



DAVID A. RAYMOND
PRESIDENT & CEO

January 13, 2010

The Honorable Harry Reid
Majority Leader
United States Senate
S-221 The Capitol
Washington, D.C. 20510

Dear Majority Leader Reid:

On behalf of the American Council of Engineering Companies (ACEC) – the business association of the nation’s engineering industry – I would like to offer the industry’s perspectives on issues related to the ongoing effort in Congress to reform our nation’s health care system.

ACEC represents over 5,500 engineering companies and hundreds of thousands of employees throughout the United States. As an industry, America’s engineering companies have always embraced a very high level of corporate responsibility, particularly in the area of health insurance and other employee benefits. Nearly all of ACEC’s member firms offer health insurance to their employees, and the need to help firms control ever-rising insurance costs remains a primary objective for the industry in the health care debate.

While we appreciate the efforts of the House and Senate to develop solutions that meet this complex challenge, we are concerned that the legislation under consideration will impose unnecessary mandates and increase costs for engineering firms and their employees, notwithstanding the fact that these firms have an excellent record of providing health insurance coverage and other benefits to their employees. Engineering firms currently have the flexibility to craft benefit packages in ways that best serve their specific needs in terms of both care and cost. Mandating how much health insurance coverage our firms must provide would limit their flexibility and have an adverse impact on their ability to provide reasonable wages and other essential benefits, such as retirement savings plans.

The House bill would impose an inflexible mandate on all employers with annual payrolls over \$500,000. Employers would have to offer health insurance that covers a specific list of benefits outlined in the legislation. In addition, employers would have to pay at least 65 percent of the premium for family coverage and 72.5 percent of the premium for individual coverage, and limit cost-sharing for employees and their families to no more than 30 percent. Employers that do not meet these tests would be subject to a

penalty of 8 percent of payroll, regardless of whether such generous health insurance meets the needs of employees better than higher wages or other benefits.

The Senate legislation takes a different approach to the employer mandate. Employers with more than 50 employees would have to meet several tests in order to avoid penalties. The health insurance they offer to employees would have to cover a specific list of benefits outlined in the legislation, limit cost-sharing for employees and their families to no more than 40 percent, and the employee portion of the premium could not exceed 9.8 percent of the employee's income. Employers that do not meet these requirements would have to pay a \$750 per employee penalty if any of their employees receives a government subsidy for the purchase of health insurance.

The Senate bill also includes a punitive measure that would limit the small business exemption to only 5 employees or fewer as it applies to the construction industry. This provision – which could sweep in engineering firms —would impose additional costs on an industry that has been significantly harmed during the economic downturn, and which operates with small profit margins during the best of times. ACEC strongly opposes this provision.

ACEC is also concerned about the possible inclusion of a public health insurance option in the legislation, which was approved by the House. The creation of an insurance provider that receives taxpayer funds would likely crowd private insurance companies out of the market. At the same time, cost-shifting from a public insurance plan to privately insured employers is equally concerning. Health care providers could be expected to make up for inadequate reimbursements from the public plan by charging more to privately insured individuals, as already evidenced with Medicare and Medicaid.

The manner in which health care reforms would be paid for also raises concerns. The House bill would impose a surtax of 5.4 percent on incomes over \$500,000 for individuals and \$1 million for married couples. A substantial number of ACEC member firms are organized as “pass through” entities, such as S corporations and partnerships, where business taxes are paid at the individual income tax rates. A significant increase to these rates would have a dramatic impact on these businesses and their ability to retain and create jobs.

The Senate's approach of imposing a 40 percent excise tax on health insurance plans in excess of \$8,500 for individual coverage and \$23,000 for family coverage would create a different set of challenges. The built-in inflationary adjustment based on the consumer price index would fail to keep pace with health care inflation, subjecting more and more Americans to the tax over time. In addition, this approach does not take into consideration regional differences in health insurance costs, the age of the firm's workforce, or other factors that might increase the cost of health insurance.

We are also concerned about the \$2,500 limitation on flexible spending arrangements that appears in both bills. Many ACEC member firms and their employees use FSAs and would be harmed by this limitation. Another provision proposed by both the House and

the Senate would require businesses to file IRS Form 1099 for all transactions for services or property valued at over \$600, whether or not the vendor is incorporated. This represents an enormous paperwork expansion and would especially burden small businesses.

Moreover, in addition to the concerns expressed above, we continue to believe that Congress should include real reforms that would help control rising insurance costs. For example, the high cost of liability insurance, coupled with the tendency for doctors and other health care providers to order tests and other procedures to protect themselves against potential lawsuits, serve to boost health care costs, and these are simply passed on to consumers. The Congressional Budget Office has estimated that implementing various liability reform measures would save taxpayers \$54 billion over ten years. Common sense legal reform is essential to ending the widespread practice of "defensive medicine" and reining in exorbitant health care costs.

We also think that the provisions in the legislation that are designed to reduce health care costs would be greatly enhanced by including changes in federal law to allow individuals and employers to purchase health insurance across state lines. This would not only allow businesses to provide better health insurance products at lower prices for the consumer, but it would greatly enhance competition in areas of the country underserved by health insurance options.

Thank you for your consideration of our views. Again, I want to express our appreciation for Congress's efforts to find solutions for this difficult and complex issue. ACEC stands ready to assist you or answer any questions you may have.

Sincerely,



David A. Raymond
President & CEO