

Testimony of Jeff Leland
Chair of the Employer Alliance for Affordable Health Care

Public Hearing to Solicit Input on the Development of Proposals for Achieving Health System Reform, Increasing Access to Health Insurance Coverage and Moving Toward Universal Healthcare Coverage: Defining the Goals and Identifying the Steps

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Glens Falls, NY

Superintendent Dinallo, Commissioner Daines and distinguished panelists, thank you for the opportunity to participate in the effort to reform New York's healthcare system. My name is Jeff Leland and I am president of the Leland Paper Co. in Glens Falls. Joining me is Pamela Finch, Executive Director of the Employer Alliance for Affordable Health Care. We are here today to discuss one of the greatest challenges faced by small and medium-sized employers across the state – the need for basic, affordable health insurance. As New York evolves toward a universal health care system, we must ensure that any model addresses the unique challenges faced by the small business community.

My grandfather, Darwin Leland, started our family-owned wholesale distribution paper goods company in 1951. Today Leland Paper Co. is a viable part of the Glens Falls economy with 30 employees. We serve customers throughout the Capital District, Vermont and north to the Lake Placid/Saranac Lake region.

Unlike many areas of the state, those of us doing business in Glens Falls and the entire North Country region must address the added challenges of restricted development on top of the typical business hardships of workers compensation, transportation costs and government regulation. However, my greatest business concern as the president of Leland Paper is determining how I will continue to offer my employees healthcare coverage that they need at a price they can afford. For many years Leland Paper Co. provided coverage at no cost to our employees. Eventually we could no longer afford to underwrite the full benefit. We now pay 50% of the premiums at a cost of \$60,000 annually.

Despite this level of contribution, I did have one employee who declined coverage this past year and subsequently suffered a gall bladder infection. The ensuing operation and medical bills have left him facing debt of an astronomical proportion that may leave him on the verge of bankruptcy.

Similarly our founder, Scott Miller, heads a small printing firm in Amsterdam New York which employs 13 people, most of whom are supporting families. He wanted to make

sure that all of his employees had health care coverage so they could focus on work and not have to worry about their medical care. Until last year he paid 100% of their premiums. In 2006 it became a choice of cutting jobs or sharing the burden, so he reluctantly introduced cost sharing to his employees.

The Employer Alliance for Affordable Health Care

As chairman of the Employer Alliance for Affordable Health Care, I speak today not only for myself and the Leland Paper Co., but on behalf of the Alliance's 3,400 business members – many of whom are facing the same difficult choices as Scott and myself – with significant repercussions on their employees and families.

The Employer Alliance is the largest single-issue grassroots business coalition in New York State. We believe that everyone should have access to basic, affordable health insurance. A majority of our members are small business owners and sole proprietors – shop owners, automobile dealers, heating, plumbing and electrical specialists, and farmers. Our focus has been on health insurance mandates that drive up costs and decrease accessibility. As you know, the practice of requiring insurers to cover certain medical providers and/or benefits drives up the cost of health insurance increasing the number of uninsured. Most mandates increase health premiums by a relatively small amount, but cumulatively they put upward pressure on rates. In 2003 the Employer Alliance for Affordable Health Care initiated the only study (*New York State Mandated Health Insurance Benefits – NovaRest consultants*) ever undertaken (attached) on the cost of New York's mandated services. This report determined that at that time policyholders paid 12.2% more annually to cover the cost of mandates. Requiring all carriers to offer only Cadillac-style health plans when many consumers may only be able to afford a Chevrolet further hinders the ability of New York businesses to compete in the global economy and meet the needs of their workforce.

In the past 10 years, due largely to our efforts, New York State has provided greater accountability in legislating mandates.

- In 2002, for the first time ever, the State Legislature opted to study the efficacy of Computer Assisted Digital (CAD) mammogram testing to incorporate new technology. The report ultimately confirmed that such testing was not medically advantageous at that time.
- As I said earlier, our 2003 study titled Health Insurance Mandates in NYS has yielded the only evaluation to-date of the cumulative impact of health insurance mandates. It determined that the additional mandates cost premium payers an extra 12.2% in 2003. We can safely guess that with the subsequent approval of new mandates, premium payers now pay more than 13% per employee, per year cover these extra services.
- At our urging, the mental health mandate passed in 2006 included an unprecedented provision to reimburse small employers for their cost of mental health benefits - \$100 million annually. This precedent finally recognized the hardship that mandates place on the small group market.
- And finally, this year culminated a 10-year-effort with New York becoming the 27th state to establish a Health Care Quality and Cost Containment Commission. Soon operational, this commission will provide New York with the means to measure both cost and medical soundness of a mandate proposal PRIOR to passage, giving legislators the background information needed to make an informed decision and providing a break for small employers who were saddled with mandates often driven by political considerations.

The Employer Alliance will continue to focus on affordability, monitoring the status of the new mandate review commission, as well as the introduction and consideration of any new health insurance mandates. Meanwhile, we must remain vigilant in addressing health insurance affordability. Health-care costs have been the number one issue facing small-business owners since 1986, according to the National Federation of Independent Businesses. (*2007 Health Care Policy Report*). Members of the Business Council of New York State also identified health insurance costs as a 2007 priority item in the cost of doing business. As New York now stands at the crossroads of establishing a universal health care system, the Alliance is studying other approaches that will ensure business

owners that provide employer-sponsored health coverage are supported, not penalized for their efforts. At the same time we will continue to monitor the planned expansion of government programs and their funding sources, and challenge policymakers to seriously consider incentives for small business people like Scott and myself to continue providing coverage.

The business community must be supported if we are to continue offering employer-based health insurance. Failing to do this will result in the continued hemorrhaging of employer-based coverage.

How serious is this problem?

In a study titled *Health Insurance in NYS 2003-2004*, the United Hospital Fund determined that

- In 2004, the number of individuals covered by employer-based programs had dropped to 61% (down 1% over the previous year), while percentage of individuals in covered by public programs dramatically increased from 15% to 19% in just two years.

In comparing New York City to the rest of the state, the results are distressing.

- In New York City, between 2000 and 2001, less than half (47%) of those individuals with health insurance were covered by their employers while 22% were covered by public programs.
- By 2004, the City's employer-based coverage remained stable (albeit less than 50%) while the number of people on public programs grew by 10% over the ensuing two years, reaching 26%.

The UHF study concluded "The recent data is compelling: the source of New York's chronically high uninsured rates rest in the declining number of businesses offering coverage and the chief reason for this decline is the lack of affordable health care." We concur. Without the safety net provided by New York's existing subsidized programs, the

erosion in employer-based insurance coverage would be more alarming – as our uninsured rate would have risen substantially instead of moderating over the past few years.

Studies have determined that for every 1% increase in premiums 30,000 New Yorker's lose coverage altogether. As we look back at the past ten years we note that policies and initiatives advanced by the Executive and the Legislature has hastened this decline. Since 1997 the state has passed nine mandates increasing net costs by more than 5%. At the same time taxes and assessments on premiums and health care services as embodied in the Health Care Reform Act (HCRA) have continue to climb. These costs have contributed to the steady deterioration of employer-based coverage. As we pursue universal health insurance coverage and the financing of such a system, we must ensure that that the cost of this coverage **is also shared universally** and in a broad-based manner not disproportionately on responsible employers already providing coverage as is the case today.

The Employer Alliance is in dialogue with our members on this issue and intends to release a comprehensive approach to financing a universal health care system in the future. In the meantime, we believe there are several reasonable steps that can be taken to achieve universal coverage and increase access to employer-based coverage without fundamentally restructuring the health care system, imposing significant new costs or creating new distortions in the health insurance market.

What Can Be Done

1. **Personal responsibility** is a first step to control costs. Health insurance is the only type of insurance where typically the primary purchaser is not the primary user. We must help consumers understand that a healthier population will have lower overall health care costs. This requirement will also add the “young and healthy” individuals who are opting out of coverage to our community rated pools resulting in lower health insurance premiums. We would enhance this change by

incorporating aggressive wellness and vaccination programs and empower people to make healthier choices in terms of diet, exercise and lifestyle that will result overall benefit to their well-being.

2. **New York must develop a broad-based approach to underwrite subsidized coverage.** The cost of universal health coverage must be borne by a universal tax. Today New York's business community not only pays among the highest premiums in the country, we are largely responsible for underwriting our flawed healthcare system. The business community currently pays \$2.5 billion dollars in special fees, assessments and surcharges authorized by the Health Care Reform Act (HCRA). These taxes were intended to be temporary measure ease the transition to hospital deregulation. Ten years later, we are still underwriting this system at increasing and extraordinary costs. New York's health care taxes are second only to corporate franchise taxes. We are spending more with unsatisfactory results.
3. **We applaud Governor Spitzer's efforts to reform the Graduate Medical Education program, but suggest that any universal health system include elimination of the covered lives assessment.** This assessment costs premium payers \$850 million annually. New York is the only state in the nation to underwrite physician training in this manner. We must look at alternative ways to pay for medical training. It is time to rescind the covered lives assessment, or, at the very least, spread the burden equally by paying for this training through the state's general fund.
4. **We also support the elimination of the patient services surcharge** (now 8.95%) which is placed on the privately insured to cover bad debt and charity for hospitals and other HCRA needs. Presumably, if there is universal coverage, there will be no need for charity care. Eliminating this surcharge will reduce premium costs, increase accessibility and enhance employer-based coverage. If we must continue to underwrite some level of bad debt and charity costs, then it should

come not only from businesses, but be assessed progressively on all New York taxpayers again assuring that the cost of universal health care is shared by all.

5. **Another way to expand accessibility is by allowing small employers to purchase “mandate lite,” high deductible policies.** Again, I cite our landmark 2003 study of Current Mandated Benefits in NYS, which concluded that collectively, mandates contribute significantly to health insurance costs. By eliminating some or all of the mandated benefits, consumers will have access to a more affordable product that might be better tailored to meet their needs. Enhancing premium payer choice in private insurance packages is a key component in keeping people insured.

6. **We must share savings dividends with employers.** Any universal health system in New York will include savings derived from Medicaid efficiencies including reduced charitable emergency room visits and overall quality improvements. These savings should be shared with employers to further support coverage in the private sector and should serve as a brake against increasing premiums. The Alliance will be examining this issue more closely in the future and will offer a more comprehensive proposal on the appropriate use of these “savings.”

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Superintendent Dinallo, Commissioner Daines and distinguished panelists, as New York moves toward a universal health care system, we must find ways to support those employers who continue to offer coverage. The Employer Alliance will continue dialoging with our members to determine ways to foster their access and ability to afford health insurance. We look forward to working together to create a more sensible and rational healthcare system. Thank you for your time.

Burdens on Small Employers Providing Health Insurance

Mandates Passed Since 1997

| Year | Mandate | Direct Cost | Net Costs |
|--------|-----------------------|-------------|------------|
| 1997 | Chiropractic | 2.5% | 2.5% |
| 1997 | Enteral Formulas | .1% | .1% |
| 1997 | Mastectomy | .2% | .2 |
| 2000 | Prostate | .7% | .3 |
| 2002 | Contraceptives | .3% | .3 |
| 2002 | Osteoporosis | .4% | .4 |
| 2002 | Infertility | .7% | .7 |
| 2002 | Mammography | .4% | .2 |
| 2006 | Mental Health Parity* | <u>1.0%</u> | <u>1.0</u> |
| Totals | | 6.3% | 5.7% |

* Early estimates for large group policies

Taxes and Assessments

Patient Services Assessment has risen from 8.18% in 1997 to 8.95% in 2007. This is a tax on an ever-increasing base yielding greater revenues every year.

Covered Lives Assessment has increased by nearly 30% (\$185 million) since 1997 now reaching \$850 million annually.

