

Testimony of

Phyllis M. Burlage, President
Burlage Associates, PA

before the

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H.R. 660, the Small Business Health Fairness Act of 2003

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Good afternoon Mr. Chairman and Members of the Committee. Thank you for inviting me today to talk about the important issue of affordable, accessible health insurance, especially for those owning or working for small businesses. I am pleased to be here on behalf of the National Federation of Independent Business (NFIB), representing 600,000 members who face a similar challenge.

My name is Phyllis Burlage, and I own Burlage Associates, PA, a small accounting firm based in Millersville, Maryland. At Burlage Associates, my employees and I work together to help individuals and small businesses comply with federal, state, and local tax regulations.

After passing the Certified Professional Accountant (CPA) exam and working for a larger firm in 1981, I wanted greater flexibility in my schedule. So, in 1986, I opened up my own business. Owning my own business has been rewarding, but the pressures and responsibilities are great. I am proud to say that I have grown my business by 20 percent since 1986 and, today, I serve over 300 clients! As you know, this is a very busy time of year for me but I am thankful for the opportunity to share my story with you, Mr. Chairman.

I have three employees whose skills vary with their level of experience. My right hand woman is thirty-four years old and has worked for me since 1995. She started as a secretary/clerk but has developed her position by assisting me with computer, accounting and tax projects. The other two women, one of whom is seventy years old, handle the bookkeeping, billing, filing, and assembly of tax returns and financial statements. In addition to my dedicated full-time employees, I hire a student during tax season to assist with computer input of tax return data. I am pleased to say that the students typically return annually until they graduate.

Like many entrepreneurs, I learned early that I could not compete with large corporations in the area of extensive benefit packages. Therefore, I pay in flexibility; by this I mean, flexible hours and a family-friendly environment. My employees bring their children into the office and they are allowed to work around their children's school schedules and events. I have even gone the extra mile and provided a computer in their homes so they can "dial in" when their children are sick so they do not lose time away from work.

Unlike other small women-owned businesses I know, I have been able to offer health insurance as a benefit since the day I opened my business. I knew that I wanted to provide a quality plan – medical, dental and vision coverage, with a wide network of doctors. Thankfully, I am able to provide a comprehensive benefit and pay 100 percent of my employees' health care insurance. Each employee is eligible to participate after thirty days of working for me. I initially pay for the employee only. Then, I offer dependent or family coverage as a form of a raise. Right now, I pay for one of my employee's daughters. I would enjoy being able to pay for her husband's care but am unable to afford the expense at this time. I hope to begin paying for his health care in the future as a bonus to this employee.

Every year in March, I hold my breath when the letter comes from my insurance agent listing the rates for the upcoming year. I have had to change my provider from CareFirst to New York Life to Optimum Choice solely based on price. Maryland offers very few choices, as many providers will not come into the state due to the sheer volume of regulations and state mandates. I administer our plan and every year I look for alternatives: there are none. Two weeks ago, I received my renewal in the mail and my insurance is increasing again.

My rate hike this year is 45% with our health maintenance organization (HMO). This is real money since I absorb all the cost increases for my employees. Since 1996, my company has experienced a 226% increase in premiums – how can any business survive with these types of increases over just a few years? This year our rates went from \$226 to \$265 for an individual; from \$476 to \$557 for an employee and her spouse; and, the cost skyrockets to \$750 a month to add a family, up from \$651 only a year ago. I may have no choice but to raise my clients' fees to cover our company's health care costs, but in this economy, I may then lose these clients to competitors. It's a vicious cycle for business owners.

Each year, I search for a plan, and I remain quite surprised how difficult it is to find an insurer willing to write our policy. As I mentioned, I have changed plans three times in the past four years and am looking at changing this year as well. Health insurance is important to me and to my employees. We work together to evaluate our options, including higher deductibles and co-pays. But, we know that in spite of our best efforts, the cost will increase every year because our rates are based on the average age of the insured. And, since my "group" consists of three people, there is no pool to offset the fact that we get older every year.

While I continue to struggle to provide affordable coverage, some of the big insurance companies have announced record profits the last few quarters. I support businesses being successful, but when I am faced with double-digit increases every year or when my colleagues cannot provide insurance to their workers, I feel that the insurance industry is more worried about their profits than my ability to afford health care for my employees. I have to compete so why shouldn't insurance companies? Simply put, the lack of competition in the small group market is making insurance company executives richer at small businesses' expense.

For example, recently in my home state of Maryland, WellPoint Health Network Incorporated, the biggest publicly traded BlueCross BlueShield health plan, attempted to purchase the nonprofit CareFirst BlueCross BlueShield. Fortunately, Commissioner Larsen denied the conversion, citing, "...that the decisions to convert and be acquired were inappropriately influenced by the prospect of large payouts for some individuals." By this, the Commissioner meant the initial \$119.7 million bonus plan for the Blues' executives. In addition, the drive for profitability lead CareFirst to seek "excessive" premiums for policies for chronically ill members, and to drop some sick members when its FreeState HMO was merged into a new HMO, BlueChoice. What is so interesting about this situation is that, despite state oversight, these insurance companies found ways to "cherry pick" the healthiest individuals.

Administrative expenses also cripple small businesses providing health care. A recent actuarial study released by the U.S. Small Business Administration (SBA) shows that administrative expenses for health-insurance plans that cover small businesses are

significantly higher than those that cover larger groups. Specifically, the SBA study reports that administrative costs for businesses, like mine, range from 33 to 37 percent of the cost of claims, as opposed to just 5 to 11 percent of the cost of claims for large companies' self-insured plans. We must stay focused on the true crisis in health care -- and in the economy as a whole -- the skyrocketing cost of health insurance.

In every professional meeting I attend with other women-owned small businesses, the subject of health insurance costs come ups. We are afraid that we will not be able to cover our employees and ourselves nor continue to attract qualified employees if we cannot offer coverage. But do not take this to mean that we want the government to do it. We are proud to be independent businesses and proud to take care of our employees. We just need an affordable solution. We need to be able to spread out the risk over more than our own employee group.

The small business community is struggling each year to afford the cost of increasing premiums. It is for this reason that I support H.R. 660, the Small Business Health Fairness Act of 2003, legislation endorsed by NFIB that would create Association Health Plans (AHPs). AHPs would allow small business owners to band together across state lines to purchase health insurance as part of a large group, thus ensuring greater bargaining power, lower administrative costs and freedom from the costs of complying with 50 different sets of state insurance mandates. Fortune 500 companies and labor unions already have this ability. AHPs will simply level the playing field and give small employers the same privileges as their counterparts in labor and big business.

In addition, AHPs will introduce into the marketplace much needed competition and diversity. Without the ability to shop for more affordable options, we are left with the choice to shift costs or drop coverage. Association health plans would end the nightmare of health care purchasing for small businesses.

Like most small business owners, I talk to a lot of people every day; to be competitive on Main Street, you have to. I know from talking to other women who own small firms that AHPs would be a great option for small business owners. I know from talking to other accountants that they and their clients need AHPs. Now, I'm a businesswoman, not a health policy expert, but I do know that there is a lot of debate about how to insure more Americans and how to help those currently insured continue to afford their coverage. AHPs are a good, common sense solution to controlling the cost of quality health care.

Mr. Chairman, thank you for allowing me to share my experience with you and the Members of the Committee. I look forward to the relief that will come from Congress enacting AHPs and I am happy to answer any questions that the Committee may have.