



The Economic Impact in Kansas of the Affordable Care Act Senate Public Health & Welfare Committee

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Madame Chair and Members of the Committee,

I appreciate the opportunity to appear before you this afternoon regarding the economic impact of the Affordable Care Act (ACA) on our state, our business community and our citizens. My name is Tom Bryon. I own and operate an independent insurance agency in Shawnee Mission, Kansas. I appear before you today as a small business owner, an independent agent, and a member of the Kansas Association of Insurance Agents (KAIA). KAIA represents 425 independent insurance agencies in Kansas. Together, our member agencies employ more than 3,000 licensed agents in local communities throughout the state.

Today, I would like to touch on the core areas where Kansas is experiencing – and I believe will continue to experience – the economic impact of this federal law. The impact is really two-fold: (1) it affects the insurance industry as a whole in Kansas, and (2) it affects consumers in our state.

Increased government intervention

The Medical Loss Ratio (MLR) provisions in the federal law have been widely discussed as having “unintended consequences.” Unfortunately, those unintended consequences include the loss of consumer advocates in the insurance industry and the merger/closure of locally-owned insurance agencies. Historically, insurance companies have contracted with agents - under state-level regulation - to determine commissions and obligations involved in underwriting health insurance for Kansas consumers. The federal healthcare law brought about government intervention into these private business contracts, devaluing the role of agents as a consumer advocate and limiting the ability of locally-owned agencies to operate in the health insurance market. As a result, KAIA has begun to see agents leave the industry and to see Kansas companies merging in order to stay afloat under the federal healthcare law.

Increased costs for consumers

Prior to ACA, commissions were a pass-through cost for which the consumer did not bear the burden. Now, with the intervention of the federal government, those costs stand to be passed onto the consumer. Let me explain. In response to the Medical Loss Ratio requirements in the federal law, almost every health insurance company serving Kansas has either eliminated or sharply reduced its commissions for free market agents. This has created a void for small business owners and other employers in Kansas who are seeking the information they need to navigate and comply with the rules and regulations associated with the federal law. Knowing the value of having agents involved in the process, many health insurance

companies are now offering to collect an agent fee on the top so that it is not counted toward the administrative fees they are allowed under the federal law. Though this practice keeps agents in the process as a consumer advocate, it drives up the cost of health insurance for the consumer.

Employers dropping health benefits

Under the new federal law, employers are required to offer qualified and affordable coverage to all employees who work an average of 30 hours per week. Specifically, the law says employees cannot pay more than 9.5% of their W-2 wages for an employer-sponsored health plan, leaving the employer to bear the burden for most healthcare costs. With healthcare costs on the rise, employers in Kansas are looking at eliminating jobs, dropping health benefits for their employees, or cutting employees back to part-time in order to navigate the federal law. Some estimates have shown the cost of individual and group health plans under ACA increasing between 40-60% for individuals and between 20-40% for small business. Many employers expect these increases, combined with the ACA mandates, to make it unsustainable for them to offer health benefits to their employees.

Larger employers leaving the insurance pool

Just as health insurance costs rise for small business and individuals, costs rise for large employers as well. However, larger employers often have the ability to preface or avoid these costs by choosing a self-funded approach. This poses major concern for the insurance industry because - as more and more of the state's larger employers choose a self-funded approach - it reduces the pool of business in the state, thereby reducing the ability to spread out risk and to ensure the stability of health insurance companies in our state.

Increased red tape for small business

The complexities involved in the federal healthcare and the reporting functions that come with it will be too cumbersome for some employers to manage on their own. Because of that, the new law will cost some Kansas employers additional dollars to hire or contract for outside help just to track and complete the myriad of reports that are required under ACA.

Loss of advocate for the consumer

The loss of agents in the health insurance market - who have long served as the advocate for the consumer - creates a huge void for Kansans. If agents are not engaged in this process, the only option for consumers will be to navigate concerns and challenges with the insurance company itself or to turn to the federal government. The federal government is unlikely to be in a position to advocate for Kansans in a federally-run exchange.

In short, the federal ACA stands to jeopardize locally-owned insurance agencies in Kansas and the overall structure of the state's insurance market. I thank you again for the opportunity to appear before you today. I would stand for any questions from the committee.