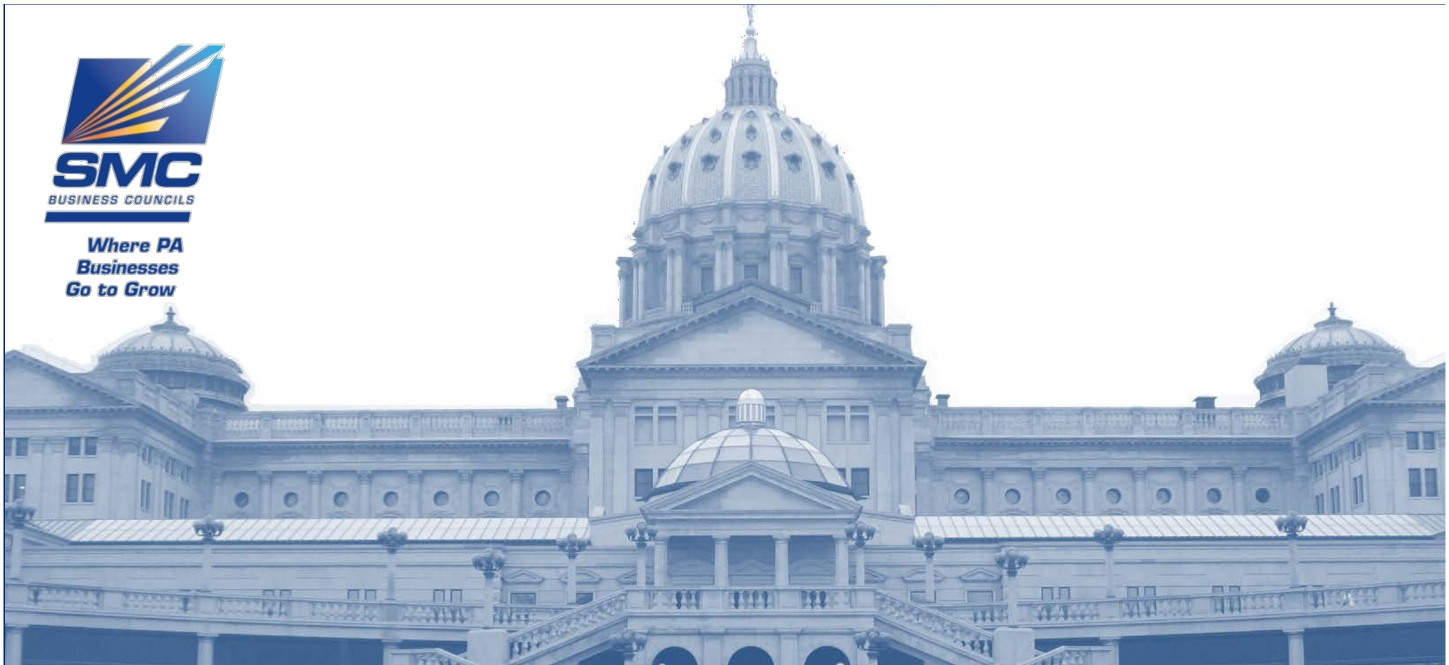
SMC Business Councils

2016

State Position Papers

May 16, 2016



Summary of SMC Business Councils 2016 State Position Papers

I. Improve Pennsylvania

II. State and Municipal Pension Reform

III. The 2016-2017 Budget and Taxes

IV. Problems with the PA Department of Revenue

V. Workforce and Labor

VI. Controlling Health Care Costs

I. IMPROVE PENNSYLVANIA

SMC Business Councils is a trade organization that has served and represented the manufacturing and small business community since 1940. SMC has more than 700 member companies in western and central Pennsylvania who employ more than 15,000 workers. Businesses range in size from sole proprietors to manufacturers with several hundred employees. Their products and services include environmental consulting for the oil and gas industry, to the production of clothing for bicycling enthusiasts and the manufacture of steel rod for the tool industry.

Small businesses are the backbone of the economy. Unfortunately they can't afford the voice or have the deep pockets of large, multinational corporations. Lawmakers must understand and consider the economics at this important level. Large companies depend on small companies for critical parts, supplies and services. Healthy small businesses are a critical component of a healthy state and national economy.

- *There are more than 226,160 small businesses with 1-499 employees in Pennsylvania.*
- *Of those businesses, 87% or 197,000 have LESS than 20 employees.*
- *In 2013 small businesses employed 2.4 million employees who make up nearly 46.9% of Pennsylvania's private-sector labor force.*
- *Small businesses represent 98.2% of all employers in Pennsylvania.*

…..U.S. Small Business Office of Advocacy - most recent Pennsylvania profile.

Improve Pennsylvania's ability to invest in the future.

Fundamental reform of the state's two public pension plans is required and the massive unfunded liability must be addressed now.

Improve the business climate for small manufacturers and businesses.

When businesses create jobs then people can support families and sustainable lifestyles. More people working and more people buying products and services means revenue growth for the state.

- Ensure fair treatment of those businesses who file at the individual level as pass- through entities under the 2016-2017 budget by keeping everyone's fair share to a minimum.

- Rectify problems with the PA Department of Revenue by adopting administrative reforms that present only justified and legitimate tax reporting issues, and timely, efficient problem resolution.

- Oppose a mandatory increase in the minimum wage from $7.25 to $10.15.

For more information contact:
Eileen Anderson
Director, Government Relations
412-342-1606
eileenanderson@smc.org

II. STATE & MUNICIPAL PENSION REFORM

STATE PENSION REFORM

BACKGROUND - The Independent Fiscal Office (IFO) is a state agency that provides revenue projections for use in the state budget process along with impartial and timely analysis of fiscal, economic and budgetary issues. The IFO projected a $1.86 billion budget shortfall for the state - structural deficit - in the 2016-2017 fiscal year.

The key driver of increased spending in the budget is the cost of pension benefits for the retired state employees and retired teachers. The growth in employer pension contributions has been staggering. The IFO estimates that in fiscal year 2016-17 pension costs will be 22% higher than they are this year. Pensions add another $500 million in costs to the 2016-17 budget before any other spending.

At the end of 2015, the **State Employees' Retirement System (SERS) which** covers 230,000 employees and the **Pennsylvania Public School Employees' Retirement System (PSERS)** which covers 600,000 employees, had a combined unfunded liability (the difference between the amount of benefits due enrollees and assets available) of over $60 billion,* according to Rep. John McGinnis and that liability grows by an astonishing $12 million per day.
$63 billion, per actuarial calculation, of SERS and PSERS unfunded liabilities assuming an unrealistic 7.5% rate of return. If a 3% rate of return based on Treasury bonds is used then the unfunded liability is $100 billion.

The IFO projects that mandated employer contributions for state employees and school employee pensions will consume a growing share of General Fund expenditures through 2020-21. Payments to SERS and PSERS are projected to increase from $1.7 billion, or 5.8% of General Fund appropriations, in fiscal year 2014-2015 to $3.6 billion, 9.6% of General Fund appropriations, by fiscal year 2020-21.

Employer Contribution Rates for PSERS & SERS
From the General Fund

2010-2011 - The total contribution rate from the Commonwealth for the two systems was $540 million or 5.6% of payroll for the school district share (PSERS) and 5% for SERS. The school district itself pays one half of the 5.6% or 2.8%. The Commonwealth pays the other half.

2015-2016 - The total contribution rate from the Commonwealth for the two systems was $2.4 billion or 25.8% of payroll for school district share (PSERS) and 25% for the SERS. This amount represents a 22% growth rate over 2014-2015.

The year after it is predicted to be 30% of payroll and 29.5% of payroll
The year after that it is predicted to be 32% of payroll and 30.4% of payroll
The year after that it is predicted to be 33% of payroll and 29.4% of payroll
The year after that it is predicted to be 34% of payroll and 28.8% of payroll
And by 2020-2021 it is predicted to be 33.5% of payroll and 28% of payroll
…Economic and Budget Outlook: Commonwealth of Pennsylvania, Fiscal Years 2015-16 to 2020-21, Independent Fiscal Office, January 2016

PROBLEM: PENSION RELATED COSTS ARE THE NUMBER ONE FISCAL PROBLEM AND COST DRIVER GROWING THE STRUCTURAL DEFICIT IN HARRISBURG AND THIS PROBLEM MUST BE SOLVED BEFORE TAXES ARE INCREASED FOR PENNSYLVANIA'S SMALL EMPLOYERS AND MANUFACTURERS.

Increased taxes are the symptom of a disease; the disease is a flawed pension system with a massive unfunded liability. Unless that core problem is addressed there will never be adequate revenue to pay for unfunded pension costs. The structural deficit must be addressed not by increasing taxes but by cutting spending and reforming the state's public pension systems to more closely resemble more sustainable plans in the private sector.

The Commonwealth has had five credit downgrades since 2010 which increase the state's cost of doing business. Unfunded pension liabilities are a part of the reason. Those downgrades took place in:

April 2013 - Moody's,
October 2013 - Fitch,
February 2015 - Standard & Poor's.
February 2015 - Moody's,
February 2015 – Fitch
…**Economic & Budget Outlook, Independent Fiscal Office, January 2016**

SOLUTION: FUNDAMENTAL REFORM OF THE STATE PENSION SYSTEMS IS REQUIRED.

Fix the funding: Those in power, the General Assembly and the Executive branch, have chosen to defer payments over the past 14 years when Pennsylvania's small businesses were not watching. Now we are watching. The first and most important step is adopting a payment plan that responsibly addresses the $60 billion in unfunded liabilities of SERS and PSERS.

- That can be done by making $7.5 billion in payments per year for 20 years.
- If the debt is not paid off then the assets in SERS and PSERS will disappear in 15 years. Retirees are fully guaranteed their payments even if there are no assets. In 2001 for every dollar paid out there were $25.00 of assets to back it, compared to now when there is only $7.00. By 2030 it is estimated that $10 billion will have to be taken out of General Fund revenues to pay retirees.

Fix the retirement plans: The state has clearly demonstrated its inability to manage the risk of pension benefits. A public sector defined benefit plan will always be abused, underfunded, and the taxpayers bear the risk. The design of the retirement plans should be changed.

- All newly hired employees should enroll in a simple defined contribution plan such as a 401K plan like most of us in the private sector.
- "Defined contribution plans make the employer responsible for a specified contribution each year. Unlike pensions, defined contribution plans are by definition fully funded and cannot accrue unfunded liabilities."

… **Policy Points, The Commonwealth Foundation, June 2015.**

SMC understands that the transition to a new system is an issue that requires careful consideration.

Fix the management: The investment management approaches of SERS and PSERS should be altered. The current managers are being paid too much. Other fund managers can manage the funds for a small fraction of the current costs and yield better results. While their fees are coming down, they are much too high and the fact that they are coming down is evidence that taxpayers have really been taken advantage of for a long time.

MUNICIPAL PENSION REFORM

PROBLEM: MUNICIPAL PENSIONS HAVE AN UNFUNDED LIABILITY OF NEARLY $8 BILLION.

Separate plans are administered in every applicable municipality for police, fire, and non-uniformed employees. These plans have become major cost drivers in local budgets and are quickly falling behind adequate funding levels.

Without pension reform, more and more of the taxes collected by the government will be used to pay for an outdated and broken pension system and taxpayer services will be cut. In 2014, 562 municipalities administered distressed pension plans amounting to an unfunded liability of $7.7 billion, up from about $6.7 billion just two years prior. Aside from money in local budgets being diverted from other purposes, taxes have been raised, and perhaps most importantly, the number of public safety employees has been decreased. The quality of life will decline for residents and businesses.
…"Municipal Pensions: A Public Safety Concern," Senator John Eichelberger, <u>Working Parts</u> magazine, February/March 2016.

SOLUTION: REFORM MUNICIPAL PENSION SYSTEMS BY MAKING CHANGES TO PLANS BASED ON HOW UNDERFUNDED THEY ARE.

- If the plan has a funding ratio of no more than 50%, that plan would be placed under the administration of the Pennsylvania Municipal Retirement System (PMRS), which efficiently administers many plans today.
- If the plan is between 50% and 90%, the municipality would have to change their defined benefit program to either a cash balance or defined contribution plan.
- All plans would have to comply with new Governmental Accounting Standards Board (GASB) accounting standards, use a reasonable assumed actuarial rate, pay all of their assessed Minimal Municipal Obligation each year, not use any of their state assistance funding for admin fees, and publicly disclose their pension liabilities annually.
- They should not be permitted to change their plan by ordinance or through any collective bargaining agreement or arbitration decision.

…"Municipal Pensions: A Public Safety Concern," Senator John Eichelberger, <u>Working Parts</u> magazine, February/March 2016.

For more information contact:
Eileen Anderson
Director, Government Relations
412-342-1606
eileenanderson@smc.org

III. The 2016-2017 BUDGET and TAXES

Elected officials must recognize the indispensable role that small business and manufacturers play in generating revenue, taxes and jobs throughout the Commonwealth. Revenue comes from economic activity and growth when there is a competitive business climate. A growing economy should cause tax revenue to rise without a change to tax rates.

Employers create jobs when they have business; there must be demand for their products and services which comes from people having money in their pockets. Increased taxes take away the money that customers can spend on products and services.

Governor Wolf's 2016-2017 budget:

- Overall spending will increase by $3 billion, to $33.3 billion or by 10% over the 2015-16 $30.3 billion budget.
- The Personal Income Tax will increase 11% from 3.07 % to 3.4% or higher retroactively to January 1, 2016.
- The sales tax base will be expanded to include taxes on movies, lottery winnings, digital downloads, and basic cable TV service.

PROBLEM: A PERSONAL INCOME TAX INCREASE (PIT) FROM 3.07% TO 3.4% OR HIGHER HURTS SMALL BUSINESSES.

An increase in the PIT directly impacts the bottom line of many small businesses

- 80% are organized as Subchapter S corporations, LLC's, and sole proprietorships and as such pass-through income is taxed at the personal tax rate.
- Tax increases on businesses are not a boundless resource. Excess cash flow that is used to pay taxes cannot be reinvested by the business in adding new employees, buying new equipment and expanding research and development. This will ultimately restrict the ability for many small businesses to grow and maintain a competitive edge in a very tough economy.
- The tax is retroactive to January 1, 2016 and will place an administrative burden on companies to revise their payroll.

PROBLEM: EXPANSION OF THE SALES TAX BASE HURTS SMALL BUSINESSES.

Small businesses will be forced to pass sales tax increases onto their customers. Increased sales tax causes Pennsylvania businesses to have a competitive disadvantage as compared to bordering jurisdictions, especially those in areas that border states with lower tax or no tax jurisdictions.

PROBLEM: SMC DISAGREES WITH THE PERCEPTION THAT PA'S PIT RATE AT 3.07% IS LOW COMPARED TO OTHER STATES.

According to the Independent Fiscal Office March 2015 report, "**State and Local Taxes; a Comparison across States,"** the current effective PIT rate places PA 21st among the states with #1 being the highest rate. That is unfavorable to small businesses.

- While the PIT seems low at 3.07%, Pennsylvanians have a greater amount of income subject to the PIT because we do not follow the pattern of deductions to income allowed by the federal government and other states.
- With an 11% increase of the PIT rate to 3.4%, our effective rate will place us even closer to the top of the states, making us significantly less competitive with some of our neighboring states.

SOLUTIONS: DELIBERATE AND RESPONSIBLE ACTION BY STATE GOVERNMENT IS NEEDED.

When small businesses do not have sufficient income they cut expenses and look for ways to become more efficient with fewer resources. Government should do the same.

- **Get PA's financial house in order first. Focus on pension reform.** Pensions are the biggest driver of costs and the number one issue that causes tax increases. Increased taxes are the symptom; the disease is the growth of mandated expenses. Defined benefit pensions for public employees are an unsustainable luxury we can no longer afford. To remain competitive nearly all private sector businesses have moved to defined contribution style plans. The public sector should do the same.
- **Reduce government spending.** There has been very little discussion of how government economizes; instead it's about how government can raise revenue. Small businesses should not be expected to bear the burden of large tax increases to fund government without first having government do exactly what the Governor's proposal demands of us - do more with less.
- **Increase government efficiency.** The Governor's plan should require state government to perform more efficiently and at a higher capacity.
    - **Leverage existing resources -** Privatize the liquor system to bring in revenue.

Excerpt from "WHAT ARE THE IMPACTS OF INCREASED PERSONAL INCOME TAXES AND SALES TAXES ON SMALL BUSINESSES? INTERVIEWS WITH PENNNSYLVANIA EXECUTIVES," SMC Business Councils, August 2015

***

Product: Metal specialties wholesale, metal spinning and forming
Number of Employees: 35
Respondent: Son of owner, family business

This commentary illustrates the unintended cumulative effects of tax increases and health care costs.

Background: His business is slower than he would like and they had to lay off several workers. The layoffs were caused by a combination of factors but escalating health care costs have the largest impact on their overall numbers. They don't see that situation getting any better in the future.

Their insurance renewal is September 1st; their premium increased by 68% which translates to more than $90,000. With that money he could hire 2 employees or buy a new piece of machinery. They will go with a high deductible plan for the first time which reduces the increase to 28%.

- The company pays 70% of the premium and the employee pays 30%.
- Next year they will move to a 60%-40% split and eliminate spouse and dependent coverage.
- Eventually he anticipates moving to a 50%-50% split. He predicts at that point they will lose employees.
- Several business acquaintances have moved to employee-only coverage or stopped offering health coverage completely.

Impact of the 20% increase in the Personal Income Tax (PIT) and Sales Tax increase and expansion of the Sales Tax base:

- **Decreased employees' wages:** This compounds the burden on the employees pay check. Not only will they be hit with increased health premiums and high deductible costs, they will also pay increased PIT and sales tax.
- **Reduced ability to invest in company:** Taxes take away money from the business and reduces profit. His family is very strict about investing in their company. They have always gotten money to reinvest in the business from the business profits.
    - They just bought a new machine and hired someone to operate the equipment. It's a good move because it expands their reach into other markets. The total cost was around $1,000,000. With increased PIT taxes, that type of investment could be out of the question in the future. There are other pieces of equipment that work in tandem to the new machine but it is out of the question to buy them now due to financial constraints.

For more information contact:
Eileen Anderson
Director, Government Relations
412-342-1606
eileenanderson@smc.org

IV. PROBLEMS WITH PA DEPARTMENT REVENUE

PROBLEM: THE PA DEPARTMENT OF REVENUE SENDS OUT INCORRECT TAX NOTICES.

The PA Department of Revenue routinely sends out thousands of “Let’s see if it sticks” computer generated tax notices to businesses that generally demand payment and in many cases the notices are completely inaccurate. The notices often make tax adjustments to taxpayers’ accounts without any explanation.

PROBLEM: THERE IS NOT AN EFFICIENT PROCEDURE FOR TAXPAYERS TO RESOLVE MINOR TAX ASSESSMENTS, INCORRECT ASSESSMENTS, OR RESOLVE OTHER DISPUTES.

Currently the resolution of the issue is very frustrating and painful because the business owner is left to defend his company which is burdensome and expensive. A tax notice may be for $200-$300 but it often requires the hiring of an outside accounting professional who must file a petition and attend a hearing on behalf of the client to resolve the issue. The cost to the client can be 3 to 4 times the original tax bill and in many cases exceeds $1,000. The cost is rising because it often takes numerous letters and calls to the PA Department of Revenue to resolve the tax notice problem.

PROBLEM: MEMBERS HAVE HAD LEGITIMATE BUSINESS TAX DEDUCTIONS DENIED YEAR AFTER YEAR ON PENNSYLVANIA INDIVIDUAL AND BUSINESS RETURNS.

SOLUTION: ADMINISTRATIVE REFORMS MUST BE MADE THAT PROMOTE TIMELY, EFFICIENT AND INDEPENDENT TAX PROBLEM RESOLUTION.

- Develop an efficient process for taxpayers to respond to and resolve tax notices.
    - Establish a minimum assessment threshold of $1,000 or less where the taxpayer, or their representative, can write a letter to resolve the issue instead of requiring a formal petition process.

Results of an informal SMC survey of member accounting firms:

- Is this a problem for your clients? **YES**
- How many cases per year do you see? **25 to more than 50 (dependent on size and scope of firm).**
- Approximately how long does it take to reach a solution? **A minimum of 1 hour up to several hours.**
- Firms generally find that more than 95% of these tax adjustment notices are not correct and they provide no information related to why a change is being made.

For more information contact:
Eileen Anderson
Director, Government Relations
412-342-1606
eileenanderson@smc.org.

V. WORKFORCE and LABOR

PROBLEM: THERE IS A LACK OF SKILLED WORKERS.

In recent years, due to the low number of new workers entering the industry and manufacturing growth, we have been left with a staggering gap of available skilled workers. Unless we take the time to rectify the problems that are faced by today's manufacturers in finding their skilled workforce, Pennsylvania will suffer major setbacks.

"Over the next decade nearly 3½ million manufacturing jobs likely need to be filled.
The skills gap is expected to result in 2 million of those jobs going unfilled."
… "**The Skills Gap in U.S. Manufacturing 2015 and Beyond" Deloitte and the Manufacturing Institute**

SOLUTIONS: AN IMPORTANT PART OF GROWING AND TRAINING THE WORKFORCE IS EXPOSING YOUNG PEOPLE TO OPPORTUNITIES AND CAREERS IN MANUFACTURING.

Students and their parents look negatively upon skilled labor occupations, yet only about 25% of all career paths require a four-year college degree or greater.

HB 725 School-to-Work Pilot Programs. This bill establishes the creation and implementation of school-to-work pilot programs in the Department of Labor and Industry and the availability of tax credits for those businesses who participate. This bill will expose youths in middle and early high school to careers in manufacturing and it is a step in building the workforce pipeline of new entry level workers with the aptitude to train for manufacturing positions

PROBLEM: WORKERS' COMPENSATION MEDICAL COSTS ARE INADEQUATELY CONTROLLED.

SOLUTION: HB 1800 - ADOPT TREATMENT GUIDELINES FOR WORKERS' COMPENSATION BASED ON NATIONALLLY RECOGNIZED STANDARDS OF CARE.

This bill will require that all reasonable and necessary treatments, services, products, or accommodations be consistent with nationally-recognized, evidence-based medical treatment guidelines selected by the PA Department of Labor and Industry.

Treatment guidelines will help control costs, reduce surgeries and other unnecessary procedures, reduce prescription drug costs, and improve return to work times.

Studies have demonstrated that medical practitioners who utilize evidence-based treatment guidelines experience lower costs, have fewer patients who require continued care after a certain number of months, and their patients show improved physical functioning 12 months after injury.

The following comments are from Bill Hennessey, M.D., an expert in Workers Compensation with a medical background.

- Length of treatment is a key parameter to publish so that unnecessary treatment does not go on forever.
- Establishing guidelines for common diagnoses will target certain doctors who like to over-treat. They will be cut off from providing unnecessary treatment with related unnecessary billing habits. There already is utilization review law in place to stop this abuse; however, this bill helps further limit abuses, both physical and financial.
- West Virginia issued Rule 20 in June of 2004. It took a similar stance and published administrative guidelines for the length of treatment - a very key parameter - for common diagnoses. Worker's Comp claims plummeted and the claims life span shortened and for the first time ever, West Virginia was considered employer friendly.

PROBLEM: A MINIMUM WAGE INCREASE SHOULD NOT BE MANDATED.

An increase from $7.25 to $10.15, nearly $3 per hour, will impact the smaller business and manufacturers' community more than any other segment of the economy since they offer more entry-level positions. All jobs between $7 and $10 will be gone forever.

According to the PA Independent Fiscal Office (IFO) should Pennsylvania raise its minimum wage to $10.10 an hour, 31,000 jobs across the Commonwealth will be at stake.

SOLUTION: SMC RECOMMENDS THAT BUSINESSES SET A TOTAL COMPENSATION PACKAGE OF WAGES AND BENEFITS THAT WILL ATTRACT TALENT.

The following are examples of employers competing for talent:

Aldi - "Help Wanted" signs advertise paying $12.50/hour. They are competing for help with Wal-Mart and Target who have increased hourly wages.

Wal-Mart - They now pay associates hired before Jan. 1, 2016 at least $10/hour. New entry-level associates start at $9/hour and move to at least $10/hour after successfully completing the company's new retail skills and training program.
…"2016 action lifts average hourly full-time rate to $13.38", January 20, 2016

Target - Target followed Wal-Mart, and increased its minimum wage to $9/hour in April 2015 and $10/hour for current employees in 2016. TJX, owner of T.J. Maxx and Marshalls also increased its minimum wage to $9/hour in June 2015."
…MSNBC, March 18, 2015

SMC MEMBER EMPLOYER EXAMPLES OF THE IMPACT OF AN INCREASE IN THE MINIMUM WAGE.

Comments were gathered because studies of the impact of a mandated minimum wage increase are inconclusive.

"When asked if Labor & Industry has estimates on job losses following an increase in the minimum wage to $10.15 per hour Secretary Manderino said she shares the Governor's passion for increasing the minimum wage. She said there are as many studies that it is bad as there are for it being good."
…House Appropriations Committee Budget Hearing with the Department of Labor & Industry, Pennsylvania Legislative Services, 3.3.2016

EXAMPLE: Mt Lebanon Office Furniture & Interiors, Pittsburgh, Jim Droney, President /CEO, 18 employees

"We pay our delivery and installation guys between $13-16 per hour, along with some benefits.
My concerns about raising the minimum wage are:

- The ripple effect… if the minimum is arbitrarily raised, then those workers making above it will also expect a raise; whether it is justified by merit or the timing is right, or not. (Many companies review once per year for salary adjustments; if the minimum wage is increased midyear, there will be a clamoring for immediate adjustments).
- The minimum wage was never intended to be the benchmark for workers raising families etc.; it was a starting point for those aspiring to learn a job, or work part-time after school, or to begin their career. Since it appears to have become such a battleground issue, then there should be exemptions for young people still in school, part-timers, or those who are looking to move up the scale but are just starting and just learning.

EXAMPLE: Manufacturer, Pittsburgh, Anonymous, 30 employees

We currently pay our entry level-unskilled workers above $10 per hour. As we train the employees and they gain experience, their pay increases appropriately. We also offer good benefits to our employees. As a result, our employee turnover is very low. The low employee turnover allows us to be competitive as a business in many different ways. If the minimum wage were to increase, we would also have to increase ALL of our wages in order to stay competitive and retain employees. The increase in wages, along with the rising cost of benefits would force us to reexamine the way we operate. We need to stay competitive so that we can continue providing our services to our customers and providing good jobs to employees. We would most likely have to do one of the following or a combination of them if a minimum wage increase occurred:

- Decrease the benefits we offer to employees.
- Do not increase our pay as the minimum wage increases, and deal with higher employee turnover.
- Increase the pay but find ways to increase our productivity and efficiency (by outsourcing, more automation and etc.) which may decrease the number of employees needed.

The increase in minimum wage would negatively affect our business, and seems to be a punishment for a business that currently provides good pay and benefits to employees. The effects of the increase may do the exact opposite of its intended purpose by forcing companies to find ways to reduce the number of employees needed.

EXAMPLE: General Rental Center, Cranberry Township, Mike Hall, Owner/General Manager, 15 employees

Hall starts his employees at $10.00 an hour. As they gain experience employees are paid $15.00 and $18.00 per hour. He has to compete for labor because there are not many workers in his immediate community looking for the type of jobs he provides. He pulls workers from other communities where jobs are less plentiful. He fears he will face even more competition if a planned shale gas processing plant opens.

If the minimum wage is raised from $7.25 to $10.15 he says it will be an insult to those making $15.00 and $18.00 per hour. He will have to pay them more.

EXAMPLE: Anonymous

I asked one of my restaurant folks about a potential wage increase and without hesitation she said it would put her out of business. Without going into detail, it would be the final shovel of dirt over the hole she and her husband have been trying very hard to dig out of.

For more information contact:
Eileen Anderson
Director, Government Relations
412-342-1606, eileenanderson@smc.org

VI. CONTROLLING HEALTH CARE COSTS

PROBLEM: HEALTH INSURANCE AND HIGH DEDUCTIBLES COST TOO MUCH.

The number one problem small employers and employees have with health insurance is that it simply costs too much. But premiums are only part of the cost of health insurance. What doesn't make the news are the high deductibles incurred by employees. The maximum deductible allowed by law is $6,850 for individuals and over $12,000 per year for families.

"David Lansky, chief executive officer of the Pacific Business Group on Health, said …'the rise of consumer cost sharing has created terrible, almost unbearable, pressure' on many people who can't afford health care under new payment structures… Lansky cited estimates that for 'about 40% of the country, their net worth is less than their deductible.'
…"**Group Aims for Health Care Quality and Cost Information for Half of U.S. by 2020," Highmark Government Affairs, 5.8.2015**

- **The use of high deductible plans by employers is growing.** Many employees now have high-deductible plans and they are responsible for 100% of the cost for many tests and outpatient procedures.
    - "According to America's Health Insurance Plans (AHIP), public participation in Health Savings Accounts (HSA) climbed 13% since 2014. AHIP reported 19.7 million Americans covered by a high deductible health plan or HSA, an increase of over two million since January."
      ….Leg Reg Review, issue #34, 11.23.2015
- **Employers and Employees have inadequate access to the price and quality of health care services and providers.**

SOLUTIONS: CONSUMERS REQUIRE TRANSPARENCY OF PRICE AND QUALITY.

For almost everything we buy, we know the price ahead of time, but not for health care services. Small employers and their employees need easily comparable measures of cost, options and quality information to become better purchasers of health care services.

- **Reauthorize and adequately fund the PA Health Care Cost Containment Council (PHC4)** provided the agency produces consumer-useful price data.
    - PHC4's website must be easily useable by the general public.

PROBLEM: BALANCE BILLING CAUSES FINANCIAL PROBLEMS FOR CONSUMERS.

"In many cases patients don't realize they've received out of network care until they are slapped with a bill for hundreds or thousands of dollars. Nearly a third of insured Americans who have financial problems tied to medical bills faced charges that their insurance would not cover according to a recent survey by the Kaiser Family

Foundation. These out-of-network charges were a surprise to nearly 70% of patients, who did not know the services were not covered, according to the nonpartisan policy group.
… "Surprise Fees Can Follow Medical Procedures," The Pittsburgh Tribune Review, 2.13.2016

SOLUTION: PROTECTION FROM BALANCE BILLING IS NEEDED FOR CONSUMERS.

Consumers who seek health care at in-network facilities should be protected from being billed by an out-of-network provider at a cost more than what they would owe to a provider for any in-network cost sharing under the consumer's health plan. This will remove consumers from disputes between providers and insurers over out-of-network bills, and requires both sides to agree to binding arbitration of disputes on a tight timeline or face hefty fines.

- When primary caretakers are in network then all others providers should be treated as in network.
- Insurers should be forced to have adequate provider networks.

For more information contact:

Eileen Anderson
Director, Government Relations
412-342-1606
eileenanderson@smc.org

Where PA Businesses Go to Grow

SMC BUSINESS COUNCILS

STATE POSITION PAPERS

MAY 16, 2016

Visit http://www.smc.org for 2016 State Position Papers.

For more information, contact:
Eileen Anderson
Director, Government Relations
SMC Business Councils
412-342-1606
eileenanderson@smc.org

About SMC Business Councils

Since our founding in 1944, SMC Business Councils has been at the forefront of small business advocacy at the state and federal level. SMC Business Councils serves 700 employers in southwestern and central Pennsylvania who have more than 15,000 employees. Membership is comprised of businesses in service, commercial and manufacturing enterprises. They range in size from sole proprietors to manufacturers with several hundred employees.

Please consider SMC Business Councils as a resource when you need facts, figures, information, and testimony from those small employers who are in the trenches. SMC has member experts in taxation, energy, economic development, workforce and labor,