rest of your wellness pools have to bear the brunt. And if you have a pool of 6 or 7, you cannot do it.

So, I appreciate your all bringing your stories to the Chairman.

I want to thank you, Mr. Chairman.

And then I do not know if you have any further questions.

Chairman MANZULLO. I just want to close things out.

Bob, you had talked before about the experience of the State of Washington Farm Bureau that has its own association health plans intrastate. Did you take a couple of minutes and talk about their experience?

Mr. WILLIAMS. Well, I can. What I would like to say, Mr. Chairman, is that as the West Virginia Farm Bureau have, after talking with the Washington Farm Bureau and how they worked their plans and with their associated health plan, we had conversation with the Farm Bureaus of States surrounding West Virginia to see if there was any possibility of a similar kind of approach interstate where we might be able to work, and quickly realized that that was not going to be a possibility unless we had the legislation that you all have pending before the Senate.

We then explored the possibility of simply becoming a member of one of the surrounding State's health insurance plan. Letting them do the administration. They have a very successful plan in their State.

After exploring the issues that many of the folks on the panel had talked about regarding the competitiveness of the insurance climate in West Virginia, one thing that has not been mentioned here is our judicial climate in West Virginia and has led many companies not to be interested at all in offering any kind of insurance in West Virginia simply because of decisions that have been made by our Supreme Court.

After investigating that by this other State Farm Bureau, they came back to us and said we are simply not interested in pursing the 16,000 members in West Virginia. We could make money on it if the climate was similar to our State, but we simply cannot explore that in West Virginia.

Chairman MANZULLO. I'm sorry.

Mr. WILLIAMS. Interestingly enough, they were able to establish a relationship with the State of Maryland's Farm Bureau. And they do offer a health insurance plan to the members in Maryland Farm Bureau.

Chairman MANZULLO. The State of Washington?

Mr. WILLIAMS. No, no. This is the State of Virginia.

Chairman MANZULLO. Okay.

Mr. WILLIAMS. They can offer a plan.

Now, in Washington I'm not familiar with the associated plan that they have in their State. We did have conversations with them about how that was organized and explored that to some degree. But just came to a decision that it was not going to be feasible alternative for West Virginia.

Chairman MANZULLO. The State of Washington came up with some extraordinary rates. I think it was $500 to $600 a family.

Shelley, I do not know if you were at that hearing. You are on 3 committees, right? You have 5 subcommittees. And it is amazing how many hearings you actually do attend with that load.

Ms. CAPITO. Yes.

Chairman MANZULLO. But you would think that in a profession that has more exposure to risk, that is that farming is more dangerous than most manufacturing sectors, plus the age of the participants; that there are more people of older age involved in agri-

culture than in industry across the board on. There are more kids that are not coming into farming with just the parents remaining in the farming business. That the rates would be extraordinarily high. But they said no. They have just been able to do something in that State that has been extraordinary.

In fact, in your State I understand that all medical malpractice companies had actually stopped writing policies and the State had to step into the gap because of the tort conduct here in your State.

Let me just get a couple of concluding remarks here on what others have been doing as we have been having these hearings across the country.

There is an outfit in Rockford, Illinois, which is the largest city of the congressional district that I represent, that actually leases employees.

The Catholic Dioceses of Rockford, for example, has I'm not sure how many employees. I know it is a significant number. But they have entered into an arrangement with a company whereby the Dioceses will pay a flat fee and then the employees are actually employees of this leasing company. And I know it sounds cold and sterile, but it is because I know the lady who runs it, she started it actually 30 years ago. But with that she is able to drive down dramatically the cost of health and accident insurance because she has several hundred if not a thousand people that actually work for her company. And she coordinates all the benefits. She does the worker's compensation, etcetera. And she has even extended that service to a physician who started with one-half employee under a contract basis and now has about 3 or 4 employees. So that is one of the ways. It is a unique angle.

Now you get into questions of direction and control and liability, and things of that nature.

Another thing that we have seen is the result of a hearing that was held in Rockford, Illinois whereby an individual testified as to the tremendous spikes in the cost of health and accident insurance. Was contacted by a person such as members of the audience sitting here, and instead of the person testifying, instead of his insurance premiums going from $8500 to $16,000, they went from $8500 to less than $10,000 because the consultant sitting in the audience said why do you not get a second insurance company to write your deductible.

We have found that in talking to insurance agents and brokers to just keep—I do not want to use the word "shopping," but there is some very unusual circumstances that are occurring of bringing down the cost of insurance.

We have a physician back home whose husband is a trial attorney. That is an interesting group, and they got a great marriage. But his law firm and her medical practice, again they are very small businesses, have extraordinary spikes. He decided to shop for medical savings accounts. Found that no one in the area was actually offering them. He set up a medical savings account and he combined the two companies, as it were, cut his premium by 50 percent.

That is one of the things, Brian, you might want to take a look at and Jim, is to really explore. And I think, Shelley, we lifted the

cap on those. It was frozen at $750,000. Is that correct? The cap has been lifted on MSAs.

MSAs are a real cost savings. But it is sort of a mysterious product. And I know that some insurance agents do, in fact, offer it. But that is something you really ought to take a look at.

And the other thing that we have introduced a bill that would automatically lower the cost of self-employed noncorporate businesses by 15.3 percent. And how is that done? Even with a 100 percent deductibility for health and accident insurance, that still is after tax dollars that are being used to purchase health and accident insurance for noncorporate businesses. And what this does is it effectively gives a 15.3 percent tax credit to the self-employed as opposed to not paying that FICA tax into a Social Security fund. So it preserves the integrity of the fund while putting the unincorporated business person in the same position as the corporation.

And the last thing that I might suggest, I did before I was elected to Congress, I incorporated my office. Sole stockholder. And it is you use these legal ruses in the best—that is why we have attorneys, right, Ms. Jones?

Ms. JONES. That is right.

Chairman MANZULLO. But by incorporating the law firm, the sole proprietor, I was able to deduct 100 percent of health and accident insurance for my family and put my family on the same basis as my employee, to whom I offered full health insurance. And then there is a provision if it is still under corporate law, that allows instead of giving a salary increase, you can make a corporate reimbursement for that which is not covered on insurance as long as everybody is treated the same. Employees who are salaried and those who are non-salaried. So for example, we had something called medical reimbursement plan that each year we would increase it so that instead of being increasing the salary, we would increase the corporate reimbursement, which is really great because that is all nontaxable to the employee and a full deduction for the employer.

All types of things, what you have to do to shop.

Listen, you folks have given us tremendous testimony. Lots of things to think about. This will all be made part of the record.

We have got about 10 or 15 minutes. Shelley, what I would like to do is are there any folks here in your audience that want to take one or two minutes to give their testimony. We can open up the mike and then close it off at 11:05.

Anybody would like to do that? Would anyone here like to do that? Raise your hands? Okay. Well, I just thought I would offer. Sometimes that happens.

Come on up. Why do you not come on up and take this mike over here and just give us your name, spell the last for the record. And do not exceed 2 minutes. How does that sound? That sound all right? Here we are.

STATEMENT OF SCOTT PRESTON, MAIN STREET STUDIOS

Mr. PRESTON. Good morning. My name is Scott Preston. S-C-O-T-T P-R-E-S-T-O-N. I own and operate Main Street Studios——.

Chairman MANZULLO. Is that turned on? Go ahead. I think it is.

Mr. PRESTON. My name is Scott Preston. S-C-O-T-T P-R-E-S-T-O-N. I own and operate Main Street Studios, a professional photography business here in Buckhannon. My wife operates a retail store in Buckhannon as well.

We are part of the 43 million uninsured or under insured. We have health insurance coverage. We have the catastrophic coverage. And we have excluded conditions on those coverages as well.

Would it not be nice to be part of a large pool? I need a hip operation. I have osteoarthritis. We are selling one of our businesses in order to pay for that hip operation. That is just not right.

And it would be nice. And it just brings home the fact that these issues really hit home as recent as today. And it is incumbent upon you, Mr. Chairman and Congresswoman Capito to keep the sparks as hot as possible to try to open up pools of insurability. It's a concept that Brian said, that insuring the—I could not remember—insurance but not sharing risk. And the ideas of opening up profitability will just perhaps prevent other businesses from failing. But it has a direct impact on communities.

And I just wanted to share that with this panel this morning that is now a wide issue and it is happening to people in this room. None of us want cheap—or none of us want free health insurance. We all want to pay for it. But it needs to be affordable and it needs to be something we can all obtain. Because a hip operation costs as much as a Harley. And I would like to have both, but the hip comes first.

Thank you for your time.

Chairman MANZULLO. Okay. Thanks.

Anybody else?

STATEMENT OF SANDRA DEAN

Ms. DEAN. I am Sandra Dean. The last name is D-E-A-N.

The only comment I have to make is you have never addressed the fact that this insurance premium policy should be pre-tax dollars. A lot of the companies around here do not do pre-tax dollars. You would save a lot of the money if you took out the premium before you would take the taxes. Board of Education is one of them. My husband is employer, who is US PFO is one of them.

You want to address that?

Chairman MANZULLO. Well, you just did.

Shelley, we just had something on that for federal employees.

Ms. DEAN. That did not happen until just before he retired.

Chairman MANZULLO. Yes. Yes. Well, you just addressed it. It is a problem. And that is why we have this legislation. That would not help retirees.

Ms. DEAN. No. But it sure would help my savings plan.

Chairman MANZULLO. Okay.

Anybody else?

STATEMENT OF ROSEMARY WAGNER

Ms. WAGNER. I am Rosemary Wagner. The last name is W-A-G-N-E-R. I am the Executive Director of Region 7, Planning Development Council. And I will be very brief.

Just would like to make a comment of the struggles we have in this particular region, which I consider the heart of West Virginia,

which is very rural. I have to look at our agency, which is provided by an act of legislature, as a business even though it is not my business to make sure that the something is available, that we provide benefits to the employees and have the right employees. At the same time, looking at the region that we serve. And what we have found is going to be the future. The future for this region is small business retention, small business expansion and new small business development.

We do not seem to find from what we have available as far as the infrastructure development and the highway development is slow, to be able to attract the major industries. So our future is small business development. And then you have heard the testimony of all these folks, they struggles they have even to stay here.

And so I just want to reinforce the comments that have been made of the struggles that it is as we are trying hard to keep these folks here and add more small business for the future of the citizens so that people can stay in West Virginia.

Thank you very much.

Chairman MANZULLO. Thank you, Rosemary.

Anybody else?

Okay. Well, again, thanks for coming. And do you want to adjourn the meeting? You have got the hammer.

Ms. CAPITO. I have got the hammer, but I cannot pass up this opportunity to tell my sister is a small business owner in Charleston and recently had an appendectomy. She has insurance. She got her bill. It was $28,000. Her insurance is only going to pay $8,000. So not only having insurance does not guarantee that you are getting the coverage that you need.

Of course, I told her do not give up on this. You know, just because this is the initial swing by of what supposedly your insurance company is going to pay, you are going to have to get in there and fight it out tooth and nail to get the detailed records.

And, Jim, do you have a comment on this?

Mr. BUTCH. Well, $28,000 is ridiculous for an appendectomy.

Ms. CAPITO. I know. Exactly. But she lost 10 pounds, Jim, so you got to—you know, what is that worth. But those of you who know my sister know she did not need to do that.

Mr. BUTCH. But what was the cost 20 years or 10 years ago.

Ms. CAPITO. Oh. Well, it is like anytime I—I mean, I have three children that are now in their 20s. And when I look at what we were paying back then compared to what probably you just paid with your twins, it is probably staggering.

But on that note, I will adjourn the meeting.

Thank you.

[Whereupon, at 11:05 a.m., the Committee adjourned.]

Field Hearing – Small Business Access to Health Care
August 25,2003 – Buckhannon, WV

Opening Statement

I just want to start by saying how pleased I am to be with my friend, Congresswoman Shelley Moore Capito. Shelley is a great champion of small business. The people of the 2nd District are lucky to have her. In my role as Chairman of the House Small Business Committee, I often hear from small businesses on the issues of access to health care. Shelley has told me what an amazing group of businesses and entrepreneurs reside in this district. I am anxious to hear from all of you. And I want to thank Shelley for making this event possible today.

Our hearing today addresses the rising cost of health care to small businesses. Of the 43 million Americans without health insurance, 62% are either small business owners and their families or small business employees and their families. The problem of the uninsured is very clearly a problem of small business access to health care at reasonable prices.

Well intentioned reformers in the states and in Congress, over the last decade, have managed to dramatically increase the cost of health care and have practically destroyed the

small group market. This has led many companies to drop out of the small group market in most of the states.

Obviously, in states where there is no competition for the small business dollar, prices will continue to rise. The National Association for the Self-Employed reports in a recent survey that 7 out of 10 small businesses do not provide health coverage to their employees and "costs" are cited as the chief reason for this trend. It is imperative that we act and act quickly to reverse the course of the small business health insurance market before we reach a point where no small business can afford health insurance for its employees.

Small businesses are simply the most important part of our economy. They employ more than half of the private sector workforce, they generate 60-80% of net new jobs annually, they are great innovators, and even make up 89% of our exporters. It is incumbent upon Congress and the President to do everything in our power to remove barriers to small business success and survival.

With that, Shelley is going to introduce us to our first panel.

I would like to thank Chairman Manzullo for holding this field hearing of the Small Business Committee. I also look forward to the testimonials of the small business owners that are here today.

Small businesses make up a considerable percentage of our nation's workforce. Unfortunately, with the rising costs of modern health care, it is becoming increasingly difficult for small businesses to provide their employees with quality health care coverage. Currently, less than half of America's small businesses offer health benefits to their employees, as compared to larger firms that offer coverage to 97% of their workforce. This leaves out a huge portion of our working population that cannot afford health coverage for their families.

The enactment of Association Health Plans (AHP), which allows small businesses and other groups to pool their resources to purchase quality coverage at affordable prices, would be one solution. As a result, small businesses would be able to enjoy the same uniform regulation, economies of scale, and administrative efficiencies that large companies currently enjoy. This could reduce the ranks of the uninsured by about 8.5 million people, without costing the taxpayer a dime!

Thankfully, the Small Business Health Fairness Act passed the House of Representatives earlier this year. This legislation will improve choices for small businesses by allowing them to enroll their employees and families in AHP plans. Farmers and individuals that are members of associations may be offered insurance coverage through their respective association. By doing this, small business employees will have similar coverage as those working in corporate America. I think this is an important step in the right direction. But there is always more that can be done to help our small business owners.

No one solution is going to help the millions of uninsured, but the Small Business Committee is dedicated to exploring a variety of options to help small businesses with the overwhelming costs of health care. I look forward to a continuing dialogue with West Virginia's small business owners, so we can work together to access affordable quality health insurance.

I recognize Ms. Cynthia Jones.

Ms. Jones is a partner in the law firm of Steptoe & Johnson PLLC and the leader of the firm's employee benefits practice. For over 18 years, she has represented and counseled employers on a variety of employee benefit issues, including those relating to medical benefits and group health insurance. She also serves on the employee benefits committees of the tax, labor, and insurance law sections of the American Bar Association. Her testimony today is on behalf of the Small Business Subcommittee of the West Virginia Chamber of Commerce, of which she is a member.

1. How has the growing number of uninsured individuals driven costs up for small businesses in West Virginia?

2. Are there any methods, such as insurance pools, which would facilitate the access and lower the costs of West Virginia small businesses to group health insurance?

3. How could federal legislation facilitate the creation of such pools?

4. How have HIPPA, COBRA and similar federal laws affected the health insurance costs of small business in WV?

5. Are the increases in insurance costs causing employers to look at possibly not providing insurance in the future - making them less competitive in attracting employees and in keeping qualified West Virginians in the state?

I recognize Mr. Brian Elliott.

Mr. Elliott is the general sales manager for McGraw-Elliott Media Group, media properties include WBRB The Bear, WBTQ B-93, WELK K-95, WBUC-am, and TV3. They reach audiences in Upshur, Randolph, and surrounding counties. The company employs 25 to 30 full and part time employees.

1. Do you feel that the cost of coverage is a reason that many of your employees do not participate in your company's insurance plan?

2. Do you believe that your health coverage plan does not attract new employees and hurts your ability to retain current employees?

3. Do you have difficulty getting competitive quotes due to the small number of participants?

I recognize Mr. Robert Williams.

Mr. Williams is the Executive Secretary for the West Virginia Farm Bureau. The WV Farm Bureau is a non-profit, member organization that represents over 16,000 families in West Virginia. Their mission is to provide leadership, education, information, training and economic services to county Farm Bureaus to enhance the quality of life of their members. The West Virginia Farm Bureau is affiliated with the American Farm Bureau Federation that represents farmers and rural people throughout the United States.

1. You have outlined for us the progress of three different health insurance providers taking enrolling your group then discontinuing service. Can you elaborate on why they took this approach?

2. In your comments, you stated that the West Virginian Farm Bureau had recently sought other health insurance carriers without success. In your experience, why do you think it has been difficult to find a new health insurance carrier?

3. Is it the intent of the West Virginia Farm Bureau to continue to seek a health insurance program for its members?

I recognize Mr. James Butch.

Mr. Butch is the President and one of the original founders of Eagle Research Corporation, a small West Virginia high-tech business. The company was founded in 1976 in Charleston, West Virginia. It is now located in Scott Depot, West Virginia, where it designs and manufactures electronic products for the natural gas and other industries. Eagle has 30 full time employees that use state-of-the-art engineering and manufacturing equipment to build its products. Eagle markets it products throughout the United States and exports to six other countries.

1. What have your insurance providers told you to justify the rate increases Eagle has experienced?

2. Have your insurance providers offered you any suggestions on how to lower your health insurance cost?

3. If your health insurance costs continue to increase at the rate you have experienced over the last five (5) years, how will you deal with the problem?

4. What do your employees have to say about this issue?

5. Can small businesses survive without the help of the United States Congress to solve the health insurance cost crises?

I recognize Ms. Jean Hawks.

Ms. Hawks is the president and owner of Ft. Hill Child Development Center, Inc. She is
the original owner and is the on site director. The Child Development Center has 50-55 employees full and part time serving 200 families in the Kanawha Valley. Ms. Hawks is a member of Charleston's Chamber of Commerce and President of Charleston's Women's Forum.

1. Does much of your turnover stem from employees who look for jobs with cheaper benefits?

2. Were more of your employees taking advantage of the benefits offered to your company four years ago or today?

3. What do your employees have to say about the cost of their insurance coverage?

4. Do you feel that if you were able to offer better health insurance coverage, that you could attract and retain more qualified personnel?

Health Care in West Virginia: Obstacles and Issues Facing Small Businesses
Testimony of [redacted]
on behalf of the Small Business Subcommittee of the
West Virginia Chamber of Commerce
August 25, 2003

On behalf of the West Virginia Chamber of Commerce and its Small Business Subcommittee, I am pleased to submit the following statement at today's hearing on the issue of small business and health coverage. The Chamber is the world's largest business organization representing employers of every size, sector and region. In West Virginia, the Chamber is known as the voice of business.

Small Business and the West Virginia Economy.

When we speak of the West Virginia economy, we are speaking primarily of small businesses. According to 2000 U.S. Census Bureau records, just over 89 percent of the firms in this country are businesses that employ less than 20 people. Nearly one out of five employees in this country (18 percent) works for a company with fewer than 20 people, and 36 percent work for a firm with fewer than 100 people. In West Virginia, according to the U.S. Census Bureau, in 1999, small businesses employed 298,680 workers or 54.8 percent of the state's workers. In 1999, the total number of small businesses (those with fewer than 500 employees) in West Virginia was 32,813. As the West Virginia economy increasingly focuses on more entrepreneurial, high technology and service-oriented businesses, there is every reason to believe that the percentage of the West Virginia workforce employed by small businesses will continue to increase.

Why Small Employers Offer Health Coverage.

As you know, back in the early 1970's, Congress made a comprehensive examination of employee benefit programs sponsored by employers. That initiative eventually led to the passage of the Employee Retirement Income Security Act of 1974 ("ERISA"). ERISA, along with the Internal Revenue Code, remains the primary means of regulating employer-provided health plans.

Although we will celebrate ERISA's 30th anniversary next year, the Congressional policy choices embodied in ERISA continue to be the driving force behind the way in which businesses generally, and small businesses in West Virginia, in particular, provide group health benefits.

ERISA is organized around a single central concept: that employers should be encouraged to **voluntarily** provide employee benefits to their employees. The primary legal incentives for employers to sponsor group health coverage are found in (i) the favorable tax treatment afforded to employer-sponsored group health benefits; as well as in (ii) the existence of a comprehensive and uniform system of federal regulation that replaced the often inconsistent patchwork of pre-ERISA state laws. Those legal incentives, combined with realization that providing group health coverage to workers is a good business practice and helps in competing for workers, has led many businesses, large and small alike, to voluntarily provide benefits to workers, just as Congress envisioned when it enacted ERISA. The vast majority of businesses do so because they recognize that it is simply the right thing to do. According to a 2002 survey by the Employee Benefits Research Institute/Consumer Health Education Campaign and the Blue Cross Blue Shield Association (""EBRI/CHEC/BCBSA""), 92 percent of employers said they offered coverage for that reason.

Anecdotal evidence suggests that West Virginia employers offer group health coverage for much of the same reasons.

However, when it comes to small businesses, and particularly for small businesses in West Virginia, there exist serious impediments to the incentive-driven system of voluntary employer-provided coverage enacted in ERISA. Indeed, both existing law and market forces provide powerful disincentives to employers who desire to sponsor group health coverage for their workers.

Why Small Employers in West Virginia Don't Offer Coverage

Like employers everywhere, West Virginia small businesses are concerned about the rising cost of providing group health benefits. According to a September 2, 2002 article in *The State Journal,* small businesses that provide insurance for employees can expect to pay $16,272 on average for annual family premiums by 2007, which is almost double the $8,244 average family rate for 2001. *The State Journal* estimates that, by 2008, modest coverage for a West Virginia family may reach $18,000 or more. The State Chamber has informally estimated that the health care costs for some small employers is currently about 30 percent of payroll and that amount can approach 40 percent of payroll in some instances.[1]

Consider the example of a small manufacturing company in the Northern Panhandle. The company has approximately 50 employees and offers health care coverage through a group health plan. Hourly employees are represented by a union. Under the labor contract, the company is required to provide health insurance for retirees until they turn 65. The contract also specifies the

---

[1]Premium cost is likewise an issue for West Virginia employees. According to information available from Senator Jay Rockefeller's office, the average out-of-pocket expense for health care costs paid by West Virginia workers is $2,605 per year. See http://rockefeller.senate.gov/1999/col_medicare.html.

employee contribution rates for this insurance, with the company agreeing to cover the balance of the premiums charged by the provider.

Beginning in about 1985, company provided health care benefits through an HMO under a series of annual contracts. Rates remained relatively stable through the mid-90s (with the exception of a significant increase in 1991). In 1997 through 2000, monthly rates increased approximately 12 percent each year. In July 2001, the company was informed that beginning September 1, 2001, its employees would be separated into two groups for rate purposes, active employees and retirees. The monthly rate for active employees increased by 19 percent that year; for retirees, the increase was 169 percent. Meanwhile, the company remained obligated under the labor contract to pay everything above the relatively small employee contribution amount set in the contract (about four percent of the total retiree rate for single coverage). The company renewed its contract with the HMO for the 2001-2002 contract year. In July 2002, it learned that rates for the following one-year period would be increased by 121 percent for actives and 69 percent for retirees. As it happened, during this period of extraordinary rate increases, the group had experienced a catastrophic loss -- more than $500,000 in medical expenses for a single injury[2].

At that point, declining to remain in business for the sole purpose of funding its employees' health care benefits, the company determined that it had no choice but to drop coverage altogether for salaried employees. By switching its hourly workers to a different carrier, the company managed to limit its rate increase to about 32 percent for the 2002-2003 contract year; at the eleventh hour,

---

[2]Under the federal HIPAA law, employers are precluded from discriminating in health coverage on the basis of health status. However, HIPAA's anti-discrimination provisions do not affect insurers' underwriting practices.

the new carrier agreed to pick up the salaried employees as well. Unfortunately, the new carrier then proposed a prohibitive rate increase for 2003-2004, and the company went shopping again. With the second new carrier in as many years, the monthly rate for single coverage is still about 56 percent more than the same coverage cost in 2000-2001. And, who knows what next year will bring.

Increasing premium costs, however, are not the only barrier to the provision of employer-provided coverage in West Virginia. Employer-sponsored group health plans are governed by a veritable alphabet soup of federal laws, including ERISA, in some cases, COBRA, and most recently HIPAA – the Health Insurance Portability and Accountability Act. With the exception of COBRA (which excludes employers with fewer than 20 employees), small employers are largely subject to the same requirements to comply with the foregoing as Fortune 500 companies. Of course, small businesses have fewer compliance resources available to them, and given the economies of scale available to larger employers, fewer dollars to devote to benefit costs. With HIPAA's privacy regulations becoming fully effective next April, even for small group health plans, there is no reasons to expect compliance costs to decrease in future.

There is also increasing anecdotal evidence that many small employers in West Virginia do not offer group health coverage simply because they are unable to obtain any coverage or can obtain coverage only at truly excessive rates. In my practice, it is not unusual for a small business employer to seek assistance in finding replacement coverage for a group insurance policy that has been canceled, not renewed or priced beyond far beyond the means of the employer. There are very few avenues open to such small businesses – even if the employer very much wants to continue to provide insurance to its workers.

Small Business and the Uninsured

Although any survey of national new media provides evidence that health care costs are increasing on a national basis, conditions in West Virginia are particularly conducive for increased costs, and, an increasing portion of that cost is being shifted to small businesses.

According to a recent survey by the West Virginia Institute for Health Policy Research (cited in the *Sunday Gazette-Mail,* June 17, 2003), almost 300,000 working-age West Virginians are without health insurance. According to the U.S. Census, in 2000, 14.2 percent of West Virginians were uninsured for the entire year. Increasingly, uninsured employees are concentrated in small businesses. According to one report prepared by the U.S. Chamber of Commerce, more than one-third (34 percent) of employees at firms with less than 10 employees were uninsured in 2001, and 27 percent of employees in firms with 10 to 24 employees were uninsured. There is no reason to believe that this trend does not likewise apply to West Virginia small businesses.

An estimated $286.8 million in uncompensated care was given by West Virginia hospitals in 1999, according to an article in *The State Journal* (September 20, 2002). According to that same source, trends indicate that more than $530 million in unpaid care will be provided by West Virginia hospitals in 2007.

However, according to analyses prepared by the West Virginia Chamber, health care providers in West Virginia have been experiencing rapidly decreasing reimbursement levels from governmental payors for the past six years. Coupled with the increasing costs of providing health care services to an older, rural, and more indigent population, this below cost reimbursement is

creating an acute financial crisis in health care that threatens access to services in many parts of the state.

Governmental payors (Medicare, Medicaid, PEIA) account for a large segment of the patient population in health care facilities in West Virginia. However, governmental payors reimburse well below the cost of providing care for these patients. In 2000, according to a West Virginia Chamber study, Medicare payments, for example, covered only 87 percent of the health costs. Where does this leave small businesses in West Virginia? Increasingly, it means that the private sector is bearing the brunt of cost increases in health care. And, given that health care costs already constitute a healthy percentage of West Virginia payrolls, it is an increase that small businesses are likely to find financially unpalatable. One likely result, of course, is that fewer small businesses in West Virginia may elect to continue to provide group health benefits.

Moreover, because health care providers have experienced negative operating margins for several years in a row, the Chamber has found that they are now beginning to reduce services in some parts of the state. Because health care is an integral part of the ability to recruit business to West Virginia, lack of these critical services carries the potential of restricting the growth of the West Virginia economy.

Conclusion

Small business is one of the engines that drives the West Virginia economy. However, in West Virginia, where one source has estimated that health care may double in the next several years, increases in employers' bottom lines can't compensate for increases in health costs. Congress needs

to make access to affordable health coverage for small business a priority for the health of working families, and for the health of both the national and the West Virginia economies.

Brian Elliott
McGraw-Elliott Media Group

Testimony:

The topic of my speech Monday morning will be the rising cost of health insurance. I will speak to the difficulties a small business has attracting and retaining employees who need health coverage. In addition, I will be speaking about the number of employees in our company who choose not to be covered due to the cost. I will also speak about the difficulty in getting competitive quotes due to the small number of participants in our company and the ratio of payout that the insurance company is experiencing with us.

Health Insurance Speech

Open:
My company has a health insurance plan called "Super Blue Plus". There is tremendous irony here in that we find our plan to be neither Super nor a Plus and quite frankley the annual increase in premiums are making us all little blue.

As part owner and Vice President of Sales of a local family owned business, I'm thankful for the opportunity to speak today on the various concerns we have with the rising cost of health insurance and how its affecting our company.

My three top areas of conern are...

1) The ability to retain and attract quality employees.
2) How we as a small business are being penalized by the insurance idustry.
3) And our inability to get competitive quotes.

Point 1
As a married man and a proud new father of twins, I have recently been faced with the reality of the rising costs of insurnace for a family of four. My premium next month will go from $274 dollars a to $747. With very few options available, I am faced with the decision of putting my entire family on our plan, and reducing our cash flow or to go without insurance. This very decision is one that many of my employees have already had to make. Unfortunatly, 44% of them are opting to go without health coverage. This puts them at high risk for a financial disaster should a member of their family have an accident or fall ill. And in turn it puts them at high risk with our company as they are constantly keeping their eyes open for opporunities with larger firms who can afford better insurance at cheeper rates. This creates an unstable environment for our small company.

When trying to attract employees, I find we're at a disadvantage in competing for experienced professionals who are the primary bread winners in their families. These type of employees are of great value to us due to the level of committment and dedication they generly bring to their careers. Our largest struggle in obtaining these employees comes, in part, from our inablity to provide wages that would offest the high cost of health care. As a result, we are often hiring the second bread winner in the family who is most likely covered by their spouses insurance plan. Or, young inexperienced employees who often choose to gamble and go without health coverage in an attempt to bring home a higher wage.

Fortunately, we've been able to uncover some talent in these categories. But we still have a high amount of turnover and for company our size its difficult to rebound quickly due to the cost of the time and training involved.

Transition:
Currently, we have 27 full time employees. Only six of them, which is 22% percent, are on the company plan...which leads me to my next point.

Point 2: We are being penalized by our insurance company for being a small business with only 6 insureds.

Case and Point...
Consider if you will, the example of a large company who's plan has 500 participating employees. If one of these employees should be diagnosed with cancer and need extensive health care, the overall effect is spread among many and barely felt by the other participants. However, in a smaller company with a pool of six, should one person need hospitalization for a week, the entire pool of employees will suffer from the skyrocketing premiums in the following year.

One of the most dramatic occurances for us was in 1997. An employee had to undergoe a tripple heart bypass surgery. Everything went well, but the employee was of retirement age and chose not to continue working. When it came time for the insurance renewal our rates nearly trippled in cost. Unfortunatly it was the small pool of employees currently in the program and the future employees to come who were penalized for this surgery and left to pay the tab.

Another reason our company is being penalized, is due to the fact that of the six employees in our pool, four of them are over the age of fifty. These are employees who count on and utilize heavlily our insurance benefits. As a matter of fact, we've been told by Mountain State Blue Cross Blue Shield that they pay out 70% of what we contribute into our plan each year. As a result, we have been incurring approximately 25% annual increases for the last five years. As a small company, that is way out of proportion with any cost of living increases that we can reasonably provide.

Transistion: Not only does having this small pool of insurred employees penalize us, but it also hinders us from obtaining competitive quotes from other health care providers.

Point 3

Where does a company our size turn for reasonable health care coverage? With more and more insurance companies pulling out of the state, our options are becoming fewer by the month. Allow me to read a short memo from Steve Nafe, president of Deep South Insurance company, that is addressed to all West Virginia Agents. This might shed some light on why we are left with fewer options...

read 1,3 and 4th paragraphs.

The end result of a decision like this one from Deep South leaves small business with fewer competitive options to leverage better rates. We are forced to put up with increase after increase and in some cases made to feel fortunate that anyone would provide us with coverage at all. (pause)

Its clear that WV small businesses have many challenging issues. For us, the increased cost of health care is right at the top. When a company cannot retain and attract key personell, is being penalized for the size of its workforce and is running out of competitive options to save money...it makes it difficult to stay optimistic about a healthy business environment and future opporunities.

I thank you for the chance to speak this morning and I hope these coments will stimulate conversation and debate on how we can meet these chanllenges. As a business owner that plans on staying in West Virginia...we need insurance that truely is Super and also a Plus.

Joe Chickat - 636-3199 - FAX

DEEP SOUTH

January 29, 2002

To: All West Virginia Agents

From: Steve Nafe

Subject: West Virginia Business

Last November Deep South announced that we would no longer be writing new business in West Virginia. Our decision was based upon our poor underwriting results in the State coupled with the very difficult legal environment that the State presents.

As our results continue to plummet and with little or no meaningful change in the State's legal environment, we regret that Deep South will no longer be offering renewals on West Virginia business. We will start our non-renewal process immediately in conjunction with West Virginia's non-renewal law.

Last week a survey released by the United States Chamber of Commerce assessed the fairness of liability systems for all 50 states. States were evaluated by corporate general counsels and senior litigators. The top five states perceived for doing the best job at creating a fair and reasonable litigation environment were: Delaware, Virginia, Washington, Kansas, and Iowa. The worst perceived states included Mississippi, **West Virginia**, Alabama, Louisiana and Texas. Once again our State ended up on the wrong end of the list. Why?

The study asked corporate attorneys what they thought was the most important issue state policy makers who care about economic development should focus on to improve their state's litigation environment. The leading two issues were tort reform and punitive damages. Certainly these issues joined by the bad faith venue that West Virginia presents, curtail economic development and deter a healthy insurance marketplace.

David Snyder, AIA assistant general counsel, adds: "Anyone who follows developments in the country's civil justice system is well aware that we are dealing with a litigation explosion at the state court level that is taking a devastating economic toll on the country as billions of dollars are transferred from business and consumers into the pockets of trial lawyers." He goes on: " The results of this survey show that there are also indirect costs to those states with out-of –control tort systems: the potential loss of state revenues through reduced economic development and job creation."

The survey can be accessed through U. S. Chamber State Liability Systems Study @http://www.litigationfairness.org/liabilities_survey.pdf.

Being a native West Virginian, this decision was a difficult one to make. Yet, it is a necessary one for Deep South. Please be assured that we will do all we can to assist you and your clients for a smooth transition.

Sincerely,

Steve

Steve Nafe, CPCU,CLU,ChFC,CIC
President

RECEIVED
FEB 4 2002

Testimony
Before
US House of Representatives
Small Business Committee

Buckhannon, West Virginia
August 25, 2003

By
West Virginia Farm Bureau
Robert L. Williams, Executive Secretary

Thank you Chairman Manzullo and Congresswoman Capito for taking the time from your schedules to hear testimony about the problems facing small business in acquiring health insurance for workers and in the case of the West Virginia Farm Bureau, our members.

The West Virginia Farm Bureau represents over 16,000 families as members of our organization, and it is our belief that there is no more important small business in the United States than the family farm. There are 20,500 family farms in West Virginia and over 2.1 million farms in the United

2

States. In West Virginia, and I suspect throughout the United States, most of these farms are managed by families in which one of the family members works off the farm. When questioned, many will respond that it is not the money that forces them to seek off farm employment but the need for benefits. Farming can be a dangerous occupation and health insurance is a necessity for those families. Heavy equipment, large animals, hard work and exposure to various chemicals and dusts makes health insurance a necessity for farmers. Farms continue to operate on low or non- existent profits (which might be an interesting subject for another congressional committee to investigate). ~~Making~~ ~~Thested~~ The lack of disposable income makes a non-insured heath emergency not only a crisis for the family in terms of personal injury and concern but even a short non-insured stay in the hospital could easily lead to financial ruin for a small farmer. The

3

risks of being uninsured are great. While working for a previous employer, I had a farmer offer to work for my employer for no salary if he could qualify for the health insurance. As we sit here today, a young Farm Bureau member is in the hospital at West Virginia University with a serious illness and no insurance coverage. He and his family may well be forced to sell part of their farm to pay his hospital bills.

In West Virginia, individuals who do not qualify for Medicare often cannot afford to purchase health insurance coverage. Premiums for such a single-family plan can exceed $1,100 per month. An amount out of reach for many full time farmers. These individuals often look to organizations like the Farm Bureau to help them with this problem. The West Virginia Farm Bureaus experience with group health insurance plan as a benefit for our

members is dismal. We have offered several plans in the past. All have met with failure, disappointment and huge liabilities for the policyholders. In 1981, health insurance coverage was offered to West Virginia Farm Bureau members through an agreement with Farm Family Insurance through their Member Health Plan. This plan failed when Farm Family Insurance withdrew from the health insurance market in 1994. Our organization then looked to John Alden Health Insurance which "rolled over" most members, but not all, leaving some without insurance through no fault of there own but because they were a "poor insurance risk". In 1996, John Alden withdrew from the health insurance business in West Virginia again leaving our members without coverage. In 1996, the West Virginia Farm Bureau entered an agreement with Continental Casualty Company d.b.a. CNA Insurance and

International Benefit Services Corporation which allowed those members previously insured to enter the program at the same premium rate as they had been paying. This company wanted to stop insuring our members in 1999 and since they would remain in the insurance business could not simply withdraw from the state. Their approach was to raise rates, 20% to 40% in October. Another 20% in January and another 30% to 35% in April. One member reported that he dropped his insurance on himself in order to be able to continue insuring his wife who had a medical condition and could not get other insurance at any price until the premium he was paying was over $1,000 per month. That's five years, three carriers and at the end no coverage.

6

Since that time the West Virginia Farm Bureau has sought other health insurance carriers without success. These results are not due to lack of effort or good faith on behalf of the West Virginia Farm Bureau or, for that matter, the insurance company. They need to be in a situation that's provides a chance to make money while providing the needed insurance protection for their policyholders.

Obviously, the answer to affordable health insurance must be found and it is elusive. Without some guidance from our elected leaders, small business will continue to struggle with paying the costs of health insurance for their employees and run the risk of personal and business financial disaster. We look to you for this guidance. And hope

Your colleagues in the Senate will approve
The Association Health Plan

EAGLE RESEARCH CORPORATION

Prepared for

The United States House of Representatives

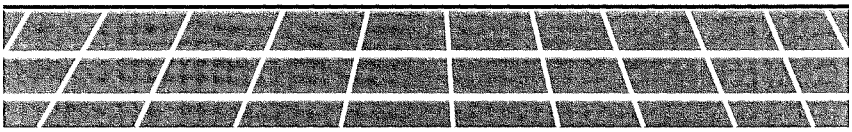
Small Business Committee Field Hearing

The Impact of Rising Health Insurance Cost On Small Business

by

[redacted]

August 25, 2003



EAGLE RESEARCH CORPORATION

- Eagle is a small high-tech business located in Putnam County, West Virginia

- We design and manufacture electronic monitoring/control systems for the natural gas, electric and water industries

- We market our products throughout the USA and we export to six other countries

- We have 30 employees

- 1/3 Engineers, 1/3 Technical Sales and Support, 1/3 Manufacturing

EAGLE RESEARCH CORPORATION

AT ISSUE:

- **Our health insurance benefit cost has more than doubled in the last four (4) years**

- **1/3 of our staff are professionals**

- **Small companies cannot hire a large staff, so those that we do hire must be the very best**

- **In order to attract and keep the very best staff, we must offer a competitive benefit package, comparable to those offered by large companies**

EAGLE RESEARCH CORPORATION

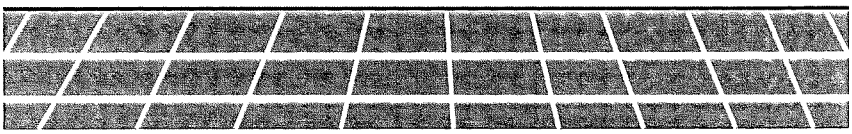
HISTORY OF INSURANCE RATES FOR THE PAST FIVE (5) YEARS

	American Medical Security			Mountain State Blue Cross & Blue Shield		
	1998	1999	2000	2001	2002	2003
Family	531.26	651.16	1182.42	856.21	1075.52	1138.65
Employee Only	189.61	222.4	412.01	301.01	385.59	400.6
Employee + Child	358.42	412.72	771.14	445.88	555.71	584.88
Employee + Children				584.42	720.32	
Employee + Spouse	379.04	461.75	840.79	600.72	769.99	805.31
Percent Increase (Family)	New	23%	82%	New	26%	6% *
	Medical/Dental/Vision/Life Mail-in 3-Month supply for flat rate of $15/perscription			Medical/Dental/Vision/Life Perscription coverage is 70%		

* After asking the WV State Insurance Commissioner's office to meet with Blue Cross Blue Shield on our 2003 rate increase

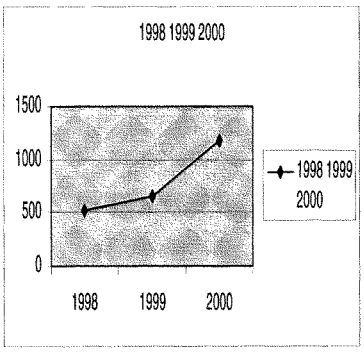
EAGLE RESEARCH CORPORATION

- The cost of our insurance benefit is now at $25,087 per month
- Eagle's payroll is currently $104,000 per month
- The insurance benefit is more than 24% of the payroll
- Most of Eagle's employees qualify for 4 weeks vacation (10 year +)
- Total direct benefits paid are over $400,000 or 33% of wages
- The health insurance benefit cost appears to double every 4 years
- How long can small business continue to offer health insurance?

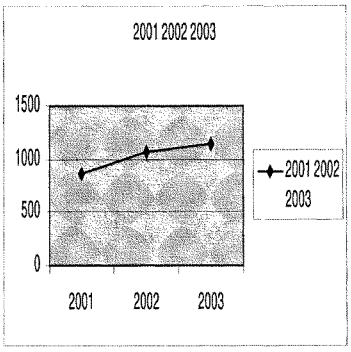


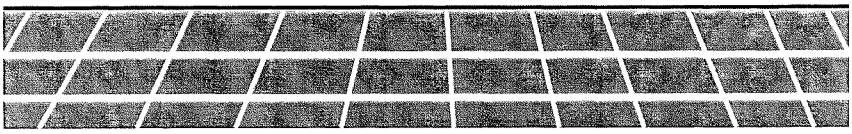
EAGLE RESEARCH CORPORATION

American Medical Security



Mountain State Blue Cross Blue Shield





EAGLE RESEARCH CORPORATION

THE PROBLEM:

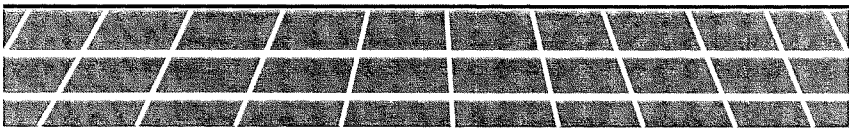
- **Health insurance companies are allowed to base rate increases on the profitability of each company plan.**

- **In the case of small business, one claim from a long term illness or severe accident will make a plan based on 30 people not profitable.**

- **After one large claim, other insurance providers either will not quote or quote very high rates, effectively locking us in with our current provider**

- **After this, rate increases of over 30% each year are possible with our experience being between 6% and 80% per year.**

- **Will rate increases ever stop? Do insurance providers have a free hand to increase rates every year?**



EAGLE RESEARCH CORPORATION

THE SOLUTION:

- **Pass legislation requiring health insurance providers to base rate increases on their own profitability, not the profitability of each plan**

- **Require all rate increases to be equal on all plans that they insure**

- **Require full disclosure of profitability from health insurance providers that offer other types of insurance or other financial services**

- **Create a rate review board**

From: Fthill@aol.com
Sent: Friday, August 22, 2003 2:41 PM
To: MARY.CHANDLER@MAILHOUSE.GOV
Subject: FORT HILL CHILD DEV. CENTER, INC.

FHCDC is a private, for profit child care center. We have 200 children and 53 staff. We are located in an elementary school that was closed in 1989 due to consolidation. We have operated full since we opened in 1990. I am the owner and director. As a single mother with three children (in high school and college at the time I opened the business) I was without health insurance for 12 years as were many of my employees. Four years ago I started offering group health insurance with the company paying 25% of the cost. The cost of the insurance has gone up 60% in those four years. Many of my employees have no health coverage, some are covered by spouses and some are eligible for health cards. Child care nationwide as I see it is subsidized by underpaid child care employees. No child left Behind should start at birth and the people caring for these children should be trained well and paid well. Congress needs to address the issue of quality child care.