



July 26, 2012

The Honorable Felipe Fuentes
Chairman, Assembly Appropriations Committee
California State Capitol, Room 2114
Sacramento, California 95814

RE: Opposition to SB 703 (Hernandez)

Dear Chairman Fuentes:

As strong supporters of the federal Affordable Care Act (ACA) and the California Health Benefit Exchange, we must respectfully oppose Senate Bill 703, which would create a Basic Health Plan (BHP) in California.

One of the most pressing issues for our state's small businesses continues to be the skyrocketing costs of health insurance. Employers are seeing healthcare premiums increase year after year and fewer firms are able to offer healthcare coverage to their workforce. Fortunately, the ACA is bringing much needed relief to small businesses through tax credits, insurance market reforms and cost-containment measures.

The single most important component of the ACA for small businesses is the Exchange which allows employers and individuals to pool together and purchase affordable, quality coverage. California is leading the nation in implementing its Exchange and small employers are excited to see these reforms moving forward. According to polling by Small Business Majority and Kaiser Permanente, while only 32% of the state's small businesses offer coverage today, 44% plan to offer coverage in 2014 once the Exchange opens its doors.

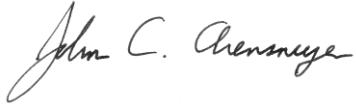
However, the affordability and solvency of the Exchange could be jeopardized with the creation of a BHP, as called for by SB 703. According to joint analysis by the UC Berkeley Labor Center and UCLA Center for Health Policy Research, the BHP would pull close to a million individuals out of the Exchange, reducing total participation by about 40%. Such a dramatic drop in enrollment diminishes the bargaining power the Exchange is relying on to deliver affordable, quality insurance. And with fewer potential customers, some health insurers may opt to not participate in the Exchange, reducing employers' choice. Additionally, the administrative costs of operating the Exchange would be spread amongst a much smaller population, which could lead to higher premiums for small businesses.

If enacted, the BHP may offer coverage at lower rates than the Exchange but this cost savings would be achieved by cutting reimbursement rates to doctors and hospitals. Healthcare providers will likely shift these costs to the individual and small group markets, once again hitting small businesses with higher premiums. It is these sorts of inefficiencies that the ACA seeks to eliminate, not multiply.

Small business owners need relief from high healthcare costs and the Exchange has the potential to achieve significant cost savings. We look forward to working with you to ensure the successful implementation of healthcare reform.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "John C. Arensmeyer". The signature is written in a cursive style with a large initial "J" and "A".

John Arensmeyer
Founder & CEO

cc: The Honorable Ed Hernandez, O.D, Member, California State Senate
The Honorable Diana Dooley, Secretary, California Health and Human Services Agency
Mr. Peter V. Lee, Executive Director, California Health Benefit Exchange Board
Ms. Lisa Murawski, Principal Consultant, Assembly Appropriations Committee
Mr. Scott Bain, Consultant, Senate Health Committee
Ms. Agnes Lee, Special Assistant to the Speaker, California State Assembly