

House Committee on Ways and Means

Statement of Mike Draper, Owner, SMASH, Des Moines, Iowa

Testimony Before the Full Committee
of the House Committee on Ways and Means

June 24, 2009

Chairman Rangel, Ranking Member Camp and members of the Committee, thank you for inviting me to be here today and to testify on behalf of my business and small businesses across Iowa.

My name is Mike Draper. I am 26 and own and operate SMASH, a clothing store and screenprinting/design shop in beautiful downtown Des Moines, Iowa.

Although I grew up in a small town outside of Des Moines, even the 21 year old me never would have guessed that the 26 year old me would be back in Iowa living and working. I left the state for the east coast at 17 to study history at UPenn in Philadelphia, I spent a year and a half living in the UK and Germany, and in the UK I met a girl from London who I would convince to marry me.

And let's just say that of all the people who were surprised I was moving back to Iowa, she and her parents were definitely in the top 5.

More surprising was that I wanted to run a clothing store and screenprinting shop. I had no experience in design, in printing, or in retail clothing, but I always say that if I had ever actually stopped to analyze my situation, I never would have started the business I started.

After I graduated, I lived with friends while I traveled around selling shirts out of a bag on college campuses and busy street corners. One day selling shirts in Union Square I began to worry that what I had heard from so many people was true: you really can't do much with a history degree.

But I worked constantly. I built a website to sell shirts. I bought screenprinting equipment. And I realized that my home state of Iowa offered the affordable space and the niche market I needed to succeed.

So in 2005 I moved back and opened a 1,100 square foot retail and printing space by myself and I grossed about \$90,000 in sales. Now, four years later, SMASH has 4,200 square feet, a dozen employees, and will gross over \$1 million in sales this year.

Like many business owners, I have realized that business is often less about the idea, and more about finding solutions to the constant problems that come from dealing with other humans. The closest I ever came to a formal business education was a macroeconomics class that I dropped after getting a 42% on our first test that only covered supply and demand. But even without business training I have successfully maneuvered my way through small business taxes, building codes, trademark law, even immigration issues for a web designer from Denmark who went to college in Des Moines and now works at SMASH.

But health care has always confounded me.

SMASH and the Challenges of Health Care

Right after college, while I traveled and sold t-shirts, I went without health insurance. When I bought an individual policy in 2007, after two years of being uninsured, I thought I had become part of the chosen few, the insured. But my "insurance epiphany," when I realized how odd our system is, came weeks after a minor surgery, when I got an unannounced \$347 bill for "miscellaneous hospital charges."

I laughed when I opened it, imagining what would happen if I started mailing out bills that said, "miscellaneous t-shirt charges" to customers weeks later.

It dawned on me how little my individual policy covered: high deductible, high drug costs, no free doctor's exams. But there was nothing else I could afford.

As SMASH added more employees, there were now more people inheriting my situation. As young moderns, none of us want to be tied to a corporate policy – we would rather have a flexible plan we can travel with. And so all of the employees at SMASH have individual policies that the company pays for.

This most basic coverage makes up 8% of our gross payroll.

What alarms me is that this is the most elementary coverage offered by our provider, Wellmark, and is really only intended to provide the most basic coverage in case of catastrophic accidents.

If SMASH were to try and provide our employees with full family coverage, our costs would balloon to about 22% of our gross payroll, and still we would have plans inferior to those plans of larger companies.

I can't run away from the cost of health care, either for myself, my family, or my employees. The way we do things now, where responsible employers offer coverage and others don't, creates an incredibly uneven playing field. I'd much rather be part of a system where all employers are contributing a fair share, instead of this game of shifting costs that we're playing today. Small business owners like me are willing to contribute – 73% said so in the *Taking the Pulse of Main Street* survey conducted by the Main Street Alliance last year.

Once my wife took a job as a nurse, I moved my insurance to her family plan, but with our family growing, it becomes more likely that my family plan will soon go through SMASH. And as the SMASH employees age and add families, the 22% cost becomes more and more likely.

I have seen being uninsured, being under-insured, now being "fully" insured under my wife's plan, and I've spent over a year living under the UK's national health. I'm as aware of the problems in each as everyone here is.

Big Steps in the Right Direction

The solution is much trickier, but I think the draft bill released by this committee last week is a great start. The "Exchange" seems to address the need for basic regulation, transparent pricing, and coverage rules. It points out the major holes in our current system and gets to the heart of the matter: that we need competition. The Exchange will provide a more competitive, transparent marketplace that will offer real choices for individuals and small businesses. In the Exchange, we will actually be able to compare the insurance plans being offered because the benefit packages will be standardized and the differences in the plans will be disclosed.

I'm also happy to see the provisions in the draft legislation to reform insurance practices to prohibit discriminatory coverage and rating policies. These changes are long overdue – I wish it wasn't necessary for the federal government to step in and pass laws to get insurers to stop these unfair practices, but if that's what it takes then I support you taking action as quickly as you can to put them in place. Reforms that prohibit exclusions based on pre-existing conditions and discrimination in benefits, require plans to meet minimum medical loss ratios, do away with annual and lifetime limits on coverage and cost-sharing for preventive care, limit unfair rating practices, provide for guaranteed issuance and renewal of policies, and assure the adequacy of provider networks will go a very long way to creating a sane marketplace where policies are worth their premiums and where individuals and small business can be smart shoppers for the health care coverage they need.

By creating a Health Insurance Exchange, the bill makes it possible for small businesses to have the affordable option necessary for employers and individuals to share the responsibility of providing quality health care coverage. I like the idea of the "Exchange," but in my opinion, real competition is always more effective than regulation alone. The public option set forth in the bill will do more than anything to ensure competition, and is therefore the most important component to me. Having a public plan that will compete toe-to-toe on a fair basis with private plans will guarantee that even in local insurance markets dominated by one or two private insurers, we'll have real choices and the leverage that comes from being able to vote with your feet and take your business elsewhere if you can't get the insurance coverage you need.

I'm convinced that by encouraging real competition and restoring vitality to the market, a public health insurance option will really drive broad-based positive change in the private sector health insurance industry. According to the Commonwealth Fund, health reform that includes a public option has been estimated to save employers \$231 billion over 2010-2020, and \$3 trillion for the nation. Without the public plan option, those savings shrink from \$3 trillion to less than \$800 billion: we lose three quarters of the savings. I don't know much about budget score-keeping in Congress, but it seems to me like these are savings we can't afford to pass up.

A public plan is also essential to encourage innovation in coverage and affordability in a competitive market. Our business has to be constantly looking for ways to serve customers better, more efficiently, at lower prices, and we are definitely driven by competition from other businesses. As a purchaser of health insurance coverage, I want my insurer to have to compete for my business the same way that I have to compete for my customers.

I understand that the insurance issue is not only technically complicated, but also invites ideological differences on government involvement. But it seems to me that those some of those differences are obscuring the real agreement on the need for a public health insurance plan. A number of recent polls suggest that somewhere around 70% of the public supports the creation of a public health insurance option and from what I've seen most of the small business owners I know agree. In the survey I mentioned earlier conducted by the Main Street Alliance, 70% of the responding businesses said they believe government should play a stronger role in guaranteeing access to quality, affordable health care. When asked to choose between a reform proposal with a public insurance option and one with expanded private market options, 59% of the responding businesses chose the plan with a public option, compared to 26% that preferred a proposal with more private market options.

The bill also includes a phase-in of eligibility for small employers to secure coverage through the Exchange and to gain access to the public health insurance option, with firms employing 10 or fewer workers eligible in year one and firms up to 20 employees eligible in year two. I realize that

this phase-in is intended to be cautious and not create unintended consequences by moving too quickly. But from my viewpoint, we can't make access to the public plan option and the other private plan options available too soon. I would encourage the committee to consider accelerating the phase-in for employers to gain access to the Exchange.

Now I don't read "public option" as "free option." I'm not here asking for free health care, all I'm asking for is rational health care.

I and other small businesses in my neighborhood are not tired of health care premiums. We're tired of health care premiums going to companies whose sole goal is to turn a profit, with little or no regard for the impact of their policies and practices on small businesses like ours. With SMASH's insurer, Wellmark, I know that I am a minute number on a long balance sheet that can be dropped or dragged through court.

With a public health insurance plan option offered through the federal government, I would have an independent federal agency accountable to Congress – you all – on my side, and a system whose goal is not to maximize profits at all costs, but to actually provide real health coverage that meets the needs of my business. Which means at this point, apples to apples, if I had to choose between paying my premiums to the federal government or Wellmark, I'd rather send my premiums to the government.

It may sound strange to hear a small business owner like me say I'd rather send my premium dollars to the federal government than to a private insurer. When it comes to economic issues, the pile of money I send to Washington, DC makes me fairly conservative. But it is this conservative streak in me that wants the competition that a public option will bring.

First of all, I understand that there may be additional taxes involved, but I don't mind paying taxes that are well spent. Right now, however, I see my tax money going to pay for high-cost health care that County Hospital ERs are forced to provide for the uninsured, while 8% of my payroll already goes toward providing only the most basic, catastrophic coverage for a group of employees who are all single and in their 20s.

That means I'm paying for two separate yet equally inefficient systems, and even someone who dropped macroeconomics can see that isn't rational.

Secondly, I support the idea of shared responsibilities in the bill that require individuals and employers to play their part in assuring that everyone has health care coverage. I agree with the approach of giving employers an option of providing coverage for their workers or contributing funds on our worker's behalf. In my own case, I think paying 8% of my payroll to provide health insurance for my employees is fair, and the benefits package is likely to actually cover our health care costs with no pre-existing condition exclusions.

For a business, taxes are easy to take into account because they are a fairly static expense. What are not static are health care bills that cannot be budgeted each year. I have never met a business that went under because of their tax burden, but I meet small businesses and entrepreneurs all the time that can't make it because of their health insurance burden. If extra taxes will help to stabilize the insurance market and make it something I can actually depend on for care and realistically budget for, I am in full support.

While 8% would not be any issue for SMASH, I'm glad to see provisions in the bill to establish a tax credit to help small employers bear the cost of providing coverage for their workers. A 50%

credit will give a big boost to businesses with 10 or fewer employees with average compensation of \$20,000. This, too, offers a great deal of help in improving the health insurance options currently available to small businesses.

I also understand that requiring employers to provide health insurance puts another responsibility on me, but it's nothing new for small business. I already take care of withholding tax and unemployment tax for employees. If one of you came in to shop, I'd make sure the government got the sales tax you owed. These are the responsibilities that come with being at the top of the ladder. Right now, I have the unpleasant responsibility of knowing that the only health coverage we have is insufficient coverage, that one catastrophic illness could not only ruin one of my employees, but could put the entire company in serious trouble. When compared to that, I would gladly accept the responsibility of providing insurance coverage that I wouldn't have to worry about.

Representatives of the Main Street Alliance look forward to continuing to work with you to assess the interaction of the various small business related provisions in the bill to ensure there is affordability across the range of small businesses, whether they directly provide coverage for their workers or contribute to helping workers buy their own coverage through an Exchange.

An American Solution

I understand this is a complicated issue, but I think the US is in a unique situation. We could now create a public-private hybrid that could work better than any system in the world, one that blends the stability of a government-backed system with the self-regulation of a market system.

As we step back, we shouldn't lose sight of the fact that this is one of the few nations where people like me can jump into business and succeed with hard work. We should recognize that it is not just a free market that makes this possible, it is also our country's ability to provide things like affordable public education to give people the tools they need to succeed in business.

Health care is currently a huge hurdle that is often too high for would-be entrepreneurs to surmount, and this creates a serious drag on a major part of our economic engine.

While you can't legislate the entrepreneurial spirit, it is possible for you, Congress, to tackle the hurdles holding back many small businesses and the economy at large. This model of creating choice and competition is an opportunity to do just that.

Adding a public option to health care would not only ensure care for the uninsured, it would provide a much needed injection of energy at the front lines of our market economy, making it easier for young people like me to strike out on their own and start their own business like millions of Americans before them and keep our country leading and prospering in the century to come.

Thank you.