Business Roundtable

Testimony of Robert W. Lane
Chairman and Chief Executive Officer of Deere & Company
Before the Senate Finance Committee
"Taking a Checkup on the Nation's Health Care Tax Policy: a Prognosis"
March 8, 2006

Good morning, Mr. Chairman, Senator Baucus and other members of the Committee. I am Robert Lane, Chairman and Chief Executive Officer of Deere & Company. I am very pleased to be here today on behalf of Business Roundtable, an association of 160 chief executive officers of leading U.S. corporations with $4.5 trillion in annual revenues. I am here today as a member of the Roundtable's Health and Retirement Task Force.

Some 10 million people work for Roundtable member corporations – with John Deere accounting for more than 47,000 employees. Counting employees and their families, Roundtable companies provide health coverage for about 25 million Americans. Business Roundtable's public policy priorities are to ensure a vibrant economy and a competitive workforce. These priorities go hand-in-hand with our goals of promoting a healthier workforce, strengthening the health care marketplace and improving the value of our health care spending.

I first would like to congratulate Congress for creating health savings accounts – a tool that has the potential to truly impact the rising cost of health care in America. Health Savings Accounts provide a way for our employees to gain considerably more value from their health care dollars.

However I am here today to point out that we believe the use of health savings accounts will not become widespread as Congress intended without some small but important enhancements. HSAs have the potential to dramatically impact how employees spend their health care dollars. However, they need to deliver the same value to the employees of large and small businesses alike in order to have a positive impact on our health care system.

Today I would like to provide some background information and then suggest four recommendations that would position health savings accounts to become a powerful tool for individuals as they continue to seek the most prudent way to spend their health care dollars.

Health Care Value

Soaring health care costs are harmful to our nation's economic health and our ability to be globally competitive. At Deere, the annual salaried family premium for our most popular 100% HMO plan is $12,300. This represents a significant benefit cost as well as value to all of our employees, and especially for lower paid employees. Deere has been innovative in managing health care costs through the use of self insured plans, managed care networks, and disease management programs in order to provide this level of benefits to our employees.

In a December 2005 Business Roundtable survey, CEOs cited health care costs as corporate America's number one cost pressure (42%) for the third year in a row. This topped energy costs (27%) and litigation costs (9%). Likewise, families across the country are looking for ways to deal with rising medical bills.

Improving health care value does not rest with any single stakeholder. To the contrary, everyone involved in our health care system – employers, insurers, doctors, consumers and the government – must find and help institute reforms that improve the value of health care expenditures. The key strategy for achieving this is to embrace policies that will make the health care system more efficient while keeping patients safe and healthy. That is why I am here today.

The success we had in the 1990s using managed care plan designs was due to the efforts of insurers, doctors and employers. Largely overlooked in the managed care plan designs were the preferences and decisions of patients. During the last two decades the managed care plan designs insulated the patients from the cost of health care services largely due to the very modest copayments and nearly 100 percent coinsurance plans.

As a result, we have seen greater patient demand for more services, prescriptions and higher levels of technology with little understanding of cost, benefit or value of these services. Roundtable CEOs, for example, believe we can improve the value of health care and improve the system by empowering consumers with price and quality data; helping our employees take more control of their and their families' health care decisions; improving patient safety; and transforming the system through the use of technology. Business Roundtable companies provide health benefits because it is cost effective to deliver a portion of the employee's compensation in this manner, creating an employee value proposition which encourages health insurance enrollment and leads to a healthier, productive workforce.

Of these objectives, I want to emphasize that one of the most important steps toward transforming our health care system is harnessing the power of our

employees as consumers of the system. At Deere we have some very simple guiding principles:

1. To create affordable, sustainable health benefit plans that encourage all employees to participate actively in their health and health benefits;
2. To reform the health purchasing process by changing the health care value equation at the point at which most health care consumption decisions are made – the point of care by the patient;
3. To support a benefit design which encourages and rewards employees for adopting healthy lifestyles and behaviors to have a greater impact on the future of health care benefits; and
4. To provide insurance protection.

I'm here today to address health care tax policy in the context of these overarching objectives – all of which place the employee consumer in the center. There are three areas of tax policy that affect health care: the taxability of premiums and health care expenditures; tax credits for the uninsured and dislocated workers; and the development of consumer directed health products, like Flexible Spending Accounts (FSAs), Health Savings Accounts (HSAs) and Health Reimbursement Arrangements (HRAs). One of the critical tax code provisions that Congress needs to examine is expanding the availability of these consumer-directed plans – placing the employee as decision maker regarding what is best for them.

Consumer-Centric Health Plans

These plans – FSAs, HRAs and HSAs – have promoted greater engagement and understanding by our employees in purchasing health care services. The newest, Health Savings Accounts, is an example of health care reform guided by principle and good public policy. HSA plans seem to combine the best of managed care (networks, credentialed providers, outcomes reporting) with the aligned interests of the indemnity plan designs, while providing the much needed insurance protection. Business Roundtable believes that HSAs are a powerful tool to improve the value and quality of care that Americans have come to expect out of our health care system.

Philosophically, we need to agree on the role of the employee and in terms of deciding their health and health care. Why? Because HSAs put health care consumers back in the driver's seat to select the health care benefits that they want and need, and therefore have the potential to be transformational for the American health care system. At Deere we speak of a shared responsibility with employees to manage their health and health benefits. I use the words "potential to be transformational" because we cannot transform our health care system without the active participation of Americans. And we should acknowledge, as Americans, we are not likely to support a system of the government or health insurance companies deciding what is best for our own families. While the initial take-up rate for these types of consumer directed products is small, **more needs to be done to make these plans more attractive to large employers and their employees if we are going to have a meaningful impact on provider reporting, outcomes and patient engagement**.

To that end, Business Roundtable seeks your support for the following four changes to reduce the tension between rising health care costs and our current competitive business environment. If we fail to bring about an improvement in health care value, then the impact may be felt in a variety of ways – from the limiting of covered services, loss of employer provided health care which will have the greatest impact on the lower paid employees, and even a loss of American jobs, both in the manufacturing and service sectors.

As I stated earlier, health savings accounts are a powerful tool and Business Roundtable seeks these changes to increase the use of these accounts to the benefit of employees across the country.

First – Coordination with Existing Plans

A significant disincentive is the inability of our employees to use widely available flexible spending accounts (FSAs) and health reimbursement arrangements (HRAs) in conjunction with their HSA. Employees often have concerns about how to pay for their out-of-pocket health care expenses if insufficient amounts are available under the HSA, especially early in the year when they are responsible for the deductible. The FSA may solve the budgetable concerns of our lower paid employees since they can have access to the entire FSA amount – while budgeting the expense over the entire calendar year. Without coordination of these accounts, employees may be left to scramble for the payment of a maintenance prescription or the delivery of their child in January without the ability to pay under an HSA alone.

In addition, employees have a familiarity with the rules and requirements and use of an FSA and HRA. As we all seek to encourage employees to become better

consumers, consumers need flexibility to use FSAs & HRAs in conjunction with the HSA. Many employees today have FSA and HRA accounts – they have experience with them. Business Roundtable strongly encourages the Committee to support legislation to permit these funding programs to be coordinated. We support the changes that are included in H.R. 4511, the "Flex HSAs Act" introduced by Representative Cantor (R-VA). Included with my testimony is a letter of support by Business Roundtable, as well as by the Coalition on HSA Coordination. The changes in this legislation would address the two most important obstacles to widespread adoption by our employees of these new plans: 1) ability to budget the deductible expense over the entire year; and 2) ability to save dollars beyond the deductible to prepare for future unpredictable medical expenses.

Second – Contribution Limits

We support lifting the current contribution limits to an HSA so that individuals and employers could budget up to their out-of-pocket expense into their health savings account. This is a critically important change if we expect Americans to be able to succeed at managing unexpected health care expenses and not merely drain their accounts with their expected health care costs from year to year. After all, isn't the policy intended to encourage employee engagement and planning?

Third – Contribution Amounts

Business Roundtable supports regulatory efforts to permit employers to vary contributions to employees' HSAs when an employee is a low-wage worker or has a chronic illness. The Department of Treasury is reviewing comments on a proposed rule to permit such flexibility – we believe this is a necessary change to ensure that these plans can better address the special needs of these workers.

Fourth – FSA Rollover

Business Roundtable also supports legislative changes to permit a limited carry forward of up to $500 in a flexible spending account (FSA) or a rollover into a health savings account (HSA). Today, the current FSA "use it or lose it" rule causes many individuals not to participate in FSAs or to incur unnecessary care at year end to avoid forfeiting their money. Allowing employees to carry forward these amounts aligns with the principle of consumerism. We urge the Senate Finance Committee to support a $500 rollover of these expenses as contained in the House-passed version of the Pension Protection Act of 2005 (H.R. 2830).

Other Health Care Priorities

Now that I've covered various aspects of tax policy, let me spend just a moment on the broader priorities of Business Roundtable on the health care front.

The CEOs strongly support other efforts to empower workers to become better consumers – including greater access to information on cost and quality data, more efforts aimed at disease prevention and disease management, and arming the health care system with 21st century information technology.

Business Roundtable believes that the disclosure of information is an important tool to help American consumers transform our health care system. We want to give our workers access to information about the cost and quality of health care services and the institutions, providers and suppliers who deliver that care. While private sector disclosure of price and quality data is occurring, we believe that the Centers for Medicare and Medicaid Services (CMS) should release 100% of the Medicare claims database.

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December 13, 2005

The Honorable Eric I. Cantor
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Dear Congressman Cantor:

Henry A. McKinnell, Jr.
Pfizer Inc
Chairman

Kenneth I. Chenault
American Express Company
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Edward B. Rust, Jr.
State Farm Insurance Companies
Co-Chairman

John J. Castellani
President

Larry D. Burton
Executive Director

Johanna I. Schneider
Executive Director
External Relations

On behalf of Business Roundtable, I am writing to express our support for your legislation entitled the "Flex HSAs Act." Business Roundtable is an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees and $4 trillion in annual revenues, which provide health care coverage to approximately 25 million Americans.

Business Roundtable applauds all aspects of this legislation, in particular the provisions that would permit the coordination of Health Spending Accounts (HSAs) with Flexible Spending Arrangements (FSAs) and/or Health Reimbursement Arrangements (HRAs) by allowing them to be used in conjunction with low premium health care plans. This important change will allow employers and employees to coordinate these programs and permit employees the best possible options for themselves and their families. Innovation and flexibility are critical aspects of the employer-sponsored health care system, and this legislation moves in the right direction to permit greater options available to meet employees' needs.

Thank you for your leadership in working to modify key elements of the law to permit greater flexibility and coordination of consumer-centered health plans. We look forward to working with you to pass this important legislation.

Sincerely,

John J. Castellani
President, Business Roundtable

The Coalition on HSA Coordination

Where Personal Health & Financial Security Come Together

AHIP

CIGNA

Deere & Company

General Motors

Fidelity

Financial Services Forum

IBM

Medtronic, Inc.

Metavante

National Association of Manufacturers

Target

Textron

UnitedHealth Group

Watson Wyatt

The Coalition on HSA Coordination

The Coalition on HSA Coordination was created in 2005 to examine the issues underlying the expansion and strengthening of HSAs. Recognizing the impact of HSAs on small businesses and the uninsured, the Coalition pairs the experience and leadership of many of America's large employers to explore the real-world potential for HSA coordination.

Since their creation in 2003 by the Medicare Modernization Act, HSAs have already lessened the healthcare burden for individuals and many small business owners. An eHealthinsurance study showed that while premiums for employer-sponsored health insurance have been rising steadily since 1996, (an 11.2% increase in 2004 alone), average premiums for individual HSA-qualified high-deductible plans dropped 19% in the first 6 months of 2005. These changes result in real savings for American families. A recent nationwide poll (Source: Mellon Financial Corp) shows that the number of employers offering HSAs could more than quadruple in 2006. These trends of consistent savings and dramatic growth hint at the potential of HSAs in the years to come.

But more can be done to increase the strength and effectiveness of HSAs for all consumers. If more coordination and integration were allowed between HSAs and other individual accounts – such as flexible spending accounts (FSAs) and health reimbursement accounts (HRAs) – more employers and employees could enjoy the full benefit of a shift to HSAs and high deductible health plans (HDHPs). To be truly transformational, HSAs must be widely available and popular among all segments of the working population.

In December 2005, the Coalition was an active participant in the introduction of the 'Flex HSA' bill. Sponsored by Rep. Cantor, the 'Flex HSA' bill will promote greater adoption of HSAs by lifting the "lesser of the deductible" limitation and allowing coordination of HSAs with flexible spending accounts and health reimbursement arrangements. By allowing the coordination these accounts, HSA users can reduce their total annual costs, saving both the employee and employer from double-digit increases in monthly premiums.

With the President's commitment to expand HSAs in his State of the Union address, 2006 promises to be a productive year for medium- to large employers seeking to lower health costs while providing employees with greater control over their healthcare choices.