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POLICY BRIEF

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The COBRA Subsidy for the Unemployed

By Karyn Schwartz

The current recession is continuing to put health insurance at risk for millions of Americans who have lost their jobs due to the weakened economy. In March 2010, the unemployment rate was 9.7%, with 15 million people unemployed and looking for work.[1] Starting in 2014, when all the major provisions in the health reform law President Obama signed in March 2010 have been implemented, a comprehensive set of options will be available to help the unemployed remain insured. That law will expand access to Medicaid and also will provide qualifying individuals with the opportunity to purchase subsidized insurance through a health insurance Exchange. In an effort to help people maintain their insurance during this recession and before those key provisions of the health reform law take effect, Congress has temporarily extended a health insurance subsidy to laid-off employees that was first included in the stimulus bill officially know as the American Recovery and Reinvestment Act of 2009 (ARRA). Under the expanded version of the subsidy, individuals laid-off between September 1, 2008 and May 31, 2010 are eligible for a 15-month subsidy that covers 65% of the cost of maintaining their previous employer-sponsored coverage through the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).

This subsidy has been in place since the stimulus bill passed in February 2009, but no official numbers have been released regarding how many people are taking advantage of the subsidized coverage. However, one survey of 200 large employers found that monthly COBRA enrollment rates increased from 19% to 38% once the subsidy was in place.[2] While the subsidy is 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 15-month subsidy period ends. The comprehensive reforms that will be implemented in 2014 will provide a broader set of protections for the unemployed. Until those reforms take effect, COBRA coverage provides an opportunity for individuals to maintain health insurance who would otherwise lose access to employer-sponsored insurance. This paper seeks to answer several key questions about COBRA coverage and the subsidy.

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. Individuals are only eligible for COBRA if they were enrolled in their employer's health insurance prior to either being laid-off or experiencing another event, such as a divorce, that would cause them to lose employer-sponsored health insurance. Under the original legislation, individuals were required to pay the full COBRA premium in order to continue their insurance. This cost was a significant barrier for many laid-off workers and their families. To help people maintain

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coverage during the current recession, the federal government provided a temporary COBRA subsidy through ARRA that covers 65% of the cost of COBRA for individuals who were laid-off and their families. After ARRA initially passed, Congress extended the duration of those subsidies from nine to fifteen months and extended the period during which individuals are eligible for the subsidy.[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 be involuntarily terminated from his or her job between September 1, 2008 and May 31, 2010. Both laid-off workers and their family members who were covered under the worker's employer-sponsored insurance plan are eligible for the subsidy. Workers who lost their coverage when their hours were reduced and were later terminated may also qualify for the subsidy. In order to qualify, the reduction in their hours must have started between September 1, 2008 and May 31, 2010 and must have been followed by a layoff that occurred between March 2, 2010 and May 31, 2010.[4] Individuals who are eligible for COBRA for reasons other than a layoff, such as a divorce, are not eligible for the subsidy and have to pay the full cost of COBRA to maintain their previous coverage.

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.[5] Individuals insured through these continuation coverage policies can also receive the 65% premium 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 any health insurance, its 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.[6]

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 because they did not purchase insurance through their employer.

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 15-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.

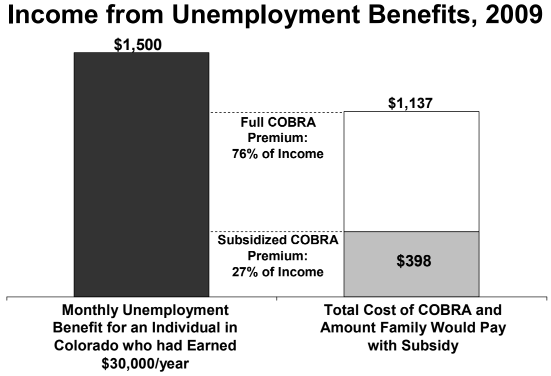
While this subsidy will help some of the unemployed afford COBRA coverage, the average worker would still find his subsidized premiums to be higher than what he was paying while working. On average, employees with employer-sponsored coverage pay 17% of the cost of their own coverage and 27% of the cost of family coverage, making the 35% share required under the subsidy an increase in premium costs for the average worker.[7] Additionally, after exhausting the 15-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.[8] 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 Kaiser Family Foundation survey from 2009, 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 $1,500 a month) in unemployment insurance.[10] 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 15-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 COBRA?

Employers must notify individuals about COBRA and the COBRA subsidy 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. 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. If they decide to continue coverage through COBRA, they have to pay the 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 the premiums they owed for that entire 60-day period. That initial payment is due 45 days after signing up for COBRA. 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.

Individuals enrolled in the subsidy pay the subsidized premiums for 15 months as long as they do not become eligible for Medicare or other group coverage. COBRA lasts for a total of 18 months in most cases and once the 15-month subsidy period ends, individuals 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 need COBRA for many months and may eventually have trouble paying for the coverage. In March 2010, the number of people unemployed for six months or more reached 6.5 million, an increase of more than 400,000 over the previous month.[11]

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.

What other coverage options are available for the unemployed?

Under current law, some unemployed individuals may be able to purchase their own coverage in the non-group market and others may find that they or other members of their family qualify for Medicaid or other public coverage. Insurance policies that people purchase directly in the non-group market may have more limited benefits and higher levels of cost-sharing than employer-sponsored insurance. Additionally, 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.

While Medicaid is an option for some of the unemployed, many do not qualify for this coverage even if they have very low incomes. Prior to 2014, states are not required to extend Medicaid eligibility to childless adults and may set income eligibility levels for parents at low levels that do not extend coverage to all parents below the federal poverty line ($22,050 for a family of four in 2009). In most states, children are more likely to qualify for Medicaid than adults, with 46 states and the District of Columbia setting the

Medicaid or Children's Health Insurance Program income eligibility threshold at or above 200% of the federal poverty level (FPL).[12]

Although most of the new health reform law will not take effect until 2014, a few smaller-scale changes will begin in 2010 that may help some unemployed individuals. Specifically, the temporary national high-risk pool for individuals with pre-existing medical conditions will provide another coverage option for people who might otherwise have trouble buying their own insurance, but only people who have been uninsured for six months or more are eligible for this coverage. The new health reform law will also allow some young adults to remain on a parent's private health insurance until age 26. Young adults will be able to take advantage of this provision starting in September, although the exact date when they can join a parent's plan will depend when the insurance plan starts a new plan year. The regulations regarding exactly who will be eligible to participate in this dependent coverage expansion have not been released. However, it is expected to provide another coverage option for many young adults who have either been laid-off or are unable to find a job that offers health insurance.[13]

Starting in 2014, the major provisions of the health reform law will be implemented and will provide unemployed individuals with an expanded set of coverage options. At that time, there will be an insurance mandate and individuals will be able to purchase non-group health coverage through a regulated health insurance Exchange. Insurers in 2014 will also no longer be able to deny coverage or charge higher premiums due to health status. Unemployed individuals and others with incomes below 400% of the poverty line ($88,200 a year for a family of four in 2009) may qualify for premium and cost-sharing subsidies for coverage purchased through an Exchange. Additionally, all individuals with incomes at or below 133% of poverty (about $29,300 for a family of four in 2009) will qualify for Medicaid in 2014.

Implications

The COBRA subsidy was created to help support health coverage during the recession and will help some individuals maintain their coverage after a job loss. The subsidy provides some temporary help to the unemployed. However, the 15-month subsidy period will end for those currently unemployed before comprehensive health care reform is implemented in 2014. That comprehensive reform will include an expansion of Medicaid to all of the lowest income Americans as well as health insurance Exchanges where individuals can purchase coverage regardless of their health status. Many individuals will qualify for subsidies to purchase coverage in the Exchanges, which will likely provide a more affordable coverage option than COBRA. This comprehensive reform will make coverage more available for unemployed individuals and may reduce their reliance on COBRA. Before these reforms take effect, COBRA and the temporary subsidy will continue to be valuable for many individuals who lose their coverage due to a layoff.

[1] Bureau of Labor Statistics, Employment Situation Summary, April 2, 2010.
[2] Hewitt Associates. "Hewitt Analysis Shows Average COBRA Enrollments Doubled Since Subsidy Became Available in February 2009." August 18, 2009.
[3] More information about the COBRA subsidy is available from the Department of Labor at http://www.dol.gov/ebsa/COBRA.html
[4] Individuals who become eligible for the COBRA subsidy due to a reduction in hours followed by a layoff will have their COBRA start date determined by the date when they initially became eligible for COBRA due to their hours being reduced. However, they will not have to pay premiums back to that initial eligibility date. Instead, they will just pay premiums going forward from the date when they became eligible for the subsidy due to a layoff.
[5] Expanded COBRA Continuation Coverage for Small Firm Employees, 2010, data as of January 2010, Statehealthfacts.org.
[6] Pear, R. "When a Job Disappears, So Does the Health Care." *The New York Times*, December 7, 2008, A30.
[7] Claxton, G., et al., "Job-Based Health Insurance: Costs Climb at a Moderate Pace," *Health Affairs* 2009; 28(6): w492-w1004.
[8] Kaiser Family Foundation and Health Research & Educational Trust. *2009 Kaiser/HRET Employer Health Benefits Survey*, 2009 (#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/ (accessed on 4/8/10).
[11] Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, April 2, 2010.
[12] D. Ross, M. Jarlenski, S. Artiga and C. Marks. "A Foundation for Health Reform: Findings of a 50 State Survey of Eligibility Rules, Enrollment and Renewal Procedures, and Cost- Sharing Practices in Medicaid and CHIP for Children and Parents During 2009." Kaiser Commission on Medicaid and the Uninsured, December 2009 (#8028).
[13] Kaiser Commission on Medicaid and the Uninsured. "Explaining Health Care Reform: Questions About the Extension of Dependent Coverage to Age 26." April 2010.

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