

Testimony of

Skip Trotter, Vice President of Operations  
Trotter Machine Inc.

Before the

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Small Business Access and Alternatives to Health Care

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Good morning Mr. Chairman and Members of the Committee. Thank you for inviting me from Illinois 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 Skip Trotter, and my father and I run, Trotter Machine Inc., a manufacturing firm that produces hydraulic valve spools based in Rockford, Illinois. At Trotter Machine Inc, my employees and I work together to produce valve spools, which control the restriction and flow of high-pressure hydraulic oil in valves. The unique part of our business is that there are only three of us in the world who manufacture valve spools.

Trotter Machine Inc. was established in March 1999. My father, Earl Trotter, worked for K&M Screw Machine Inc. for 17 years prior to buying out K&M in 1999. We have manufactured valve spools since 1985 and currently have sales of around 6 million dollars. I am the Vice President of Operations and am responsible for the overall management of our company. My position involves various tasks; from the purchasing of tooling, hiring outside contractors, and dealing with customers on a daily basis, to managing the human resources activities and administering our employees' benefit packages. At Trotter Machine Inc we have 47 employees. I, along with one other employee, have college degrees, while most of my employees have high school degrees. They are typically in their early thirties, stay for about five years, and earn an hourly wage ranging from \$9.00 up to \$18.83.

Like many entrepreneurs, I learned early that, if I want to remain competitive I must offer an attractive benefit package. Since we started the company, we have provided comprehensive health care insurance to all employees. However, in recent years, one experience forced me to stop and think about health insurance and what role an employer should play.

One of my employees has a blood disorder. My firm was actually turned down by an insurance company and we were unable to get a policy. Imagine if this employee had to look for coverage as part of a smaller group or as an individual. Where would he go for coverage? With 47 employees, we are able to spread our health care risks a little, but they need to be spread over a larger group to keep down health care costs. It's interesting to me that as a businessman, I cannot discriminate when hiring, yet insurance companies can?

Our company is able to offer a Preferred Provider Plan (PPO) to our employees. My father and I want to provide a quality plan – medical, dental and vision coverage, with a wide network of doctors – and every year that passes, I have to set our deductible higher and change our network of providers to keep our premiums affordable. I set an eligibility requirement of 90 days in some cases or on the first of the month after 60 days of employment, and I offer an 80/20 employer-employee shared contribution rate. Every year I have changed insurance companies because it is difficult to find an affordable plan. However, the reality is that being insured is critical to our

employees. Most of them are more interested in the benefits we offer than in the wage they will be earning. Employees pay \$80 per month for individual coverage and \$120 per month for a family. Trotter Machine picks up the other 80% of the cost for our employees. In addition, we pay for full coverage on life and disability insurance, which is \$1,000 a month.

Annually in February, my assistant and I go through the painstaking work of getting bids from other insurance carriers, since our average increase has been 28% every year over the last four years. This year, our increase is 40% and what bothers me the most is that the coverage and service gets worse! A particular frustration of mine is that insurance carriers move at one speed: their own. In past years, we have had to go an additional month with the old company to stay covered at higher cost, waiting for the current insurance carrier to get underwriting and firm pricing.

In addition to the hassle of just maintaining affordable coverage, my time is wasted spending countless hours on the health care renewal process. It takes two of us **three days** to fill out all the necessary forms for underwriting. This cuts into production time and other areas in which I could be producing a quality product for my customers. We are facing a crisis in manufacturing by losing jobs to China; therefore, it is vital that I work to keep our firm competitive.

Knowing that providing health insurance is necessary to me for both business and personal reasons, and knowing that I cannot increase prices to my customers an extra 40% in order to absorb the cost, I continue to offer health insurance benefits, despite the growing cost to the business. Our business has absorbed the cost every year. We have only passed a total of five dollars a week onto our employees over the last four years. I am at the point where I may have to increase our employees' share or stop paying for their disability insurance. Thus, I take the risk of losing good employees and dramatically increasing my turnover rate.

While I continue to struggle to provide affordable coverage, some of the big insurance companies have announced record record profits the last few quarters. Are they making money off the backs of hard-working small business owners? I support businesses being successful but when I'm 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, competition is needed in the small group market.

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.

Those of us in the small business community who offer insurance are struggling each year to afford the cost of increasing premiums. It is for this reason that I support 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 costly state insurance mandates. Fortune 500 companies and labor unions already have this right. 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 market place much needed competition and diversity. Without the ability to shop for more affordable options, we are forced to shift costs to our employees or drop coverage. Association health plans would end the nightmare of health care purchasing for small businesses.

I also encourage the expansion of medical savings accounts—MSAs—and flexible spending accounts (FSAs). Eliminating the regulatory burden on medical savings accounts would benefit small business. MSAs, without the current restrictions, would provide positive benefits to employees. They give employees control over their own health care decisions. Making MSAs more workable by easing the regulatory burden on them will provide yet another affordable health care option to small business. NFIB also supports allowing money leftover in a flexible spending account to be rolled over into the same account the following calendar year. I also support the concept of having a tax credit for the purchase of individual health insurance.

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 manufacturers that AHPs, MSAs, FSAs and tax credits would be great options for small business owners. Now, I'm a businessman, 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, in particular, 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 by enacting AHPs and expanding MSAs, FSAs and tax credits, and I am happy to answer any questions that the Committee may have.