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Health Care Provisions of House Ways And Means Committee Stimulus Package Offer Little Help For The Health Insurance Needs of Unemployed Workers

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On October 12, the House Ways and Means Committee approved economic stimulus legislation that includes health care provisions intended to help unemployed workers maintain their health insurance coverage. The principal provision is an increase of $3 billion in funding for the Social Services Block Grant (SSBG) for fiscal year 2002 that states may use to provide health insurance to unemployed workers and their families.

This proposal, however, would not help most workers who lose their health insurance when they are laid off. The level of funding it provides is sufficient to maintain health insurance for only a small fraction of unemployed workers.

In addition, the proposal contains no requirement that states establish any minimum standards for the health insurance policies for which these funds could be used, which could lead in some areas to the use of federal funds to purchase low-quality private plans with high deductions and limited benefits. Moreover, the proposal is designed in such a manner that substantial numbers of low-wage workers who lose their jobs would be ineligible for assistance.

The proposal's use of the Social Services Block Grant to deliver these funds also is questionable. The Ways and Means Committee appears to have selected the SSBG as the program to receive these funds primarily because it falls solely under the Committee's jurisdiction while more appropriate programs to help the unemployed maintain health insurance coverage do not. A more effective way to help unemployed workers keep their health insurance would be through a combination of a temporary federal subsidy to reduce the cost of health insurance premiums that are charged to unemployed workers under COBRA (which enables laid-off workers to maintain health coverage through their former employer if they pay the full cost of the insurance premium) and a temporary Medicaid option for states to cover poor unemployed workers who have too little income to afford the COBRA premium even with a COBRA subsidy or who are ineligible for COBRA. Under this temporary Medicaid option, the federal government would bear most of the costs.

The Ways and Means package also fails to address another key problem related to the provision of health insurance to unemployed workers and their families. Many low-income families with children will become eligible for Medicaid when a parent loses his or her job (and his or her health insurance) and the family's income falls. Many states are suffering serious fiscal stress as a result of the economic downturn, however, and are likely to encounter difficulty in meeting the costs of the increases in Medicaid enrollment that the recession is likely to engender. A stimulus package also could help states address this problem through a modest one-year increase in the federal Medicaid matching rate — that is, in the share of Medicaid costs the federal government bears.

Health Proposals for the Unemployed in the Ways and Means Bill

Under the Social Services Block Grant, states are given funds to furnish services that can boost self-sufficiency, prevent abuse and neglect, and encourage community-based care for persons with long-term care needs, including both children and elderly and disabled individuals. Eligible services include child care, foster care, protective services, transportation, job training, adult day care, family planning, and services for persons with special needs. Each state is allocated funds based on the share that its population makes up of the national population. Total funding for fiscal year 2001 was $1.725 billion.

The principal health insurance component of the Ways and Means package is a one-time increase in SSBG funding of $3 billion for fiscal year 2002. Under this proposal, states would use these additional federal funds to purchase health care coverage for unemployed individuals and families who are not eligible for federal health insurance programs such as Medicaid, SCHIP, and Medicare. This proposal has one advantage in that it would not require states to provide state matching funds to receive these new federal resources. Faced with budget shortfalls during an economic downturn, many states could encounter difficulty meeting requirements to contribute substantial amounts of new funds. The Ways and Means proposal, however, has a series of significant shortcomings that substantially outweigh this one attractive feature.

- **The $3 billion would be sufficient to cover health insurance costs for only a small fraction of laid-off workers.** The limited nature of the $3 billion funding level can be seen by comparing it to the cost of a proposal developed by Senators Max Baucus and Edward Kennedy, the chairmen of the Senate Finance and Senate Health Education Labor and Pensions Committees. The Baucus-Kennedy proposal would subsidize 50 percent of COBRA premium costs for a period of 12 months and be available to all laid-off workers who qualify for COBRA. It also would establish a temporary state Medicaid option to cover low-income unemployed workers who cannot afford the remaining 50 percent of the COBRA premium or are ineligible for COBRA because they worked for a small business or for a firm that did not offer health insurance. The Baucus-Kennedy proposal would cost $16 billion. The level of funding that the SSBG proposal would provide would be only one-fifth the level of funding the Baucus-Kennedy proposal would provide.

- **Unemployed workers receiving SSBG assistance may not have access to meaningful health care coverage.** The Ways and Means legislation contains no requirement that states establish any standards for the health insurance they can purchase with these funds. Given the limited federal dollars they will be provided, states may find it attractive to use these funds to provide quite limited health benefits to workers who are laid-off or to pay for low-quality private policies with high deductibles and few benefits that may be marketed by insurance companies that have political clout in a state. This approach represents a sharp departure from the policies that underlie the SCHIP and Medicaid programs, which have federal standards for comprehensive benefit packages. (SCHIP stands for the State Children's Health Insurance Program.)

- **The proposal would exclude many unemployed workers from eligibility for health insurance.** States could use the additional SSBG funds to provide health insurance only to unemployed individuals who have sufficient recent earnings to be eligible for unemployment insurance. In all but a handful of states, a laid-off worker's earning in both the current calendar quarter and the preceding calendar quarter are not counted in determining whether the worker had sufficient earnings to qualify for unemployment insurance. This aspect of the unemployment insurance system, a hold-over from an earlier period when lack of computerization prevented access to recent wage records, results in the disqualification from unemployment insurance of large numbers of low-wage workers who entered the labor force fairly recently, including many low-income working mothers who have recently left welfare for work but could face loss of their jobs in the downturn. Under the Ways and Means bill, states would be precluded from using the new SSBG funds to provide health insurance to these individuals.

- **The Social Services Block Grant is a questionable vehicle for a new health insurance program for unemployed workers.** State-funded SSBG programs have no experience in providing health insurance and lack the capacity to administer a new health insurance program for the unemployed. States would apparently be permitted, under the Ways and Means bill, to transfer these new SSBG funds to their Medicaid and/or SCHIP programs. States that did so could use their existing Medicaid or SCHIP administrative structures, provider networks, and benefits. There is no requirement that states transfer the funds in this manner, however, and some states could instead choose to create new, temporary health insurance programs for unemployed workers with an administrative structure outside Medicaid and SCHIP. Following that course could delay implementation. It also could necessitate the development of complex screening procedures and lengthy application forms to ensure applicants are not eligible for Medicaid, SCHIP, or Medicare. Such forms and procedures could create barriers to participation by unemployed workers.

  Including a requirement that states transfer these additional SSBG funds to their Medicaid or SCHIP programs would help to address these problems, as well as some of the other problems noted above (such as the lack of standards for the health benefits that would be provided). Without such a requirement, use of SSBG as the vehicle for these funds would pose significant problems.

- **Increased SSBG funds would not be targeted to the states with the greatest needs.** SSBG funds are allocated among states based on the share that each state's population makes up of the national population. A state with five percent of the U.S. population receives five percent of SSBG funds. As a result, the $3 billion would be divided among states based strictly on population, without consideration of the relative levels of unemployment, lack of health insurance, or poverty in the states.

The Ways and Means bill also includes two other health provisions. The first would allow more unemployed individuals to withdraw funds without penalty from individual retirement accounts (IRAs) and employer-based pension arrangements (such as 401(k) and 403(b) plans) to pay for health insurance premiums. Under current law, individuals eligible for unemployment insurance benefits for 12 consecutive weeks can make penalty-free withdrawals from IRAs equal to the cost of their health insurance premiums. The Ways and Means legislation would permit people who collect unemployment for four consecutive weeks between September 11, 2001 and December 31, 2002 to make such early withdrawals from both IRAs and other pension arrangements.

This would do little to help low- and moderate-income unemployed individuals who are at risk of losing their health insurance, since most low- and moderate-income workers lack significant IRA or pension savings. While 89 percent of families with incomes above $100,000 had retirement accounts in 1998, only six percent of families with annual incomes below $10,000 and 25 percent of families with incomes between $10,000 and $25,000 participated in IRAs or employer-based pension plans. Even when low- and moderate-income workers do contribute to IRAs or have an employer-based pension plan from which such withdrawals could be made, the amounts they have in these accounts are typically so modest — the median value of retirement accounts in 1998 was $8,000 for families with incomes between $10,000 and $25,000 — that COBRA premiums would quickly deplete the accounts. The annual cost of family health insurance premiums now averages about $7,000 per year.

The second provision would extend the Medical Savings Account (MSA) demonstration project for one year, so it expires on December 31, 2003 instead of December 31, 2002. This provision is irrelevant to helping the unemployed during the downturn. Since the MSA demonstration already is available through the end of 2002, extending it through 2003 will have no effect on the unemployed in the year ahead (and no effect as a short-term stimulus.) In addition, MSAs primarily appeal to higher-income individuals — rather than to unemployed workers without much income or resources — because they are tax-advantaged savings accounts that are attractive as tax shelters. MSAs also hold greatest appeal to younger, healthier people, since MSAs must be combined with high-deductible health insurance plans that are generally disadvantageous to individuals who incur significant health care costs. An extension of MSAs for an additional year would be of little or no value to unemployed workers, especially those with modest incomes or chronic illnesses.

A More Effective Health Insurance Approach for Unemployed Workers

Under COBRA, unemployed workers and their families generally are eligible to maintain health insurance through their former employer for up to 18 months, so long as they pay the full cost of the premiums. As noted, average annual premiums for family coverage in job-based health insurance equal or exceed $7,000, however, and are unaffordable for many unemployed workers, especially those with low- and moderate incomes. As a result, only 20 percent of those eligible for COBRA make use of it during their period of unemployment.

To help unemployed workers afford to maintain their coverage during the economic downturn now underway, policymakers from both parties have expressed interest in temporarily subsidizing a percentage of workers' COBRA premiums. One approach would be to provide government subsidies equal to 50 percent of worker's COBRA premium costs to health insurers and issuers and thereby to cut the COBRA premiums in half for unemployed workers. Insurers and issuers could identify who is a COBRA-eligible individual and discount the premiums on behalf of such individuals. (To ensure that individuals are aware of a temporary COBRA subsidy, employers could be required to provide information about the subsidy to workers who are laid off. Since employers already must provide a notice about COBRA to such workers, this would simply require some modification in the notice.)

Any COBRA subsidy would leave significant gaps, however, as it would fail to assist many displaced workers who are at risk of losing their health insurance. Substantial numbers of workers who had health insurance while on the job are ineligible for COBRA. Workers laid-off from small firms — those with fewer than 20 workers — are not eligible for COBRA coverage regardless of whether they had health insurance through their jobs. In addition, displaced workers whose former employer either goes out of business because of the economic downturn or decides to drop health insurance for its remaining employees lose their eligibility for COBRA.

Compounding these problems, many low-wage individuals who become eligible for COBRA when they are laid off would not be helped, because they would be unable to afford the premiums even with a significant federal subsidy, such as a subsidy for 50 percent of COBRA premium costs. As noted, the average annual cost of family coverage exceeds $7,000. If 50 percent of COBRA premium costs were subsidized, the average annual premium would be about $3,500. That still would be prohibitive for unemployed individuals who formerly lived paycheck to paycheck. Fifty percent of an average COBRA family premium would consume about one-third of the national average monthly unemployment insurance benefit.

A COBRA subsidy also would be of no help to laid-off workers who lacked job-based health insurance prior to becoming unemployed. Many such individuals were previously employed by firms — usually small employers — that did not offer health insurance coverage. Only 58 percent of firms with three to nine workers offer health insurance to their employees. The low-income unemployed also include substantial numbers of people who were offered coverage through their employer while on the job but could not afford the employee contributions. One of every five workers with incomes below the poverty line who have access to employer-based coverage is uninsured; three-quarters of the uninsured workers cite cost as the principal reason they declined coverage. If these workers cannot afford subsidized premiums when they are receiving paychecks, they surely will not be able to afford the premiums for health insurance when they lose their jobs.

To deal with the large gaps that would remain even with a substantial COBRA subsidy, any such subsidy thus would need to be designed in tandem with a new state Medicaid option designed to address the needs of workers who would not benefit from the COBRA subsidy. States could be given an option for the coming year to provide Medicaid coverage to low-income, recently unemployed families and individuals. For there to be any reasonable prospect that states would use this option at a time when many of them face serious fiscal problems as a result of the downturn and are considering cutting existing programs or raising taxes, states would have to be eligible to receive federal matching funds for coverage provided under the new option at matching rates substantially higher than the regular federal Medicaid matching rates and very possibly higher than the enhanced matching rates that the State Children's Health Insurance Program provides, as well. (Under SCHIP, the share of the costs that a state pays is 30 percent less than the share the state pays under Medicaid; for example, a state paying half of Medicaid costs pays 35 percent of SCHIP costs.) The National Governors' Association has proposed establishment of a temporary state Medicaid option to cover the unemployed with the federal government covering 100 percent of the costs (just as the federal government would cover 100 percent of the costs of increased unemployment insurance benefits under most current proposals to strengthen unemployment benefits during the impending recession).

Under such a Medicaid option, states would have flexibility to set income and resource eligibility limits as they saw fit. For those low-income individuals eligible for the federal COBRA subsidy, states also would have the flexibility to use the Medicaid funds to pay the portion of the COBRA premium not covered by the COBRA subsidy. Providing health insurance to unemployed workers through the combination of a COBRA subsidy and this new Medicaid option would help more unemployed workers maintain insurance and also could free up other consumer spending by low- and moderate-income households to help spur economic recovery.

Helping States in Fiscal Stress Deal with Greater Medicaid Enrollment

Evidence shows that when unemployment rises during an economic downturn, the percentage of people with job-based health insurance declines. Medicaid partially compensates, as a greater number of low-income workers become eligible for it. Using Medicaid baseline spending projections made by the Congressional Budget Office, the Urban Institute projects that if the average unemployment rate for fiscal year 2002 rises by two percentage points to 6.5 percent from the 4.5 percent that CBO assumed when issuing projections last April, Medicaid enrollment would increase by 3.2 million people. The Urban Institute analysis thus indicates that the economic downturn will cause state Medicaid expenditures to increase significantly.

Even before the downturn, growth in Medicaid spending posed a significant fiscal problem for states. CBO estimates made at a time when CBO was forecasting continued moderate economic growth and no recession assume that Medicaid spending will rise 9 percent in 2002. Yet even before the terrorist attacks and the onset of recession, states were projecting their revenues would increase by an average of just 2.4 percent in 2002, an estimate that is now being revised downward. Thus, even before a recession was anticipated, Medicaid expenditure growth was expected to place considerable strain on state budgets. (Note: CBO's projected increase in Medicaid expenditures in 2002 reflects CBO's estimate of the impact of health care inflation, rapidly increasing prescription drug costs, and increasing costs for services to the elderly and disabled populations. CBO projected that increases in enrollment by families and children would contribute relatively little to the increase in Medicaid costs.)

Now, states are suffering substantial fiscal stress. States such as Mississippi, Ohio and South Carolina have already enacted across-the-board spending cuts, while eight states were forced to raises taxes in their fiscal year 2002 budgets. A much larger number of states are expected to initiate budget cuts when state legislatures reconvene this winter and confront budgets that have fallen out of balance as a result of the downturn. Because nearly all states are required by their constitutions or state law to balance their budgets and Medicaid constitutes such a large portion of state spending — and also because Medicaid costs now are rising over the levels that states budgeted for them as unemployment climbs and more people become eligible for the program — Medicaid is widely expected to be a prime candidate for budget cuts in many financially strapped states.

These problems are beginning to manifest themselves in various ways. Tennessee has proposed cutting Medicaid enrollment by 180,000 people. Florida is considering eliminating its Medically Needy program, which covers those with catastrophic health costs. Indiana and Kentucky appropriated less money for their Medicaid programs this year than they were projected to need even before a recession was forecast, which is likely to set the stage for cuts later in the year. Several other states — New Mexico, Oregon, Utah, and Washington — have expressed interest in pursuing Medicaid waivers that would enable them to reduce benefits and increase cost-sharing for current beneficiaries.

A number of states experiencing serious fiscal stress are likely to conclude they have no choice but to make their Medicaid eligibility criteria more restrictive and/or reduce benefits. They will be in no position to shoulder the costs of the expected increase in Medicaid enrollment that will occur as unemployment rises.

Exacerbating these problems, federal Medicaid matching rates for more than half of the states *are being reduced* in fiscal year 2002, even as these states' revenues fall farther behind and their Medicaid needs and costs increase. The federal Medicaid matching rate for each state is based on the state's per capita income relative to that of the nation, as determined by census data for the most recent three calendar years for which these data are available. The new matching rates for fiscal year 2002 are based on state per capita incomes in 1997-1999, a period when the economy was very strong. Some 29 states that experienced solid economic growth between 1997 and 1999 have just had their federal matching rates reduced. In most of these states, however, the state's ability to finance its share of Medicaid costs is now becoming weaker rather than stronger.

To help states meet the temporary rise in Medicaid costs that will result from the downturn, the federal Medicaid matching rates could be temporarily increased. States could use the additional federal funds this would provide them to help cover the costs of the increases in Medicaid enrollment that are being driven by the downturn and to avert program cutbacks. These funds would not only assist Medicaid beneficiaries but also maintain spending in the health care sector for hospitals, clinics, nursing homes and other health care providers. There are several options for how to increase the federal Medicaid matching rates on a temporary basis. (Options for increasing the matching rates ― including an across-the-board increase, an increase geared to states with high unemployment, and an increase that would apply to Medicaid expenditures for non-elderly, non-disabled adults and children ― are explored in another Center analysis, "Federal Aid to State Medicaid Programs is Falling While the Economy Weakens", October 11, 2001.)

The higher matching rates would not need to be applied universally to all components of Medicaid expenditures. There is much less of a rationale for increasing matching rates for Medicaid disproportionate share hospital payments or program administration. To ensure that at least a portion of the funds are used to avoid harmful reductions in state Medicaid programs, the federal government could require that states receiving a higher federal Medicaid matching rate not reduce eligibility or benefits. (This condition could require, for example, states receiving the higher Medicaid matching rate in 2002 not to make cuts such as lowering income-eligibility thresholds, eliminating an eligibility category such as the Medically Needy or no longer providing optional benefits. However, it would not encompass states exercising currently available cost-containment mechanisms such as increased copayments for prescription drugs within existing nominal limits.)

A temporary increase in the Medicaid matching rate would be an appropriate measure to include in a stimulus package. Little start-up time would be needed before the funds began being expended at the state level, since no state legislative action would be necessary. Nor would any additional federal bureaucracy or infrastructure be needed; the funding transfer mechanisms are already established. Such a measure could inject more funds into the economy, while enabling states to assist low-income unemployed families more adequately and reducing pressures on states to raise taxes or cut expenditures in the middle of a downturn.

An increased Medicaid matching rate also would free up state funds otherwise needed for Medicaid to help states avoid tax increases or other budget cuts, steps that would impede economic recovery and work at cross-purposes to federal efforts to stimulate the economy.