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U.S. House Committee On Education And The Workforce
Subcommittee on Health, Employment, Labor and Pensions

The Effects of the President's Healthcare Law on Indiana's Classrooms and Businesses

Testimony of Mark V. DeFabis
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Chairman Roe, Ranking Member Tierney and distinguished Members of the subcommittee.

Thank you for inviting me to testify today. My name is Mark DeFabis and I am President of Integrated Distribution Services, Inc., commonly referred to as IDS, a third party logistics provider, located in Plainfield, IN where we employ 72 full time individuals and 100 to 150 seasonal and part time unskilled workers. My company provides third party logistics services including fulfillment, transportation, packaging, labeling and other related services to ecommerce and direct selling companies located throughout the United States.

As a business owner I have always strived to provide our employees with competitive and affordable benefits including healthcare. Prior to the implementation of the Affordable Care Act, IDS was experiencing annual increases in the 10 to 17% range. Much of these increases were driven by the health of our employees. Over 50% of our employees smoked, most did not utilize a primary care physician and accessed health services through either the emergency room or an immediate care facility. Many also had chronic conditions such as high blood pressure, high cholesterol or diabetes but were not taking maintenance drugs. It became obvious that if we were to control our healthcare costs, we would need to address the health of our workers. For that reason, we implemented a Wellness Program designed to improve the health of our employees which in turn would reduce our premiums.

Our Wellness Program offers annual health screenings and incentives to employees to stop smoking, obtain and see a primary care physician and use maintenance drugs for chronic conditions. The program also offers quarterly seminars on topics such as healthy eating, reducing stress, the importance of exercise and other topics designed to encourage a healthy lifestyle. These seminars are combined with onsite visits by our health coach who is available to meet individually with participating employees to discuss any health questions or conditions they may have.

Over 80% of our employees participate in our Wellness Program and the outcomes have been dramatic. We have reduced the number of smokers by over 60%, reduced the number of claims related to serious preventable health issues, those with chronic treatable conditions are now on maintenance drugs and we have seen better awareness by all employees of the benefits of exercise and healthy eating.

In 2009, the last year before the implementation of the ACA, our Wellness Program and its success translated into a 5.28% increase in our health care premiums with no change in benefits, proving that IDS could control the cost of our healthcare by improving the health of our employees. Unfortunately, that correlation no longer exists under the ACA. Since the implementation of the

ACA, IDS and our employees have seen our healthcare premiums increase 76.64%. This increase would have been even greater had we not mitigated it by raising deductibles 20% and maximum out-of-pocket expenses 17%.

Since September of 2012, 5% of our annual premium increase has been due to taxes and fees, imposed by the ACA, that our insurer must collect and pay on our behalf. These include:

1) The Patient Centered Outcome Research Institute fee
2) The Transitional Re-insurance tax and
3) The excise tax on fully insured premiums, which is assessed on and paid by the insurer but is ultimately passed on to us

In summary, since the ACA took effect, our company and employees have seen premiums increase dramatically while deductibles and out-of-pocket costs have been raised, all during a period when the overall health of our employees has improved.

The significant investment that we have made over the years in our Wellness Program proved an effective way to help control our healthcare expense prior to the ACA but now has little to no impact on our rates and underwriting. As we prepare for the impact of community rating on our underwriting beginning in 2015, it is clear that the relative health of our employees will have no direct impact on our healthcare costs leaving us no choice but to evaluate whether the continued investment in our popular and effective Wellness Program is warranted.

I fear that the implementation of community rating will result in even more dramatic increases on top of the 76.64% that we have already experienced since implementation of the ACA began. I want to commend the State of Indiana for allowing insurers in the individual and small group market to delay community rating through “Grandmothering”, also known as transitional relief and I hope that the insurers will continue the Grandmothering by exercising that option through 2015. I have spoken to business acquaintances of mine, in states such as Virginia which have not delayed community rating, and they have seen increases of between eighty and ninety percent.

From the experience of IDS, I can say that the Affordable Care Act is anything but affordable for our company and employees. It appears that the dramatic rate increases the Act was designed to avoid will only continue when community rating goes into effect in Indiana.

Premium increases are not the only financial impact the ACA is having. As I mentioned, IDS has between 100 and 150 seasonal and part time workers. These unskilled workers come to us through various private staffing companies and/or community organizations such as Goodwill Industries. While at our facilities these individuals work in excess of 30 hours per week. As a result of the ACA, these staffing companies and community organizations will be faced with either reducing the number of hours these individuals work or they will have to provide health insurance to comply with the ACA.

I have had conversations over the last two years with our staffing companies and they still cannot provide me with an estimate of the impact this will have on their workforce. One thing I have been told is that whatever the cost impact to our staffing providers, it will be passed on to us in the form of higher rates. This could result in our staffing costs increasing as much as $250,000 per year. IDS is not in a position to absorb this magnitude of increase and will be left with no choice but to pass it on to our customers or reduce the number of hours worked by seasonal and part time workers in order to avoid the 30 hour threshold. Every company in the third party logistics industry, which employs hundreds of thousands of part time and seasonal workers, is facing this same no-win situation. The ACA’s arbitrary establishment of a 30 hour work week as full time does not reflect the real world and is ultimately harmful to all small businesses and the unskilled workers for whom we provide jobs.

Largely overlooked are the hidden cost associated with the ACA and its reporting requirements. The recently released IRS draft forms for Health Coverage Information Reporting combined with the compliance reporting to determine full time employees are not only confusing but are cumbersome to complete. Much of the information regarding look back measurement, stability period and eligible employee reporting by month cannot be gathered with current automated payroll systems and will require many hours of manual work to compile the required data. I am concerned that this is only the beginning. As it becomes ever more apparent that the goals of the ACA are not being met, I fear businesses will be asked to provide increasingly detailed reporting without any consideration for the administrative cost burden.

Thank you for your time today. As a small business owner, both I and my industry are happy to work with our elected representatives on this important topic.