National WOMEN'S BUSINESS Council

Summary Report

Roundtable on Access to Affordable Health Coverage by Women-Owned Businesses

March 2003

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FOREWORD

The inability to secure affordable health care for employees is a critical and growing concern of many women business owners. It is estimated that 60% of the 41 million uninsured Americans reside in households with one or more members employed by small businesses. An estimated 7.3 million of the uninsured are employees or families of employees of the 9.1 million women-owned firms in the U.S.

The National Women's Business Council (NWBC) believes that hearing from those who are directly affected provides valuable input that informs public policy discussion. NWBC recently convened a Roundtable discussion on affordable health care for businesses and their employees. The Roundtable brought together women business owners, business association leaders, issue experts, and public policy makers from across the U.S. to discuss not only the concerns involved in providing affordable health care, but also the most effective solutions that can be considered in the 108th Congress. An initial background review on the current state of health care served to structure the agenda and dialogue.

The National Women's Business Council is a bipartisan Federal government council created to serve as an independent source of advice and counsel to the President, Congress, and the U.S. Small Business Administration (SBA) on economic issues of importance to women business owners. Members of the Council are prominent women business owners and leaders of women's business organizations. The National Women's Business Council is committed to conducting research on issues of importance to women business owners and their organizations; to communicating these findings widely; to connecting the women's business community to public policy makers; and to providing programs and platforms for change in order to expand and improve opportunities for women business owners and their enterprises. For more information about the Council, its mission, and activities, contact: National Women's Business Council, 409 3rd Street, SW, Suite 210, Washington, DC 20024; phone: 202-205-3850; fax: 202-205-6825, e-mail: nwbc@sba.gov; web site: www.nwbc.gov.

Summary Report

INTRODUCTION

The movement to increase access to affordable health care for small business owners gained momentum as women business owners gathered in Washington, DC, on February 27, 2003, to have a voice and provide their individual testimonies. They described how the health care crisis is affecting their companies—and the millions of Americans who work for them—and hampering their ability to survive, grow, and thrive. On the heels of the first hearing of the 108th Congress on the small business health care crisis held February 5—and just days before the official commencement nationwide of Women's History Month in March—a diversified group of women business owners provided their individual views on the critical issues outlined below. This first ever Roundtable on Affordable Health Care at the Capitol for female entrepreneurs was hosted by the National Women's Business Council (NWBC).

This report summarizes the proceedings of the Roundtable, which included presentations by a panel of 19 women business owners, business association executives, and other stakeholders. A list of Roundtable participants, complete with biographical sketches of the speakers, is contained in the appendices, as is a verbatim transcript of the event. A companion research report, which reviews current data and studies on access to affordable health care and discusses alternative solutions for business owners, is also available at www.nwbc.gov.

HIGHLIGHTS OF PRESENTATIONS BY WOMEN BUSINESS OWNERS AND OTHER PANELISTS

The Roundtable, moderated by Council Chair Marilyn Carlson Nelson, Chairman and CEO of Carlson Companies, Inc. of Minneapolis, MN, provided a forum in which women entrepreneurs from all over the country presented their individual stories and experiences about accessing affordable health insurance. From these accounts emerged a number of facts and recurring themes, as described below.

- **Key Role of Women-Owned Firms in the Economy.** At least one-quarter of all businesses in the United States are owned by women. The number of women-owned firms is 9.1 million, employing 27.5 million workers and generating $3.6 trillion in revenues. By 2005, it is estimated that there will be 4.7 million self-employed women. Yet, more than ever, women-owned firms are facing a crisis posed by the rising cost of health coverage. It is estimated that 60% of the 41 million uninsured Americans reside in families employed by small businesses.

- **Commitment to Provide Coverage.** Women business owners demonstrate a sincere commitment and willingness to provide health insurance coverage to their employees despite the exorbitant cost—sometimes even over the objections of workers who would prefer to see larger paychecks—because of a moral obligation to protect their workers. Some of the businesses represented at the Roundtable pay anywhere from 80%-100% of employee coverage—an admirable contribution in today's economy.

- **Coverage Issues for Business Startups.** Upon starting a business, many women entrepreneurs cannot afford to offer health insurance coverage, although they tend to add this benefit later as the business grows. Many new business owners are surprised to learn just how expensive coverage is, are unfamiliar with insurance products and terminology, and are unaware that this is a cost that will dramatically impact the bottom line each and every year.

- **Coverage Issues for Growth Firms.** Firms who are able to purchase insurance are hit routinely with the high cost of coverage. Double-digit premium increases are commonplace. Many small businesses, especially those with fewer than three employees, have witnessed increases of 25%-50% in their health premiums, and many even 100%. Also, as more seasoned businesses continue to face surging health care costs year after year, some are reluctantly considering increasing employee cost-sharing, paring down coverage, or dropping health benefits altogether.

- **Unequal Access to Employee Talent.** The lack of access to affordable health insurance has created an uneven playing field for small business owners trying to attract and retain employee talent. This situation directly threatens the viability and sustainability of many small businesses that may be able to hire only personnel who have other options for health coverage.

- **Concern Over Quality of Coverage.** Women business owners are just as concerned with health care quality as they are about access and affordability. Replacing high-cost policies with less expensive ones that decrease benefits to their employees would be an unacceptable solution.

- **Potential Solutions to the Health Care Crisis.** Many women business owners voice strong support for passage of legislation on association health plans (AHPs), which in their view would be a major first step toward improving access by small business to more affordable health care coverage. AHPs would offer small businesses greater bargaining power, economies of scale, and administrative efficiencies that would ultimately lower their health care premiums. Women entrepreneurs also view the expansion, permanence, and improvement of medical savings accounts

(MSAs) and the passage of legislation for refundable tax credits, which individuals could use to purchase health insurance, as important parts of the solution.

HIGHLIGHTS OF THE OPEN DISCUSSION PERIOD

In addition to the observations of women business owners and other panelists during the presentations, several related issues were addressed during the Open Discussion period, as summarized below.

- **Transfer Costs of a Lack of Insurance**. Some business owners attribute the high cost of premiums to the large number of uninsured persons treated in hospital emergency rooms—the most expensive source of medical care. These costs are ultimately passed on to the insured population in the form of higher rates. The escalating costs of medical litigation represent another contributing factor, exposing the need for reform of the legal system as it pertains to health care.

- **Affordable Versus Accessible Coverage.** Caution is warranted in the use of the term "affordable" rather than "accessible" in the health coverage debate. What is affordable for one business owner may be out of reach for another. While passage of AHP legislation would increase consumer choice and small-firm access to health insurance, some small business owners may have unrealistic expectations about the savings to be gained. For example, it is unlikely that a $400 premium would cost $150 after enactment of AHP legislation.

- **Support of AHPs by Asian American Business Owners.** The U.S. Pan Asian American Chamber of Commerce, which represents over a million Asian American business owners, has been addressing affordable health care issues for some time. Like the women business owners who testified at the Roundtable, these minority entrepreneurs have experienced challenges in accessing affordable health coverage.

- **Resistance to AHPs in the States.** Part of the resistance to AHPs is perceived to be at the state level. Many Governors have not thrown their support behind AHPs. Support for AHPs by state insurance commissioners has been lacking, because many fear that some associations creating AHPs would not be bona fide or legitimate—a situation that has already occurred in some states. In short, they are reluctant to support a measure that could in their view make a bad situation even worse. Also, some insurance commissioners may not want to relinquish nonresident license fees or premium taxes. Some insurance brokers in the states are likewise resisting AHPs because of the potential for system abuse that could result in unpaid consumer claims or other negative consequences.

- **Immediate Action Needed by Women-Owned and Other Small Businesses.** In light of resistance to AHPs at the state level, small business owners should consider taking action immediately in the debate over affordable health coverage by communicating with their Governors, congressional representatives, Senators, and state insurance commissioners. Although AHP legislation passed the House in the 107th Congress, it died in the Senate. More nationwide advocacy by a critical mass of entrepreneurs may help stimulate passage of AHP legislation in the 108th Congress.

- **Information on AHPs.** A comprehensive source of information on AHPs can be found online at www.AHPsNOW.com, a service of The Coalition Supporting Access and Choice Through Association Health Plans. This informative Web site publicizes extensive research on the background and status of AHP legislation, enabling small business owners and others to become more knowledgeable about this issue. Other sources of relevant information include the Heritage Foundation Web site (www.heritage.org) and the NWBC Web site (www.nwbc.gov).

SUMMARY OF PRESENTATIONS BY WOMEN BUSINESS OWNERS

A diverse array of America's women business owners was represented by those presenting at the Roundtable. Their experience reflects the challenges of finding and maintaining affordable health insurance coverage throughout the business life cycle, as detailed below.

REBECCA BOENIGK, NEUTRAL POSTURE, INC., BRYAN, TX –-MS. Boenigk is chief executive officer (CEO) of a manufacturer of ergonomic chairs, with current revenues of about $17 million. She is also Chair of the Women's Enterprise Leadership Forum of the Women's Business Enterprise National Council (WBENC), representing certified women's business enterprises from around the country. (WBENC is a leading advocate of women-owned businesses as suppliers to America's corporations and is a third-party certifier of businesses owned and operated by women in the United States.) In 1989, Ms. Boenigk decided that health insurance was such an important benefit that her company would offer it to all employees. Now, the company still maintains its original commitment, paying 100% of the health insurance premiums for its 80 employees at a total cost of $480,000, or 2.8 % of sales. This year, as the policy renewal date approaches, insurance rates are expected to increase by 20% to $600,000. From an employees' perspective, the company's health coverage translates to about $3.00-$4.23 per hour in wages—an amount that some production workers admit they would rather see in their paychecks. However, part of the decision to continue coverage of the entire work force was based on an employee survey suggesting that about 35% of workers would drop out of the health insurance program if they had to pay $10 a week, or 35 cents per hour, to participate. But instead of placing these employees at risk—many of whom would likely go without coverage and receive care at an indigent hospital—her company

has decided to continue paying the full cost of coverage for all its workers, despite an additional expense of almost $200,000. Ms. Boenigk attributes much of the rise in health care outlays to the high cost of medical litigation. She believes that legal reform is needed in this area.

MARY QUIGG, VANDOVER, ST. LOUIS, MO—Vandover, an outplacement and relocation support services firm with 41 employees, maintains a client base of Fortune 500 companies, midsized businesses, and government agencies. When the company began, it could not afford to offer health care benefits to its work force. The firm's ability to attract and retain high-quality employees during its first six years was limited to persons who could obtain coverage through another source, such as a spouse or other family member. Since 1991, the firm has always paid 85% of worker health insurance premiums, but has had to engineer periodic "remodeling" of policies along the way. Plans have shifted from blended rate structures to those based on experience and gender/age to those with a flat rate. Eligibility waiting periods have grown from 30 to 90 days, and deductibles and prescription coverage have also changed to maintain the company percentage. Since offering coverage 12 years ago, the firm has experienced premium growth in excess of 125%, and it currently grapples with costly dependent coverage. Nevertheless, the business continues to provide health insurance benefits to its employees so that it can attract the type of employee talent it needs to succeed.

Ms. Quigg also belongs to the Women President's Organization (WPO)—a non-profit group whose members have guided their businesses to at least $2 million in gross annual sales, or $1 million for a service-based business. They represent 31,000 employees and $4 billion in annual revenues. According to a recent poll of WPO members—with an average business size of 85 employees—their top issue of concern, next to the state of the economy, is the skyrocketing cost of health insurance. Although most member firms offer health insurance, nearly all have remodeled their policies over the years because of high costs, and many are considering dropping coverage altogether for the first time.

LESLIE SAUNDERS, LESLIE SAUNDERS INSURANCE AND MARKETING INTERNATIONAL, TAMPA BAY, FL—Representing consumers, business owners, and insurance professionals, Ms. Saunders is founder and CEO of a licensed insurance brokerage firm that covers women-owned and other small businesses in all 50 states, as well as Fortune 500 companies. Her testimony reveals the dilemma faced by women and other business owners who, in fact, fill several roles—each of which may relate to differing circumstances and needs and may require different health plan options. As a consumer and covered employee of her own firm, for example, she is concerned about access to the types of services she needs to maintain her personal health as an aging baby-boomer. She must likewise consider the health of her spouse, for whom access to selected medical specialists and treatments is more important than cost.

As a small business owner based in Florida but with employees in other states, she is also disturbed about the lack of health plans that could cover all her work force. Meanwhile, the average employee rates for health insurance in Florida are higher than in most states (i.e., about $400 per month for those 35 years old and under, and about $700 per month or more for employees 50 and up) because of the legal climate and mandated State benefits. Family coverage is, of course, even more expensive, with rates of one group averaging $1,500 per family. Overall increases of 20%-35% have been reported.

As an insurance broker who has designed and implemented employee benefit plans of all sizes since 1973, Ms. Saunders is concerned about access by small businesses to affordable health care plans. In the past 20 years, she has witnessed extraordinary increases in health insurance premiums and has struggled to help many small firms keep pace. Her roles as both owner and broker have shown her how access across state lines to national networks and other group pools—a key feature of AHPs—could result in more affordable health care coverage for small firms.

DEBORAH HARRINGTON, HARRINGTON CAPITAL ADVISORS, INC., NEWPORT BEACH, CA—Harrington Capital Advisors, Inc. is a newly formed investment management firm that provides services to high net worth individuals, corporations, and non-profit organizations through individually managed accounts. Despite promising beginnings and a current management portfolio exceeding $25 million, CEO Harrington is unable to offer any type of health insurance to her employees. When she and her husband founded the company in 2002, she had no idea that finding affordable health insurance would present such a formidable challenge. Like many new business owners who have left companies with good health benefits, the couple was totally unprepared to pay over 10% of their overhead costs for health insurance. In her words, “We now find ourselves in an unfortunate situation. We have to pay a small fortune in insurance premiums for a plan that provides us with less in comprehensive benefits than what we would have been accustomed to when we were employed with a large, publicly held company.” Although Ms. Harrington brought many years of experience and extensive knowledge of financial markets and the investment industry to her startup company, she admits that a lack of familiarity with the terminology and procedures of the insurance industry placed her at a distinct disadvantage in evaluating various insurance products.

LEEANNA ROMAN FOURNIER, PROVIDENCE PEDIATRIC MEDICAL DAYCARE, INC., MARLTON, NJ—Ms. Fournier is CEO of two multimillion-dollar companies, including Providence Pediatric Medical Daycare, Inc., which supplies education and nursing care to medically fragile young children. She recalls the difficulties that she has encountered in remaining a viable and growing business while providing affordable, high-quality health insurance to her employees. Although she currently pays 80% of her employees’ health insurance premiums, she is uncertain whether she can continue to do so without jeopardizing the financial

well-being of her company. Also, she needs to hire more staff but cannot afford to because it would increase her health insurance costs. One solution to the health care crisis proposed by Ms. Fournier is GAAP (Government Assisted Alternative Program), which she considers to be an improved version of AHPs. Fournier maintains that "GAAP perfects the system by leveraging state and Federal Government employee health insurance plans to obtain lower, more affordable health insurance for association members participating in the program." Her patented program requires no new legislation and is a process that businesses can begin using now. Ms. Fournier is also a founding member of Women Impacting Public Policy (WIPP), with 430,000 members, and president of Hispanics Influencing Public Policy (HIPP).

SHEILA BROOKS, NATIONAL BOARD MEMBER, NATIONAL ASSOCIATION OF WOMEN BUSINESS OWNERS (NAWBO)—NAWBO is a premier women's business membership organization, with over 8,000 members. In a recent NAWBO survey, passage of AHP legislation was among the top public policy issues identified by its members. The survey also revealed that the majority (58%) of member firms with employees offer health insurance coverage to them. Ms. Brooks shared her personal experiences as an African American business owner of a 13-year-old communications firm in Washington, DC, which paid 100% of employees' health insurance premiums until the tragedy of September 11, 2001. Following that event, the business lost about $2.6 million in revenues and was forced to make some hard decisions about its operations, including a reduction in employer-paid coverage. Even now, with rebounding revenues and a recent doubling of staff size, the business cannot afford to restore coverage to its original levels because of surging health care costs. It is this type of economic climate that prompts Ms. Brooks' appeal to the small business community to "conjure the passion and zeal for which it is known, to fight the good fight and provide affordable health care for all small businesses."

KAREN KERRIGAN, PRESIDENT AND CEO, WOMEN ENTREPRENEURS, INC. (WE, INC.)—WE, Inc. is a nonpartisan business association that endeavors to improve the economic environment for women business owners. Under Ms. Kerrigan's leadership, the organization has devoted many of its efforts to support the expansion, permanence, and improvement of MSAs (medical savings accounts) —one of several proposed solutions to the health care crisis. Congress approved MSAs as a pilot program in a bill that the President subsequently signed into law in 1996. However, the law imposed many restrictions on the implementation of MSAs that have made them a less viable health care product for consumers seeking affordable health insurance. For example, as a pilot program, MSAs have not been widely marketed by insurers. Also, not all persons are eligible to purchase an MSA. "If you are an individual who does not have insurance, who works part-time for a business, or who works for a business, you cannot buy a medical savings account," states Ms. Kerrigan, who is a frequent witness at congressional Small Business Committee hearings. "The other reforms that are important [are] allowing both the employer and the employee to contribute to the

medical savings account [and] lowering the deductibles." WE, Inc. also supports legislation to approve AHPs and refundable health care tax credits that individuals could use to purchase health insurance. In addition, WE, Inc. avidly promotes the creation of a more consumer-driven health care system to increase access to affordable coverage for all Americans.

TERRY NEESE, PRESIDENT, WOMEN IMPACTING PUBLIC POLICY (WIPP)—WIPP is a small-business association representing over 425,000 women and minority business owners. Member companies are expecting increases in their health premiums this year of 12%-72%, and as a result many will be unable to continue to offer health insurance to their workers. According to Ms. Neese, a recent survey of WIPP members reveals that "providing this benefit is the most important benefit they can give to their employees—for both moral and economic reasons. With the drastic premium increases, few can provide it fully and [fewer and fewer] can provide it even on a shared payment arrangement." She also points out that premiums are just one aspect of the health care crisis. "Finding a provider, having choices, managing high administrative costs, growth in litigation, and fraud and abuse are problematic." WIPP proposes and supports AHPs that would allow small firms to pool their resources with other small companies and purchase insurance at more affordable rates. As such, "AHPs have the potential to lower insurance premiums for small firms by freeing employers from direct and indirect state taxation, some mandated benefits, and the cost of compliance with multiple state regulations." Ms. Neese is also CEO of Terry Neese Personnel Services of Oklahoma City, OK.

SUMMARY OF PRESENTATIONS BY OTHER PANELISTS AND GUEST SPEAKERS

KATE SULLIVAN, HEALTH CARE POLICY DIRECTOR, U.S. CHAMBER OF COMMERCE— Representing the largest association for companies of all sizes, Ms. Sullivan commends women business owners for offering coverage in such large numbers despite exceedingly high costs because they believe "it is the right thing to do." She lauds the commitment of many women business owners who are in it "for the long haul [even though] Congress is making it difficult to do so by passing mandates and blocking the opportunity for associations to make this [health] coverage more available." In support of AHPs, she raises two key points. First, passage of AHP legislation would enable business owners in states with comparatively fewer companies (e.g., Alaska, Montana, and the Dakotas) to band together across state lines to create the "critical mass" needed to form an AHP and benefit from more affordable health insurance rates. Second, AHPs would enable small enterprises with employees in several states to offer a single health plan to all its workers and lower their overall cost of health coverage. Speaking of a small Virginia-based firm with 35 employees in four states that must operate under four different health plans, Ms. Sullivan states, "They are too small to self-insure, but if [the owner] could get into an association health plan, he could offer a single plan. In fact, he could probably get all of his employees

together and give them a choice of plans." Ms. Sullivan also cautions women business owners about positions taken by some women's groups. These groups advocate more state mandates and upfront first-dollar coverage, but oppose AHP legislation on the presumption that AHPs would limit preventive health care and other key services for women and children.

SECRETARY ELAINE L. CHAO, U.S. DEPARTMENT OF LABOR (DOL)—Business owners, consumer groups, and community activists all over the country have brought the issues of health care quality, affordability, and timeliness to Secretary Chao's attention. The DOL hosted a major conference last year in which women entrepreneurs were able to voice their business concerns. The issue of affordable health care for employees was second only to access to capital for this group, many of whom witnessed their health insurance premiums increase 12%-18% or higher in one year. The President has offered a comprehensive plan for helping small businesses gain access to affordable health care, which includes: the support of AHPs; the expansion and permanence of MSAs; malpractice litigation reform; and refundable tax credits for individuals to foster purchase of health insurance. AHP legislation will be introduced in the Senate soon that will help small businesses gain parity with large businesses offering more affordable health care options. (Bigger firms enjoy increased bargaining and purchasing power, economies of scale, and administrative efficiencies.) Small firms would also benefit from a uniform Federal regulatory structure instead of having to comply with 50 different sets of state regulations, as is presently the case. The DOL would be the Federal agency responsible for regulating AHPs. It currently administers ERISA, the Federal law that addresses employer-based benefits. The agency already oversees more than 250,000 health plans covering about 47 million people. The Secretary is concerned about "cherry-picking" or the selection of only young or healthy people for participation in health plans. However, there are already a number of mandates in place through ERISA to prevent this practice.

U.S. REPRESENTATIVE DONALD MANZULLO, CHAIR OF THE HOUSE SMALL BUSINESS COMMITTEE—Congressman Manzullo recommends that business owners and other consumers check the bills they receive from insurance companies, as many errors have been noted that can increase the cost of care unnecessarily. Another cost driver is the expense associated with the testing and production of breakthrough medicines, many of which never reach the market. Also, because of the way most insurance contracts are currently written, individuals generally are not allowed to specify the types of services they want or need. Business owners and consumers should "shop around" for the best insurance prices, which can vary dramatically from agent to agent for similar coverage. The use of MSAs is also strongly encouraged. AHP legislation passed the House last year but died in the Senate. A hearing on AHPs will be held in March, and the Congressman believes that AHPs will pass in the Senate and be signed into law by the President this year.

HECTOR BARRETO, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION (SBA)—As the SBA Administrator, Mr. Barreto directs the delivery of financial and business development programs to America's entrepreneurs through the agency's portfolio of direct and guaranteed business loans and disaster loans, valued in excess of $45 billion. Although the issue of providing high-quality health care for small businesses has been debated over the years and various initiatives have been proposed, Mr. Barreto urged small business owners to act now. "I really hope that what comes from our conversation today is a real call to action and a real specific action plan, if you will, so that we can make sure that we finally take care of this very very serious problem." Prior to joining the SBA, Mr. Barreto experienced firsthand many of the challenges voiced at the Roundtable. As a former employee benefits broker, entrepreneur, business association executive, and member of a family-owned business, he knows the hardship of facing unaffordable premiums and competing for talented employees without a high-quality benefits package. Voicing support for AHPs as a major first step toward solving the problem, the SBA—as America's premier small business resource—intends to play a key role in facilitating access to affordable health plans by small firms once AHP legislation becomes law.

THOMAS M. SULLIVAN, CHIEF COUNSEL FOR ADVOCACY, SBA—The Office of Advocacy within the SBA independently advances the views, concerns, and interests of small businesses before Congress, the White House, Federal regulatory bodies, and state policymakers. In January, the Office released an important report that cites AHPs as a possible solution to the crisis faced by small businesses in accessing affordable health insurance. According to the study upon which the report is based, "The administrative expenses for insurers of small health plans... make up 25%-27% of premiums and 33%-37% of claims. This compares with approximately 5%-11% of claims for large companies' self-insured plans." AHPs can address the high administrative costs associated with health insurance plans. (Access to the report is available at www.sba.gov.) Mr. Sullivan also urges small business owners to advocate for passage of AHPs.

CARROLL FISHER, INSURANCE COMMISSIONER FOR THE STATE OF OKLAHOMA—As past president of the National Association of Health Underwriters and founder of the Oklahoma State Association of Heath Underwriters, Mr. Fisher has been involved in the insurance industry for decades and has faced the challenges of finding affordable health care for some time. He supports AHPs, but only if they provide financial solvency. "If we can give financial solvency, we can give a marketing advantage to association health plans to help reduce our costs." Also, associations that provide AHPs must be bona fide. Oklahoma recently passed legislation that allows associations to band together with small purchasing groups in the state to provide more affordable health care coverage. Arkansas has done this as well. He is also working on a plan that will give small employers a "worker's compensation alternative health insurance plan" that provides 24-hour coverage, so that employers will not have to purchase both worker's compensation and health insurance.

GREG SCANDLEN, DIRECTOR, GALEN INSTITUTE, CENTER FOR CONSUMER DRIVEN HEALTH CARE—The Galen Institute is a non-profit organization dedicated to health policy. The employer-based system of health insurance coverage is viewed by many as a fractured Federal tax policy, fraught with inequities, in which massive subsidies are given to employers to provide health insurance, resulting in $140 million in lost revenues annually to the Federal Government. Self-employed persons, however, do not receive such generous benefits. Mr. Scandlen explains, "If you are self-employed, you also get a smaller subsidy of 100% deduction, not an exclusion. The exclusion frees the benefit from the cost of payroll taxes, as well as income taxes, state and Federal." Furthermore, individuals who are not self-employed who work for firms that do not offer health insurance have to pay for their own coverage if they want it, but receive no premium assistance. The President's proposal for refundable tax credits is intended to "right this wrong." Another plausible solution to the affordable health care crisis is to allow employers to contribute to their employees' health benefits coverage if they elect to purchase it on their own. Health Insurance Portability and Accountability Act (HIPAA) currently restricts this option by stating that such action constitutes an employee welfare benefit plan, and therefore is a group policy. Also, the Internal Revenue Service recently approved health reimbursement accounts (HRAs), which provide another alternative for employer firms. As for AHPs, Mr. Scandlen reminds employers of 100 or more workers that such companies can self-fund, rendering them free of any type of state regulation.

KRISTIE DARIEN, DIRECTOR OF GOVERNMENTAL AFFAIRS, NATIONAL ASSOCIATION FOR THE SELF-EMPLOYED (NASE)—The NASE is the Nation's leading resource for the self-employed and microbusinesses, which are businesses with 10 or fewer employees. This organization represents over 250,000 member businesses, which have over 600,000 employers, employees, and self-employed individuals nationwide. In its recently released survey entitled "Affordability in Health Care: Trends in American Microbusiness," the NASE reports that 70% of microbusiness owners say they do not provide health insurance coverage to eligible employees, nor for themselves. Nearly all (96%) of these executives believe that the cost of health insurance is too unreasonable for their businesses. To gain affordable health coverage, the NASE supports AHPs, MSAs, and refundable tax credits. Also, reform is needed to fix the inequities in the U.S. tax codes that affect self-employed individuals—specifically, those entrepreneurs who are Schedule C and Schedule E tax filers who do not receive a business deduction for their health insurance premiums. This in effect means that self-employed persons pay an extra 15.3% on their health insurance. Corporations, on the other hand, are allowed to deduct their health insurance premiums as ordinary business expenses.

JESSIE HOWE BRAIRTON, MANAGER OF LEGISLATIVE AFFAIRS, NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)—The NFIB is the largest advocacy organization representing small and independent businesses, with about 600,000

members. Most of its members have five or fewer employees and have been in existence for at least 10 years. About one-fourth of its members are women-owned firms. Since 1986, surveys of NFIB members have ranked rising health care costs as the number one issue they face. Many members have experienced exorbitant increases of 25%-50%, and increases of 100% have been common. Still other very small businesses have encountered premium increases every six months instead of annually. In many instances, such high costs have resulted in the loss of employee talent to other firms. NFIB aggressively urges enactment of legislation to permit AHPs to operate nationwide, and supports the expansion of MSAs, flexible spending accounts, and refundable tax credits to allow individuals to purchase insurance. From the NFIB's perspective, "Creation of nationwide AHPs is really a matter of righting a wrong which has plagued small employers for years. Currently the labor unions, medium-sized businesses, as well as large Fortune 500 companies, are allowed to offer health benefits to their employees under ERISA. This law exempts those companies and unions from that cumbersome task of having to comply with all the regulations and mandates of all 50 states." Without this exemption, Ms. Brairton explains, small businesses "pay 17% more for their health insurance than their big-business counterparts."

MERRILL MATTHEWS, JR., PH.D., COUNCIL FOR AFFORDABLE HEALTH INSURANCE (CAHI)—CAHI is a research and advocacy association of insurance carriers active in the individual, small group, MSA, and senior markets. Its membership includes insurance companies, small businesses, providers, non-profit associations, actuaries, insurance brokers, and individuals. There is concern that AHPs will not be adequately funded because of its guaranteed issue feature, which lets everyone into the plan without underwriting or regard for health status—a scenario that many feel will not work actuarially and will exacerbate instead of alleviate the affordable health care crisis. As for ways to increase access to affordable coverage, associations can presently provide state-based AHPs to their constituents, as does the National Association for the Self-Employed, by using an insurance company as the conduit. Another proposed solution is to permit reciprocity among health plans wherein a plan approved for purchase in one state can be purchased legitimately by someone in another state. Still another option would allow small businesses with only a few employees to let those employees find their own individual health insurance policies, which the employer would pay. Some states have prohibited this activity through the use of list bills. Yet another possible solution is to allow exemption from HIPAA legislation to address situations in which an individual with a condition such as cancer would not have to be admitted to a firm's health plan (which would increase premiums for everyone) but would instead use a state high-risk pool. Thirty states currently operate high-risk pools with monies from Congress that help fund them.

APPENDICES

A. List of Roundtable Participants
B. Biographies of the Panelists and Guest Speakers
C. Verbatim Transcript of Roundtable Proceedings

Appendix A: List of Participants

Moderator:

Marilyn Carlson Nelson, Chair, National Women's Business Council

Presenters (in the order as reflected in the transcript):

- Rebecca Boenigk, Neutral Posture, Inc., Bryan, TX
- Mary Quigg, Vandover, St. Louis, MO
- Leslie Saunders, Leslie Saunders Insurance and Marketing International, Tampa Bay, FL
- Deborah Harrington, Harrington Capital Advisors, Inc. Newport Beach, CA
- Leeanna Fournier, Providence Pediatric Medical Daycare, Inc. Marlton, NJ
- Hector Barreto, Administrator, U.S. Small Business Administration
- Thomas M. Sullivan, Chief Counsel for Advocacy, U.S. Small Business Administration
- Carroll Fisher, Insurance Commissioner for the State of Oklahoma
- Secretary Elaine L. Chao, U.S. Department of Labor
- Sheila Brooks, National Board Member, National Association of Women Business Owners
- U.S. Representative Donald Manzullo, Chair of the House Small Business Committee
- Karen Kerrigan, President, Women Entrepreneurs, Inc.
- Terry Neese, President, Women Impacting Public Policy
- Kate Sullivan, Health Care Policy Director, U.S. Chamber of Commerce
- Greg Scandlen, Director, Galen Institute, Center for Consumer Driven Health Care
- Kristie Darien, Director of Governmental Affairs, National Association for the Self-Employed
- Merrill Matthews, Jr., Ph.D., Council for Affordable Health Insurance
- Jessie Howe Brairton, Manager of Legislative Affairs, National Federation of Independent Business

Appendix B: Biographies of the Panelists and Guest Speakers

Marilyn Carlson Nelson was appointed by President George W. Bush in May 2002 as the Chair of the National Women's Business Council. Ms. Nelson is the Chair and Chief Executive Officer of Carlson Companies, a family-owned business that includes operations in more than 140 countries, directly employs more than 53,000 (indirectly, 190,000), and in 2001 posted direct sales of $6.8 billion ($19.9 billion system wide, including franchisees). Most people know Carlson Companies by its many brand names, such as Regent International Hotels, Radisson Hotels & Resorts, Country Inns & Suites, Radisson Seven Seas Cruises, T.G.I. Friday's restaurants, Carlson Wagonlit Travel, and more. Respected in business circles worldwide, Ms. Nelson has been on Fortune's list of the Top 50 "Most Powerful Women in Business" since the list's inception 4 years ago. She was also named one of Fortune's "Women of the New Millennium" and saluted as one of the "Top 25 Executives of the Year" by Business Week. Carlson Companies has been on Working Woman magazine's list of the 500 Top Women-Owned Businesses since 2000.

Rebecca Boenigk is the Co-Founder, Chair and Chief Executive Officer of Neutral Posture, Inc., a leading provider of ergonomic solutions, high quality and innovative products and accessories, and consulting and training since 1989, located in Bryan, Texas. The commitment of Neutral Posture to manufacture truly ergonomic chairs has led to its phenomenal growth. Net sales for fiscal year 2000 were approximately $17 million. In addition, during fiscal year 1997, the company completed its initial public offering for which it received approximately $4.4 million in net proceeds. These funds have strengthened the financial position of Neutral Posture and provided capital for continued growth. Along with her Co-Founder and Mother, Jaye Congleton, Ms. Boenigk was awarded the Ernst and Young's "Entrepreneur of the Year" award in manufacturing in the Houston region.

Mary Quigg is the Founder and President of Vandover, a human resources consulting firm located in St. Louis, MO, which provides outplacement and relocation support services across the U.S. and globally. Vandover's clients include Fortune 500 companies such as General Motors, Honeywell, Prudential Financial, and Sara Lee Corporation, as well as government entities including the Social Security Administration. Vandover serves individuals and families in transition from hundreds of locations, backgrounds and professions.

Leslie Saunders is the Founder and President of Leslie Saunders Insurance and Marketing International, a licensed insurance broker placing medical, dental, life, disability, 401K, property, liability, and workers' compensation plans. Her clients include women-owned companies in all 50 states and many Fortune 500 companies. Ms. Saunders' business is located in Tampa Bay, FL. The company is one of the top-ranked woman-owned agencies in the country by revenue and was recently named as one of Tampa Bay Business' "Top 50 Women-Owned Businesses."

Deborah Harrington is the Founder, President, and Chief Executive Officer of Harrington Capital Advisors, Inc., an investment management firm catering to high net worth individuals, corporations and not-for-profit organizations. Harrington Capital Advisors provides investment management services through individually managed accounts on a discretionary basis. Ms. Harrington is a sought after expert in the financial services industry, with more than 20 years of experience. Harrington Capital Advisors is located in Newport Beach, California.

Leeanna Fournier is the President of Providence Pediatric Medical Daycare, Inc., located in Marlton, NJ. Providence Pediatric Medical Daycare is a day care facility providing services for eligible children between birth and five years of age. Programs provided by the facility meet the health, education, and therapeutic requirements for children with special nursing needs. The daycare centers are staffed by licensed pediatric registered nurses, LPNs, nurse aides, certified early childhood education teachers, and teacher's aides. Ms. Fournier is also heavily involved in children's, minority and women's issues, which is evident from her many local, state, and national affiliations. She was the Founder of Hispanics Influencing Public Policy (HIPP) and a National Founding Partner of Women Impacting Public Policy (WIPP).

Hector V. Barreto is the Administrator of the SBA. As SBA Administrator, Mr. Barreto directs the delivery of financial and business development programs to America's entrepreneurs. With a portfolio of direct and guaranteed business loans and disaster loans worth more than $45 billion, the SBA is the Nation's largest single financial backer of small business. Mr. Barreto has a long history in the corporate sector and the small business community and has distinguished himself as a passionate advocate for small businesses. Mr. Barreto is past Chairman of the Board for the Latin Business Association in Los Angeles and served as Vice Chairman of the Board for the U.S. Hispanic Chamber of Commerce.

Thomas M. Sullivan is the Chief Counsel for the Office of Advocacy for the SBA. Mr. Sullivan is charged with independently advancing the views, concerns, and interests of small business before Congress, the White House, Federal regulatory bodies, and state policy makers. Congress created the Office of Advocacy in 1976 to serve as the watchdog for small business within the Federal Government. Last year the office helped save America's small businesses over $21 billion in money they would have spent attempting to comply with Federal regulations. Mr. Sullivan's dedication to small business can be traced to his previous work experience, most recently as the Executive Director of the National Federation of Independent Business (NFIB) Legal Foundation, which provides guidance on legal issues to small businesses and promotes a pro-small-business agenda in the Nation's courts.

Carroll Fisher is the elected Insurance Commissioner for the state of Oklahoma. The mission of the Oklahoma Insurance Department is to serve and protect the insurance-buying public and to enforce the state's insurance laws and regulations impartially and expeditiously. Commissioner Fisher has nearly 40 years in the insurance industry. Prior to his election in 1998, he owned Carroll

Fisher Insurance in Tulsa. As a civic leader, he understands the vital role insurance plays in the Oklahoma's growing economy. Mr. Fisher served as President of the National Association of Health Underwriters and President of the Oklahoma State Association of Health Underwriters.

Elaine Chao is the Secretary of the U.S. DOL. Since her confirmation by the U.S. Senate on January 29, 2001, she has been dedicated to carrying out the DOL's mission of inspiring and protecting the hardworking people of America. She is respected as an effective and articulate champion of the Nation's contemporary workforce, acting quickly to focus the Labor Department on the modern realities of workers' lives. Secretary Chao's previous Government career includes serving as the Deputy Secretary at the U.S. Department of Transportation, Chairman of the Federal Maritime Commission, Deputy Maritime Administrator in the U.S. Department of Transportation, and Director of the U.S. Peace Corps. She brings a wealth of business experience to her current post, having worked as Vice President of Syndications at BankAmerica Capital Markets Group and a banker with Citicorp. Prior to her nomination as Secretary, she expanded her study of policy as a Distinguished Fellow at The Heritage Foundation, a Washington-based public policy research and educational institute. She was selected as a White House Fellow in 1983.

Sheila Brooks is a past National Board member of the National Association of Women Business Owners (NAWBO). NAWBO is the premier women's business membership organization in the United States and has long been active in advocating for women's business issues at national, state and local levels. NAWBO's mission is to strengthen the wealth-creating capacity of their members; to promote economic development; to create innovative and effective changes in the business culture; to build strategic alliances, coalitions, and affiliations; and to transform public policy and influence opinion makers. Ms. Brooks is the Founder, President, and CEO of SRB Production Inc., an award-winning, full-service television and video production and media consulting firm and post-production facility in Washington, D.C. Ms. Brooks has worked tirelessly to champion advocacy efforts on behalf of minority and women business owners She spends a tremendous amount of time on Capitol Hill meeting with legislators regularly to discuss how women entrepreneurs can procure more contracting opportunities in the Federal Government, and presenting testimony before the U.S. Congress.

Donald Manzullo was elected to the U.S. House of Representatives in 1992, representing his district in Illinois. On January 8, 2003, Representative Manzullo was reappointed Chairman of the House Committee on Small Business, which oversees SBA and a broad range of issues that matter to small businesses with fewer than 500 employees. First appointed Chairman of one of the House's 17 standing committees in 2001, Mr. Manzullo has held numerous committee hearings and drafted several pieces of legislation to increase business opportunities and create new jobs for small businesses in northern Illinois and throughout the Nation. He led the charge against unnecessary Federal

regulations that stifle job growth, and he pushed the Department of Defense and other Federal agencies to do more business with small businesses in America.

Karen Kerrigan is the President and CEO of Women Entrepreneurs Inc. (WE Inc.). WE Inc. is a nonpartisan business association that works to improve and enhance the economic climate for women's entrepreneurship. By advocating for policy solutions that encourage business ownership by women, and providing information and resources to entrepreneurs at all stages of their business development, WE Inc. aims to increase economic opportunity and financial security for those seeking the risky but rewarding path of entrepreneurship. As a well-known small business advocate, Ms. Kerrigan has developed important relationships with key individuals in media, government, and the private sector that have led to substantive reforms and initiatives to help America's entrepreneurial sector. Ms. Kerrigan founded the Small Business Survival Committee (SBSC) in 1994, a prominent and respected small business advocacy organization with more than 70,000 members nationwide. She now serves as the group's Chairman.

Terry Neese is the President of Women Impacting Public Policy (WIPP). WIPP is a national bipartisan public policy organization advocating for women in businesses. WIPP represents on Capitol Hill and to the Administration more than 425,000 women business owners and women in business. Ms. Neese founded Terry Neese Personnel Services, which celebrated 25 years in business in July 2000. With five companies anchored in the personnel industry, her revenues exceed $10 million. One of her companies, GrassRoots Impact, a corporate and public policy strategies firm with rapid response surveying capabilities, represents a number of business organizations and corporations including the National Business Association (NBA) on Capitol Hill. GrassRoots Impact's clients include American Express, Intuit, IBM and many other top global corporations.

Kate Sullivan is the Director of Health Care Policy for the U.S. Chamber of Commerce. This national institution represents the unified interests of U.S. business as a central organization in touch with associations and chambers of commerce throughout the country. Over the course of the past 90 years, the Chamber has grown from an initial membership of 878 to more than 3 million businesses, nearly 3,000 state and local chambers, 830 associations, and over 90 American Chambers of Commerce abroad. Prior to joining the Chamber, Ms. Sullivan was with a non-profit multiprovider health system in Chicago, where she was the Director of Government Programs and was responsible for finance and planning for the system's Medicare and Medicaid clientele. Ms. Sullivan also served in various advisory and legislative positions for several Congressional members and for the Illinois Governor, Jim Edgar.

Greg Scandlen is the Director of the Galen Institute's Center for Consumer Driven Health Care. The Galen Institute is a not-for-profit nonpartisan research organization founded in 1995 and devoted exclusively to health policy. It is noted for developing innovative ideas. The Center for Consumer Driven Health Care focuses on issues such as the expansion of MSAs, defined contribution health benefits including health reimbursement arrangements, rollover of flexible

spending accounts, tax credits for the uninsured, direct-to-consumer advertising, individual market reform, and the importance of information and choice in value purchasing by consumers. Mr. Scandlen was most recently a Senior Fellow in health policy at the Dallas-based National Center for Policy Analysis and was previously with the Cato Institute. He was Founder and President of the Health Benefits Group, a consulting firm; Founder and Executive Director of the Council for Affordable Health Insurance, a trade association of insurance companies; and Director of State Research at the Blue Cross Blue Shield Association.

Kristie L. Darien is the Director of Government Affairs for the National Association for the Self-Employed. Ms. Darien directs the NASE's legislative affairs program in their DC Office. She works closely with the Nation's legislators, the Bush Administration, and other small business advocacy organizations to ensure that the legislative priorities of the NASE and micro businesses at large remain a priority in Congress. Darien also heads the team that manages the NASE's grassroots program, which mobilizes NASE members to actively participate in protecting the interests of the self-employed. Taking advantage of the NASE Web site, Ms. Darien utilizes technology to create an effective grassroots program that bridges the gaps between the NASE membership and the U.S. Congress and Administration. Prior to the NASE, Ms. Darien served as Government Affairs Manager for National Small Business United, where she was responsible for monitoring and lobbying on the various small business issues.

Merrill Matthews, Jr. is the Director of the Council for Affordable Health Insurance. The Council for Affordable Health Insurance is a research and advocacy association of insurance carriers active in individual, small group, MSA, and senior markets. The Council's membership includes insurance companies, small businesses, providers, non-profit associations, actuaries, insurance brokers and individuals. Since 1992, the Council has been an active advocate for market-oriented solutions to the problems in America's health care system. Dr. Matthews is a public policy analyst specializing in health care, Social Security, welfare and Internet issues, and is the author of numerous studies in health policy, as well as other public policy issues. He is a visiting scholar with the Dallas-based Institute for Policy Innovation and past President of the Health Economics Roundtable for the National Association for Business Economics, the largest trade association of business economists. He is also a health policy advisor to the American Legislative Exchange Council, a bipartisan association of state legislators.

Jessie Howe Brairton is the Legislative Director on Health Care for the National Federation of Independent Business (NFIB). NFIB is the largest advocacy organization representing small and independent businesses in Washington, DC, and all 50 states. In her capacity at NFIB, Ms. Brairton focuses on health care and technology policy. Prior to joining NFIB, Ms. Brairton worked as a Legislative Correspondent for the U.S. Senate's Special Committee on Aging and as a Legislative Assistant for Representative Lamar Smith. She was involved in advising the congressman on legislation and developments with regard to Medicare, Social Security, health care, seniors, tax, budget, education, and small business.

VERBATIM TRANSCRIPT

OF

NWBC ROUNDTABLE PROCEEDINGS ROUNDTABLE DISCUSSION ON AFFORDABLE HEALTH CARE

Sponsored by the National Women's Business Council
At the
Cannon House Office Building – Room 311
Washington, DC

February 27, 2003

Westover Consultants, Inc.
8630 Fenton Street, Suite 724
Silver Spring, MD 20910

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P R O C E E D I N G S

WELCOME AND OPENING REMARKS

by Marilyn Carlson Nelson, NWBC Chair

(9:35 a.m.)

MS. NELSON: Welcome Everyone. I want to welcome you all and thank you for taking time to attend and join us in a very important roundtable discussion. I think your attendance here today actually indicates that you already appreciate the issues surrounding the need to provide affordable health care, or indeed access to health care, to the employees of small business. This is a very important issue that is facing women-owned businesses as well as small businesses across our country. It is estimated that 60 percent of the 41 million uninsured Americans reside in families employed by the 9.1 million women-owned firms in the United States of America.

This is an issue not only for the families and employees of the small businesses and the women-owned firms. In a sense this is an issue for the nation at-large because the transfer costs from the uninsured are impacting the rising cost of health care for the large, corporate employee-bases across the country. Women-owned businesses are a vital and significant part of the American economy. We are starting businesses at two-times the national average. Indeed African-American women are even starting businesses at four-times the

national average. We currently account for 38 percent of businesses in the United States and we employ 27.5 million workers and generate $3.6 trillion dollars in revenue.

Yet, now more than ever, women-owned businesses are facing a crisis that is posed by the rising cost of health care coverage. When we say women-owned businesses and small businesses, we typically are referring to businesses with around 500 employees or less, but indeed this is an issue that faces businesses of all sizes as you are going to hear as we proceed with this morning's roundtable. The National Women's Business Council is hosting this roundtable discussion. The Women's Business Council is a bi-partisan group that was created as an independent source of advice and council to the President, Congress and the U.S. Small Business Administration.

We focus on economic issues of importance to women business owners. The Council's mission is to provide bold initiatives and policies and programs designed to support women's business enterprises at all stages of development in the public and private sector marketplace. We like to think of it from start-up to success to significance, and I believe as you listen to our panelists this morning you will recognize that these women represent businesses in each piece of that particular continuum. Now our mission today is to make sure that we add the women business-owners voices on the important

issues of how to best solve the problems of affordable health care for small business across this country.

I should introduce myself; my name is Marilyn Carlson Nelson. I am delighted to be serving as the Chair of the National Women's Business Council. President Bush appointed me to this role in May of 2002, to serve a three-year term. I am also the Chairman and CEO of a not so small woman-owned business; it is Carlson Companies. We actually are a global organization and we will celebrate our 65th birthday this next Sunday, with a global group of executives who are getting together to actually make our plans for the coming year. Our company has several brands, we consider ourselves a family of families; Regent International Hotels, Radisson Hotels and Resorts, Country Inns and Suites, Radisson Seven Seas Cruise Line, TGI Fridays Restaurants and Carlson Wagonlit Travel.

As a private company, one of the ways that we have chosen to grow is to work with entrepreneurs around the world because several of our brands have franchisees. Not only did my father start the company with a borrowed $50 but he faced many of the issues that the women at this table face. The entrepreneurs who come to us because of the issues around the access to capital, the need to collectively do their purchasing and to deal with suppliers and to share information and data and to get access to even more capital, are the

issues that drive entrepreneurs to come and join us in our franchise network. So I feel particularly close not only to the issues but also to the people and to the families that are impacted.

We have asked a variety of panelists to speak to you today on this subject. Each of them has been selected because of their own personal experience as a business owner. Some of them will speak to you as leaders of National Women's Business Organizations, which represent many hundreds of thousands of women-owned businesses, and some will speak to you as representatives of an association or an organization that is seeking to identify and help us to develop viable solutions. We also have several Congressional leaders and members of the Administration who will join us throughout the morning to discuss their interest in activities involved in this issue. We are pleased that many of the invited speakers have joined us today.

I think some of you may hold me responsible for bringing a little Minnesota weather to Washington, but needless to say I wouldn't have done that purposely because it has also made the travel difficult for some of those who were to join us. So if I can beg your indulgence that some people will be joining us throughout the morning, and it is very possible that some will not be able to actually get here in time for our presentations. But we have a wonderful

representation and we will move through the morning and we will welcome them as they are able to come. Our intention here today is to have an open discussion on the concerns about providing affordable health care insurance to employees, as well as having the opportunities to explore several solutions that are being proposed. The solutions that we will be exploring are Association Health Plans, medical savings, accounts and tax credits among others.

The National Women's Business Council has prepared a brief summary which you will find on the table if you haven't already discovered it. I found that it is a very good issue-in-brief document that will give you a kind of placing of these issues and certainly will also, because it has references in the back, allow you to reference lengthier documentation and discussion of the various proposals. I should let you know, because you will also find a press release that the National Women's Business Council has actually stated our position, which is a position in support of Association Health Plan proposals. This is not to the exclusion of the other opportunities but certainly as a viable way to address this very very serious issue.

In addition, you will find an agenda and a brief biography of the women and the gentlemen who are presenting here this morning. The time that is allocated for each speaker is a not sufficiently prolonged discussion on each

subject, what we are going to do is ask each of them to document in writing their presentation so that we can actually collect the experiences and include them in a transcript of today's proceedings, and that transcript will include perhaps a fuller account of the experience that these people have come to present. The combined transcript is then going to be published by the National Women's Business Council and distributed broadly by the Women's Business, Health Care and Public Policy Committees, and of course to any press who are interested. We anticipate that there will be an opportunity to address any questions that you might have from the audience, and we will take our roundtable and organize in several clusters of presentations and then we will open it for the floor and invite you to step to the microphone.

There aren't going to be any formal breaks as we have a long agenda this morning, so feel comfortable to step out if you have to to take a call and we will welcome you back. To keep all the speakers on schedule I have asked Jill Baker, who is a member of the NWBC staff, to indicate to us as speakers when there are two minutes remaining, and then she will hold up another card to let you know it is time to complete your remarks. I think we have covered all of the opening comments except that I would like to tell you that we are expecting at some point during the morning, we hope that Senator Olympia Snowe will be able to join us. She has been a

strong supporter of Association Health Plans and perhaps were she here at this point in the meeting she would have defined Association Health Plans for you. So let me explain that an Association Health Plan, or AHP, would allow trade and professional associations to band together across state lines to purchase health insurance coverage for their members.

In this way, small businesses that belong to these organizations would actually enjoy the same pooling effect that larger employers enjoy, enabling them to offer health care coverage at lower rates and indeed to have lower rates on the administration of those health care costs as well. We are very appreciative of the fact that Senator Snowe, along with Labor Secretary Elaine Chao and of course the Administrator of the SBA, Hector Barreto, have all been parties to the Small Business Health Fairness Act H.R. 660, which was introduced February 11th with more than 70 co-sponsors and strong bi-partisan support. We will welcome Senator Snowe at any time that she is able to step into our discussion and I will have an opportunity to meet her later in the day so that I can share personally, if she is unable to attend, some of the stories that we hear this morning. What I would like to do now is begin the presentations with the women business-owners. We have several women business-owners here before you that are going to provide us with an understanding of their personal and very real world experiences in providing affordable health

care insurance to their employees.

The businesses being represented today range from small start-up companies -- one very brand new one in California -- to larger, medium-sized businesses that are facing increasing costs and difficulties in meeting the demands of attracting and retaining employees with a competitive benefit package. Why don't we start with Rebecca Boenigk, who is a new friend and also has passionate interest in this subject. She is the Co-Founder, Chair and Chief Executive Officer of Neutral Posture, a leading provider of ergonomic solutions, high-quality, innovative products and accessories. She has been doing consulting and training since 1989. Mrs. Boenigk traveled here today from Bryan, Texas.

PRESENTATION BY REBECCA BOENIGK

Neutral Postures, Incorporated, Bryan, Texas

MRS. BOENIGK: Good morning. As Marilyn said, my company manufactures ergonomic chairs and we have been in the business since 1989. Our sales for this past year are just about $17 million dollars. I am also here from another standpoint as I am the Chair of the forum at WBENC, which is the Women Business Enterprise National Council. WBENC is the certifying agency that certifies women-owned businesses. Leslie Saunders is also on the forum at WBENC with me as well.

When my mother and I founded our company in 1989, health care was one of the major issues that we wanted to be

able to provide to our employees, and the first year it was just the two of us so it wasn't really a big deal. In 1991 though, we did start providing health care for our employees. At this point we have 80 employees, and if you consider that our sales are $17 million dollars, our health care costs for last year were $480,000. If you average that out, if my employees didn’t have health care I could pay them $3 per hour more; and for a lot of my employees, that is what they would choose to do. We just got our renewal information for this coming year and our insurance is going to increase 20 percent. Our renewal date is April 1st so our years from an insurance standpoint are a little different.

So instead of being $480,000 it will be $600,000, which equates to $4.23 an hour per employee that we are paying for health insurance. At our company the average production employee is making $9.50 an hour, about 65 percent of our employees are production employees and about 35 percent are office and executive employees, and that is a huge amount of money. A lot of our employees when they first come in say they don't want the health insurance, they just want us to pay them the money. We don't give them that option we insure every employee. We are also one of the few employers that will pay 100 percent of the employees cost, and the reason we do that is because we took a survey and 35 percent of our employees would drop out of the health insurance program if

they had to pay $10 a week, which is 25¢ an hour of their pay.

So for $10 a week they would not take the health insurance because a lot of them know that they can show up at the indigent care hospital and get taken care of and they just don't see the need to have that coverage. So we look at it from a standpoint of almost being good citizens because we are taking that burden off the taxpayers because we are paying it. If we elected to do that and we had 30-35 percent of employees drop out of the plan, it would save our company $200,000 a year because we wouldn't have to pay for the coverage for those employees. We also know that one of the main reasons that health care is increasing -- 13 percent of our increase this year is what the health insurance companies assume health care costs will increase next year, and a big part of that increase is because of the ridiculous lawsuits that get filed and the amount of money that gets paid out. So we really need some modification of the legal system and how these lawsuits affect all of us.

I think that I am done even before my two minutes is up.

MS. NELSON: Thank you so much Rebecca, you have made several really important points I think. First of all I salute you because not every business makes the choice especially these days, as we have been reading, to cover all

of their employees. It is true for any of us, especially those of us that have a large employee base of young people who consider themselves very healthy until they end up in the emergency room. As an aside I should mention that I serve on the Board of Directors of the Mayo Clinic and I have also been part of a group for many years, called the Jackson Hole Health Group, which is really a collective of individuals who have been trying to look at the American health system for 25 years. I can guarantee you that the most expensive health care is health care that has to be delivered to the emergency room. It is not preventive care, it is costly and it is absolutely a cost that has to be transferred and managed somewhere. I think that it is important that this message be communicated, that as the large employers worry about their rising health care costs they should be allies with all of you in lobbying for health care coverage for small business because rationalizing the entire system is really the only way that we are going to address this and have a healthier America and a more productive workforce.

You also mentioned that it would be almost a 50 percent increase in your labor costs for your production workers. I think that it is important for all of us that are concerned about small business and women-owned business in the bidding processes, that a fully loaded cost of business for small business with that kind of burden of health care, an

unequal ability to both deduct the health care benefits and have access to affordable health care. That situation actually contributes to what one might call an uneven playing field when we are bidding for contracts. So again the implications of this go far beyond the obvious and I think you have done a beautiful job, Mrs. Boenigk, of bringing to our attention the implications. And of course your reference to the reform of the legal system certainly is an issue of the moment and one more factor of the very complex issues around the delivery of health.

I think it would be important to note that most of us recognize that some kind of overall system re-engineering, to use a corporate term, in terms of the health system of the United States is necessary. I have been quoted before and I will reiterate, that it is unfair for those of us with insurance to tell others to wait until the entire system is fixed. It is desperately important that we address this now. May I now call on Mary Quigg. Mary is the Founder and President of Vandover, a human resource consulting firm that provides out-placement and relocation support services across the United States and the globe. I imagine that you have had more than enough work in the last few years, I think that a little bit of my travel and hospitality industry may have provided you some opportunities.

Vandover's client base consists of Fortune 500

companies including General Motors, Honeywell, Prudential Financial, Sara Lee Corporation, as well as government entities including the Social Security Administration, and small and medium-sized organizations. Ms. Quigg traveled here today from St. Louis, Missouri.

PRESENTATION BY MARY QUIGG

Vandover, St. Louis, Missouri

MS. QUIGG: Thank you. In addition to being here on behalf of my business, I am also a member of the Women Presidents Organization and I want to speak just for a minute about that group and what we have learned. We are having our annual conference in Washington and as we speak there are about 350 of our 500 members that are here, and just prior to our conference our members were polled regarding our most important issues. The first one won't surprise any of us, it was the state of the economy. The second one was the skyrocketing cost of health insurance. Our population is a little bit interesting, and some of us were talking at breakfast this morning.

Our WPO member businesses have an average of 85 employees, $11 million in annual revenues and 16 years in business. In total we represent 31,000 employees, $4 billion in annual revenue and nearly 6,000 years of business experience. Of our members nearly all of us offer health insurance and yet nearly every one of us had to remodel our

plans in recent years, and while to date no one has dropped their coverage as a result of the skyrocketing costs some of them are beginning to have to consider that, so that is certainly an issue. Personally, I have owned our business since 1985 when there were two of us, and today we have 41 employees. So we have gone through just about every variable that you can have on health insurance while you're still under 50 employees.

We added health insurance benefits for our employees in 1991, so there were six years when our ability to attract and retain employees was limited. We had to hire people who had coverage from another family member because they couldn't get it from us, it just wasn't one of the things that we could do. When we started offering coverage it was an exciting time, we could stand to get some people onboard that were important talents for us. Our benefit has always been 85 percent funded by our company and we have gone from blended rates to experience rates to gender/age-based rates, and we just went to a flat rate and I don't exactly understand it as well as others in my company. But this is just some of the remodeling that we have had to do. We had to change from a 30-day to a 90-day eligibility period, that was something we thought we could do to decrease our costs, but the end result is that we ended up having to pay some hiring bonuses to cover it from COBRA, so that didn't work.

Our increases over the last 10 years have been in excess of 125 percent in total, we have changed our deduction and we have changed our prescription coverage a little. We still have very good coverage and feel we need it in order to have access to the talent that we need within our company. Our greatest challenge right now is trying to figure out what to do with dependent coverage. How much if any of that should we or could we be sponsoring? We have offered it but it is not a paid benefit at this point.

Ninety percent of business is small business and in order to grow jobs we have to have competitive benefits. I look forward to listening to all of you and learning more here today. Thank you.

MS. NELSON: Thank you so much. Mary has raised to our attention the fact that in the early days her company went without insurance, so either her employees were without insurance and then could probably end up in the emergency room for their care, or it limited her access to talent. If we recognize that women are starting businesses at twice the rate of anyone else and that this is an engine of job-creation for the nation, I believe it is within all of our interest to move forward with plans that will allow those who would like to be employed in the high-energy small businesses, where job creation is at its most vital and the opportunities are great, to allow people to select to work in these operations. In

addition to access to talent, she referenced the complexities and once again I think that is another issue for small business. Perhaps if we had access to Association Health Care Plans so that we could pool the cost of administration, it would help with the complexity of really understanding the offerings and having much more of a sense of confidence that you have selected the right plan and the most economic plan for your organization, and I think this will come up again later in the panel. Now I would like to move to Leslie Saunders.

I would like to ask those who speak to pull the microphone really close to you and be certain that you turn it on when you speak, and then speak quite close because I think that it will help those in the back of the room. Leslie Saunders is the Founder and President of Leslie Saunders Insurance and Marketing International, a licensed insurance broker placing medical, dental, life, disability, 401K plans, property, liability and workers compensation for women business enterprise companies in all 50 states and many Fortune 500 companies. We are very fortunate to have Ms. Saunders is here to speak with us today, not only as a business owner but as an insurance provider having first-hand experience in the difficulties involved in offering affordable health plans to employers. Ms. Saunders traveled here today from Tampa Bay, Florida. Do you even own a coat?

PRESENTATION BY LESLIE SAUNDERS

Leslie Saunders Insurance and Marketing International, Tampa Bay, Florida

MS. SAUNDERS: Yes. I have two closets, my Florida closet and all other locations. I represent three different constituencies today as we talk about health care issues: consumer, business owner and insurance professional. First, as a consumer, a covered employee of my corporation and an aging baby-boomer I am concerned with access to health care. I have had all of the bone scans, colonoscopies and everything else that goes with the territory.

My husband has a chronic, debilitating disease rheumatoid arthritis, and we are concerned with access and choice more than cost. We know the importance of being able to chose specialists and try new treatments as they become available. Secondly, I am the owner of a small business by virtue of the number of employees I have. We have a national clientele and some of my employees live in states other than Florida. Access to health plans that covers all of my employees is nearly impossible.

We are based in Florida and we have many mandated benefits in Florida and age-based rates for small groups. My employees are older and there is good news and bad news in this. We have something in the mandated benefits side called mini-COBRA, which means that if someone leaves my employ or

anyone else's in Florida they can continue their coverage for small businesses much in the same way as the Federal COBRA law works. The bad news is that the average employee rates are higher than in most states because of the legal climate and mandated benefits. Employee rates are around $400 a month for a good plan for employees 35 and under, with older employees 50 and above costing $700 per month and more.

The average family coverage for one of our groups in Broward County that just renewed is $800 per employee and $1500 per family. Increases are typically 20 percent per year or more and some have been 35 percent. Is it any surprise that fewer than 60 percent of employers of small business provide any type of health insurance plans for their employees? Sometimes it is a choice between dropping health insurance or closing the doors. Of course by pooling small businesses and providing access across state lines through Association Plans, costs would be lower for most employers with small companies.

Competition among providers would increase because of the size and demographics of the large association groups. Relief from state mandates and Tort Reform would continue to lower costs. In many states there are now only two or three companies willing to offer plans; choices are limited and prices are high. Employers in small companies are forced to offer a one-size-fits-all when in fact what I want as the

owner may be very different from what my employees want. Their situations vary by marital status, age and whether or not they have children.

My third role is as insurance broker. I have been designing and implementing all size employee benefit plans since 1973. My first client was with me from 1973 until last year when their son sold the business and they saw many changes through the 29 years. The total monthly premium in 1973 for 10 employees, some with families, was less than one family's rate in 2002. In support of affordable health plans let me share some information about some of my own clients.

The first is a company with a large number of young employees, a very diverse workforce and many large families. We have a self-funded medical plan with 79 employees, 33 of whom have families. We have strong networks, we have a good discounting system for claims and some of the discounts are as much as 60 percent. Ninety-six percent of all claims are under $1,000 and prescription use represents only 12 percent of claim dollars. While there are increases they are below the national average for small plans, and this is because we can cross state lines, we can access national networks and we have access to pool with other groups around the country. This is how Association Plans would function.

My largest group, which is a multi-state restaurant company operating in airports, whose majority share-holder is

a woman -- and Marilyn, they are operating TGI Fridays -- many of their employees, of the 1,400, make between $6 and $8 an hour. Last year when we looked at the plan we had very poor participation and many of the people were selecting to be uninsured because they could not afford their cost-share; we were not making access that they could afford. We changed the mix of the plans and we now offer what we call affordable health plans, and this may not be what everyone wants but we made it affordable and we offer them lower medical limits and to date we have increased the participation and have spread the risk well among the members. This is the type of thing that has to happen for Association Plans and small employers so that we can offer choice and continue to build the number of insured employees. Thank you very much.

MS. NELSON: Thank you Leslie. You bring some very interesting points and I think you have expanded our discussion to an understanding of the fact that by adopting an AHP which would allow the pooling across state lines, it would simplify and make much more efficient and effective the ability to offer at the lower price and to pool the interests. I think she has also called attention to the fact that of all the interests that, whether it is an employer or a consumer, the opportunity to have choice and to have competition is really important to the efficiency of the system and the satisfaction of today's consumer. Now I would like to move to

Valerie Freeman, who is the Founder and Chair of Imprimis. I think Valerie may not have arrived yet. I think she is a victim of the snow in Dallas.

Perhaps we should go on to Deborah Harrington, who is the Founder, President and Chief Executive Officer of Harrington Capital Advisors. It is an investment management firm, catering to high net-worth individuals, corporations and not-for-profit organizations. Harrington Capital Advisors provides investment management services through individually managed accounts on a discretionary basis. Ms. Harrington traveled here today from Newport Beach, California.

PRESENTATION BY DEBORAH HARRINGTON

Harrington Capital Advisors, Newport Beach, California

MS. HARRINGTON: Thank you Marilyn. Good morning, I am very proud and appreciative to be here and I thank the National Women's Business Council and specifically Lindi Harvey for extending the invitation to me. I am very interested in this dialogue that we are going to have this morning and continue to discuss the solutions that are available to us. This is a very time-sensitive topic for myself and for my firm. As Marilyn mentioned briefly, I am a new firm, we just opened our doors in the fall of last year and we have over $25 million dollars under management and close to $50 million shortly.

So we are very proud of our beginnings but we are

also at a distinct disadvantage like so many have mentioned here, because we aren't able to afford to give our new employees any sort of affordable health care benefits. I am just going to briefly give a little bit more to my bio. Harrington Capital Advisors as she mentioned, is a privately held firm. We manage investment assets for high net-worth individuals, corporations and not-for-profit organizations. Our firm provides these investment management services on a fully discretionary basis. After spending 20+ years in the investment management industry respectively, my husband and I founded the firm to provide our clients with an exclusive environment in which they feel they are our only clients. Harrington Capital Advisors is a firm we dreamed about starting since the first days of our careers when we entered the financial service industry.

Certainly one would expect the normal challenges of starting a company: the telephone service delays, the printing errors found on the stationary, the minor things. Never but never would I have anticipated that finding adequate health insurance would be a formidable challenge for our start-up firm. As we went through the process of obtaining the health care benefits for our firm, principally my husband and I, we quickly discovered that the health care costs are quite a significant factor influencing our bottom line, currently representing over ten percent of our cost overhead. We now

find ourselves in an unfortunate situation, we have to pay a small fortune in insurance premiums for a plan that provides us with less in comprehensive benefits than what we would have been accustomed to when we were employed with a large, publicly held company. It is simply thievery.

More ever I am less in complement we did the proper due diligence and cost-basis analysis that we should have because we were pressured into making a decision. Otherwise we would have been without health care coverage. Although I have an extensive knowledge of the financial markets and investment management industry, my lack of familiarity for the terminology and the procedure requirements of insurance companies leaves me at a distinct disadvantage to evaluate various insurance products and to ensure that we are making the right decision as a small business owner. From my perspective the health care industry intently tries to keep the consumers in the dark. How else would they be able to charge more in premiums for less in benefit coverage? On that note, I welcome the opportunity this morning's venue offers us to discuss the critical issues surrounding this topic and to hear how the proposed new Legislation can offer assistance to me and other small business owners without sacrificing health care coverage.

MS. NELSON: Thank you Deborah. You certainly made it clear that for a small start-up, though obviously one on a

very successful track, that ten percent of overall costs for health care is a dramatic piece of information for us. You have also referenced the fact that we would all appreciate more transparency in those costs and I think we could probably universally add quality in medical care, and that over time these issues are going to have to be addressed in addition to access and affordability. Now we are going to end this first section of this morning's roundtable by introducing Leeanna Fournier, who is President of Providence Pediatric Medical Daycare. It is daycare services for eligible children between birth and five years of age.

The programs actually provide health, education and therapeutic requirements for children with special nursing needs. The daycare centers are staffed by Licensed Pediatric Registered Nurses (LPNs), Nurses Aides, Certified Early Childhood Education Teachers and Teachers Aides. Ms. Fournier traveled here today from Marlton, New Jersey.

PRESENTATION BY LEEANNA FOURNIER

Providence Pediatric Medical Daycare

Marlton, New Jersey

MS. FOURNIER: Hello, I am Leeanna Roman Fournier, and I build bridges. I am the President of GAAP, an insurance initiative specifically constructed to provide an affordable solution to the escalating costs of health care insurance. I am a Hispanic female business owner who has successfully

developed two multi-million dollar companies in the last five years. I am the President and CEO of Providence Pediatric Medical Daycares, Incorporated, which provides medically fragile children with education and nursing care on a daily basis; my business is health care. I sit before you today to add real-life data to your investigation and my testimony will satisfy many levels of inquiry.

I come today not only to tell you how difficult it is to remain a viable company and expand while at the same time providing affordable, quality health insurance to all of my employees, but also to disclose to you the cure to this plague on our country. I am an entrepreneur, I am the Founding member of WIPP (Women Impacting Public Policy), which is 430,000 members strong, and I am the President of HIPP (Hispanics Influencing Public Policy) and I don't sleep. I am committed to providing more than just a paycheck to my employees. I am committed to providing quality health care insurance, therefore I pay 80 percent of my employees' health care premiums. I now know that I cannot continue to do so without jeopardizing my company's financial health.

I need to hire more staff but I cannot afford to pay the health care insurance that each would justly require. I am at a crossroads like so many of my business colleagues, but instead of taking the road I am crossing a bridge. Small businesses employ the greatest number of Americans, yet such

businesses are being crippled by huge health insurance premiums. I think that you will agree with me that there is an overwhelming need in this country to provide affordable health care insurance. I would like to take this opportunity to present a solution to this crisis: GAAP (Government Assisted Alternative Program).

GAAP is an improved version of Associated Health Plans. GAAP perfects the system by leveraging State and Federal Government employee health insurance plans to obtain lower, more affordable health insurance for association members participating in the program. We have presented this plan to the New Jersey Business and Industry Association, which represents over 17,000 business owners; to WIPP, with 430,000 members strong; to the members of HIPP, a national organization of Hispanics; to the New Jersey State Treasury Department; and our representatives have several more meetings scheduled in the near future. Senator Ted Kennedy called for a change in our nation's health care system on January 21st at the National Press Club. He suggested that the Federal employees health benefit program be open to all individuals and small employers seeking coverage; sounds familiar.

GAAP is an idea that had been in development for a long time and has a patent. Although the leveraging concept is simple putting it together took significant research. As a business owner I feel the time is now to develop a solution to

what is a crisis for my bottom line and my ability to remain in business for my employees. We want to partner with this Administration to make GAAP fully operational in our pilot states within the next two years and it is possible. Thank you for giving me the opportunity to discuss this innovative solution for affordable health care costs today.

MS. NELSON: Thank you. Rather than having a discussion at this point I would like to move on to introduce Hector Barreto, who has joined us. We are delighted to have the Administrator of the Small Business Administration (SBA) here. I know that his colleague Tom Sullivan, the Chief Council for the Office of Advocacy for Small Business Administration has been with us since we began. Because of the SBA's deep concern of this issue, Tom wanted to join us early and be certain that he had an opportunity to hear first-hand and to look into the eyes of those who were presenting as well as experiencing the transcript.

Administrator Barreto, I think that you would only find that some of your convictions were strengthened if you had heard what we have heard so far. Certainly we have heard dramatic testimony about the need for access to care and the need for affordability to care, but we have heard some of the more subtle impacts both on the viability of small businesses but also the access to talent, which in its own way is another way of creating an uneven playing field if indeed our small

businesses are only able to hire those who have either family health care or alternative options for health care. We also have discussed the fact that AHPs offer us an opportunity to pool across state lines to improve the costs of administration for small business and to simplify the system and hopefully we have also heard a plea for more transparency in both the allocation of cost of health care as well as ultimately accessibility and quality.

Administrator Barreto directs the delivery of financial and business development programs to America's entrepreneurs, and any of you who know him know that he is not only an entrepreneur himself but that it comes in his DNA because his parents were entrepreneurs. The SBA has a portfolio now of direct and guaranteed business loans and disaster loans that is worth more than $45 billion dollars. SBA is the nation's largest single financial backer of small business. The Small Business Administration has announced their support for the Association Health Plan proposal.

PRESENTATION BY HECTOR BARRETO

Administrator, U.S. Small Business Administration

MR. BARRETO: Thank you Madam Chair, and thank you very much for allowing me the opportunity to be here. I also want to commend you for putting this hearing together, I think this is very very important and I am very glad to play a part in it. By looking around the room and seeing the individuals

that are represented around this dais, I know that there is a lot of expertise, a lot of knowledge and a lot of experience and wisdom, so I am not sure how much I will be able to add to the conversation but I would like to state some of the things that we have learned from the very beginning of our Administration with regards to this issue, both from a government role but also in a very personal way and I will explain that. We know that this issue about providing quality health care for small businesses is really a growing issue and this conversation that we are having is not necessarily a new conversation, there have been plans and initiatives that have been proposed over the years but probably no time has it been more important for us to really take action and I really hope that what comes from our conversation today is a real call to action and a real specific action plan, if you will, so that we can make sure that we finally take care of this very very serious problem. Obviously one of the key issues for small businesses, especially now in these challenging times, is their rising costs, and probably no area is rising more quickly than their health care costs.

Many of the people in this room know that when a small business is receiving double-digit increases in their health insurance premiums it is devastating. Those are not costs that can be passed back on to the customers, and often times small businesses that were providing benefits have to

cease providing benefits all together because of what they are experiencing in the marketplace. Sometimes it was never an option whatsoever. It is not any accident or surprise that the majority of individuals that are uninsured or under-insured work for small businesses, and obviously it has been stated many times that the fastest growing segment in our economy are the small businesses. Small businesses create the most jobs, somewhere between 2/3 to 3/4 of all the new jobs, they represent over 50 percent of the workforce and so this is really a critical problem.

You mentioned something just a moment ago that is very important, small businesses often times tell us that one of their biggest challenges is identifying and keeping qualified people in their businesses. Often times when they are interviewing or somebody is considering employment, before they even ask about what the job pays they ask about the benefit package. And if you don't have a good answer often times that qualified, talented individual is going to find either somebody else that can provide them benefits or find some other type of work outside of a small business. So this is very very important not only for the present but also for the future sustainability of those small businesses. Without prompt action, this crisis is only going to continue to grow.

This is a very urgent situation and there is an incredible opportunity for us to do something now. It is one

of the reasons that President Bush presented last year, in his Small Business Agenda, this whole issue of access to affordable health care for small businesses, especially in the context of an Association Health Plan. As you have mentioned Madam Chair, this is a problem that I know first hand in a very personal way. I was born into a small business family and I remember how much my parents worried about being able to even afford health insurance some 20 years ago. I have also had the opportunity to own my own small businesses and I know how difficult it is to provide benefits for your employees.

I also was an Employee Benefits Broker, so I worked with small businesses every single day with regards to their health insurance costs and other benefits. I used to always say that we always put small business in the role of giving the bad news to their employees. You know, the premiums have gone up again this year and we are going to have to minimize your benefits. The premiums went up again this year and we can't pay for your dependents. The premiums went up again this year and we are going to have to change plans and guess what, you are going to have to change you doctor.

And finally, I can't afford to pay any of your benefits or my benefits anymore. So this is really an issue that I feel in a very personal way. You also know that I used to lead a business association and we were constantly looking for solutions for our members. I wish that we would have had

an Association Health Plan for the business associations that I had an opportunity to lead. As I travel around the country and we do small business roundtables, I have done three with the President already this year and the question always comes up, what can Washington do to help small business in this area?

They are looking for any kind of a solution, and obviously when we talk to them about the opportunity to have Association Health Plans they become very encouraged. But they are also a little bit gun-shy because they may have heard this conversation before. Association Health Plans won't be the full solution to our health care crisis in the United States but it is a big first step in getting us there. As I mentioned in a previous hearing that we did with the Senate Small Business Committee and also with Secretary Chao, the SBA stands ready to play our role in helping small businesses get access to these kinds of these plans once legislation is passed and this does become law. As you know, we are known as America's small business resource, we literally have millions of small businesses that come to us every single week and we can play a very vital role in facilitating these kinds of connections and these kinds of recommendations.

Again I want to thank you so much, Madam Chair, for the opportunity to be here. I would also remind all of the individuals on the staeus and in the audience that their voice

is a very important voice especially right now, and the calls that they can make and the letters and emails that they can write will definitely be taken notice of. So I would say that we have an incredible opportunity before us and I thank you for your leadership Madam Chair and the Women's Business Council for everything that they are doing to elevate this issue in making sure that we take care of this once and for all. Thank you very much.

MS. NELSON: Thank you so much Administrator Barreto, and I think we owe you a real vote of appreciation and confidence that together we are going to accomplish great things. I think that both your background and the energy that you have brought to your role have been quite extraordinary, I think it is why we are all here and it is really why we were stimulated to actually have this roundtable. We have this sense of mounting optimism and hope that all the work of many of these people at this table and others that have gone before in trying to address these problems, is going to culminate in real action this year and we look forward to helping to make that happen. So thank you so much. Perhaps now I should call on your colleague, Tom Sullivan, who is as I mentioned, at the SBA in the Office of Advocacy, and ask Tom to continue to speak on behalf of this.

Mr. Sullivan is charged with independently advancing the views, concerns and interests of small business -- of

course that includes small, women-owned businesses -- before Congress, The White House, Federal Regulatory bodies and State Policy-makers. Congress created the Office of Advocacy in 1976, to serve as the watchdog for small business within the Federal Government. Last year the Office helped save America's small business over $21 billion dollars that they would have spent attempting to comply with Federal Regulations. So we are certainly hoping that he casts his very effective eye-on-energy on this problem.

PRESENTATION BY TOM SULLIVAN

Chief Counsel, U.S. Small Business Administration, Office of Advocacy

MR. SULLIVAN: Thank you Marilyn Carlson Nelson, and thank you Women's Business Council for inviting me to participate. I am Tom Sullivan, Chief Counsel for Advocacy at the Small Business Administration. The Office of Advocacy independently pursues a small business agenda. We pursue that agenda, really the agenda of everyone here this morning, with a team of Attorneys who enforce the requirement that government not impose one-size-fits-all rules on small business. We also pursue a small business agenda with a team of Economists and Researchers who document the importance of small business to the Economy, and that function is what brings me here this morning.

I echo but won't repeat the comments of

Administrator Barreto, and commend his leadership on this important issue this morning. Last month my office released a research study entitled, "The Administrative Costs and Actuarial Values of Small Health Plans." The study flushed-out why health care premiums are so high especially for small employers, and with Mrs. Nelson's permission I would like to submit a research summary of that for the transcript for this morning's session. Most of the report points out the obvious. Sometimes detailing the obvious can influence the debate and that is my office's intention.

Ask any small business on Main Street or any of the business owners who are here today, whether it would be more expensive for one of you to buy something or a group of people banding together, maybe you would get something less expensive. Then ask whether the process of purchasing becomes easier with a group of folks pitching in versus one person doing all the work. Basically the details of that simple analogy are explained in our report, and some of the answers are in that report as well. The administrative expenses for insurers of small health plans, according to our report, make up 25-27 percent of premiums, 33-37 percent of claims. This compares with approximately 5-11 percent of claims for large company's self-insured plans, and the report goes further.

The report cites Association Health Plans (AHPs) as a possible solution. AHPs can address the high administrative

costs documented in my office's study. I commend the Women's Business Council and other elected and representative policy leaders who are here to talk about this issue this morning. AHPs are one way to address the most pressing issue for women business-owners, access to health care. And I want to restate Administrator Barreto's plea for the folks who don't live in Washington, D.C., that when you get back home don't rest on your heels, keep on the offensive on these issues.

It is not enough that we have sessions like this and then stop. The only way to get real solutions on the table, passed into law, and then implemented is that we continue to point out the problem and possible solutions until they become law. Thank you.

MS. NELSON: Thank you. Thank you for your interest and thank you for your support and thank you for advocating on our behalf. I can assure you that those at this table are not going to stop until we all are successful. Now I would like to move to introducing to you the Insurance Commissioner from the State of Oklahoma. I think some of the issues have been certainly raised and we are deeply appreciative of the leadership and the insight that Insurance Commissioner Carroll Fisher brings to this issue.

He is really independently in many people's eyes enlightened on the subject and we are very grateful that he has traveled here. He is the elected Insurance Commissioner

for the State of Oklahoma. The mission of the Oklahoma Insurance Department is to serve and protect the insurance-buying public and to enforce the state's insurance laws and regulations impartially and expeditiously. Commissioner Fisher is on record for his support of Association Health Plans, and perhaps he would speak to that now.

PRESENTATION BY CARROLL FISHER

Insurance Commissioner, State of Oklahoma

MR. FISHER: Thank you very much Madam Chairman. I am the statewide elected official and I know it is a little bit difficult for people to understand that I love my job. I was an agent for 35 years and I served the people of Oklahoma as an agent. I guess the acronym we might use as a statement is, I feel your pain. I have been there, I have sat on your side of the desk and I have made presentations as an insurance agent.

I served as the President of the National Association of Health Underwriters and I formed the Oklahoma State Association of Health Underwriters. I have been and have had my life involved in the insurance industry and in the health insurance concerns of America, not just in Oklahoma. My point that I wanted to bring to you today and the concerns that I have for you is that today we are faced with a crisis in our health buying of insurance, and I have seen that happen over time. I am an old enough guy that I remember the days

when we were selling $20 a day health insurance plans and I have seen the increase in cost go from where they were to where they are today. You have to understand that the insurance contract is the poorest read, bestseller on the market.

We don't read our policies, we don't basically understand, we have to buy it so we buy it and we try to provide for our employees. I commend each of you for your concerns that you have about your staff, but I want to make a commitment to this Organizations today, that Carroll Fisher is your voice inside the NAIC. The National Association of Insurance Commissioners is here today at a meeting in another hotel, and we are talking about other concerns like feeding the market and some other things that are going on in our industry as terrorism and other types of coverage. I know that there was a meeting earlier and other people from the Association came and made a statement on the basis that they were representing the NAIC. Today I am not representing the NAIC, I am representing Carroll Fisher, someone who is your advocate inside the NAIC and someone who is willing to champion your cause with other insurance commissioners in the nation.

As the gentleman just said, this is not just a problem of today, this is tomorrow and life is so fast that in two days tomorrow is going to be yesterday. We can't ever

give up on the efforts that we are going to make to provide Association Health Plans. And I have concerns about Association Health Plans if they do not provide financial solvency because that is a real concern that I have. But what we have in this country is we have people going out and selling insurance on the basis that they are an association, and they have damaged the reputation of the idea of Association coverage. They have said we're an ERISA Plan and we do not have to worry about satisfying the concerns of insurance commissioners and so forth, and this has been awful because it has hurt us all.

If we can give financial solvency we can give a marketing advantage to Association Health Plans to help reduce our costs. I will be your champion to help that happen. In Oklahoma we have just passed a law and legislation that allows associations to get together with small purchasing groups in Oklahoma; get 200 together and we will have the power of 200. Arkansas has done this and we are working on that right now. Another thing that I want to mention to you that I am doing in Oklahoma and I hope this is going to work, I am trying to let the small employer have a worker's compensation alternative health insurance plan providing 24 hour coverage, so you don't have to buy worker's compensation as well as health insurance.

I think this would have a dramatic impact on the cost of health insurance, providing for an alternative benefit

for worker's compensation so that we reimburse for actual expenses and we are not involved with the attorney-involvement that we have in the worker's compensation environment. We are working on that very diligently in Oklahoma and I hope we are going to lead the nation with an idea that will help small businesses. Again, I appreciate the opportunity that you have given me to come and express my concerns for you. You have my address and my phone number, and if there is any way that I can ever be of service with your Commissioner within your state, please give me that opportunity to help you. Thank you very much.

MS. NELSON: Thank you, I think you must have been hearing some applause as we listened to you approach and your willingness to step up to helping the states to understand that whatever the residual issues are, that this is a problem that must be addressed. The number of uninsured or under-insured in this country just cannot continue so we are very very grateful not only for your testimony but your offer to help us and I am certain that we will be taking you up on that.

OPEN DISCUSSION PERIOD

I think this might be an optimal moment to stop and to open the floor for questions both from the audience and the panelists, if they have any questions of each other or of the Commissioner or Mr. Sullivan, the Counselor from the Office of

Advocacy. Are there any questions at this point?

MS. ALLEN: Susan Au Allen, United States Pan Asian American Chamber of Commerce. I wonder what type of support do we have across this country in the different states? I know that the Small Business Administration is in-favor -- we have bi-partisan support -- an announcement a couple weeks ago with Secretary Elaine Chao. I have been working for years on this because I represent over one million Asian-American business owners across the country, and many of them are just like the small business owners who have testified today have the same problem of facing increasing costs. Before this became a real national debate as it has become now, I was pushing for that for a long time but I was told that the resistance came from the state.

Tom, you are absolutely right, we have got to go to the state and agitate and create a lot of noise and kick up a lot of dust. I am just wondering if any of you can share any insight on whether the states are going to come through. Which are the problem states and where are the touch-points that we can go and put some efforts in? Thank you.

MS. NELSON: Perhaps you would like to start.

MR. FISHER: From the perspective of the Insurance Commissioner's side of it, I don't think we have a lot of support from the commissioners out there. I've got that charge representing this Organization and I hope you will

allow me to do that, to go forward trying to convince other commissioners to understand the importance of it. I bring a little bit of a different perspective to my job because I am the only insurance commissioner in the nation that has ever sold insurance, so I have an understanding of what's there. There are 11 of us that are elected and the rest are appointed. We have about 25 new commissioners coming on in this next meeting that we will be having in Atlanta at the NAIC, and we are going to be talking about people who have probably never read their own policy much less had an opportunity to understand what we are going through.

I don't know that from the commissioners' side that we have a lot but I will tell you this, that what we do have are some people out there that have damaged our reputation as the thought of association. But in Oklahoma, if I find an unethical agent, his next job is, "Do you want fries with your burger?" I will not let them go out and abuse the people of my state in an idea that they are writing an Association Plan. What we have found are some associations that have gone out there that are not bona fide associations. What we have got to do is to get Congress to define a bona fide association. What we are having are some people coming in and saying, we are the Association for the Buying Public, and there is no real association there. There is no actual soundness to the rates, to provide the promises and the benefits that they have

and there is our real concern; we need a bona fide association of small employers that want to provide good health insurance benefits for their employees.

MS. NEESE: Madam Chair, I just want to first thank the Oklahoma Insurance Commissioner for coming to Washington. He and I were in Enid, Oklahoma a few months ago doing some filming on a video and began to talk about this issue, and I told him at that time that I would be in touch. He has graciously come forward as the only insurance commissioner in the country to support this issue, and he is really opening himself up to some real anguish I am afraid, but I think he is the kind of person that can fight that off. But to be our advocate inside the Insurance Commissioners is very important. The Governors as well have not been helpful on this issue, and so as President of Women Impacting Public Policy, we believe that we need to get all of our members and all of your members that are represented here at the table to go out and talk to your Congressmen and your Senators, but you have also got to touch your insurance commissioners and you have got to touch your Governors and let them know how important this issue is to you and your employees.

You are the voters and you have the voice so I want to encourage you to do that. Right now we need to focus certainly on the House because we have passed this in the House for the last four or five years. We have not had much

traction in the Senate, so I would hope that we would all go and talk with our Senators about this issue. In particular, in terms of introducing the AHP Bill in the Senate, we need to focus on a number of Senators over there to get onboard and be co-sponsors. So I just want to again go back to the Oklahoma Insurance Commissioner and thank him for coming, and I guess he got our of Oklahoma okay. I know they were getting walloped with ice and snow yesterday. I thank him very much and I hope he is ready for the heat.

MR. FISHER: Terry, thank you very much, I will be either famous or infamous after this is over but I have made up my mind. I operated under rigid flexibility and I do have the opportunity to say I am for this, I support it and I will stand proud and tall. Sometimes at the NAIC I feel like I am standing alone in Tiananmen Square because I am the only guy willing to stand up in front of the tank and not let it run over us. But I will take that charge and I will take that stand, and I will guarantee you that I will make sure this Organization is represented well at the National Association of Insurance Commissioners and I will do it proudly.

MS. NELSON: Thank you.

MR. SULLIVAN: Marilyn, actually I feel like a leaf between two Oklahoma roses, which is very nice. I want to actually empower Susan because she raised an interesting point and that is, what happens after right now? We all know

certainly that there is some vigilance required in pursuing this. We also might be worried about where we get our information. Do we wait until the transcripts are available? I have some insight in how everyone can access that information.

First, as we all know, nothing will ever replace the stories and the experience from the small business owners who are here and are all over the country. But when it comes to rebutting some of the different information, we don't always have Mr. Fisher on speed dial but we do have access to the web and there is a very good source of information on www.AHPsNOW.com. What you will find there is a very well-researched information, questions/answers that will help arm each of you when you are approaching your Governors and your Insurance Commissioners and I urge folks to do that type of education so that we do read the policies before we try to enact them and I think that should be helpful to what we are all reaching out to do.

MS. NELSON: I think that is excellent and I think that before the days is done we will hear of a couple of other websites as well, but the AHPsNOW.com is an excellent source of information on this and what we need is updated information so that we can deal with fact with each of the constituents and stakeholder groups that Mrs. Neese has mentioned. I think that it is an interesting time, Commissioner, that because the

crisis that so many states have found themselves in, certainly being a Minnesotan we have one of the largest deficits facing us of any of the states, which is an uncomfortable position for us, we have balanced our budget traditionally. At the same time I think that it won't fall on deaf ears, and perhaps we'll have a new source of support in the larger business community, because the business partnerships and business roundtables around the country are beginning to understand the transfer cost issue. As was mentioned earlier I believe before you arrived, the discussion of the number of uninsured employees who find themselves at emergency rooms getting the most expensive care, which ultimately is transferred to those who are paying for care. I think that is no longer a subtle connection but that as corporations are having their insurance rates increase at I think the average is somewhere from 12-14 percent but some states are a lot higher than that, that they are looking for causes.

Again, with the lack of transparency it is not always quite clear but looking for cause which lead them back to both the uninsured and in some instances to aspects of Medicare. If we can be of any help, if we could collectively put together a panel for you at any point that could help you to sort of amplify your voice or help you to strategize in terms of ways to speak to this issue with a representative

group from a lot of states that could help connect in the minds of the commissioners and I think the Governors as well, the economic vitality of the state. If states don't have new jobs they end up losing their constituents or with higher costs, and we cannot as business owners create jobs unless we can afford to hire the employees that it takes to grow our businesses.

MS. HOWELL: I am Julie Howell, I am a Robert Wood Johnson Health Policy Fellow this year on the staff of Senator Kerry. I just wanted to raise kind of the alternative perspective to the Insurance Commissioner from Oklahoma. The reason that the NAIC is concerned about AHPs is because of some of the negative consequences that can be associated with these kinds of plans. In hearings before the Small Business Committee two weeks ago, we had Commissioner Sandy Prager from Kansas, also a Commissioner and representing NAIC, and she was able to articulate some of those concerns. I think the thing that is important for all of us to appreciate is the issues of the uninsured and of the contribution that small businesses can make to that is something that is really appreciated across the aisle.

The concern is that we not make things worse with a solution, and that is why there is opposition to AHPs as they are currently proposed by the Administration and in H.R. 660. I think it is really important for a group like this also to

look at those negative consequences. In your own issue brief right here, which is really excellent, on the very last page I think actually there are some lines got left out from the bottom of the third page onto the fourth page, and my expectation is that you are talking about high-risk pools at the very end of this. The note is made that currently 30 states have enacted legislations establishing high-risk pools, and that states with well-functioning high-risk pools have virtually solved the problem of health insurance access for their medically uninsurable residents. It is those 30 states who are really worried about what AHPs will do to the risk pool, because if you pull out those people who are young and healthy into a plan that is offered nationally, with all the benefits of ERISA, that is great for those people.

The problem is that the people who get left in the risk pool back in the states without that young population are going to be paying even higher rates and will be forced out of insurance potentially. And it is that issue of what are we doing collectively as opposed to what we are doing individually that has many of us concerned. So I hope that this group will also listen to some of the concerns about AHP and appreciate why it is that there is opposition as it is currently proposed and some effort at least to change the way the legislation would be written or to offer some alternative solutions. Thank you.

MS. NELSON: Thank you.

MS. SAUNDERS: I would like to add some commentary to this also. As an insurance broker, like Carol, I can promise you that in my state of Florida there are probably a lot of brokers who are opposed to this as well. Anyone can market themselves now as an Association Plan when they really are multiple employer welfare associations and they might or might not have some re-insurance offshore, anyone can go out and start collecting premiums because they are not going to start paying claims right away. So the money starts to come in before the money starts to go out and the problem arises when in fact there are claims that have to be paid that are greater than what they have taken in and under the present scenarios they sort of fold and go away and leave everybody holding the proverbial bag. So that is part of the problem, and the other things is that as a person who has to deal with all of the different insurance commissioners for non-resident licenses, they are very territorial. They don't want to give up non-resident license fees and they don't want to give up premium taxes, and in an era of deficits states make a lot of money on these things.

So while there are many things that have to be looked at to form these purchasing groups or associations, there is going to have to be a lot of care and concern that goes into this. We still can have a program that works. I

have concerns about using the word *affordable* rather than *accessible* because I'm not sure what affordable means to everybody and health insurance still involves collecting enough money to pay claims and to pay access to discount networks and a lot of other things. There are costs and components that go into this. There's re-insurance for catastrophic losses, there's pooling charges and there are lots of other things.

If everyone's expectation is that all of a sudden a $400 premium is going to be $150 but you are going to get everything that you are getting now, that is not the case. Because if you look at premiums for groups with over 1,000 employees, yes they have more choice and yes they have more benefits. Are they saving 75 percent of what a small company is saving? No they are not, but what they are doing is they are a big enough buying group to attract more competition and more companies. And we should look at what the Federal employees have, they have a great Association.

The Heritage Foundation has wonderful research and position papers that you can access on their website and see what they are talking about in plans like the Federal employee plan, but I don't know that everyone would consider those necessarily *affordable*. They are affordable but they are more accessible and I think we have to start talking about *accessible* because I am not sure what affordable means to me

and what affordable means to everyone else. There is a way of doing it but we really have to deal with the territorial issue among the Insurance Commissioner group and the insurance broker group as well.

MR. FISHER: Madam Chairman, I would just like to make one offer if I could. I would like to see the possibility that on the agenda, and it would be too quick to make it for the March meeting because I'm sure the agenda is already set, but I would like to see if there's a possibility that in the June Commissioner's meeting that maybe we have a special Association Health Plan meeting where you all would have an opportunity to talk to commissioners. I will see if I can get that on the agenda, where you all could participate, express your concerns to commissioners from across the country. I would be more than happy to make that offer because I think that it might be an effective way to start winning over some of the other commissioners with a better understanding of their concerns and listening to them as well, because they have a little different perspective on what their concerns are. I think that dialogue would be very helpful, I know there is probably going to be a vote on the legislation within the next couple of months but even at that, if we started planning today for the June meeting of the NAIC to have a special time set aside for those commissioners that might be encouraged to come, I would be glad to set that up.

MS. NELSON: Thank you Commissioner, I think we would appreciate that very much. Any opportunity that we can have to present the views but also to create that kind of dialogue is truly important. I also appreciate Judy Howell's observations and I do hope I can refer you once again to the Issue in Brief handouts that are on the table and that Ms. Howell referenced, because it is our objective to present the alternatives and to collectively address the issue in the most positive way for all. At this time it gives me great pleasure to welcome Elaine Chao, Secretary of Labor. Since her confirmation by the United States Senate on January 29, 2001, she has been dedicated to carrying out the Department of Labor's mission of inspiring and protecting the hard-working people of America.

She is respected as an effective and articulate champion of the nation's contemporary workforce and I think each of us who has had an opportunity to watch her in action and to experience her leadership and her wonderful style and enlightened view, has been appreciative of the selection of Ms. Chao to take this particular role. Secretary Chao has been a leader on the Association Health Plan proposal and she has addressed the recent hearing of the Senate Committee on Small Business and Entrepreneurship on the very subject. Secretary Chao I should invite you to speak and I should mention that your arrival is timely because we have come to

the point in our deliberations and discussion where we are addressing issues like the bona fide definition of Association Health Plans. And we have heard of some of the tension between the interests of the states in providing the pooling opportunities that Association Plans will provide. The fact that this has some opposition in the states but that it would be at least fundamental to the success of this that the associations that were somehow certified to provide this kind of pooling did indeed have solvency and were able to provide the kind of long-term, sustained support that would be necessary if we were indeed to move to this kind of plan.

It has been mentioned that there have been some less than successful attempts by those who were not bona fide associations to find ways to act under ERISA and in many cases that has kind of perhaps poisoned the well in some people's minds. So I know that these are issues that concern you and I am aware that you have really stepped up to provide some plans for how we could avoid that trap and that we could govern this activity in a way that would help it to fulfill what our ambition for it is, so with that may I turn the microphone over to you.

PRESENTATION BY SECRETARY ELAINE CHAO

U.S. Department of Labor

MS. CHAO: The Commissioner is now an expert on the microphones so I appreciate his assistance. First of all

thank you very much for the opportunity to be here. I am a little new to this structure and this format and I do have some formal comments. I don't think it is appropriate since this is a much smaller group than I expected so if I can submit my formal comments for the record I would appreciate that and let's have a discussion on this very important issue. First of all, I want to compliment the Chairman.

Madam Chairman, you have offered tremendous leadership on the issues of tourism and the issues of small business. You yourself are the CEO of a well-known and much respected organization. We know how much you care about creating jobs and about creating the right circumstances for the economic vitality of our country and I want to thank you very much for all of your leadership. For those of you who don't know, the Chairman also participated in the Department of Labor's Productivity Conference and we appreciated her being a speaker and sharing with us some real practical on-the-job issues related to productivity.

Association Health Plans is one of the solutions that is being proposed to help decrease the accelerating costs of health care. I know that all of you must be very concerned about it because whenever I travel throughout the country with business groups, with consumer groups, with community activists, one of the major issues that everyone talks about is the issue of health care insurance and access to quality,

affordable and timely health care. Timely is just as important in terms of getting the health care that a particular individual needs at a particular time rather than having to wait for a very long time to get it. But as your material indicates, 41 million Americans do not have health care insurance. The interesting thing to note is that the majority of people who don't have unemployment insurance are indeed working, so it is not that they are not working and therefore not having health care insurance, they are working and unable to access health care insurance.

The second interesting fact is that the majority of people who don't have health care insurance work for employers who have less than 100 employees. So when I first began to look at this issue of how to get access to quality, affordable health care for a majority of our residents and citizens of this country I began to face questions such as the one I just raised and I began to talk to employers. We hosted a major conference for women entrepreneurs on March 20, 2002, in which we asked these women entrepreneurs what their concerns were in terms of their workforce. Among the top two concerns that these women entrepreneurs mentioned was access to quality, affordable health care for the employees. The other, you would not be surprised to hear, is access to capital. But these women entrepreneurs wanted to offer quality health care insurance to their employees, but with health care insurance

premiums increasing 12-18 percent in one year alone for this group of entrepreneurs and much higher in other instances, they could not afford to give their employees, who they viewed as members of their own family, access to affordable, quality health care.

So this is an issue of tremendous concern to them. This is also a concern to our Administration and the President is very concerned about people who do not have health care. So the Administration does have a comprehensive program, a package proposal that will decrease the accelerating escalating cost of health care that we are seeing. Part of that involves giving tax credits, part of that proposal involves expanding the Medical Savings Account, part of that involves malpractice litigation reform because the cost of litigation is one of the main factors in driving health care costs upward; and then fourthly is Association Health Plans.

These days, big companies are able to keep health care costs low because even if they self-insure they are able to spread the cost of health care over a larger group of people. So our proposal would allow small business owners, of which women small business owners are an increasingly large segment, to have parody with large business owners. If large business owners can spread the risk over a larger group of people and thereby reducing the cost, why should smaller businesses not be allowed that same structure? Obviously

there are some barriers because small businesses have only a limited number of people so they can't have that big pool, which is how the Association Health Plan proposal came into being. It was thought that if legitimate associations who have been in existence for more than three years and whose primary mission is not to provide health care but they are a bona fide legitimate association, if they would be allowed to offer a health plan to their association members, that larger pool of people would be created and individuals can be covered.

I am concerned about "cherry picking", which has now become a well-known term. We do not want to have legislation that would allow individuals or companies or groups, this pool, to only allow health people to subscribe. But the reality also is that small businesses now are increasingly at a competitive disadvantage when they try to hire people, because if you are a perspective employee and you had your choice of working for a big company with a good health plan or working for a small company with no health plan, even if you love the small company owner and you are loyal and you want to work with them and you like the work, the cost of health care is such that you will be propelled to work for the large company. So small business are really suffering in terms of hiring the people that they need and that is just one example of ancillary impacts of this policy decision as well so I am

very concerned about cherry picking. In fact, what is happening is that small businesses are bearing the brunt of healthy people leaving their pool and so they are increasingly responsible for those who are less healthy.

So we allow them to have Association Health Plans and that actually helps those that are perhaps not as healthy. The other thing you mentioned was the regulatory regime, and I don't know what my colleague to right of me thinks about this, we are very cognizant that we have to work with the states. An idea as big as this has to be worked in conjunction with the states but we are concerned about the regulatory maze and we want to make it easier for small businesses, not to have to go to 50 different states but to have one overall regulatory regime. And the third part is that we also want to make sure that the Federal Government is able to regulate. We at the Department of Labor already administer ERISA.

ERISA is the law that oversees employer-based benefits, so we do have the ability and I believe the resources to do a good job in monitoring the bad actors as well. That is kind of in a nutshell what I was going to talk about but I was going to talk a lot more about the numbers and the trends of women's small business, but I think that this group knows if very well and I am going to just skip over that part and submit that for the record. I would be more than glad to hear you concerns because that is what my goal here is

as well. The legislation has not been introduced yet. We want to listen and to craft the legislation that obviously meets the concerns of various constituent groups and stakeholders and make sure we are doing the right thing.

MS. NELSON: Thank you so much Secretary Chao, you certainly demonstrated a deep familiarity with the issues and the issues that we have been sharing here this morning. Perhaps while we have the advantage of your presence, if there is anyone who might want to ask a question of Secretary Chao.

MS. CHAO: Actually, if you don't want me to answer questions and you want me to leave because you've got other things on your agenda that is okay too.

MS. NELSON: No because what we have on the agenda really is to hear more stories of how individuals have been affected by the lack of affordability and access and I am certain that you might be interested in hearing those as well. I thought that if perhaps there was a question or two and you would be gracious enough to address them we would appreciate it.

MS. CHAO: Yes sure, or comments as well.

MS. BOENIGK: I was just wondering if you do have a timeline and when you think the legislation will be presented?

MS. CHAO: Senator Olympia Snowe held a Small Business Committee hearing on Association Health Plans and she said she was going to introduce a bill pretty shortly. I

think the House will be doing that as well but it is very hard to say. Obviously we are going to be doing everything that we can to publicize the plight of those who do not have health care and how urgently a solution is needed, and how we believe that an Association Health Plan is a very common, sensible approach, an effective approach to helping Americans access quality, affordable health care.

MS. SULLIVAN: Secretary Chao, on behalf of the Chamber and many of the business organizations we really appreciate the leadership role that this Administration has taken with regard to AHPs. We represent a lot of small business but also a lot of large employers who know that ERISA -- we are not proposing the Association Plan to create a regulatory structure or plans without any regulatory oversight at all. In fact, your department regulates hundreds of millions of people's health coverage and you have a number of mandates and requirements already in ERISA that prevent the cherry picking. I think it is important to remind people that there is very strong consumer oversight on the regulatory initiative begun in the previous Administration and which your Administration is carrying out, with regard to claims procedures. When people have been denied a benefit and what it is that employers have to do, and very much associations offering coverage, there are people enrolled in those plans who had those same consumer regulatory protections. So we are

trying to debunk the notion that these will be plans without mandates or oversight.

MS. CHAO: I am very confident that the Department is up to the task of regulating Association Health Plans. As was mentioned, we already oversee more than 250,000 health plans which cover I believe 47 million people, and that is just on the health care side. In addition, we administer and regulate all employer-based benefits, pensions, defined contribution plans and other types of 401Ks and whatever, so we feel that we do have the expertise and the experience to protect consumers and to do a good job.

MS. NELSON: Just quickly because I am aware that the Secretary has to be stepping away.

MS. FOURNIER: Sure. I did go to the State of New Jersey and explain to them what we are doing with Associated Health Plans and how it would help them. The states are very very concerned with the risks and with the plans not being properly funded because three HMOs failed in the State of New Jersey for not being properly funded and they were licensed. So there are a lot of risks and fear in implementing Associated Health Plans. I went and I spoke to them about GAAP, basically using programs or systems that are already are working, because when someone graduates and becomes a doctor they ask, where are you going to practice? Well none of us here want a physician to practice with us and therefore we

want to make sure that the system works.

I believe that by leveraging existing systems and programs will actually help loser the risks with the implementation of care, because the system already works. There is so much involved with health care and there are so many risks that to combine everything and put everything together really may not always work. By using programs or systems that already exist, for example the State of New Jersey Health Care, Federal Health Care and other things that are working extremely well, it would lower the risks. But the states are fearful and they want to know how the Federal Government is going to reach out to them. They can show them the way and they can give them the idea but there needs to be something in the implementation aspect so that when it is implemented it can be implemented quickly with minimum risks and with the use of economies of scale, which is really the very basis of Associated Health Plans.

But cherry picking and all of that, anytime you develop something that is new you are going to have issues and concerns like that. So when you are using a pool of employees like the State of New Jersey or any state, the economies of scale would help lower the risks on all ends. I am so glad we are talking about funding because that is what happens with HMOs, they don't plan ahead and thousands of people end up without insurance and that is not what we are here for.

MS. NELSON: No that absolutely is not.

MS. CHAO: I appreciate your comments about implementation. We will certainly be careful of that because implementation is important. I don't know very much about New Jersey and if New Jersey has a wonderful program I think that is terrific. Unfortunately, I don't think it is across the board so it would be helpful if there could be more of that.

MS. NELSON: If you have another moment, we will let Dr. Matthews speak.

MS. CHAO: Sure.

DR. MATTHEWS: I want to address just the one thing you mentioned on the cherry picking. The terms cherry picking and premium skimming are sometimes used, and the notion is that insurers are only trying to take the healthy people and it sort of implies that there is a big group of sick people that they are trying to avoid. It is really the reverse, the vast majority of people that are workers are healthy and you have got a small percentage of people who are sick and have serious medical problems and are going to cost a lot of money. The one thing I would point out is that I think there is concern on the part of many people that the Association Health Plans will not be adequately funded and I think that is a fair concern. The notion of letting everyone in is what we call guaranteed-issue in the business. That is, somebody can move in without having to be underwritten or something of that

nature, and it actually exacerbates that problem.

If you are creating a program with the funding structure under legislation for Association Health Plan, I have talked to prominent actuaries who have said that the system simply cannot work the way it is currently written, actuarially, and that was their concern. But they say they believe it is exacerbated by the notion that you would let anybody in with any kind of medical condition. If you had a system, for example, in which a small business has somebody who is coming to the pool and has a serious medical condition. If that person could move into a state's high risk pool, 30 states have high-risk pools and Congress passed additional funding for them, until that time that the person could actually be underwritten and moved into the company plan, it might minimize some of those problems. The point that the actuaries are telling me is that if you have the kind of funding in the legislation in a guaranteed-issue environment, that is that we are letting anybody come in and they can't be discriminated or underwritten based on their health status, you create for that existing legislation a system that simply cannot work actuarially.

So I would raise the question that maybe there is a way to work this. This is a problem that we have had with the HIPAA legislation. HIPAA legislation created guaranteed-issue for small businesses and they are seeing their premiums

skyrocket because they have to be able to take those very sick people sometimes.

MS. CHAO: You touch upon the whole issue about un-funded state mandates. I think that is a whole other issue about what is actually needed to take care of people and a lot of the un-funded state mandates are really Cadillac plans that don't respond to the majority of people's concerns. Some of the state plans I know, they have insurance for like hair transplants. I am not kidding you. So I can debate that that and it certainly going to occur.

DR. MATTHEWS: It is the notion of the guaranteed-issue with the current funding structure that I think probably creates something that, at least the actuaries are telling me, cannot work.

MS. CHAO: But as a basic concept cherry picking is not going to be allowed.

MS. NELSON: No, I think there is obviously debate to be had on these issues. I think the concept of not allowing cherry picking and what you have laid forth of making certain that we have legitimate associations that have been in existence for more than three years. I am certain that there will be some oversight of the adequate funding of the plans, and that the Organization would have a "raison detra [sic]," other than the created, in order to provide these plans and that this is the discussion that is taking place. I also

appreciate very much, Secretary Chao, that you have become a real expert and student all at once of these issues and certainly an expert with all the coverage that you already provide and the oversight in the area, and I think that when the National Women's Business Council decided to support Association Health Plans it was with the recognition that your Department would be closely involved in the oversight. So we thank you so much for joining us and we appreciate all the support.

MS. CHAO: Thank you. I will stay for a couple more minutes to hear what else is going on, and thank you for having me.

MS. NELSON: Wonderful, thank you. I would like to go to Sheila Brooks. Let me tell you a little bit about Sheila, as I am eager for all of you to know Sheila. Sheila is the past National Board Member of the National Association of Women Business Owners, now though is the premier Women's Business Membership Organization in the United States, and was active early in advocating for women's business issues in Washington and in state capitols. Their mission as an organization is to strengthen the wealth-creating capacity of their members and to promote economic development, create innovative and effective changes in the business culture, build strategic alliances, coalitions and affiliations and transform public policy and influence opinion-makers.

Ms. Brooks will be addressing NAWBO's support of Association Health Plans.

PRESENTATION BY SHEILA BROOKS

National Board Member,

National Association of Women Business Owners

MS. BROOKS: Thank you so much Madam Chair. On behalf of the National Association of Women Business Owners, I want to thank the National Women's Business Council for the invitation to be here. NAWBO wants to first of all applaud the National Women's Business Council for its position this week on Association Health Plans. Our NAWBO members are in 18 states across the country and we strongly believe that health care should be affordable but that it should also be reliable. And it must not trade value for risks to those that it is designed to protect; that is so very important. We realize we have a challenge before us to get the legislation passed for AHPs but it is certainly one that our approximately 8,000+ members are committed to.

You should know that in a recent survey conducted by NAWBO, members were more likely to name Association Health Plans among the public policy issues of which they want NAWBO to focus on, and 58 percent of our members who own employer firms offer those health care benefits to their employees, including myself, as a small business-owner here, of a communications firm in downtown Washington, D.C. I just want

to share a quick experience and story that my firm has experienced in the last 18 months. We have doubled in size just in the last 60 days and we provide all of our employees with health care insurance. With such increases comes of course a tremendous increase in health care. By the end of the year we are projecting tripling our staff, we had a really good growth spurt right now but we are still concerned about health care insurance.

Since we opened our doors 13 years ago, with two people, we've provided 100 percent health care insurance; until 9-11. Following the tragedy of 9-11, as you well know most small businesses lost a lot of contracts and business and we were very much affected by that, losing about $2.6 million dollars in revenues. As a result of that magnitude of loss, as a CEO I was forced to make some very hard decisions and I had a number of options, which included a 10 percent salary cut across the board, lay-offs and for the first time ever a cut in our health insurance benefit. A couple of my employees had been with me for years and the thought of these actions certainly troubled me, but I made the hard decision and unfortunately we did have to cut our health care benefits and no longer are we offering the 100 percent health care benefit and it has been a very disappointing point for all of us. Now, as our company rebounds and we expand after 18 months and begin to enjoy profitability again, it is at a time that we

recoup those losses in dollars from 9-11 but we are still faced with the challenge of our health care benefits.

So the small business community must conjure the passion and the zeal for which it is known to fight the good fight and provide affordable health care for all small businesses. NAWBO will be there Madam Chair, and so will I.

MS. NELSON: Thank you, thank you, thank you. I would like to turn now to Congressman Manzullo, who has joined us. He was elected to the U.S. House of Representatives from Illinois and has served in the Congress I believe since 1992. In January of 2003, Congressman Don Manzullo was reappointed Chairman of the House Committee on Small Business, which oversees the Small Business Administration and a broad range of issues that matter to small businesses with less than 500 employees. We have asked Congressman Manzullo to outline for us the legislative process involved in discussing viable solutions, as we have today, regarding the health care problems facing small business.

In fact, I understand that the House Committee on Small Business will be holding a hearing not unlike this next month on this very important issue. Thank you Congressman.

PRESENTATION BY U.S. REPRESENTATIVE DONALD MANZULLO

Chairman, House Committee on Small Business

MR. MANZULLO: Thank you very much. This is the older Small Business Committee room, but this is where the

wiser people meet. We have moved our Congressional offices from Cannon to Rayburn because it is closer to the Small Business Committee over there but it doesn't have the chandeliers and it has boring lights that are pressed against the ceiling and it doesn't have the ornate carvings that are here and it is a real privilege to be here. When you asked me to outline the legislative process, I mean, that was attempted in 1787 and I don't know if it has ever been accomplished. There is a crisis in health care and it is the number one issue for small businesses.

My brother has the family restaurant business that was started in 1948 when my folks had a grocery store and went into the drive-in restaurant business. I think my dad had the second drive-in restaurant in Winnebago County, Illinois, and then they converted an old doctor's home that was used as a hospital 150 years ago, into the family restaurant. The good news is that business is good. The bad news is that he does not provide health and accident insurance for his employees and there is just no way he could even consider it. Because he is only open on weekends he has people who are essentially part time and they are otherwise insured.

Just for my brother and his wife, they got their most bargain policy at $850 per month, with a $5,000 deductible. They shopped around but there were so many riders that any pre-existing things that weren't even of consequence

would have gone into the new policy so they were forced to go with the old coverage on it. Let me just assure you that if you hear all these grandiose things -- see, I knew when I waved my arms like that you would take my picture. I was with the President about two weeks ago in Alexandria, when he talked about small business issues and the photography corps was there, and when he went like this you could hear all the shutters going. I lost my train of thought now.

MS. NEESE: You said you were with the President last week.

MR. MANZULLO: Oh yes, but that was the joke that got me off the subject. It was the rider that made it possible for him to shop. I've got Blue Cross/Blue Shield and I am always fighting with them. They always pay improperly. I don't care what the bill is whenever we call, the amount that we actually pay is half of what we are billed and it is always something called codes. My wife is a microbiologist and because of my insistence she gets the yearly mammogram and pap smear. Because she has a medical background she thinks that she can -- are you a physician?

DR. MATTHEWS: Ph.D.

MR. MANZULLO: Okay, well MDs don't think they have to go to the doctor and neither do people in the health industry. Every year her OB/GYN submits it to Swedish-American Hospital in Rockford, which is a tremendous hospital,

and for five years in a row Blue Cross/Blue Shield has said that that is not a certified lab. If we had not called we would have had to pay it, so my question is, how many people will get the bill and not call the insurance carrier and contest it? So there are some big time problems going on. In fact, I know that Blue Cross/Blue Shield works very hard and I know there are about 400 people in the Rockford facility dealing with claims, but there has just got to be a better way with the administration of medicine than these stupid codes.

I mean, how many employee hours does it take and how many employees does it take just to read a stupid medical bill? There is no procedure that is new. These procedures have been around for years and some people have said that there is a conspiracy within the insurance community itself. I wouldn't raise it to that level, but why is it, and you have all been through the same thing, that when you contest the bill you always save money? Is that correct?

(Nodding of heads)

MR. MANZULLO: Okay, and just think about what percentage of people get a bill and don't even think about calling up and contesting it. So there's some stuff in there. I remember years ago there was one study that said you could save $20 billion dollars a year if you just had a common form of coding these things. AHPs passed in the House last year and died in the Senate. We are having a hearing on AHPs I

believe it is next week, and I think it will be signed into law this year because the President said he would do it. Not the end all and be all, the savings may be 10-20 percent. Sure that is a lot of money, but in terms of insurance costs going up 25-25 percent a year is this really going to put a break on the system? What I would suggest, and I get into trouble with this, is because an insurance policy is a contract you should be able to contract for what you want. If you want to go over or draw a contract that doesn't deal with organ transplant, in exchange for that you can get -- now I'm going to have the transplant people yelling at me, "You can't say that, you can't do that!" I can say anything I want but I will have to be responsible for the flack that it brings. If you go in there and you want to draw a contract that says you don't need it for primary care, than I will get all the primary care physicians saying that kids won't get their check up unless the insurance is ---. Marilyn let me ask you this question, and you should remember, all of us can. What did you call your health insurance? What was it called?

MS. NELSON: What was my health insurance called?

MR. MANZULLO: It was called Major Medical Insurance.

MS. NELSON: Oh sure.

MR. MANZULLO: The reason it was called major medical is because the purpose of insurance was to save your

house in the event that something came along. And I wonder what percentage of the costs of administration of insurance are applied to the day-to-day business of a physician as opposed to the major things? You know I will catch heck for this. If any of you has had something major that has happened, do you notice how efficient the insurance is and how much it pays? When our son came down with Lyme Disease, I called to see if he needed permission to get -- is it an MRI that you get for Lyme Disease?

MS. FOURNIER: They do blood tests, and sometimes, if it is in the joint they withdraw the fluid for testing.

MR. MANZULLO: Believe me, it was a very major test, and the person asked if the doctor ordered it. I said yes, and he said I didn't even have to call about it. And the huge bills that were racked up, with all of the tests, it was several thousands of dollars by the time we were done and I think it cost us $25 or $30. At that point it became obvious to me as to where the cost of administration is in health insurance, and maybe I am wrinkling some feathers around here but if the goal is to have affordable health insurance than you really have to take a look at the person who is insured. Should he or she have the ability to bypass the few Federal mandates and mostly the state mandates and come up with a policy that can work? In our area, Rockford, Illinois, I got a $300,000 grant from the SBA for a pilot program that puts

together something similar to what is going on in Michigan, where you take the disproportionate share money that normally goes to the hospitals that have a disproportionate share of Medicaid patients, plus money from the employers and the employee.

You take those three sources and put them into a fund and then the pilot program is just started and they are offered some very very basic insurance, it does not cover organ transplant, it is going to cost about $175 a month for a family of four. But what it does is, it is the house-saving insurance. It is for people that haven't been able to afford insurance for the prior year and it is based on the Muskegon, Michigan model. There are things out there that you can take a look at, and the problem isn't on insurance but the primary care physicians want to make sure they are covered. The Chiropractors say this must be a part of it, and I am not being critical because it is their job, which is to get as much coverage in family as possible. But by the time you finish with it the people contracting are not writing their own policy.

The policy is being written by special interest groups and by politicians. So where is the freedom to contract? Something dramatic has to be done to stop these increases and I don’t' believe it is the insurance companies that are gouging. The cost of a breakthrough medication, from

the time it is in somebody's head to the time that it is all the way through the process, it is at least $100 million dollars.

MS. FOURNIER: Can you repeat that?

MR. MANZULLO: Yes. From the time somebody thinks of a breakthrough medicine, until it is developed and goes through the testing procedures and everything, is about $100 million dollars. And not all of these medicines actually get marketed because a lot of them fail, so you can't sit back and blame it on "the drug companies." I don't think there is a big conspiracy going on. Talk to any physician and he can tell you about the nothing less than remarkable breakthroughs in medications just in the past three years.

I mean, it is astounding and it is turning medicine on its head, and that is not even to talk about the types of machinery that are out there and medical devices that are available. So just the nature of people wanting to get the best medicine means that you cannot project the costs of health care based on a simple cost of living because it has always outpaced that. But you work on it because there's a basic theory, and I agree with it, that the larger your group, the more you spread the risk, the lesser your premium and that is really what AHPs are based upon.

MS. NELSON: We are so appreciative of you, Congressman Manzullo, and your role and we are looking forward

to those hearings that are coming up next week with the Small Business Committee. We know that we are very focused on the constituents that we represent here today, which are the 9.1 million women business-owners, and we have actually assessed or been given to understand that approximately 7.3 million of them would fall in the uninsured area. So if you look at a national problem with 42 million uninsured, and those women represent 7.3 million in business, many of whom belong to organizations that are represented at this table. I think that the constituents, between Women Impacting Public Policy (WIPP) and other organizations all around the table, with WE Incorporated, with NAWBO, with the American Chamber of Commerce at this table, I hope you recognize a really powerful force of concern. You have articulated many of the complexities and the issues that we face in dealing with health care across the country.

Our focus now is on these working men and women, who work in not only female-owned but small businesses across the country who really are unable to offer health care to their employees at today's costs and who do not have access. It is a great concern to us and we and our constituencies are willing to support those who can support addressing this problem. I myself am the CEO of a large business that does self-insure and has the opportunity to work across state lines, under ERISA, and we recognize the power of pooling.

But we also have many small businesses that are associated with ours as franchisees who suffer from some of these issues. My colleague here, Leslie Saunders, actually has helped some of those franchisees who have one or several stores, to find a way to access care. But we are focused and we are increasingly well organized. We recognize that Association Health Plans, Medical Savings Accounts and tax incentives that address this population of the working uninsured are essential. And that even large business, those of your constituents who are large employers in large corporations, should also be supportive in that the transfer costs are becoming increasingly obvious. That the uninsured who get their care in emergency rooms, that the system itself has to transfer those costs and deal with them somewhere. We look forward to supporting your initiatives and we are grateful that you are leading --

MR. MANZULLO: Marilyn, before you kick me out of here let me just raise a couple of things. People do not realize how dramatically different the prices are when you shop, from agent to agent. Let me give you an example. We held a hearing back in Rockford on the cost of health care. We had a local business person get up, Phil Barbon, who runs the Cellular One Dealership, and he said that the insurance premiums that he was given for the next year would raise his premium from $8,500 to $16,000; and sitting in the audience

was Scott Shallock. Scott is from Renwood, which is in McHenry County, also a constituent.

Now, listen to this. After the hearing, Scott went up to Phil Barbon and said, "Have you considered getting a second insurance company to write your deductible?" Phil didn't know anything about it and Phil's insurance man was not aware of that. Scott Shallock called Phil's insurance man, got him a second company, and the increase went from $8,500 to under $10,000. You've got to shop around. I just cannot believe the extent of the variations in insurance out there. I mean I was astounded so I had my brother start shopping.

Of course, he got into the problem of the pre-existing because Frank is 60 and his wife is 55. The second thing is that there is a sleeper out there called Medical Savings Accounts and people do not use them. There is an interesting couple back home, he is a trial lawyer and she is an OB/GYN. He does Medical Malpractice cases. It is the craziest thing in the world. They are the sweetest couple you would ever want to meet.

Their insurance premiums just went completely nuts because they are both self-employed, he with his law firm and she with her medical practice. And he set up an MSA that cut their premiums in half. So Mike said, "There isn't anybody in town that knows how to set up an MSA." Kate, is that ringing a bell over there?

MS. SULLIVAN: Yes it sure does. And Richard you have given an example I am very familiar with, the State of Illinois, I used to work for the Governor of Illinois and we worked on a lot the laws that facilitated that. But the problem with shopping around is that in many states they don't have anywhere to shop around to, there's such a monopoly. I talked to someone who was a small business-owner from Alaska, and she said they are looking at setting up a state-wide AHP there and they still can't get carriers to come in because there are so few of them. And in many states with the Medical Savings Accounts, they haven't been implemented or they are targeted towards individual families such as you described but they are not eligible for Federal treatment.

Everybody should have that kind of opportunity to do that on a pre-tax basis, and there is so much more that can be done. Some states have been much better on the insurance front in fostering competition and in other states they have chased the competition right outside the borders. This is why Association Plans disseminate more Federal laws and MSAs will put more competition and choices out there for both people with workplace coverage and people who are purchasing coverage on their own.

MS. NELSON: Perhaps it is a good time to call on Karen Kerrigan. Karen is the President and CEO of Women Entrepreneurs Incorporated. It is a non-partisan business

association that works to improve and enhance economic climates for women and entrepreneurs. Karen, I know you have a particular long-term interest in this particular subject and I thought this would be a good time to hear from you.

PRESENTATION BY KAREN KERRIGAN

President, Women Entrepreneurs, Incorporated

MS. KERRINGTON: On MSAs indeed, I have been working on this issue for over ten years now and I am very optimistic we will see some action in this Congress particularly because MSA expansion, MSA permanency and improvement are in the President's budget. First let me congratulate you on pulling this whole group together and to the women business-owners who traveled here, thank you so much. I mean, truly they are representative of the challenges that women business-owners are facing throughout this country. Many of them are dealing with their health care cost increases in this same manner, some are able to absorb it, others are not or they are being forced to pass on more of those costs. Certainly all of them brought to the table the individual challenges that are making the system, in terms of reforming the system, why it is so complex.

With the number of mandates that are out there and certainly the legal costs issue. These are things we need to keep an eye on as well, Marilyn, because if we don't stem or do something about these issues they will undercut the gains

that we'll make on AHPs, on Medical Savings Accounts and certainly on tax credits. We are very supportive of Association Health Plans and a lot of the members of Women Entrepreneurs, Inc. certainly would like to see AHPs pass the Congress and go to the President's desk. The other thing that we hear a lot from women entrepreneurs and all business-owners is, how did I get caught in this mess of managing health care? How did this all happen?

What they are asking for and what they would like to see is more individuals given responsibility for their health care choices and individuals acting like consumers again in the system, understanding the costs of health care. Certainly the things that I have been involved with over the past ten years have been involved in making the system more price-sensitive and more consumer-centered. Medical Savings Accounts passed the Congress and were signed by the President in 1996. They were a pilot program and we were very happy that they were signed due to law, but there's been many restrictions that have been imposed on MSAs that have not made them a more viable and useable product by health care consumers. They need to be made permanent so that there is certainty that people know this product is on the market in the long-term, then you'll have people marketing the product more, then you will have more businesses buying the product, so there has to be that certainty. They have to be universal,

in that all people have to have access to buying a Medical Savings Account.

If you are an individual who doesn't have insurance, that works part time for a business or who works for a business, you cannot buy a Medical Savings Account. So all businesses over 50, all businesses and all individuals need to have access to a Medical Savings Account. The other thing that needs to happen --

MR. MANZULLO: Karen, I've got to run. Karen has been a frequent witness at our Small Business Committee hearings. I want to just thank you all for coming here. Please watch out for the weather, we've got a major blizzard moving in at about 4:30. I don't want to chase you from this fine city but you might want to take a look at that. Fair warning, last time Reagan National Airport was closed for two days straight and our house isn't big enough to accommodate all of you. Listen, you guys keep up the good work, I appreciate everything that you are doing. Marilyn, next time you come back into town, I may try to get in today but it is just impossible. If any of you want to stop by and see me, get a hold of my Secretary, Terry Neese, and she can arrange it for you.

MS. NELSON: Thank you so much.

MS. KERRIGAN: He has heard my schpeal before. The other reforms that are important is allowing both the employer

and the employee to contribute to the Medical Savings Account, lowering the deductibles. These are reforms that did pass the House, like AHPs and a lot of other things they went over to the Senate and never saw the light of day. At any rate, we are very optimistic that MSA expansion and permanency will happen this year, particularly because we do have the President's support and it is in the budget. Lastly, tax credits for the uninsured, refundable tax credits that would allow more individuals to purchase insurance, giving them some tax benefits that employers currently have.

All of these types of choices will bring more people into the system, make it more competitive and make it more responsive. So these are also two things that are on the table right now in Congress along with Association Health Plans and we look forward to working with you on all these things and many more reforms down the road. As you mentioned in your remarks, there are some underlying, complex problems with the system that need to be addressed in order to truly make it a system that is going to have the quality that all consumers deserve. Thank you.

MS. NELSON: Thank you so much and thank you for all that you have done to bring us to this point. Kate Sullivan, you had a couple of opportunities to respond but perhaps you would like to make your statement at this time.

PRESENTATION BY KATE SULLIVAN

Health Care Policy Director,

U.S. Chamber of Commerce

MS. SULLIVAN: I think what I would really like to do is to draw -- it should be here -- in the back is a statement that goes through some of the things about why small business is so important to our economy and particularly it talks about small business and health care. There are probably some good stats there that would help you as you're making your cases, although you all probably know this stuff by heart. But particularly one of my favorite things is why small businesses do offer coverage. You guys should stand up and take a bow, 92 percent of small business owners say they provide coverage because it is the right thing to do. It is important to remind people that we do this and we absorb the cost.

We do what we can and we reluctantly share the costs with our employees, often at the expense of a larger paycheck or more time off with their families. That makes people know that you do this because you are in it for the long haul, that Congress is making it difficult to do so by passing mandates and blocking the opportunity for associations to make this coverage available. The other thing I have over there is the Chamber's other proposal for access to health coverage. There are 30 separate proposals in there and I think Karen must have

read it because she just ticked them all off. I mean, there are a lot of things in there including Association Plans, but not only to make it more affordable by allowing plans to be offered free of state mandates.

To improve the quality of care by having greater disclosure of the prices of coverage and quality outcomes data, where it is available. It is astounding how it is so not available. There are two points I wanted to raise about Association Health Plans. This has been great hearing the comments about it. I already talked about this person I spoke to in Alaska, who said they were looking at doing a state-level AHP because it is pretty much all we have right now. She said that there are not enough small businesses together in the state to interest a carrier to come in.

I told her that that is exactly why they need to get together with the small businesses in Montana and South Dakota and North Dakota and those other states that don't have that huge, massive number to do a state-by-state AHP. So that is one good argument, even if you could do it on a state level there still is not that critical mass to bring people together. The second example is that I was talking to someone who is on our Small Business Council a couple days ago, he is in Virginia and he has 35 employees in four states. He runs four health plans. His costs went from $120,000 last year to $250,000 for those employees. They had a 23 year-old woman

who developed cancer.

He is running four health plans for 35 employees and it is a full-time job. They are too small to self-insure but if he could get into an Association Plan he could offer one single plan. In fact, he could probably get all of his employees together and give them a choice of plans if he joined an association that had that many choices, and then they could also shop around for a consumer driven plan, an HMO, something that had a spending account that went with it, but he cannot do that right now. My only admonishment to the organizations that are here and the businesswomen that are here, our challenge is from other women's groups. They do not represent women who are out there creating jobs and doing this.

What they are asking Congress to do is to pass more mandates. They are telling you that as a woman you should oppose Association Health Plans because it means you are not going to get your mammogram, your children will not be able to get well-baby care, you won't be able to go to an OB/GYN because these are things that we do not yet have in Federal law but they are trying to get it into Federal law. My favorite is that they want up-front first-dollar coverage for contraception. I would love first-dollar up-front coverage for contraception but the reality is that it comes with a co-payment. What I really want is for my insurance to be there

when I am diagnosed, God forbid, with something catastrophic like breast cancer, or if I have a baby that has special needs.

That is a choice that you have to make. Do you want up-front coverage for a $30 per month expenditure or do you want your health plan to be there when that $85,000 bill comes in for a bone marrow transplant? These are the kinds of things that I think women need to be making that case about. You know, these are great mandates but we can't afford it and I am here doing this for my employees because it is the right thing to do. And trust me, come to the Chamber of Commerce or NFIB, you are probably going to find a health plan for employees that has well-baby care and annual mammograms and all the things that women are looking for for their employees, or you are not going to choose that plan; it is a competitive market. Anyway, I am so pleased that you invited us to be here and I really look forward to continue to work with this group and all of you on these issues.

MS. NELSON: Well we look forward to working with you. Thank you so much Kate. We have talked a lot in the last few minutes about consumer driven health care, you have heard that referenced now with Karen Kerrigan and again with Kate. I thought it would be an opportune moment to turn to Greg Scandlen. Greg is the Director of the Galen Institute, Center for Consumer Driven Health Care. The Galen Institute

is a not-for-profit that is dedicated exclusively to help policy. Greg would you give us some insight from your point of view on the subject?

PRESENTATION BY GREG SCANDLEN

Director, Galen Institute,

Center for Consumer Driven Health Care

MR. SCANDLEN: I will be very quick because the storm is coming and we are already running behind. So let me just take a couple quick glimpses at some things that have not been brought up yet. I agree with almost everything that has been said but there are a few small points I would like to throw out to you. One thing is Fractured Tax Policy, a Federal tax policy. The employer-based system currently costs, in foregone revenue, approximately $140 billion dollars a year.

It is the third biggest entitlement program in the country after Medicare and Social Security. That is $140 billion dollars a year, and every time health care costs go up 25 percent that also goes up 25 percent, without a single hearing, without a single question, without a single vote. It is a massive subsidy that is exclusive only to employer-based health insurance coverage. If you are self-employed you also get a smaller subsidy of 100 percent deduction, not an exclusion. The exclusion frees the benefit from the cost of payroll taxes as well as income taxes; State, Federal, you

name it.

If you are not self-employed and you work for a company that doesn't offer coverage, and you have to pay for your own coverage, you get nothing; zero, squat, zilch. And your employees, if you are not providing coverage, get no assistance, no tax break whatsoever when they go out and pay their own premium. When they lose their job and exercise their COBRA they get no tax break, no subsidy whatsoever. If you pay directly for medical services, you get no tax break and no subsidy whatsoever, unless it exceeds 7.5 percent of your annual gross income, in which case you get to deduct it. It is an insane tax policy that cannot stand.

The President is beginning to move away from that a little bit with the idea of refundable tax credits and that is only a step in the right direction. Government policy should be neutral as far as taxes go when it comes to health care. If the government would like us to purchase more health care, if they prefer that we spend money on health care rather than beer and pizza, that is a fine decision and they should be across the board for all health care spending and not just employer-based health insurance. As far as regulatory policy, both State and Federal regulations are a mess and they've got to be fixed. The states have separate blocks of regulation for small group coverage, mid-size group coverage and individual coverage.

They have separate regulations for Blue Cross/Blue Shield plans, commercial health insurance companies, HMOs. Each state is different, it is a total disaster and it is mind-boggling. It is impossible to run an efficient health insurance system in this country. On the Federal side we've got COBRA, HIPAA, ERISA, we have a whole alphabet soup of additional requirements, some of which clash with the state requirements and it becomes impossible to obey both the State and the Federal laws. So it is no wonder that the market is in such a disastrous place. I have a couple of other quick things.

You should be able to contribute to your employees' health benefit coverage if they go out and buy their own policy but currently you are not. As far as the tax code goes, you are perfectly free to do that. You are not able to do that because of HIPAA. HIPAA says that if you contribute anything towards your workers' benefit, it is an employee welfare benefit plan and therefore a group policy, even if it is only one person going out and buying their own coverage. HRAs have not been talked about very much.

The IRS came out with new information just this past June, allowing you to create for your employees something that looks very much like a Medical Savings Account. I don't have time to go into it now, contact me if you would like some more information on it. It is not as good as a Medical Savings

Account but it is available to any-sized employer currently, right now, today. And then finally, just one thing on Association Health Plans; there is so much garbage being spewed out about this issue. If I am an employer with 100 workers I can go out and self-fund and be perfectly free of any kind of state regulations.

I have a pool that consists of 100 people and there are no constraints on me whatsoever from doing that. Many employers with only 500 people have a pool of 500 people. It is not a particularly effective pooling mechanism just to have 100 or 500 people, it would be far better if employers like that could join an Association Health Plan. I mean, even mid-sized employers could join an Association Health Plan and have coverage as part of a larger pool rather than just these microscopic pools that are free of state mandates. That is all I wanted to say. Thank you.

MS. NELSON: Thank you so much. Kristie Darien, would you speak to us from the National Association for the Self-Employed. She is here on behalf of Robert Hughes, who is unable to join us today.

PRESENTATION BY KRISTIE DARIEN

National Association for the Self-Employed

MS. DARIEN: Thank you. The National Association for the Self-Employed would first like to thank the National Women's Business Council for organizing this roundtable on a

very important issue. The NASE is the nation's leading resource for the self-employed and micro-businesses, which are businesses with ten or less employees. We currently have 250,000 member businesses representing over 600,000 employers, employees, and self-employed individuals nationwide. Today this vital segment of the small business population represents more than 18 million people and it is important to note that a large percentage of the self-employed and micro-businesses are women or women-owned.

In fact, by 2005 it is estimated that there will be 4.7 million self-employed women. Micro-businesses are the drivers of America's economic engine. In fact, the last U.S. Census reported that these firms employ more than 12.3 million workers with a total annual payroll of more than $309 billion. Beyond these tangible contributions, it is also important to note that according to an August 2002 survey by USA Today, CNN and Gallop, Americans rated people who own and operate small businesses as the second most trustworthy group in the nation, behind teachers. The chief impediment that micro-businesses and the self-employed communities are facing is trying to stay afloat during this time of economic stagnation.

The NASE would like to emphatically state that there is a health care crisis amongst the nation's self-employed and micro-businesses. We recently released a study, entitled "Affordability in Health Care: Trends in American Micro-

business," which stated that seven out of ten micro-business owners report that they do not provide health care coverage to eligible employees nor do they have coverage for themselves. That roughly equals about 70 percent. Costs were cited as the chief reason for this trend. Participants stated that the situation is worsening, as health insurance premiums are rising at double-digit rates.

In fact, the study indicated that the cost of health insurance premiums incurred by the micro-business owners increased by an average of almost 13 percent from 2001 to 2002. With this in mind, it may not be surprising that 96 percent of micro-business owners believe that the cost of insurance is unreasonable for their business. The NASE feels that three proposals, in specific, would be greatly helpful to the micro-business and self-employed communities to gain access to affordable health care coverage. First and foremost, the NASE supports Association Health Plans, and we think that it is a very viable option to allow more affordability for specifically small businesses. We also strongly support health care tax credits and MSEs. However, there is one particular issue we would like to bring up that has not been discussed in regards to access to affordable health care, and that is the self-employment tax deduction for health insurance premiums. A core issue facing specifically the self-employed, which are those who file their taxes as

Schedule C filers, which are Sole Proprietors, and Schedule E filers, which are Partnerships, and also two percent owners in S-Corporations, is that there is an inherent inequity in the tax code. These employees do not receive a business deduction for their health insurance premiums. They are not deducted for the purpose of the self-employment tax, thus self-employed individuals have to pay an extra 15.3 percent on their health insurance. C-Corporations, which are large corporations and incorporated businesses, are allowed to deduct their health insurance premiums as an ordinary business expense. Scheduled to phase in this year, is 100 percent deductibility for health insurance. However, this does not affect self-employment tax, it is strictly for income tax purposes. Thus, in order to achieve equity, the NASE would like to have the health insurance premiums be deducted as an ordinary business expense for the self-employed, thus reducing the cost of health insurance by 15.3 percent. NASE feels again that health insurance is one of top issues for this specific segment. We would also like to point out that a lot of talk is going on about small business, but unfortunately the focus has been on growth companies and medium-sized business. We feel that more focus needs to be put on micro-businesses, businesses with ten or less employees, because they are really the backbone of the nation's economy. We would like to thank you and the Council for allowing us to participate.

MS. NELSON: Thank you so much, and we appreciate your participation. Now let me turn to Dr. Merrill Matthews, who is the Director of the Council for Affordable Health Insurance. The Council for Affordable Health Insurance is a research and advocacy association of insurance carriers active in the individual, small group, MSA and senior markets. Their membership includes insurance companies, small businesses, providers, non-profit associations, actuaries, insurance brokers, and individuals. Since 1992, the Council has been an active advocate for market-oriented solutions to the problems in America's health care system.

PRESENTATION BY MERRILL MATTHEWS, JR., Ph.D.

President, Council for Affordable Health Insurance

DR. MATTHEWS: Thank you Madam Chairman. I have just a few things to add to this. Kate held the discussion just a little bit ago about perhaps state-based Association Health Plans. Of course, if you created a state-based Association Health Plan you would not be able to get to the ERISA exemption because that is what has to go through Federal law. However, and I would just point this out, there are ways for associations right now to offer health insurance and many of them do, including the National Association for the Self-Employed, they just use an insurance company as the conduit to sell the policy through the Association.

So that is one way to do it and use the insurance

company to back that. A couple of points that I would make that I think you might want to consider at some point in the future. Health insurance is structured a little differently than a lot of other things that we can buy. If you want to buy a food product, let's say a fruitcake, from Connecticut. That fruitcake is made under the health laws of the State of Connecticut and then it is shipped out to you wherever you are, and you can buy it in whatever state you're in and it is approved by the state where it is created.

Health insurance is just the opposite. A policy can be created in Omaha or Connecticut or Dallas or Indianapolis, but it has to conform to the health insurance laws of the state where you reside. You might consider doing something, and Congressman Ernie Fletcher has introduced legislation along this line, which would say that if the health insurance policy is fully approved under one state's legislature and health insurance laws, I ought to be able to buy it in another state, so that it could cross state lines by doing that. Now there will be some discussion among the State Insurance Commissioners and Governors and others about whether or not they want to do that, but it would create the kind of competition in which I think you would find some states saying, as happened in banking in Delaware, "We have an opportunity to create some very positive health insurance laws that people from other states would be willing to buy, and so

let's as a state create favorable laws to bring those insurers into our state's, create those policies and then we will be an exporter of health insurance to people in other states." That is one option.

Another would be, Greg mentioned this with regards to HIPAA, but in many cases small businesses have only one or two or three employees. Those employees may want to go out and buy an individual health insurance policy and in the past states have restricted this by what they call a List Bill. But ideally what you might be able to do as a small employer is if your employee wanted to go out and buy his or her own health insurance policy here and another one wants to go out and buy an individual policy and you as an employer just want to be able to pay those premiums to the policy, you ought to be able to do that. That would create a system in which you wouldn't necessarily have to offer any type of group insurance but you are just letting people buy their own individual policies and you as an employer are paying it.

The third thing I would just mention is an exemption from HIPAA legislation. There is some debate among some of the members of Congress right now and they are looking at implementing legislation that would say that if a small business wanted to offer health insurance, and under the current law under HIPAA if I come to that small business as a sick person -- I've got cancer -- the small business has to

bring me into that pool and it affects the premiums of that pool. If your state had a high-risk pool and you as the small employer could say, we will take you and we will pay your health insurance premiums, but you will go under the high-risk pool. Of the high-risk pools that 30 states have, some work very well and some don’t work as well. We've got money coming from Congress right now, $100 million dollars to help fund those, but assuming the high-risk pool was working well and you wanted that as an option, the person could go in the high-risk pool and the employer makes the premium payments to the high-risk pool.

That way you don't end up affecting your pool, and then at such time as that employee is passed the medical condition and is able to be re-underwritten again, then the employee can move back into your pool. But it lets you take advantage of a safety net that's out there without adversely affecting your own premiums. Now, if somebody is already in the pool and gets sick that is what health insurance is for, but this is a person who is coming to the pool and already has a medical condition. There is sort of an assent among some states and some members of Congress that you ought to have a system in which the person accepts. If you do that you end up creating some very perverse incentives out there for people to wait until they get sick before they buy health insurance.

Insurance works on the notion that somebody doesn't

need something. I don't need auto insurance now because I haven't had a car wreck, but I buy the insurance now and then I have the car wreck and then the insurance pays. There is a growing tendency among some members of Congress and states that say, in essence, let the person have the auto accident and then call the auto insurance company and get the insurance then. If you do that you restructure the incentives and it simply can't work. There are people who get medical conditions through no fault of their own and we don't want to penalize them, but we might be able to find a structure that would let them move to a pool that doesn't end up raising the premiums for everybody else, and then let them move back in at some other point. Thank you Madam Chairman.

MS. NELSON: Thank you that certainly adds a whole other dimension to the discussion. Let's turn now, last but not least, to Jessie Howe Briarton. Jessie is the Manager of Legislative Affairs for the National Federation of Independent Business. NFIB is the largest advocacy organization representing small and independent businesses in Washington, D.C., and has in all 50 state capitols. Would you please speak to us? I think you are going to offer remarks in support of Association Health Plans.

PRESENTATION BY JESSIE HOWE BRIARTON

Manager of Legislative Affairs,

National Federation of Independent Business

MS. BRIARTON: That is correct. Thank you so much, Ms. Nelson, for inviting the NFIB to be here today. I am certainly glad to talk a little bit about who our Association represents and our support of Association Health Plans. I am very fortunate to work for NFIB, and I do have a small business background. Both of my grandfathers ran small businesses so I do understand that side of it as well.

NFIB is the largest advocacy on behalf of the smallest of the small businesses. Most of our members have five or fewer employees and have been in business for more than ten years, and actually 25 percent of our members are women-owned firms. We represent over 600,000 members in Washington, D.C. and across the nation and we are represented in every state capitol. A recent Kaiser Family Foundation Poll shows that more Americans are worried about the health care costs than about losing their jobs, paying their mortgage, losing money in the stock market or even being the victim of a terrorist attack. Nearly four in ten Americans say they are very worried that the amount they pay for health services or health insurance will increase.

Since 1986, we have been polling our members on all different types of issues and our members have ranked these

issues from 1 to 75. The number one issue, since 1986, has been the rising health care costs, and no wonder; our small business owners are not experienced. The average, what the polls are showing you, which is about 14 percent this past year, that they are experiencing 25-50 percent increases hands down. Every day I have the opportunity to speak to some of our members and even more recently most businesses are experiencing annual premium increases but I have also talked to owners who have been getting a six-month increase. I would like to share with you, in particular, of a woman-owned small mining company in Globe, Arizona.

She lives in a rather rural area but her increase last year was 75 percent. This is not just one story but we have a multitude of stories where people are seeing increases of almost 100 percent; it is not just 25 percent. And she has tried to look around for another provider to write coverage for her but she has only been able to find one other insurance carrier to write a policy, and that was a 55 percent increase. In addition to these exorbitant rates, and in the middle of her contract year, her husband turned 55, and guess what? His premium went up over $200, increasing their rates 33 percent yet again.

If her costs continue to rapidly escalate, she says this will be the last year she will be able to offer health benefits for her very small mining company. In addition, this

will mean losing her key employees and she won't be able to compete with the other, larger companies in the surrounding areas. This is obviously a very familiar story shared by many of you at this table and I would like to submit for the record several more small business stories from women-owned firms who are NFIB members. NFIB does understand that no one solution will be able to cover all of the 41 million uninsured. Therefore, we propose a multi-faceted approach that will help move countless numbers of Americans off the rolls of the uninsured.

We are aggressively urging enactment of legislation that would permit Association Health Plans (AHPs) to operate nationwide. We encourage the expansion of Medical Savings Accounts and flexible spending accounts, and we also do support the concept of allowing individuals to purchase health insurance through a tax credit. We have heard a lot about AHPs today, and we certainly have been one of the organizations leading in the fight of this issue on the Hill in trying to educate different members of Congress as well as Senators on this issue, in that this legislation is something that would offer more competition into the small group market. Creation of nationwide AHPs is really a matter of righting a wrong, which has plagued small employers for years. Currently the labor unions, medium-sized businesses, as well as large Fortune 500 companies are allowed to offer health benefits to

their employers under ERISA.

This law exempts those companies and unions from that cumbersome task of having to comply with all the regulations and mandates of all 50 states. Small firms are not able to have such an exemption, and in fact they pay at least 17 percent more for their health insurance than their big-business counterparts. With 89 percent of the new businesses being created by small business owners, shouldn't they have more affordable and accessible health care choices? At least one-fourth of all firms nationwide, in the United States, are run by women, and they should realize the importance of supporting H.R. 660, the Small Business Health Fairness Act, which has been sponsored by Representatives Fletcher, Dooley, Sam Johnson and Velazquez. The AHP Coalition just recently launched a website to show our support for Association Health Plans.

To learn more or to show your support and tell your personal story, please log on to www.AHPsNOW.com. Thank you so much for inviting us here today, and we certainly look forward to working with you and aggressively pursuing the enactment of AHPs.

CLOSING REMARKS

by Marilyn Carlson Nelson, NWBC Chair

MS. NELSON: Thank you so much for being here and adding the voice of those many hundreds of thousands of people

that you represent. I want to say thank you very much to each of you who has taken your time to be here today and to help us sort of raise the level of interest and knowledge on this issue and also to join us in trying to bring about some real action and change this year. I also wanted to thank those who submitted their written statements, which will also appear in the transcripts of today's proceedings. And I want to thank those of you who are left in the audience for risking the storm to stay and join us here. We appreciate again your interest, your concern and your action on this very very important issue, thank you so much to each and every one of you.

(Whereupon, the meeting was adjourned at 12:35 p.m.)