Written Statement for the Record of
Thomas M. Harte, President of Landmark Benefits
Representing the National Association of Health Underwriters
before the United States House Committee on Ways and Means
Hearing on Rising Health Insurance Premiums Under the Affordable Care Act
July 12, 2016

Chairman Brady, Ranking Member Levin, members of this distinguished committee: Good morning and thank you for the opportunity to share some of the continued challenges of healthcare reform on individual and group consumers and offer some considerations that will support the Affordable Care Act's objective of improving the accessibility and affordability of health insurance.

My name is Tom Harte and I am the president of Landmark Benefits located in Hampstead, New Hampshire. My company provides health insurance benefits to over 300 corporate clients and the majority are small to medium-sized businesses.

I am proud to be here today on behalf of my professional association, the National Association of Health Underwriters (NAHU), which represents approximately 100,000 employee benefit professionals. Last year, I completed six years of service as a member of our national Board of Trustees, including serving as the NAHU's national president.

Before I respond to the primary issues for the consideration of the subcommittee, I want to share with you some of the successes within the market over the past year:

- The passing of PACE (signed October 7, 2015), which allowed states to determine if increasing the definition of small group in their state to 100 was in the best interest of their small businesses, was instrumental in fostering stability in local markets across the country and avoiding "rate grid overload" for businesses between 50 and 100 employees.
- Congress passed legislation that delayed or suspended several burdensome taxes embedded within the ACA to address affordability in the market:
    - Moratorium on Medical Device Tax of 2.3%
    - Delay of the 40% Excise Tax to 2020 (thresholds of $10,200/$27,500)
    - Health insurance tax suspension for 2017.

At the same time, it is important to share with you that health insurance consumers continue to be faced with significant premium increases. Although some individuals and employers have received premium decreases, the majority are receiving double-digit premium increases. Within the past couple of months, my company delivered rate increases to employers between 11.47% and 29.96%.

Client Location	Enrolled	Deductible	Rate Adj.
Manchester, NH	65	$5,000	29.96%
Nashua, NH	46	$5,000	29.96%
Kittery, ME - SHOP	12	$2,600 HDHP	12.61%
Lowell, MA	2	$2,000	29.22%
Derry, NH	86	$5,000	18.45%
Salem, NH	10	$500	11.47%
Cambridge, MA	19	$2,000	17.73%
Methuen, MA	8	$2,000	15.47%
Chelmsford, MA	3	$2,000	19.01%

While healthcare trend in small groups has recently decreased, it is important to understand that this trend continues to be considerably higher than most other consumer or business products and services, and continues to outpace employee wage growth. Additionally, this trend does not consider other factors impacting health plan premiums:

- Utilization,
- Taxes,
- Risk Adjustment,
- Fees,
- Pooling charges, and
- Demographic adjustments

I would like to bring you into the companies that I represent in New England and share their experiences, which are common among individuals and employers across the country. Bottom line, health insurance consumers are growing more and more concerned with the exponential growth of health plan premiums while experiencing a reduction in benefits.

REDUCTION IN BENEFITS

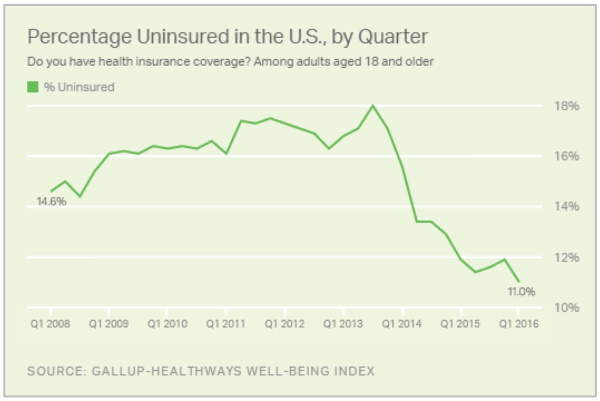
It is important to understand that most small employers have been faced with mandatory health plan changes. For example:

- Primary care office copays are increasing from $25 to $30 or $40.
- Specialist office copays are increasing from $50 to $60 or $80.
- Prescription drug copays are increasing dramatically, with shares increasing up to a monthly maximum of $500 for a 30-day supply.

Bottom line: In order to address the affordability of health insurance, health plans are eliminating plan benefits for small businesses that would result in more affordable health plan premiums.

UNDERINSURED/ELEVATED DEDUCTIBLES

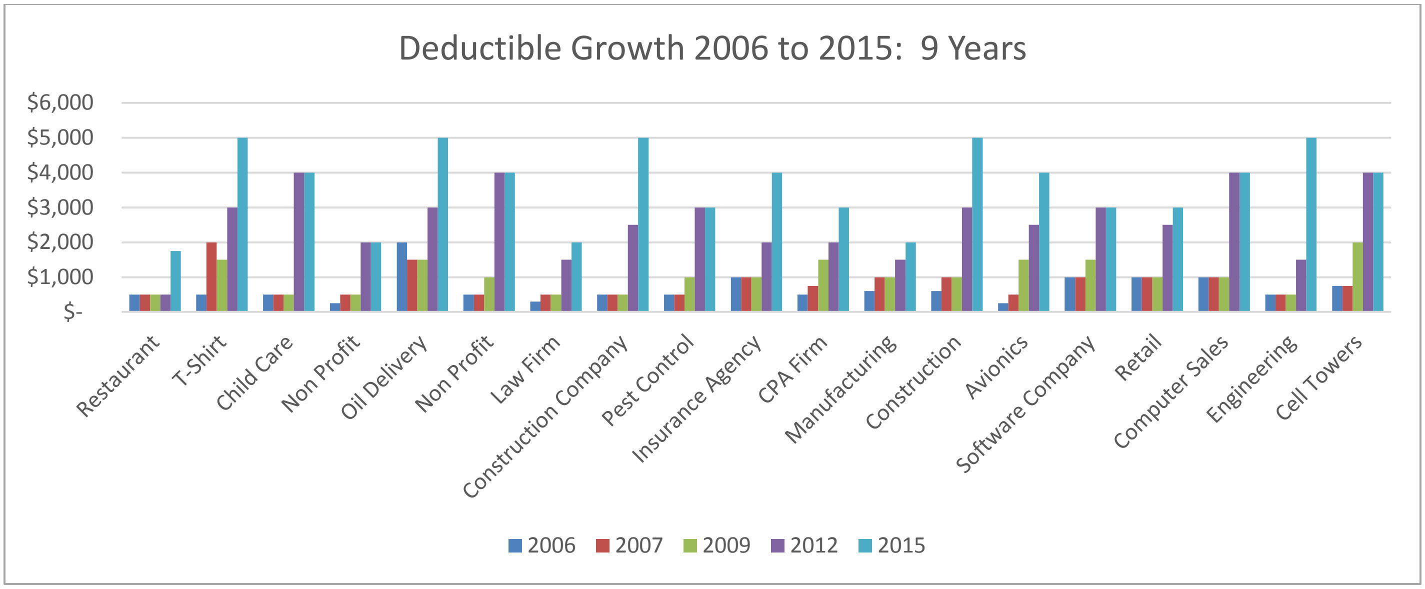
The recent success of the adult uninsured rate to 11.0% (Gallup) does not take into consideration those individuals that we consider “underinsured.” These are people who have insurance but are not able to afford a catastrophic healthcare event due to the high plan deductible. For example, most employers are increasing plan deductibles to as high as $6,300; however, most employees can’t afford a deductible event of $1,000, let alone $6,300.



According to the Kaiser Family Foundation, from 2009 to 2014, plan deductibles have increased by 47%. This increase in out-of-pocket expense before coverage is deterring many individuals from seeking necessary healthcare services. This delay of care will further exacerbate medical conditions, requiring more expensive care at a later date. (http://kff.org/health-costs/press-release/employer-sponsored-family-health-premiums-rise-3-percent-in-2014/)

Deductible Expenses	X > $1,000	X > $2,000
2006	10% of employers	3% of employers
2014	40%	18%

From my professional experience with the clients that I represent in New England, the following chart represents a random selection of small business clients and their deductible growth since calendar year 2006.



The supporting data can be found in Appendix 1.

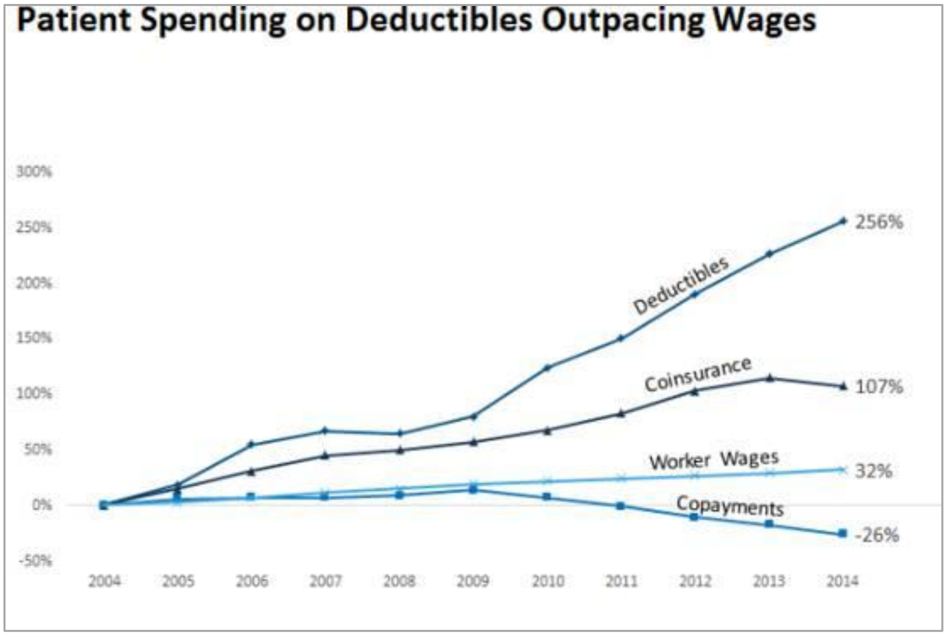
More specifically, this chart demonstrates significant deductible growth for our clients with the following representing the average increase in deductibles:

- From 2006 to 2015: 479.57% over 9 years
- From 2007 to 2015: 404.21% over 8 years
- From 2009 to 2015: 329.00% over 5 years
- From 2012 to 2015: 137.38% over 3 years

Furthermore, according to the Wall Street Journal's national estimates on the acceleration of deductible expenses, from 2004 to 2014 deductibles increased by 256% during the same time that employee wages only increased by 32%.

FACTORS DRIVING HEALTHCARE COSTS

I would like to address factors driving healthcare costs and health insurance policies that have affected premiums for small businesses since the two are connected. The cost of premiums are high, and rising, because the cost of healthcare continues to increase. The leading causes of increased healthcare costs, and therefore increased premiums, are increased utilization and government regulation.



UTILIZATION

In 2014, utilization increased in virtually every metric, with more physician visits, hospitalizations and prescriptions than in 2013. Higher utilization of services accounted for 43% of the increase, fueled by factors such as:

- Increased consumer demand
- New and more intensive medical treatments
- Defensive medicine
- Aging population
- Prescription drug cost
- Unhealthy lifestyles.

As American consumers return to increasing use of healthcare services, including many newly insured individuals under the ACA, utilization has increased significantly.

TRANSPARENCY

It is very surprising for most to learn that there is a significant price difference for healthcare services within our local communities. The good news is access to healthcare costs information has improved for some, but the access across the country is very limited. I have an APP on my phone from MyMedicalShopper that demonstrates the alarming difference in cost within 30 miles of my home in New Hampshire:

- MRI of lumbar spine without Dye: least $485.00 / most $2,114 (436%)
- Colonoscopy: $458 to $3,031 (661%)
- Mammography: $186 to $701 (376%)
- Chest X-Ray: $58 $347 (598%)

At NAHU we have always recognized that "**health insurance is expensive because healthcare is expensive**" but we need to have solutions that will address the significant waste in the healthcare system. Without addressing the cost of healthcare and at the current trend, premiums will double again in the next 6 years.

HIGH-COST CLAIMANTS

The conventional wisdom in the health insurance industry is that 5% of our members represent 50% of the total utilization of healthcare costs. For employers that continue to be generous to their employees by offering a health plan, these high-cost claimants are a major contributor to premium increases above healthcare trend. A few weeks ago, I was sitting with a client and reviewed one of their claimants who has kidney disease. Over the past 12 months, the total claims for this employee are nearly $1 million.

MEDICAL LOSS RATIO

Finally, as defined by the ACA's Medical Loss Ratio rules, health plans must limit their administrative expenses to 15% to 20% of health plan premiums and the remainder of 80% to 85% of the premium must be paid for healthcare expenses. As a result, it would benefit businesses of all sizes to focus our collective efforts on the costs that represent 80% to 85% of healthcare premiums, not the 10% to 15%. This will include prescription drug costs, high-cost claimants, transparency and much more.

COMPLIANCE

The ACA has imposed significant compliance burdens on employers, employees, individuals and local and state governments. Many of these compliance burdens discourage employer-sponsored coverage by adding onerous requirements and responsibilities that must be performed on behalf of employees. For small employers, many of the ACA's arbitrary provisions, such as narrow rating bands, limits on composite rating, new levels of minimum coverage and employer reporting requirements, have resulted in higher costs. However, the compliance burden does not end with employers, as individuals, providers, state and local governments, and all other elements of the healthcare delivery and financing system must meet the requirements of the law.

EMPLOYER REPORTING

Further, final regulations concerning employer reporting are overwhelmingly burdensome for employers. I can testify that some of my employer clients have spent hundreds of hours in preparation, coordination and deployment of these burdensome reporting demands. Additionally, the cost for reporting with either a payroll company or third-party administrator is excessive at best. Many of our clients were left without a solution with their payroll provider, prohibiting their access to employer reporting and were found scrambling for a solution prior to the reporting deadlines.

EMPLOYER SPONSORED COVERAGE

Employer-sponsored coverage is the bedrock of private insurance coverage in the United States. According to the Bureau of Labor Statistics, about 175 million Americans have employer-sponsored coverage and are statistically more likely to maintain coverage year after year. Providing coverage through employers or other group arrangements offers controlled entry and exit in the health insurance market, which ensures the spreading of risk, federally guaranteed consumer protections like portability rights, the ease of group purchasing and enrollment, and the economies of scale of group purchasing power. In addition, it is a means for employers to provide equitable contributions for their employees.

EMPLOYER EXCLUSION

The employer exclusion is used to reference the tax benefit that excludes employer-provided contributions toward an employee's health insurance from that employee's compensation for income and payroll tax purposes. This exclusion makes employer-provided health coverage an attractive form of compensation for workers. According to a new poll from Accenture, three-quarters of workers see health benefits as a "*vital reason*" for continuing to work for their employers, and one-third would quit if their employers stopped offering insurance. A similar percentage said they wouldn't work as hard if their benefits disappeared

Several recent health insurance and tax-reform proposals have suggested eliminating or capping the tax exclusion provided to individuals who have employer-provided group coverage and perhaps substituting it for some other tax preference. Capping the exclusion for employees would degrade the benefit and serve as a tax increase for middle-class Americans. Eliminating the exclusion would mean that most of the advantages of employer-provided coverage would no longer exist:

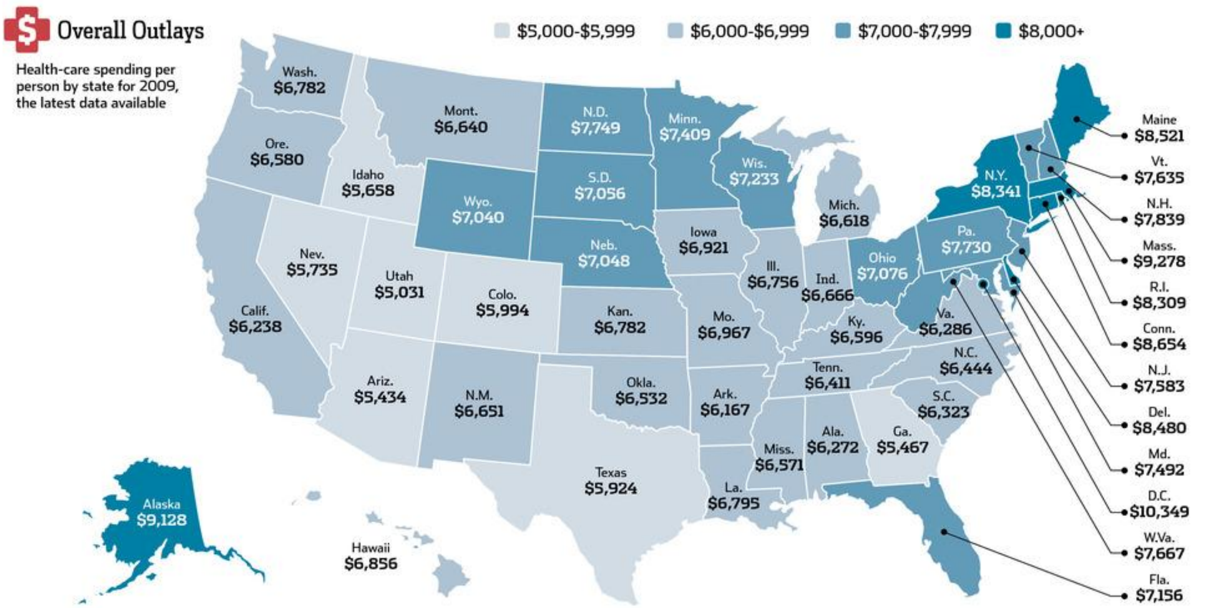
- No longer would there be a potent means for spreading risk among healthy and unhealthy individuals; employers and individuals would lose many group purchasing efficiencies;
- Workers would be less likely to have their employer as an advocate in coverage disputes;
- Employers would be less likely to involve themselves in matters of quality assessment and innovation; and
- Employers could suffer in terms of worker productivity and labor costs because employer-sponsored insurance leads far more workers to purchase health insurance than they would on their own.

Some employers would not meet participation requirements for group coverage so the entire workforce would lose employer-sponsored coverage. This shift might seem minor, but it could compel employers to stop providing health insurance, according to the Congressional Budget Office and the Joint Committee on Taxation. Companies will expect their employees to secure affordable coverage in the individual market. For many people, particularly older and lower-income workers, that may be impossible, even with the implementation of the ACA.

One plan would eliminate the tax exclusion for employer-provided health insurance, preventing companies from purchasing coverage with pre-tax dollars, and instead provide individuals with a tax deduction of $7,500 a year for buying insurance. Families would receive a deduction worth $20,500. These types of tax deductions would encourage young, healthy workers to forgo employer-sponsored insurance because they could purchase cheaper plans elsewhere. Employers would be left with an older, sicker risk pool, thus higher costs – if they can get group coverage at all. As costs escalate, even the most generous employers may quit offering health insurance altogether. De-linking coverage from employment like this would make health insurance more expensive and less accessible, thereby contradicting the objectives of the Affordable Care Act.

Around the Nation

A breakdown of health-care spending state by state



Adding to the threat to employer-sponsored insurance is the increase in cost to the employers. In a recent survey, almost 90 percent of businesses reported that their costs had increased because of the law. Employers are responding by laying off workers, making full-timers part-time so the mandate doesn't apply or dropping coverage altogether. In all three cases, the result is fewer people with employer coverage

Getting businesses out of the healthcare business would be a mistake. We urge you to maintain the system that has worked for Americans for decades, and preserve employer-sponsored health coverage through the continuation of the employer exclusion.

INDIVIDUAL MARKET

Since the implementation of the ACA, members of Congress, health insurance companies, brokers and the American public have struggled with the continued increases in the cost of health insurance and the erosion of plan choices. Yes, the ACA has produced many beneficiaries through subsidies and tax credits; however, now six years beyond the passage of ACA, the consequences are significant:

- Premium Increases:
  - Wall Street Journal, May 4, 2016, "Health Insurers Struggle to Offset New Costs":
    - *"Providence Health Plan, currently the largest insurer for people buying coverage through the **Oregon** health exchange, is seeking an average increase of 29.6%."*
    - *"In **Virginia**, where premium increases had been relatively modest to date, Anthem Inc. is asking for an average increase of 15.8%."*
  - Carolina Coast Online, June 29, 2016, "The Obamacare Albatross":
    - *"In **Tennessee**, after losing $300 million in ObamaCare's first two years and on track to lose another $100 million this year, on top of the 36% increase it got last year, BCBS wants a 62% increase in premium."*
  - The Baltimore Sun, May 13, 2016, *"Health Insurers Seek Rate Increases in Maryland as United Healthcare Quits Market"*
    - *"The unanticipated costs of providing health care to customers on the state's online exchange has prompted large insurers to seek rate increases of up to 30 percent while one insurer decided not to offer individual plans at all."*
- Risk Adjustment Program:
  - Forbes, July 6, 2016:
    - *"A **Maryland** insurer, Evergreen Health Cooperative, has filed a lawsuit against the Obama administration claiming that the formula used to determine risk adjustment amounts is arbitrary and unlawful."*
    - *"**Illinois** acting insurance director has ordered the Land of Lincoln Health Cooperative not to make its 2015 risk adjustment payment because doing so will cause the insurer, which has 40,0000 enrollees, to collapse."*
    - *"**New Mexico** Insurance Superintendent John Franchini calls the*

implementation of the risk adjustment program 'completely backwards.' "

        - *"**New York** State Department of Financial Services asked the Obama administration for 'immediate changes' to the program, and yesterday Connecticut shut down its health care cooperative because of their new risk adjustment obligation*."

- Access to Plans:
    - CNN Money, April 19, 2016: "UnitedHealthcare to Exit Most Obamacare Exchanges":
        - *UnitedHealthcare, the biggest health insurer in the United States, said Tuesday that it plans to exit most of the Affordable Care Act state exchanges where it currently operates by 2017*."
        - *"It shouldn't come as a huge surprise. UnitedHealth had previously said that it lost $475 million on the ACA exchanges last year and could lose another $500 million this year."*
    - The Arizona Republic, June 20, 2016, "Blue Cross, Health Net Drop Affordable Care Act Marketplace Plans"::
        - "*Blue Cross Blue Shield of **Arizona** and Health Net, will drop Affordable Care Act plans next year in Maricopa and Pinal counties, forcing tens of thousands of consumers to switch plans next year."*
    - The Daily Signal, June 29, 2016, "Middle-Class **Minnesotans** Will Soon Have Fewer Healthcare Choices Because of Obamacare":
        - *"Minnesota's largest health insurer is minimizing its individual plan offerings, so much so that all family and individual preferred provider organization, or PPO, plans no longer will be in effect after Dec. 31. Restricting its presence in the individual market solely to Blue Plus HMO*."
    - The Post and Courier, July 2, 2016, "Healthcare Experts Question Future of Obamacare Marketplace in South Carolina":
        - "*With insurers struggling to make money and access to plans severely limited, top **South Carolina** health officials warn the Obamacare health insurance marketplace is on the verge of collapse*."
    - Alaska Dispatch News, May 2, 2016, "*Moda Health to Leave Alaska's Individual Insurance Market in 2017*"
        - "*Moda Health will exit **Alaska's** individual insurance market next year, the company announced Monday, leaving only one health insurance provider in the state's market that, so far, has been defined by drastic annual rate increases for consumers and big losses for insurance companies."*
    - Healthcare Dive, May 20, 2016, "*UnitedHealth to Leave NJ, Humana Exits CO*"
        - "*Both Humana and UnitedHealth are leaving the Colorado exchange*."

RECOMMENDATIONS GOING FORWARD

We all have an interest in having a functioning, viable health insurance marketplace for small employers. While the ACA has brought many changes and market resources to consumers and employers, I am concerned about policies threatening the small group's viability that could lead to its erosion. The membership of the National Association of Health Underwriters feels that the following policy changes would have a significant impact on improving the cost and coverage options available today for our nation's employers and their employees:

- To address the affordability of health insurance we need:
    - Continuation of the employer exclusion
    - Complete repeal or further delays of the Excise tax beyond 2020
    - Complete repeal or continued suspension of the health insurance tax
    - Complete repeal or continued moratorium on medical device tax
    - Legislation that allows states to increase the law's age rating bands from the current 3:1 spread to bands that more closely resemble the natural breakdown of age and meet the needs of a particular state. If a state does not set its own bands, the default should be 5:1
    - We need to focus on the portion of health insurance premiums that represents 80% to 85% of premium – more specifically, healthcare expenses.
- To address the accessibility of health insurance we need:
    - To remove agent and broker commissions from the medical loss ratio calculation in the small and individual health insurance markets will ensure small business access to an employee benefit professional.
- To address the simplification of health insurance we need:
    - A repeal or simplification of the employer mandate OR establish a threshold at 101 or more employees
    - Allow employers to set the definition of a full-time employee as one that works 40 or more hours a week for health coverage purposes.

In closing, I would like to thank Chairman Brady and all of the members of the committee for the amazing opportunity to share information about the opportunities and challenges small business owners like me and my clients are having in today's health insurance marketplace. If you have any questions or need more information, please do not hesitate to contact me at either (603) 329-4535 or tharte@landmarkbenefits.com.

Appendix 1: Deductible Growth, 2006 to 2015

	2006	2007	2009	2012	2015
Restaurant	$ 500	$ 500	$ 500	$ 500	$ 1,750
T-Shirt	$ 500	$ 2,000	$ 1,500	$ 3,000	$ 5,000
Child Care	$ 500	$ 500	$ 500	$ 4,000	$ 4,000
Non Profit	$ 250	$ 500	$ 500	$ 2,000	$ 2,000
Oil Delivery	$ 2,000	$ 1,500	$ 1,500	$ 3,000	$ 5,000
Non Profit	$ 500	$ 500	$ 1,000	$ 4,000	$ 4,000
Law Firm	$ 300	$ 500	$ 500	$ 1,500	$ 2,000
Construction Company	$ 500	$ 500	$ 500	$ 2,500	$ 5,000
Pest Control	$ 500	$ 500	$ 1,000	$ 3,000	$ 3,000
Insurance Agency	$ 1,000	$ 1,000	$ 1,000	$ 2,000	$ 4,000
CPA Firm	$ 500	$ 750	$ 1,500	$ 2,000	$ 3,000
Manufacturing	$ 600	$ 1,000	$ 1,000	$ 1,500	$ 2,000
Construction	$ 600	$ 1,000	$ 1,000	$ 3,000	$ 5,000
Avionics	$ 250	$ 500	$ 1,500	$ 2,500	$ 4,000
Software Company	$ 1,000	$ 1,000	$ 1,500	$ 3,000	$ 3,000
Retail	$ 1,000	$ 1,000	$ 1,000	$ 2,500	$ 3,000
Computer Sales	$ 1,000	$ 1,000	$ 1,000	$ 4,000	$ 4,000
Engineering	$ 500	$ 500	$ 500	$ 1,500	$ 5,000
Cell Towers	$ 750	$ 750	$ 2,000	$ 4,000	$ 4,000