

medicaid and the uninsured

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The COBRA Subsidy and Health Insurance for the Unemployed

By Karyn Schwartz

In February 2009, the U.S. unemployment rate reached 8.1%, the highest it has been since 1983.¹ This increase in unemployment jeopardizes health coverage for the 61% of the nonelderly population in the U.S. that receives health insurance through an employer. With the U.S. now in a recession, maintaining health coverage is a concern for many Americans. A recent Kaiser Family Foundation poll found that 52% of those with employer-sponsored coverage were worried about losing their health coverage.² In an effort to help people maintain coverage after a layoff, the stimulus bill officially known as the American Recovery and Reinvestment Act of 2009 (ARRA) provides temporary subsidies to some workers so that they can maintain their previous employer-sponsored coverage after a layoff. While these subsidies will likely help some individuals maintain coverage, limits in eligibility for COBRA and the subsidy program will leave some unable to take advantage of the subsidy and others may still not be able to afford their share of the premium. This paper seeks to answer several key questions about this subsidy and other coverage options for the unemployed.

What is COBRA coverage?

When employees lose their jobs, they are able to continue their employer-sponsored coverage for up to 18 months through the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Under the original legislation, individuals were required to pay the full premium to continue their insurance through COBRA, and this cost was a significant barrier for many laid-off workers and their families. To help people maintain coverage during the current recession, the federal government is providing temporary COBRA subsidies through ARRA. Under ARRA, many recently laid-off workers will be eligible for a nine-month federal subsidy that will cover 65% of the cost of COBRA.³

Who is eligible for COBRA and the COBRA subsidy?

In order to qualify for the COBRA subsidy, an individual must be eligible for COBRA and must have been involuntarily terminated from his or her job between September 1, 2008 and December 31, 2009. Both laid-off workers and their family members who were covered under the worker's employer-sponsored insurance plan are eligible for the subsidy.

Not all employees are eligible for COBRA under federal law. Only individuals who were insured by employer-sponsored coverage before losing their jobs and worked for a company with the equivalent of 20 or more full-time workers are eligible. In 39 states and the District of Columbia, employees in firms that are too small to offer COBRA are eligible for continuation coverage, but that coverage may be more limited than COBRA.⁴ Individuals insured through these continuation coverage policies can receive the subsidy when they become eligible to enroll. States can also decide to extend the subsidy to eligible individuals who lost their jobs before ARRA took effect and previously declined to purchase state continuation coverage.

Employees who lose their jobs because their employer goes out of business cannot qualify for COBRA because their employer is no longer offering a health plan. Similarly, if an employer stops offering health insurance to all of its workers, those workers are not eligible for COBRA because there is no health plan to continue. For example, when an Archway cookie factory closed in 2008, its 275 employees were ineligible for COBRA because their health plan ceased to exist.⁵

In order to be eligible for the full subsidy, a person's same year income cannot exceed \$125,000 for an individual or \$250,000 for married couples. Individuals with incomes above \$145,000 and married couples with incomes above \$290,000 are not eligible for any subsidy. If a person gains access to other group coverage or becomes eligible for Medicare, he or she is no longer eligible for the subsidy.

Since the COBRA subsidy is only for people who are maintaining their previous employer-sponsored coverage, it does not extend to people who had paid for an individually purchased insurance plan while working. Although these individuals may have trouble affording their coverage after a layoff, they are not eligible for the subsidy since they did not purchase insurance through their employer.

How do people enroll in the subsidy and how long does it last?

Employers must notify people who would qualify for the COBRA subsidy and had previously chosen not to maintain coverage through COBRA. Once former employees are notified of the subsidy, they have 60 days to decide to regain coverage through the COBRA subsidy. While these individuals may begin their COBRA coverage months after losing their jobs, the total 18-month period during which they are eligible for COBRA is still based on the date when they stopped working. For example, an eligible individual who lost his job on September 15, 2008 could decide in March 2009 to continue his previous employer-sponsored coverage through the COBRA subsidy for nine months. At the end of the nine-month subsidy period, he could then continue his coverage by paying the full cost of COBRA until 18 months after his September 15, 2008 termination date. People who lose their jobs after ARRA passed will be notified of the subsidy when they are notified of the right to continue coverage through COBRA.

How much will COBRA cost under the subsidy?

Under the original COBRA legislation, the beneficiary had to pay the full premium plus an additional 2% of the premium to cover administrative costs to maintain coverage under COBRA. Under ARRA, eligible individuals receive a nine-month subsidy that leaves them responsible for paying 35% of the COBRA premium. The U.S. government will reimburse employers and insurers for the remaining 65% of the premium.

While this subsidy will help some of the unemployed afford COBRA coverage, the average worker would still find their subsidized premiums to be higher than what they were paying while they were employed. On average, employees with employer-sponsored coverage pay 16% of the cost of their own coverage and 27% of the cost of family coverage, making the 35% share that laid-off workers would pay under the subsidy an increase in premium costs for the average worker.⁶ Additionally, after exhausting the nine-month subsidy, individuals would have to pay 102% of the total premium to maintain their coverage until the 18-month COBRA eligibility period ends.

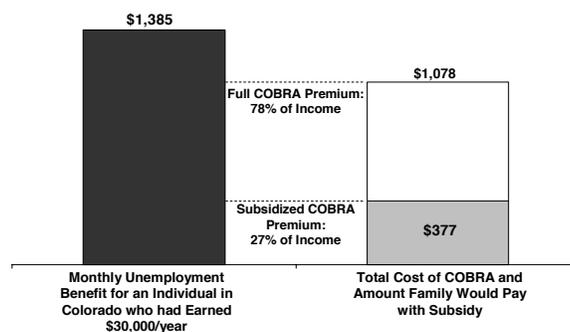
While it is impossible to determine how many people will sign up for current COBRA subsidy, few workers participated in another 65% subsidy available through the Health Coverage Tax Credit for qualifying workers who lost their jobs due to international trade. In 2006, only an estimated 12% to 15% of the approximately 200,000 eligible households participated in the program.⁷ However, that subsidy usually took the form of a refundable tax credit, which left workers paying for their entire premium for about three months before being reimbursed. Under the subsidy in ARRA, the unemployed would not have to initially pay the full COBRA premium; instead they would only pay their 35% share.

In 2008, the full annual cost of employer-sponsored health insurance averaged \$4,704 for an individual policy and \$12,680 for a family policy.⁸ Under the subsidy, the cost of maintaining the average policy would be \$377 per month for a family and \$140 for an individual. Once the subsidy expires, that cost would rise to \$1,078 per month for family coverage and \$400 per month for individual coverage. In a recent Kaiser Family Foundation survey, 59% of adults with employer-sponsored coverage said that it would be very difficult to pay the full cost of their premiums if they were no longer employed.⁹

Case Example: A Single Mother in Colorado

If a single mother in Colorado earning \$30,000 lost her job, she would qualify for approximately \$346 a week (or about \$1,385 a month) in unemployment insurance benefits.¹⁰ Assuming her employer-sponsored coverage had premiums equal to the national average, the full cost of COBRA would be \$1,078 a month for family coverage and \$400 for individual coverage. Under the 65% COBRA subsidy, the average family policy would cost her \$377 per month and the average individual policy would cost \$140 per month. Although the share of her income required to pay for COBRA for family coverage would drop from 78% to 27% during the nine-month subsidy period, that amount might still be difficult to afford while also paying for housing and food on a limited income. That 27% share of her income is still larger than the percent of her income she was spending on insurance premiums while she was working. Assuming she had been paying the average employee share for family coverage while working, she would have previously been spending 11% of her income on health insurance premiums.

Cost of COBRA Coverage Compared to Income from Unemployment Benefits, 2008



SOURCE: Colorado Internet Unemployment Claims System, Kaiser/HRET Employer Health Benefits Survey, 2008.

How do people enroll in subsidized COBRA?

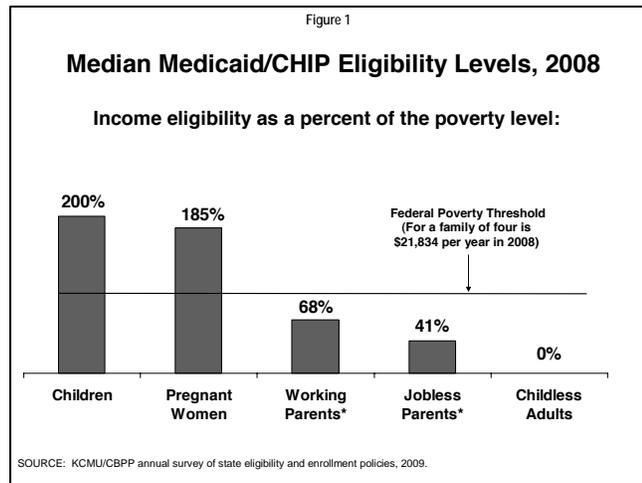
Under the original COBRA provisions, people had 60 days to decide to enroll in the coverage and had to pay the full premiums for the time since they qualified for the coverage. For example, if a person decided to purchase COBRA on the 60th day after they were no longer employed, that person would have had to pay 102% of the full premiums owed for that entire 60 day period. If that person decided to sign up for COBRA coverage, he or she would then have an additional 45 days to pay those back premiums.

People who qualify for the COBRA subsidy and had previously chosen to not maintain coverage through COBRA do not need to retroactively pay for COBRA back to the date they lost their jobs. Instead, they simply need to begin paying their 35% share of the premium for coverage going forward. Pre-existing condition exclusions do not apply to people who had a gap in coverage before enrolling in COBRA under the subsidy program.

Under ARRA, employers may allow people who are eligible for the COBRA subsidy to switch to a less expensive health plan than the one they were enrolled in while working. Under traditional COBRA, individuals were not allowed to switch plans. People have 90 days to switch plans after being notified of this option.

Can the unemployed qualify for public coverage?

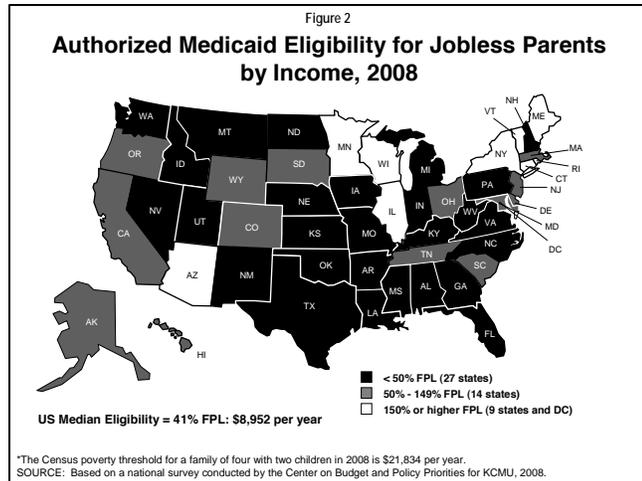
People who either do not qualify for COBRA or cannot afford COBRA may have limited coverage options. While some of the newly uninsured will qualify for Medicaid or the Children's Health Insurance Program (CHIP), others will find that their only other option is the individual insurance market where they can be denied coverage or charged a higher premium based on a pre-existing condition.



To qualify for Medicaid, an individual must meet financial criteria and also belong to one of the groups that are “categorically eligible” for the program, including children, parents of dependent children, pregnant women, people with disabilities, and the elderly (Figure 1). These eligibility levels typically vary by category, with children usually being much more likely to qualify for the program than their parents. In 43 states and the District of Columbia, the eligibility threshold for children to qualify for public coverage is set at or above 200% of the federal poverty level (FPL), which is about \$43,700 a year for a family of four. Children on Medicaid and CHIP have access to health care that is comparable to children with private coverage. Since recently unemployed parents may not be familiar with public programs, the additional funding for outreach provided in the 2009 Children's Health Insurance Program Reauthorization Act will help states reach

newly eligible children. In addition, performance bonuses will reward states with higher than expected enrollment in Medicaid giving states additional fiscal incentives to enroll lower income children.

Eligibility levels for unemployed parents are often lower than for working parents since states have the option of disregarding the income that working parents devote to work-related expenses such as transportation and child care costs. Once parents become unemployed, those income disregards on earned income no longer apply, even though unemployed parents may still accrue expenses for transportation and child care as they look for work. In 27 states the eligibility cut-off for jobless parents is set below 50% of the poverty level (about \$10,900 a year for a family of four) (Figure 2).



Given current low Medicaid eligibility levels, many parents may find that the income from their unemployment benefits is enough to disqualify them, and possibly also their children, from receiving public coverage. However, those unemployment benefits may not provide enough money to purchase health insurance after paying for necessities such as rent and food.

In the version of ARRA that first passed the U.S. House of Representatives, the federal government would have fully funded a state option to temporarily expand Medicaid to most recently unemployed individuals and their families. That expansion of Medicaid coverage was not in the Senate version of the bill or the final legislation that President Obama signed into law. However, the final legislation did include \$87 billion in additional temporary federal funding for Medicaid in the form of an enhanced match rate, meaning the federal government will temporarily pick up a greater share of Medicaid costs. In order for states to receive this funding, they must not make Medicaid eligibility or enrollment procedures more restrictive than what was in place on July 1, 2008. Without these restrictions, some states may have tried to control caseload growth and restrict eligibility to help balance their budgets during a time when tax revenues are declining.

To help recently unemployed residents not eligible for Medicaid who may have trouble affording subsidized COBRA premiums, states can pay all or part of eligible individuals' share of the premiums. Massachusetts has already announced that it will use an existing state program to help eligible unemployed residents pay their 35% share of COBRA premiums.¹¹ Under the ARRA rules, states, charities or other individuals, such as parents, can pay all or part of the subsidized COBRA premium on behalf of subsidy-eligible individuals.

How easy is it to buy your own insurance?

Unemployed workers who are unable to afford COBRA or who have exhausted COBRA may look for coverage in the non-group market. Insurance policies that people purchase directly in the non-group market may be more limited than employer-sponsored insurance, with some plans not covering maternity care or having strict limits on prescription drug coverage. Deductibles and other cost sharing in non-group plans may also be higher than in employer-sponsored insurance policies.

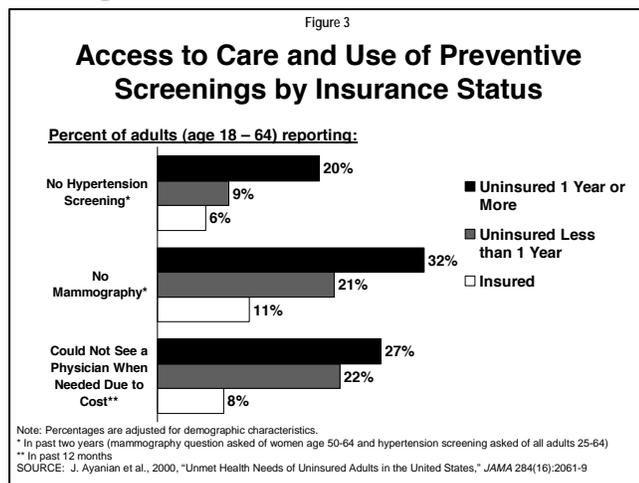
When unemployed adults with health problems try to purchase non-group coverage, they may find that even though they previously had coverage, they are either charged a higher premium because of their health status or health plans refuse to offer them coverage at any price. Some federal protections exist for those trying to purchase coverage in the non-group market, but these protections are limited and do not apply to all individuals. Federal law mandates that in each state there must be a health plan that accepts those who meet the following criteria: previously insured for 18 months and most recently had group coverage, exhausted COBRA, not eligible for a group or public insurance plan, and uninsured for less than 63 days.¹² There are no federal limits on the premiums for this coverage, although some states do have limits.

Individuals who cannot afford COBRA are not guaranteed the right to be able to purchase their own insurance in the non-group market. However, in 34 states people who have had trouble buying their own insurance due to health problems can buy coverage through a high-risk pool.¹³ Premiums for this coverage are typically much higher than for other non-group policies and these policies may temporarily exclude coverage of pre-existing conditions.

In 2005, nearly three in five adults who considered buying non-group coverage had difficulty finding a plan that they could afford, and one in five were either turned down by an insurance carrier, charged a higher premium based on health status, or had a specific health condition excluded from coverage.¹⁴

What are the consequences of losing coverage?

When individuals are uninsured while looking for work, they are putting their health and financial security at risk. Even when adults have been uninsured for less than one year they are significantly less likely than the insured to receive recommended screenings and are more likely to have gone without a needed physician visit due to cost (Figure 3). Research has found similar patterns in children who are uninsured for less than one year.¹⁵



Health providers are not required to provide care to the uninsured, leaving many of the uninsured unable to receive needed care. Only emergency departments are required by federal law to screen and stabilize all individuals. If the uninsured are unable to pay for care in full, they are often turned away when they seek follow-up care for urgent medical conditions.¹⁶ When the uninsured do receive care, they are typically billed for any care they receive, often paying higher charges than the insured.¹⁷ These bills can lead to medical debt for the unemployed, who may already be struggling to pay daily expenses on a limited income. If the uninsured forgo care to avoid medical debt, their health problems may worsen.¹⁸ This could potentially make it harder for them to rejoin the workforce.

Even if those who lose coverage after a layoff are able to go without using medical care while they are uninsured, having been uninsured may continue to have consequences once they regain coverage. If an individual is uninsured for 63 days or more, pre-existing condition exclusions can be imposed by their new employer-sponsored health plan for most health conditions for which treatment, advice or diagnosis were received in the six months prior to enrolling in an employer-sponsored insurance plan.¹⁹ Insurers can typically refuse to cover medical care related to pre-existing conditions for up to one year after an individual starts a new job with health benefits.

Implications

The COBRA subsidy in the 2009 stimulus bill is designed to help support health coverage during the recession and will allow some of the unemployed to temporarily continue their coverage. However, gaps in who is eligible for COBRA and the cost of the subsidized premiums will leave others uninsured. The temporary increase in federal Medicaid funding will also help preserve coverage for some individuals, particularly children whose parents become unemployed. While both the COBRA subsidy and the increase in Medicaid funding are aimed at maintaining coverage, they were not designed to reach all of the newly uninsured and the approximately 45 million who were already without coverage when the recession began. Although ARRA is a valuable first step towards helping people maintain coverage, providing security for all of those who need health insurance will require more comprehensive reform.

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- ¹ Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey.
- ² Kaiser Family Foundation, Kaiser Health Tracking Poll: February 2009. This poll was conducted from Feb. 3 to Feb. 12, 2009.
- ³ More information about the COBRA subsidy and how it will work is available from the Department of Labor at <http://www.dol.gov/ebsa/COBRA.html>
- ⁴ A list of states with continuation coverage is available from [statehealthfacts.org](http://www.statehealthfacts.org) at: <http://www.statehealthfacts.org/comparetable.jsp?ind=357&cat=7>
- ⁵ Pear, R. "When a Job Disappears, So Does the Health Care." *The New York Times*, December 7, 2008, A30.
- ⁶ Claxton, G., et al., "Health Benefits In 2008: Premiums Moderately Higher, While Enrollment in Consumer-Directed Plans Rises in Small Firms," *Health Affairs* 2008; 27(6): w492-w502.
- ⁷ Dorn, S. "Health Coverage Tax Credits: A Small Program Offering Large Policy Lessons." The Urban Institute. February 2008.
- ⁸ Kaiser Family Foundation and Health Research & Educational Trust. *2008 Kaiser/HRET Employer Health Benefits Survey, 2008 (#7790)*.
- ⁹ Kaiser Family Foundation, Kaiser Health Tracking Poll: February 2009 (#7867).
- ¹⁰ State of Colorado, Colorado Internet Unemployment Claims System, available at: <http://www.coworkforce.com/uibEstimator/>
- ¹¹ Cooney, E. "Boost to Health Coverage Planned." *The Boston Globe*, March 9, 2009.
- ¹² National Endowment for Financial Education, *Understanding Private Health Insurance*, 2006.
- ¹³ A high-risk pool also exists in Florida, but it is closed to new beneficiaries. More information about high-risk pools is available at The National Association of State Comprehensive Health Insurance Plans website: <http://www.naschip.org/>
- ¹⁴ Collins, S.R., et al., "Squeezed: Why Rising Exposure to Health Care Costs Threatens the Health and Financial Well-being of American Families," The Commonwealth Fund, 2006.
- ¹⁵ Olson, L.M., Tang, S.S. and Newacheck, P.W., "Children in the United States with Discontinuous Health Insurance," *New England Journal of Medicine*, 2005; 353(4).
- ¹⁶ Asplin, B., et al., "Insurance Status and Access to Urgent Ambulatory Care Follow-up Appointments," *JAMA*, 2005; 294(10):1248-54.
- ¹⁷ Anderson, G., "From 'Soak The Rich' To 'Soak The Poor': Recent Trends In Hospital Pricing." *Health Affairs*, 2007; 26(4): 780-789.
- ¹⁸ Schwartz, K., "How Trends in the Health Care System Affect Low-Income Adults: Identifying Access Problems and Financial Burdens," Kaiser Commission on Medicaid and the Uninsured, 2007 (#7705).
- ¹⁹ More information on pre-existing condition exclusions for individuals who regain employer-sponsored coverage is available at: "Frequently Asked Questions about Portability of Health Coverage and HIPAA" http://www.dol.gov/ebsa/faqs/faq_consumer_hipaa.html (accessed Nov. 24, 2008).

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