

medicaid
and the uninsured

October 2009

The COBRA Subsidy and Health Insurance for the Unemployed

By Karyn Schwartz

The U.S. unemployment rate reached 9.8% in September 2009, with 15 million individuals now unemployed and looking for work.¹ This high unemployment rate jeopardizes health coverage for the 60% of the nonelderly population in the U.S. that receives health insurance through an employer.² In 2008, during the first year of the recession, more than 2 million people lost employer-sponsored coverage and 700,000 became uninsured. With the recession continuing, 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.³ 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) is providing nine-month subsidies to some of the unemployed to help them afford to temporarily keep their previous employer-sponsored coverage through the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Under the current legislation, qualified individuals can receive the subsidies if they are laid-off between September 1, 2008 and December 31, 2009. Individuals who enrolled in the subsidy immediately after it became available will soon have to pay the full premium to continue COBRA. These individuals began receiving the subsidy in March 2009; by November 2009 they will have received it for the full nine months allowed under ARRA. After their ninth month of receiving the subsidy, they will have to pay the full cost of COBRA.

No official numbers have been released regarding how many people are taking advantage of the subsidies, but one survey of 200 large employers found that monthly COBRA enrollment rates increased from 19% to 38% once the subsidy was in place.⁴ While these subsidies are helping many people maintain coverage, limits on eligibility for COBRA and the subsidy are leaving some unable to take advantage it. Others may find that either they are unable to afford the subsidized premiums, or the premiums become unaffordable once the nine-month subsidy period ends. 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 COBRA. Under the original legislation, individuals were required to pay the full COBRA premium to continue their insurance. 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 are eligible for a nine-month federal subsidy that will cover 65% of the cost of COBRA.⁵

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 be 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 40 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.⁶ Individuals insured through these continuation coverage policies can also receive the subsidy.

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.⁷

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.

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 individuals about COBRA within 14 days of when they would otherwise have lost coverage due to a layoff or another life event, such as a divorce, that would qualify them for COBRA. These notices may include information about the COBRA subsidy, or that information can be provided separately. Once former employees are notified of both COBRA and the availability of the subsidy, they have 60 days to decide to continue their coverage through COBRA. Individuals enrolled in the subsidy pay the subsidized premiums for nine months as long as they do not become eligible for Medicare or other group coverage. Once the nine-month subsidy period ends, they have to pay the full premium to remain insured through COBRA. The number of individuals who have been unemployed for longer periods of time is rising during this recession, making it more likely that people will continue to need COBRA coverage once the subsidy period ends. In September 2009, the number of people unemployed for six months or more reached 5.4 million, an increase of 450,000 over the previous month.⁸

Individuals who were laid off before the COBRA subsidy was enacted on February 17, 2009 are eligible for the subsidy if they lost their job during the eligibility period, which began in September 2008. These individuals had 60 days to decide to enroll in COBRA after they were notified of the subsidy. Employers were required to send out those notifications by April 18, 2009. States that offer continuation coverage for employees of small firms had the option of providing a second eligibility period to individuals who were eligible for those policies.

How much does COBRA cost with and without the subsidy?

Under the original 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 reimburses employers and insurers for the remaining 65% of the premium.

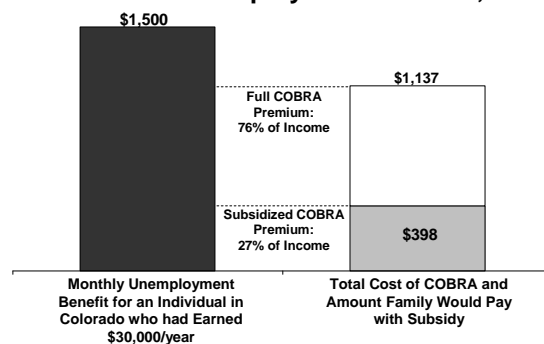
While this subsidy will help some of the unemployed afford COBRA coverage, the average worker would still find his subsidized premiums to be higher than what he was paying while working. On average, employees with employer-sponsored coverage pay 17% of the cost of their own coverage and 27% of the cost of family coverage, making the 35% share required under the subsidy an increase in premium costs for the average worker.⁹ Additionally, after exhausting the nine-month subsidy, individuals would have to pay 102% of the total premium to keep their coverage.

In 2009, the full annual cost of employer-sponsored health insurance averaged \$13,375 for a family policy and \$4,824 for an individual policy.¹⁰ Under the subsidy, the cost of maintaining the average policy would be \$398 per month for a family and \$144 for an individual. Once the subsidy expires, that cost will rise to \$1,137 per month for family coverage and \$410 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.¹¹

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 \$1,500 a month) in unemployment insurance.¹² Assuming her employer-sponsored coverage had premiums equal to the national average, the full cost of COBRA would be \$1,137 a month for a family and \$410 for an individual. Under the 65% COBRA subsidy, that family policy would cost her \$398 per month and the individual policy would cost \$144 per month. Although the share of her income required to pay for COBRA for family coverage would drop from 76% to 27% during the nine-month subsidy period, she still might find it difficult to afford the premiums while also paying for housing and food on a limited income. That 27% share of her income is likely larger than the percent of her income she was spending on insurance premiums while she was working. If she had been paying the average employee share for family coverage while working, she would have been spending 12% of her income on premiums.

Cost of COBRA Coverage Compared to Income from Unemployment Benefits, 2009



SOURCE: Colorado Internet Unemployment Claims System, Kaiser/HRET Employer Health Benefits Survey, 2009.

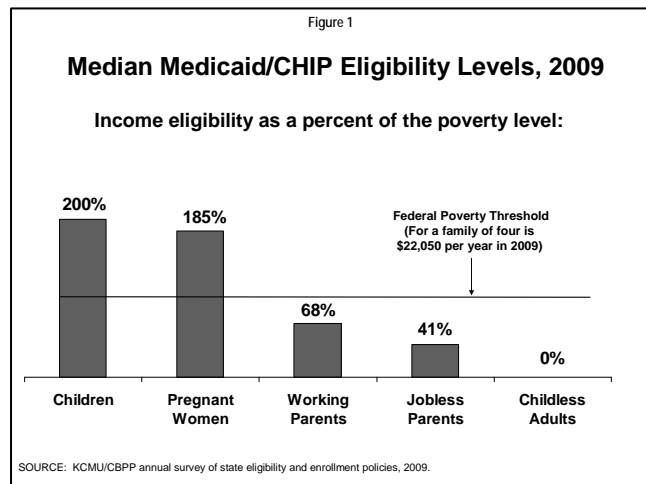
How do people enroll in subsidized COBRA?

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. These requirements remain in place for individuals who qualify for the COBRA subsidy, although they have to pay the subsidized premium amount instead of the full premium. However, 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.

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.

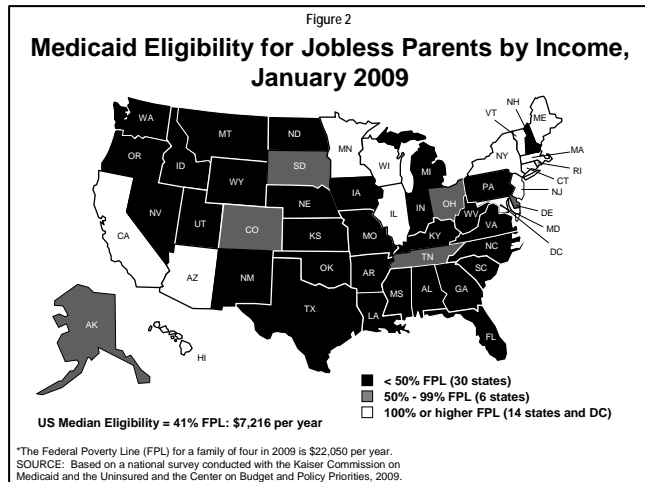
Can the unemployed qualify for public coverage?

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 \$44,100 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.¹³ 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 should help states reach newly eligible 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 30 states the eligibility cut-off for jobless parents is set below 50% of the federal poverty level (about \$11,000 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. These additional federal funds will help states cope with the rise in Medicaid enrollment as more people become eligible for the program during the recession. 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 have been 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. For example, Massachusetts is using an existing state program to help eligible unemployed residents pay their 35% share of COBRA premiums.¹⁴ Minnesota is paying the entire employee share of the subsidized COBRA premium for individuals who meet the state's income and asset eligibility criteria.¹⁵ 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.

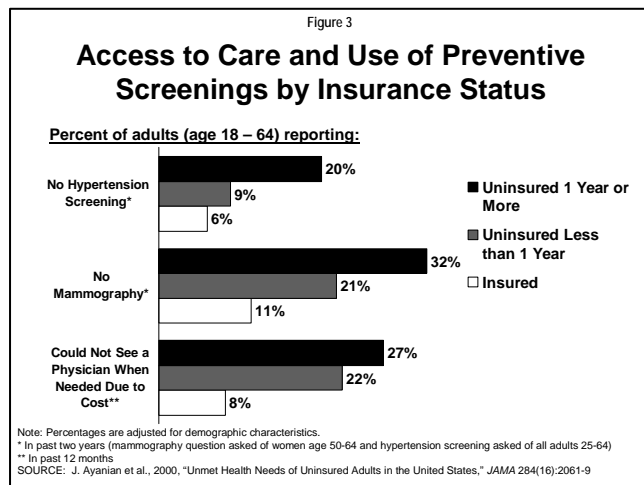
When unemployed adults with health problems try to purchase non-group coverage, they may find that even though they previously had coverage, they are either charged a higher premium because of their health status or health plans refuse to offer them coverage at any price. Older individuals are more likely to have trouble purchasing their own insurance since they are at higher risk of having costly health problems. In 2006, 11% of all applicants for non-group policies were denied coverage and that denial rate reached 29% for individuals age 60 to 64.¹⁶

Limited federal protections exist for those trying to purchase coverage in the non-group market, but these protections 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.¹⁷ There are no federal limits on the premiums for this coverage, although some states do set 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.¹⁸ 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.

What are the consequences of losing coverage?

When individuals are uninsured while looking for work, they put their health and financial security at risk. Even when adults are uninsured for less than one year they are significantly less likely than the insured to receive recommended screenings and are more likely to go 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.¹⁹



Health providers are not required to treat 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. As a result, emergency departments are straining to treat an influx of patients due to the recession.²⁰ Many of these patients lost their health insurance when they became unemployed and others are insured but can no longer afford the cost-sharing for care at their doctor's office. When uninsured individuals are treated for acute conditions in emergency departments, they are often later turned away if they seek follow-up care in ambulatory care clinics.²¹ The uninsured are also typically billed for any care they receive, often paying higher charges than the insured.²² 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.²³ 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 services 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.²⁴ 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 was designed to help support health coverage during the recession and is allowing some of the unemployed to temporarily continue their coverage. However, the subsidy's temporary structure means that soon it will no longer provide help to those trying to maintain their health coverage after a layoff. Specifically, people who are laid-off after December 31, 2009 will not qualify for the subsidy, since it only applies to those who become unemployed from September 1, 2008 to December 31, 2009. In addition, the subsidy will soon come to an end for those who will have been paying the reduced premiums for nine months, which is the maximum length of the subsidy. While Congress may consider extending the COBRA subsidy, the program's reach may remain limited due to gaps in who is eligible for COBRA and the difficulty of affording even the subsidized premiums for those with limited resources.

Some unemployed individuals and their family members have become eligible for Medicaid coverage after a layoff, but states will likely struggle to maintain eligibility levels once the temporary increase in federal Medicaid funding ends in December 2010. While both the COBRA subsidy and the increase in Medicaid funding were aimed at helping people remain insured, they were not designed to be permanent solutions and do not reach all of the newly uninsured or the approximately 45 million who were already without coverage when the recession began. Although ARRA is a valuable first step towards protecting coverage for those who become unemployed during this recession, providing security for all of those who need health insurance will require more comprehensive health reform.

-
- ¹ Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, October 2, 2009.
- ² Hoffman, C., Schwartz, K. Howard, J. and Tolbert, J., *The Uninsured: A Primer*, Kaiser Commission on Medicaid and the Uninsured, 2009 (#7451).
- ³ Kaiser Family Foundation, Kaiser Health Tracking Poll: July 2009.
- ⁴ Hewitt Associates. "Hewitt Analysis Shows Average COBRA Enrollments Doubled Since Subsidy Became Available in February 2009." August 18, 2009.
- ⁵ 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>
- ⁶ A list of states with continuation coverage is available from statehealthfacts.org. That list does not include Pennsylvania, which began mandating continuation coverage in July 2009.
- ⁷ Pear, R. "When a Job Disappears, So Does the Health Care." *The New York Times*, December 7, 2008, A30.
- ⁸ Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, October 2, 2009.
- ⁹ Claxton, G., et al., "Job-Based Health Insurance: Costs Climb At A Moderate Pace," *Health Affairs* 2009; 28(6): w492-w1004.
- ¹⁰ Kaiser Family Foundation and Health Research & Educational Trust. *2009 Kaiser/HRET Employer Health Benefits Survey*, 2009 (#7790).
- ¹¹ Kaiser Family Foundation, Kaiser Health Tracking Poll: February 2009 (#7867).
- ¹² State of Colorado, Colorado Internet Unemployment Claims System, available at: <http://www.coworkforce.com/uibEstimator/>
- ¹³ Kaiser Commission on Medicaid and the Uninsured. "Health Coverage of Children: The Role of Medicaid and CHIP." (#7698).
- ¹⁴ Cooney, E. "Boost to Health Coverage Planned." *The Boston Globe*, March 9, 2009.
- ¹⁵ More information on Minnesota's subsidy is available at www.dhs.state.mn.us/healthcare/COBRA (accessed October 19, 2009).
- ¹⁶ AHIP report
- ¹⁷ National Endowment for Financial Education, *Understanding Private Health Insurance*, 2006.
- ¹⁸ 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/>
- ¹⁹ 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).
- ²⁰ Paradise, J. and Dark, C. "Emergency Departments Under Growing Pressure." Kaiser Commission on Medicaid and the Uninsured, 2009. (#7960).
- ²¹ Asplin, B., et al, "Insurance Status and Access to Urgent Ambulatory Care Follow-up Appointments," *JAMA*, 2005; 294(10):1248-54.
- ²² Anderson, G., "From 'Soak The Rich' To 'Soak The Poor': Recent Trends In Hospital Pricing." *Health Affairs*, 2007; 26(4): 780-789.
- ²³ 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).
- ²⁴ 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).

1330 G STREET NW, WASHINGTON, DC 20005
PHONE: (202) 347-5270, FAX: (202) 347-5274
WEBSITE: WWW.KFF.ORG/KCMU

This report (#7875-02) is available on the Kaiser Family Foundation's website at www.kff.org.



The Kaiser Commission on Medicaid and the Uninsured provides information and analysis on health care coverage and access for the low-income population, with a special focus on Medicaid's role and coverage of the uninsured. Begun in 1991 and based in the Kaiser Family Foundation's Washington, DC office, the Commission is the largest operating program of the Foundation. The Commission's work is conducted by Foundation staff under the guidance of a bi-partisan group of national leaders and experts in health care and public policy.