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# Statement of the U.S. Chamber of Commerce

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**ON: HEALTH SAVINGS ACCOUNTS**

**TO: THE SENATE FINANCE COMMITTEE, SUBCOMMITTEE  
ON HEALTH**

**BY: JOE KNIGHT**

**DATE: SEPTEMBER 26, 2006**

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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 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, 71 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as 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 by type of business and location, with each major classification of American business – manufacturing, retailing, services, construction, wholesaling, and finance – numbering more than 10,000 members. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 101 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened 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. Currently, some 1,800 business people participate in this process.

**Statement on  
Health Savings Accounts  
Hearing before the  
THE SENATE FINANCE COMMITTEE  
SUBCOMMITTEE ON HEALTH  
on behalf of the  
U.S. CHAMBER OF COMMERCE  
by  
Joe Knight  
September 26, 2006**

Chairman Hatch and Ranking Member Rockefeller, members of the Subcommittee, I am Joe Knight, Chief Financial Officer and co-owner of Setpoint Companies, a small manufacturing firm comprised of six subdivisions: Setpoint Systems is our automated systems division, Setpoint Inc is our roller coaster division, Leanwerks a precision machining company, Setpoint Spectrometers, Rocky Mountain Testing Solutions, an environmental test lab, AutoPack, which was just purchased a few months ago and is a packaging automation company, selling tables to nutraceutical companies. I am also here on behalf of the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region. Over ninety-six percent of the Chamber members are small businesses with fewer than 100 employees. I am pleased to be able to submit the following testimony for the record and commend the Committee for holding this hearing and for its interest in the benefits of Health Savings Accounts.

Originally founded as Setpoint Engineered Systems in 1992, after initially operating out of a garage, the company has grown into an over \$15 million per year business. Although our companies offer a range of products, they share our philosophical commitment to open book finance where all of our financial information is shared with our employees, and a "no surprises" way of doing business. We apply this philosophy to serve our customers both internally and externally. As CFO and one of the owners of Setpoint Systems, one of my most important duties is to attract and keep highly-qualified employees. It is the employees of Setpoint Systems that carry the banner of our company and maintain the level of customer service that allow us to effectively compete in the marketplace. We are one of the fastest growing companies in Utah, going from 20 employees in 2000 to 60 full and part time workers today. I am also pleased to tell you that our company was voted one of the Best Companies to Work for in the state by Utah Business Magazine. We were recognized by INC Magazine as one of the 500 fastest growing private companies in America (the Inc 500) and for four consecutive years we were in the Utah 100 ranking for the fastest growing companies in the state. We have grown this company without any outside investors. My partners and I grew this company with our own savings and sweat.

Setpoint is a high tech engineering company. Consequently, our average compensation is over \$20.00/hours. We have many key professional employees in our organization. These types of employees expect health care, 401K, vacation and holiday benefits. Our strategy is to provide these benefits and match what large company employers offer in the area. This strategy has served us well because we have been able to attract top-notch engineering talent. We have always paid 100% of single coverage and 75% of family coverage for all of our full-time employees.

To recruit and keep the types of employees we need, we have to keep all of our benefits competitive. Starting in 2003, this became a serious challenge with our health care coverage. One member of our group had a wife with cancer and another has some serious health issues with a child. Unfortunately, in a small group like Setpoint's these issues can be a disaster for health coverage. In 2004, our PPO premiums went up over 20% with a higher deductible and co-pay. Then in 2005 we were hit with a 49% increase in our current plan. The 49% percent increase was devastating to our business because our health care cost was much higher than the large employers in our area. Consequently, even though we still would cover these higher premiums and lose profit, the employee portion of the health care and level of coverage was not competitive and we had trouble recruiting talent. In some cases, we had to offer above market salaries to compensate for our health care plan.

After considering the options for the 2004 plan, my agent informed me about the new Health Savings Account (HSA) High Deductible Health Plan alternative. After looking at this option we found that we could offer plans with a deductible of \$3,500 for singles and \$7,000 for a family plan to our employees through United HealthGroup. These plans would have slightly lower premiums than our PPO plan before the 49% increase and would cover 100% of preventive medicine. I am a finance guy so I went to work comparing our options using a spreadsheet. After modeling single and family medical needs and considering several different scenarios, I was surprised to find that the HSA option was far better financially for my people, even for my employees with medical situations.

We rolled out the new plan with a lot of education because initially some of my employees were skeptical. Now that we are nearly through our second year with an HSA, everyone is happy with the change. As an employer, we were able to save money on the plan and contribute \$1,200 a year to each employee's HSA for families and \$600 per year for singles. For 2006, we were able to offer our employees two different family plans: one with a \$7,000 deductible and one with a \$4,000 deductible plan. Given our group situation, our premiums are still very high but the HSA has made it much easier to recruit and keep our employees.

On a personal note, I have been very pleased with this new type of coverage. I have 7 children. Consequently, my wife is a good budgeter and is very careful with our money. The HSA has made my wife a real shopper when it comes to health care. When we needed a small surgery for one of my children, my wife shopped for the doctors and the cost that she was comfortable with. She is able to save on our health care costs by

managing our use. Whether it's finding the right doctor or asking for generic medication when possible, she is in control of our spending with the HSA. If the doctors are aware that you have an HSA and will be paying cash for services, we have found they will offer a cash discount. I think this new type of plan is putting decision making back into the hands of the consumer, which will lead to more prudent utilization and ultimately help to control increasing health care costs.

Both my employees and I are delighted with the Health Savings Accounts that allow us to benefit from our health care spending decisions with the use of pretax dollars. The health plans that are paired with these HSAs put the consumer in charge of how he or she may elect to spend their health care dollars. Any money remaining in the account accrues and accumulates year after year and employees can take the account and money in it with them to a new job or if they retire. I understand that United HealthGroup, the company that provides Setpoint's plan and the nation's largest purveyor of HSA-compatible insurance, has over 8,435 HSA-style accounts in Utah and a nationwide total of 786,047 HSA account membership.

On behalf of Setpoint Systems and our employees, I would like to thank this committee for the work you have done on enacting this legislation into law and considering possible improvements. Having Health Savings Accounts as a viable health care option has allowed Setpoint to curb the increases in our health care premiums, while enhancing our ability to hire and retain employees.

While my employees and my family are very satisfied with the HSA-compatible health plan, I would like to take this opportunity to thank members of this Committee for working with the U.S. Chamber and the HSA Working Group to introduce legislation that will improve HSAs and to offer some suggestions to further strengthen the current law. This broad range of potential improvements to HSAs will make them more attractive to both consumers and employers including:

- Increase the amounts individuals and employers may contribute to HSAs –
  - Allow HSA participants to set aside more funds on a tax-free basis for their current and future health care needs. HSA participants should be able to contribute up to the out-of-pocket spending limits for their HSA-eligible high deductible health coverage – limited by statute to no more than \$5,450 for family coverage and \$2,700 for individual coverage in 2006;
- Allow employees with HSAs to also participate in other tax-favored health care accounts such as health flexible spending arrangements (FSAs) and health reimbursement arrangements (HRAs);
- Require the Treasury Department to provide earlier inflation indexing of statutory annual deductible, out-of-pocket and contribution limit amounts;
- Allow employers to contribute higher amounts to HSAs for their lower-paid employees;

- Permit individuals over age 65 who are still working to continue to contribute to their HSAs;
- Allow early retirees to pay for their health insurance needs on a tax-free basis with funds from their HSAs, and;
- Allow a prescription drug plan to be offered alongside an HDHP and HSA without being subjected to the high deductible.

Giving individuals more direct control over their health care dollars will encourage more prudent use of health care services, will help make the health care system more responsive to consumers' needs and will improve access to health coverage for the uninsured. I believe that these new Health Savings Accounts represent the most positive health care legislation for small businesses in 20 years. After experiencing this plan for nearly two years as a business owner and plan member, I am convinced that the Health Savings Account/High Deductible Health Plan pairing is the best way to manage our out of control health care costs. It is a great way to give the power of choice back to the consumer of medical care while still protecting them from the serious consequences of major medical problems.

As a small business owner, I look to you to continue to protect our ability to be competitive and create jobs by solving one of our biggest challenges. Certainly, the Health Savings Account is a tremendous step in the right direction. Please expand and improve this offering to make it stronger. Finally, consider my plight as a small employer that can be decimated when one or two of my employees have medical problems. There must be a way to resolve that problem as well.