



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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WRITTEN STATEMENT OF

MONTY NEWMAN

ON BEHALF OF

THE NATIONAL ASSOCIATION OF REALTORS®

BEFORE THE

UNITED STATES SENATE

COMMITTEE ON FINANCE

“HEALTH INSURANCE CHALLENGES

FACING SMALL BUSINESS”

OCTOBER 25, 2007

REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics.



Mr. Chairman: My name is Monty Newman. I am a Realtor[®] from Hobbs, New Mexico and also serve as the Mayor of Hobbs. I own a real estate brokerage business there and also a real estate property management company. I have been a member of the Board of Directors of the NATIONAL ASSOCIATION OF REALTORS[®] (NAR) since 1995, and appear here today in my capacity as the 2007 volunteer Vice President of the Association. The NATIONAL ASSOCIATION OF REALTORS[®] represents about 1.3 million individuals who are engaged in all facets of both residential and commercial real estate sales, brokerage, leasing, property management and investment.

Research Findings

NAR periodically surveys its individual Realtor[®] members to compile demographic data and to learn more about member's business activities. According to the 2005 NAR Member Profile, the median age for real estate sales agents was 49 years. Seventy-one percent were married. More than half (54%) are female.

Consistently over the years, our profiles have shown that the overwhelming majority of our members are self-employed individuals. About one-third are organized as sole proprietors, one-third as C Corporations and another one-third as S Corporations. The "typical" firm has four employees (often including an owner-employee) and a group of independent contractor sales agents.

In 2006, more than one quarter of Realtors[®] (28%)¹ have no health insurance coverage from any source. Another 7% faced expiring COBRA coverage. In human terms, this means that about 450,000 Realtor[®] members have no insurance. If we extend that finding to households, more than one million people may have no health care benefits. By contrast, in 1996, only 13% of our membership had no coverage.

Of those who today have no coverage, only 7% report that they were denied coverage because of a pre-existing condition. More than 84% report that the main reason they have no coverage is its cost. More than half of those with no coverage (51%) are single. While 54% of our membership is female, our research shows that 62% of those with no insurance are female. This may suggest that the problems of securing health insurance may fall most heavily on unmarried women.

A 2006 Firm Profile survey showed that only 13% of real estate firms offer health insurance coverage to their employees. By contrast, in 1996, 34% of real estate firms offered health insurance to their employees. Again, cost is the barrier.

Among those Realtors[®] who *do* have insurance, nearly half of them obtain coverage either through a spouse's employer (26%) or through group plans associated with other employment, military benefits or a retirement plan (20%). Thus, more than half of our self-employed members are left to find coverage in the individual market.

¹ NAR conducted a survey to collect health insurance coverage data in March 2006.

Real Estate Brokerage Business Model

Most residential real estate brokerages use a similar business model, whether the operation is large or small. Let's say you are a real estate broker and own the Blackacre Real Estate Company. Your work force includes salaried employees as well as self-employed individuals who are under contract with you as independent contractors.² Your employees might include your own personal assistant and, depending on your size, additional front and back office administrative staff ranging from receptionists and clerks through skilled financial and managerial professionals.

You have complied with the tax law³ and have the requisite written agreements with each of your real estate sales agents showing, among other requirements, that the sales agent will be an independent contractor for federal taxation purposes. Thus, as the broker-owner of Blackacre Real Estate, you face the challenges of finding health insurance to cover yourself and your employees, most likely in the small group market. In addition, you are keenly aware of the exceptional and even more expensive obstacles your independent contractor, self-employed agents face in the individual insurance market.

Tax Incentives

Under current tax law, Blackacre's self-employed sales agents (and all other self-employed individuals) would appear to have the best of all possible worlds, at least from a tax perspective: They receive a full "above the line" deduction for the health insurance premiums they pay. This deduction is unquestionably of great value. However, we must emphasize that the deduction has value if, *and only if*, these self-employed individuals can find an affordable insurance product.

NAR worked with Congress and a large coalition to secure the deduction for the self-employed and continues to fully support that benefit. Nonetheless, we would submit, Mr. Chairman, that the plague of uninsured workers will persist *unless and until* there are corrections and improvements to both the individual and small-group health insurance markets. We believe that tax incentives for the self-employed and for small employers, coupled with mechanisms that would create insurance coverage gateways and/or additional pooling mechanisms would create a far more rational and effective system than current law.

Attached to these remarks is a brief compilation of horror stories from our self-employed, independent contractor Realtors[®]. No working person should be subjected to the kinds of perversity described. The scariest: An individual who was able to find coverage for a premium of \$1,000 *per month*, with a deductible of \$15,000 per person. That Realtor[®] would have to expend \$42,000 before ever receiving a dime's worth of benefit. Why bother?

² A "typical" real estate brokerage company has fewer than 5 employees. The number of agents per firm varies significantly.

³ Internal Revenue Code Section 3508 provides that real estate sales agents and direct sellers may be treated as independent contractors so long as specified requirements are satisfied. In the case of a real estate sales agent, the agent must (1) be licensed, (2) receive compensation based solely on sales or other output (and not on hours worked) and (3) have a written agreement with the broker-owner specifying that the agent is not an employee.

We should note, however, that this Realtor[®] and many of those who shared their stories (below) are among the “lucky ones” who actually found an insurer who would write a policy. A great number of the self-employed have found that even if they were willing to pay such a price that no insurer would accept them. Insurers reject applications for many more reasons – never disclosed – than the existence of pre-existing conditions. Guaranteed issue health insurance policies are all but unknown in the individual market.

Finding Insurance

Most independent contractor real estate agents and many employees of small brokerages must find coverage in the individual insurance market. That market presents itself as one in which there is no negotiating, no leverage, no economies of scale and absolutely no efficiency. For the most part, you basically take or leave whatever coverage is offered – at whatever price it is offered.

Imagine yourself without health insurance and without an employer who shares in some portion of the cost. Would you know where to find coverage? Would you know how to determine whether the policies offered would actually provide much benefit? Would you be willing to commit 10% of your income to be insured? 20%? 25%? This is the dilemma and challenge of the self-employed person.

Obviously, Realtors[®] are not alone in their struggle to obtain affordable health insurance today. Employment trends today suggest that there will be even more uninsured individuals in the future – and that more of them will be self-employed individuals. Today, as the result of corporate restructurings and job outsourcing, the share of the U.S. workforce that is self-employed – independent contractors, freelance workers, consultants, and other “non-traditional” workers -- has reached a remarkable level.

The General Accounting Office estimated that these workers comprised 30 percent of the American workforce in 2000. Some experts estimate that by 2010, 41 percent of the U.S. workforce will be so-called “free agent” workers. Without changes to the current health insurance system, we fear this shift in the composition of the workforce will be accompanied by increases in the number of the uninsured. Finding a solution to the insurance problem must become a top priority.

What Can We Do?

NAR has no particular expertise that would enable us to provide you with a full-blown market reform model. We don't have much good to say about the individual health insurance market. It does not serve the needs of our self-employed members. Based on our experience and the things we do know, however, we can make several observations.

First, the self-employed must be enabled to enjoy the benefits of pooled risks, much as large group plans provide. Downsizing, changes in the economy and cost of coverage will likely

deprive more and more workers any benefit of employer-provided insurance, thus forcing them into the individual market. Today, employer-provided group coverage is extended to groups of people whose sole common denominator is their employer. Enhanced risk-pooling opportunities in the individual market would facilitate greater market efficiency by combining groups of people whose sole common denominator is that they work for themselves. Pooled risk for individuals will also enhance economies of scale as insurance providers are able to consolidate and manage the expenses of administration, marketing and advertising.

We have no preference on whether pooling should be on a state, regional or other basis. We would simply urge that Congress find ways to enable pooling in a way that will (a) permit self-employed individuals to continue their health insurance coverage even when they move between states, (b) facilitate greater market efficiency and (c) keep down premium costs.

Second, we believe that some sort of mechanism is needed to bring insurers and self-employed workers together. Call that mechanism a matchmaker, gateway, coordinator, connector – whatever you will. We believe that some combination of private, public or private/public venture must be developed, preferably at the state or regional level, to put self-employed persons in a position where they can compare apples to apples in their analysis of insurers and insurance products. We do not believe this venture should be owned, managed or operated at the federal level.

We do not seek a single-payer, or a federal insurance system, nor do we seek a new entitlement. We do seek an official, reliable, regulated, information source (or sources) that will facilitate insurance market access for self-employed individuals. They need to have some sort of menu that could include information such as comparisons of available coverage options (e.g., basic, catastrophic, “Rolls Royce” or some combination), identification of vendors that can provide various options and where to find those vendors, as well as some sort of approximate cost comparison data (current and/or historic).

Third, we believe that stakeholders including (but not limited to) insurers, regulators, legislators, health policy advocates and consumers must grapple with the question of essential coverage. Today, a crazy quilt of mandates has obscured the fundamental reality that more guarantees generate more costs for consumers. No single policy or list of mandates can satisfy the competing tensions between (a) assuring all desired (or desirable) coverage and (b) creating affordable products.

We believe that it is difficult, *but not impossible*, for the stakeholders to come up with categories or guidelines that might distinguish among such categories as essential, preventive, desirable and “Rolls Royce” options. Such a drive toward consensus may provide a rational basis for strategies that would provide self-employed individuals some leverage for pushing insurers and regulators toward some sort of “core” coverages.

Mr. Chairman, we believe that health insurance reform makes tax reform look pretty easy. To conclude, we would reiterate that tax incentives are useful and important, and that they must be accompanied by significant reforms to the individual and small group health insurance markets.

Realtor® Stories -- Health Insurance Coverage

CONNECTICUT

As a self employed Realtor® I pay \$703.00 / month for health insurance!! Just for myself!! And I'm perfectly healthy! That's with [Company X], one of just a couple of insurers that I could find that will write policies for self employed people. That's \$8436.00/year! And I still have copays, no dental and no optical coverage. (They required that I join a Chamber of Commerce which was an additional cost.)

Most of the agents in my office don't even have health insurance coverage. It's just too expensive for a lot of people. It's too expensive for me, too, but I think it's too important not to have.

COLORADO

#1: One member shared his not uncommon experience – a 93 percent increase in health insurance premiums between 2003 and 2006 for his family of 5. As he put it, “I have only been able to continue this coverage because of a nest egg and not because of the income from my fledgling business. Unfortunately, I am now in a position where I must pursue employment with a company that has group health care because I can no longer afford these healthcare expenses.”

#2: We tried for the longest time to do the right thing but after the first quarter of 2004 we finally could no longer afford to maintain health insurance. The rate for my husband and myself had climbed to over \$1,000 per month for the two of us and that great rate was achieved only by submitting to a \$15,000 annual per person deductible...

#3: For a small office with a group of two, our premiums just went to \$1200 monthly and it is a critical factor in evaluating the profitability and viability of the business.

#4: My husband and I are both CO Realtors□ . We have not had health insurance since the year 2000. My husband had a heart attack in 2000, and our insurance was cancelled. We can not afford health insurance at the rates that are needed for a person who has suffered a heart attack. Even with insurance in the year 2000, we have been paying to the hospitals, ambulance service and physicians a monthly rate of \$250.00 and will continue to pay that amount every month until the year 2010. Talk about a horror story. We have no insurance - my husband should be own several drugs for his heart condition but we can not afford the additional \$350 a month for these drugs. He has resigned himself - that if he suffers another heart attack (which is a definite per his doctors) that we can not afford to take him to the hospital.

IDAHO

#1: Our family has been with [Company X] for years. Healthy family, no big claims, no one leaping over one of the age barriers that cause rates to change - our monthly premium was adjusted from \$363 to \$525 in August 2004, then increased to roughly \$750 per month in August

2005. Huge increase and again, no one in the hospital, no emergency room claims - just a healthy family. This is for major medical coverage with a \$7500 per family member deductible. By the way, there is me, age 49, my wife is 47, 21 year old daughter (college) and 18 year old son (also in college).

#2: There are very few Health Insurance options in this state and at these prices there are many Idahoans who can't afford it and go without.

NEW MEXICO

#1: (Describing a spread sheet dated 7/1/2005.) The story is in the 3rd and 4th lines up from the bottom of the page. The first column is our plan from 7/1/2004 to 7/1/2005. The second column is the cost to renew effective 7/1/2005 showing an increase in premium of 59.55% in 1 year. The other 3 columns are alternate plans at least one of which is not as comprehensive of coverage. These alternative plans premiums reflect an increase of 91.39%, 43.27%, and 69.37% over existing premium.

We stayed where we were with the 59.55% increase. Clearly this is out of control and was the largest increase in premium I have seen in the last 10 years or so that we have been with this plan. It typically has been less than 10% annually.

#2: My way out is to stop providing group coverage. Should I do that I would go to New Mexico Health Care Alliance where the premium for me alone approaches \$600.00/month I am told compared to the \$355.36/month I am now paying.

#3: To control costs I have taken my one remaining minor child out of the group because I can buy her coverage for \$100.11/month for an individual policy compared to \$248.74/month in the group.

NORTH CAROLINA

#1: Had health insurance, but the premium was almost \$8,000 a year, with a \$5,000 deductible. Obviously couldn't keep it. Had to cancel. Tried to get reasonable coverage at many other places and could not. I finally decided if I had to pay \$13,000 before insurance kicked in, I could get on one heck of payment plan with the hospital...

#2: I am a single Realtor earning an average of \$30,000/year with no other resources for support. It is and has been a huge strain to try and keep my health insurance. Premiums through [Company X] have risen from \$89/month to \$421/month in the last 10 years. My coverage has declined from a \$500 deductible with 80% co-insurance (no other deductibles or copays), to a \$5000 deductible with 70% co-insurance. The deductible does not apply to doctor visits and prescriptions; I have a co-pay for these with a separate \$200 deductible for prescriptions. Further, there is a \$1200 annual maximum on brand name prescriptions drugs which causes me to incur an additional \$200-\$400 annually. There is no generic for the 3 medications I require.

Each year I struggle with the decision of whether to try and keep the insurance or let it go. There are many other single agents who have no insurance due to the high cost. Some married agents can get coverage under their spouse's group policy. With an industry of our size, it makes no sense why we cannot obtain some type of group coverage at more affordable rates with better coverage.

PENNSYLVANIA

My broker and I pay a total of \$1208.88 for health insurance through [Company X]. The coverage is for my broker (single) and myself (single) and my 18 yr old son. That's \$14,506 per year for 3 people. We joined the local Chamber of Commerce to be able to get decent coverage...individual programs do not offer the best coverage and my son is bi-polar so quality insurance is very important. In 2003 the cost was \$683.70...2004 it went to \$881.46/month...and now in 2005 it is \$1,208.88. In other words - the premiums have almost doubled. And it seems the insurance companies realize we have no choice as consumers. Their response was - "increase your deductible" or "change to a plan with less coverage". Net result is the same - it would cost us more.

TEXAS

I am a 33 year old, real estate agent in Dallas TX. I am also, self-employed and uninsured. Two years ago my stomach ruptured. As a result of this near fatal event, I was in the hospital for 8 day starting to recover from this very invasive emergency surgery. I was unable to work for nearly 4 months afterwards. This left me with over \$30,000.00 in medical debt, not to mention the loss of income from not being able to work. This was absolutely devastating.

Currently my doctor wants to do more testing to confirm the diagnosis of MS, but alas I still don't have health insurance. If I do in fact have MS, the medication I would require would run around \$2,500 per month. As it stands now, I can not afford health insurance as an individual because of pre-existing conditions, however if I was able to get insurance through an organization I might be able to get a policy that would cover me.