



Statement of the U.S. Chamber of Commerce

ON: "True Cost of PPACA: Effects on the Budget and Jobs"

TO: The House Committee on Energy and Commerce's Subcommittee on Health

DATE: March 30, 2011

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses and organizations of every size, sector, and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. As a result, we are particularly cognizant of both the problems with which smaller businesses grapple, as well as those issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum across many varied types of business and location. Each major classification of American business—manufacturing, retailing, services, construction, wholesaling, and finance—is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of our member companies engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors greater international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Statement on
“True Cost of PPACA: Effects on the Budget and Jobs”
Submitted to
THE HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON HEALTH
on behalf of the
U.S. CHAMBER OF COMMERCE
By
Phil Kennedy
Owner and President
Comanche Lumber Company Inc.
Lawton, OK
March 30, 2011

Chairman Pitts, Ranking Member Pallone and distinguished members of the Subcommittee, thank you for inviting me to testify before you today on the impacts of the new health care law on my business and employees. I commend your efforts in holding this important hearing to better understand the effects this complex and onerous ‘reform’ will have on the ability of businesses to grow and create jobs as we are required to sort out and contend with the labyrinth of regulations and cloud of mandates now hanging over our heads.

I am Phil Kennedy, Owner and President of Comanche Lumber Company Inc., which is located in Lawton, Oklahoma. I am here to speak with you today on behalf of the U.S. Chamber of Commerce. I have the honor of serving on the Board of Directors of the U.S. Chamber of Commerce and as Past Chairman of the State Chamber of Oklahoma and Past Chairman of the Lawton-Fort Sill Chamber of Commerce and Industry. I am also owner of Southern Hardlines, Inc., a floor covering and decorating supplier and am a partner in a number of other small businesses in Lawton. In addition to my business activities, I believe it is important to give back to the Lawton community which has been so good to my family. I serve on the Board of the Comanche County

Memorial Hospital Foundation and the Great Plains Technology Center Foundation. I am also the Past President of the Lawton-Fort Sill United Way.

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Company Background

Before remarking on the daunting challenges posed by the new health care law, I want to share with you a little information about our family-owned business. Comanche Lumber Company, Inc. began operating in Lawton, Oklahoma, in October 1967 in what was once the Rock Island Railroad Depot building, located at the corner of Railroad Street and Southwest 'C' Avenue.

My father and mother, Norman and Christine Kennedy, began selling lumber and building materials for new home construction and remodeling projects for a growing Lawton, and operated for the first five years without a forklift or any other material handling equipment. It truly was a family business. My dad would work inside the store during the day and deliver the orders in the evening, after the store was closed, loading and unloading all materials by hand. My mom was

integrally involved keeping the books for the business. I have fond memories as a child of spending countless hours at our family business.

As Lawton grew, so did Comanche Lumber Company, venturing into the floor covering market in 1982 and occupying land up and down Railroad Street to house the inventory. In 1990, the company outgrew the old Depot building and purchased the structure at #2 SW 'C' Avenue. This building became Comanche Home Center, an Ace Hardware Store and Lumber facility. The old Rock Island Railroad Depot was torn down, and replaced with new, covered storage units that today house our large lumber and building material inventory.

As I took over the family business, I wanted to make sure the company continued to grow as we moved forward into the 21st century. We were already members of Allied Building Stores (ABS) and Ace Hardware. In 2001, we took another major step forward with the company by joining another buying group – Carpet One, the world's largest floor covering retailer. In 2004, we added a new warehouse to help house the growing inventory of the finest flooring and decorating products in Southwest Oklahoma.

I credit my father and mother for not only starting and successfully running this business over the years, but for also instilling in me a strong work ethic, a deep appreciation for our business' greatest asset, our employees, and a profound sense of pride in our community. We care greatly about providing outstanding service and quality products to our customers. What began as a simple lumberyard almost forty-four years ago has become one of Lawton's leading building material retailers. We remain independently owned and operated and a strong member and supporter of the

Lawton community. In addition, we are a major supplier of the lumber, nails and other materials used for construction projects at Fort Sill, a United States Army base that is home of the U.S. Army Field Artillery School as well as the Marine Corps' site for Field Artillery MOS school, U.S. Army Air Defense Artillery School, the 31st Air Defense Artillery Brigade, the 75th Fires Brigade and the 214th Fires Brigade. As we like to say, for 44 years we have helped people build it right.

Our products are often used in the construction of military housing on the base at Fort Sill. It is very rewarding to know that our materials are being used to improve housing for men and women serving in our Armed Forces and their families who sacrifice so much for our country. Whether through direct sales to Fort Sill or to contractors doing work there, we are humbled and honored to play our small role in improving the quality of life of the Soldiers and Marines stationed there and helping them fulfill their critical mission. Our staff also takes personal pride in this because many of their spouses service in the U.S. Armed Forces.

For the past couple of years, we have hovered around 50 full-time employees, sometimes dipping just below and sometimes cresting just above this mark depending on the time of the year. With the bulk of our business occurring in the spring and summer, we also hire some part-time employees to assist us. This year has been a struggle for the business. Starting in January, we have reduced staffing levels through natural attrition which hopefully will help us avoid any further need to scale back. But as I wade through the new health care law and begin to grasp the mandates and their bearing on my business, I am deeply concerned.

Health Care

Comanche currently offers a generous plan to our employees – about 50 percent of us take Comanche up on this coverage offering, including me. Many others are covered by their spouses or other plans. We pay about 50 percent of the premium for employees that elect the higher deductible options (\$1500), and also offer a more comprehensive plan with a lower, \$1000 deductible. I am able to get good rates for Comanche’s health insurance benefits because Oklahoma has good free-market laws that encourage competition among insurance companies for my business. However, premiums continue to climb. In order to prevent large increases, we have had to make some tough choices, including increasing our plans’ deductibles and implementing a more tiered drug formulary structure.

It is my understanding that the new health care law includes a number of new insurance rules billed as “patient protections,” such as requiring free preventative services, requiring plans to allow “adult children” to be added as dependents, placing restrictions on annual and lifetime limits, and other changes. While this sounds nice, it certainly lessens our flexibility in changing plan design to restrict premium growth. Changes such as maximum out-of-pocket limits and maximum deductibles similarly will guarantee that premiums will be harder to control. Even with the flexibility we had, over the past two years the premiums for the plan have increased about 30 percent.

Other aspects of the law that will increase Comanche’s premiums include the numerous new taxes on health industries including taxes on medical devices, prescription drugs, and small business

health insurance. The director of the Congressional Budget Office has testified that these taxes will be passed on to me and my employees in the form of higher premiums.

While these new insurance rules and taxes are problematic, their impact pales in comparison to what will happen when the new mandate kicks in January of 2014. The mandate will basically punish businesses that have 50 or more employees by fining them if they don't offer a certain level of coverage. Even if a business does offer a "qualified plan," it still might be fined just as much. Ironically, the fine for businesses that don't offer coverage is \$2,000 per employee... and the fine for a business that does offer coverage is \$3,000 per employee, plus the cost they're paying for coverage. In other words, it may be more cost-effective for Comanche to drop its coverage under the new mandate. Considering that Comanche's profits are about 1 percent, I am not sure how we could afford to pay these fines.

It seems that there is one way for me to avoid paying these fines – I can either get (and stay) under 50 employees, or I can start forcing employees to part-time status, making them independent contractors, outsourcing certain services, and taking similar efforts to negate the fines. It seems strange that the law would incent these choices at a time when the economy is struggling to recover from such a terrible recession. I don't understand it, but as a business owner my job is to protect the business, keep the doors open, and sell lumber. I hope I don't have to do any of this, but the health care law may force my hand, as well as that of many other small business people. I do not want to lose anyone on my payroll, but if it comes down to laying off a few employees or being saddled with these fines, I won't have a choice.

If Comanche doesn't offer health insurance, I suppose many of my employees will have no choice but to try and obtain coverage through the new exchanges. I do not know what kinds of plans will be allowed in an exchange, what the minimum level of coverage will look like or cost, or whether there will be a big enough pool and enough competing plans to make coverage in an exchange affordable. I hope high-deductible plans will still be offered, but that is unclear in the legislation.

I know that my fellow small businessmen (and women) will not be allowed to shop among competing health insurers across state lines. I understand the exchange is supposed to create a new "marketplace" for purchasing insurance, but that doesn't mean that small businesses are going to be able to create favorable pools and have more negotiating power against insurance companies. Real health reform would have included ideas like this, instead of just taxing, subsidizing and dramatically increasing my paperwork burdens which the new 1099 provision would place on me.

Small business owners were hopeful that health reform would rein in health care costs and bend the so-called cost-curve down. However, looking through the bill I don't see anything about *real* medical liability reform other than vague acknowledgment (termed "sense of the Senate") that "States should be encouraged to develop and test alternatives." It seems to me that if we really want to address rising costs, medical liability reform should be tackled head on. We need to fix the existing civil litigation system and instead of merely saying it needs to be fixed.

Conclusion

I understand that given the existing political realities in Washington, DC, a total repeal of the health care law by Congress is an unlikely proposition for now. However, I am hopeful that this Subcommittee and your colleagues in the House and Senate will focus on repairing or eliminating the more onerous mandates and provisions which saddle businesses with burdens that actually encourage us not to expand our business and astoundingly discourage job creation. The bottom line is that your decisions can help or hinder us. By that I mean the laws you create will either foster an environment that gives small business owners greater confidence and certainty to grow and generate new jobs, or one that does just the opposite. Regrettably, this new health care law is already doing the latter and Congress must take the necessary action to rectify it.

Thank you for this opportunity to testify, and I look forward to your questions.