



Statement of the U.S. Chamber of Commerce

ON: "Health Reform and Health Insurance Premiums:
Empowering States to Serve Consumers"

TO: THE SENATE COMMITTEE ON
HEALTH, EDUCATION, LABOR, AND PENSIONS

DATE: August 2, 2011

The Chamber's mission is to advance human progress through an economic,
political and social system based on individual freedom,
incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance -- is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Statement on
“Health Reform and Health Insurance Premiums:
Empowering States to Serve Consumers”
Submitted to
THE SENATE COMMITTEE ON
HEALTH, EDUCATION, LABOR, AND PENSIONS
on behalf of the
U.S. CHAMBER OF COMMERCE
By
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Louisville, Kentucky
August 2, 2011

Chairman Harkin, Ranking Member Enzi, and distinguished members of the Committee, thank you for inviting me to testify before you today on health reform and efforts to empower states to serve consumers. I hope that my testimony and remarks will help further explain the burdens that the new health care law places on the ability of businesses, including small ones like mine, to compete, grow and create jobs. Despite efforts to expand coverage options and curtail dramatic health insurance premium increases, the law in fact is having a negative impact on our ability to continue to offer our employees health care benefits.

My name is Dan Withrow. I am the President of CSS Distribution Group, Inc. headquartered in Louisville, Kentucky and I am here today with my oldest daughter, Hallie Grace Withrow. I am honored to speak with you today on behalf of the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world’s largest business federation, representing the interests of more than three million businesses and organizations of every size, sector, and region. As you might know, more than 96 percent of the Chamber’s members are small businesses with 100 or fewer employees and 70 percent of which have 10 or fewer employees, just like mine.

Company Background

A Certified Woman-Owned Enterprise by the Women's Business Enterprise National Council (WBENC), CSS Distribution Group aims to maximize our customers' packaging and shipping efficiency throughout a nationwide network of locations. Our national network helps our clients leverage their buying power by essentially creating one national supply chain. By allowing our clients to purchase collectively for all of their locations across the country, we can save our clients millions of dollars and positively impact their bottom line. For example, one of our customers has 43 warehouse locations across the country. In the past, each of the 43 facilities individually bought pallets and shipping materials from a different supplier, making it virtually impossible for the customer to track company-wide costs, payments, etc. CSS has helped this customer save significantly by serving as one supplier for all of their facilities. This has streamlined the system and saved on average 7-10% per facility for our customer.

Helping companies reduce their costs is one of our top priorities and we approach every challenge with the goal of "Building Trust and Partnerships by Doing the Right Things Right." Our distribution supercenter is located in Louisville; and, by utilizing strategic partners across the country, we are able to ensure timely, superior customer service without incurring a large overhead. Whether it's sourcing shipping pallets or providing custom automated packaging, we strive to fulfill our customers' needs and help to move their goods economically and proficiently through the global supply chain.

While our customers are large, oftentimes multinational, businesses, CSS is a small, privately owned business. While we have grown to serving 20 customers and anticipate doing \$18.5 million in sales this year, we started with just one customer, a strong desire to succeed and a willingness to work hard and take risks. I've spent 25 years in the packaging industry and my wife,

Mindy, has 15 years of equal experience in the packaging industry. In 2006, we partnered with a friend and investor to borrow \$500,000 and set up a \$250,000 line of credit from a bank to pursue our dream of starting and owning our own company. In June of that year, we launched our company and we have never looked back.

The success we have had in growing our business has not gone unnoticed. Last year, CSS Distribution Group ranked #55 on *Inc. Magazine's* "Inc. 500" which celebrates the fastest growing privately held companies in the United States, and my wife Mindy was ranked #5 on the "Inc. 5000," as one of the top women entrepreneurs. While we appreciate the accolades, we have not forgotten the community we call home. I am proud to serve on Mayor Jerry Abramson's High Impact Program, a public-private partnership designed to help Louisville's fast-growth and innovative companies overcome obstacles that might impede their progress. I am also active in Greater Louisville Inc., the Metro Chamber of Commerce and the region's leading business organization. I have also just recently been assigned to KY Governor Beshear's "Business One Stop Portal Focus Group" and we are leaving Washington after my testimony so that I can attend our first meeting in Frankfort, Kentucky tomorrow.

CSS is a supporter of our local swim team, the Hillcrest Hurricanes. My wife serves on the team's board and is an active member of the local PTA and a volunteer at our children's school, Goshen Elementary. CSS also supports the Girl Scouts, annually buying Girl Scout cookies and sending them to members of our Armed Forces serving our nation overseas. Additionally, CSS is a good steward of the environment through our green practices. We have four beautiful children and certainly care about the health of the planet we leave for them. CSS sells more than 2 million pallets a year and by reducing the amount of wood a pallet has in it and recycling old pallets we are able to save trees and reduce our carbon footprint.

While our business has grown in terms of sales and customers and we've been able to give back in our community, we unfortunately recently had to reduce our number of employees. Because of the overall uncertainty brought on by the economic downturn and the rising costs of health insurance, we went from 16 to 10 employees in 2010. This was not an easy decision. Our employees are like family; but for the health and future stability of our business, it was necessary.

For the first four years of operation, CSS did not make a net profit. This year is supposed to be our breakout year; we had hoped that it would be the first time we will realize a net profit. Despite a positive projection, we cannot really be sure what all the new regulations will actually bring. In fact in order to retain as much flexibility as possible, we are paying our full time employees overtime instead of hiring any new employees. We are trying to hedge our bets as best we can because it seems every time we take a step forward, we get hit in the face and are forced to take two steps back. One of the things already pushing us backwards despite our projections is the health care law. At a time when we may finally become profitable, we are still struggling to offer health care coverage to our employees. Skyrocketing premiums continue to harm our ability to offer coverage, even now – 16 months after the passage of the health reform law.

Health Care: My Experience with Premium Increases

Even when we first began our company and had to borrow nearly \$1 million from friends, banks and credit card companies to open our doors, we offered health care coverage to our employees. We are a small business and our employees are like family to us – so for the past five years, we have offered our employees a choice between coverage through a Preferred Provider Organization (PPO) or a High Deductible Health Plan (HDHP) with a Health Savings Account. At this time, half of our employees take up this offering – with three participating in the HDHP, and two enrolled in the PPO. Of our employees that do not participate, three of them are covered under

their spouse's plan and one has elected to purchase a less expensive more basic plan on her own. While I am committed to offering coverage to my employees, it is becoming more and more challenging to continue to provide our employees coverage. The premium increases that we have seen, and those we continue to see, are beyond what I can afford and even more worrisome, it is beyond what my employees can afford too.

Each year, when it comes time to renew our coverage we have seen at least 30% premium increases – with the exception of the summer after the health reform law was passed. Last summer, after the enactment of the Patient Protection and Affordable Care Act, we had increases of 42.2% and 42.4% in our PPO and HDHP plans respectively. Unfortunately, for me, the law is not making health care affordable. As with every other year when we have been quoted insurance with increases, I spent between 30 to 45 days researching other options. I have tried everything I know to do to try to mitigate these increases.

Last year, when facing the highest premium increase for our company ever, we had to agree to an increase in the PPO's deductible by \$1,500 (from \$1,500 to \$3,000). Additionally, all of our co-payments were raised across the board. For office visits, the copayments increased from \$25 to \$50 for in-network providers, and from \$30 to \$60 for out-of-network providers. For urgent-care visits, copayments increased from \$50 to \$75. We revised the pharmacy drug tier formula from 3 levels to 4 levels, which meant that some drugs would cost \$150, even after the deductible had been met. So instead of our PPO premiums jumping up \$1,080/month, we were able to reduce the premium jump to \$743/month. These changes amounted to an annual savings of \$4,044. While these changes brought the overall monthly increase to 26.7%, down from 42.2%, it still raised our out-of-pocket expenses - which are nearly impossible to measure year over year.

Similarly, we had to restructure our HDHP plan in 2010. While previously our HDHP had covered prescription drugs at 100% once the deductible is met, we changed to a tiered drug formulary where prescriptions cost either \$10, \$30, \$50, or \$150, even after the deductible is met. We increased the maximum out-of-pocket expenses from \$2,500 to \$3,500 for individual coverage and from \$5,000 to \$7,000 for family coverage. These changes to the HDHP allowed us to reduce the premium increase from 42.4% to 26.5%. So instead of our premiums jumping up \$768.75/month, we were able to cut the premium jump to \$483.45/month. These changes amount to an annual savings of \$3,423.60.

Health Care – Why

One thing that I want to make perfectly clear in talking about these year-over-year increases which have continued despite the passage of health reform, these increases cannot be blamed on my plan or the insurance industry at large. Each year, I have researched other plans and insurance options. Despite my repeated efforts, I have not been able to find any other options that can offer coverage to my employees at lower premiums. While we continue to uphold our motto when it comes to our employees and “build trust and partnerships by doing the right things right,” we are struggling with how to continue to offer our team health insurance.

So is there someone or something to blame? Well, really, the only thing to “blame” is the increasing health care costs which the law regrettably does very little to curtail. Merely requiring a review of premium increases will not stop them from increasing. In fact, the law in many ways will increase costs and drive premiums up. By requiring all plans to cover a laundry list of services, many of which have to be covered 100% with no copayment or cost born by the enrollee/participant, the law eliminates the ability to mitigate premium increases. It is really simple

economics and simple business, if you want more, it will cost more. This applies to pallets that I sell, or coverage for health care services that my plan covers.

Health Care – So, What Now?

So where does this leave me, as an employer committed to offering health coverage and “doing the right things right?” Well, honestly, I don’t know. Because of the plan design changes that I have made over the years, the plans that I offer my employees are not grandfathered plans. As a result, my plan will have to comply with the full list of new mandates and requirements including the new internal claims and appeals and external review process, among other things. Many of these new requirements add an additional layer of administrative and procedural requirements, which will increase the cost of coverage just as mandating coverage of additional services will. Because of the size of my payroll, I am not eligible for the small business tax credit and will therefore not receive any help in paying for my employees’ coverage. Since I am not deemed a “large employer” under the law, I will not be penalized if I stop offering coverage to my employees. The law has put me, a practical businessman, in a very strange place. Despite the law’s premium rate review, the cost of coverage is continuing to increase – and most likely will continue to do so – by amounts neither I, nor my employees can absorb. While I understand that in 2014 there may be new marketplaces called exchanges where my employees may be able to purchase coverage, I am not sure how they will work or what coverage in the exchanges will look like and cost. I do not want to leave my employees in the lurch; they are all valued team members and I want to have some security that they are going to get affordable and appropriate coverage. How do I continue “Doing the Right Things Right” – now?

Conclusion

By nature I'm an optimist. I always have been, but given the fragile state of our economy and a lot of uncertainty coming from Washington, I'm more worried about our future than ever before. Right now, our company cannot afford to expand or hire more people. I want to, but I'm just not certain what the Federal government's going to do next week, next month, or next year - let alone by 2014. This may not be what you want to hear, but this new health care law has made it much more difficult for small businesses to compete than you may realize.

I'm here today to share with you the real effect the law is having on me and other small businesses. I hope what I've shared today is helpful and urge you to repeal the most costly parts of the law, such as the employer mandate. This employer mandate truly prevents us from expanding our businesses and hiring more people - in other words creating new real jobs.

On behalf of the thousands and thousands of small business men and women in America, please listen to our concerns. The bottom line is that the decisions you make will either hurt us or help us. I'm very concerned that our new health care law may end up significantly hurting business and our country.

Thank you for this opportunity to testify, and I look forward to your questions.