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## **Unemployed Workers Need Help With Health Insurance**

### **COBRA Subsidy Alone Will Not Reach Many Unemployed Workers**

by Sharon Parrott

The U.S. economy now appears to be in or heading toward a recession. Unfortunately, this means that many workers are likely to lose their jobs and have difficulty finding new ones quickly. As policymakers consider how to help newly unemployed workers and the overall economy through a stimulus package, it is important that temporary policies be put in place to ensure that workers do not lose their health insurance as well as their jobs.

Some workers who lose their jobs will have access to COBRA coverage. Under COBRA, individuals who lose their jobs can remain in their former employer's health insurance plan for 18 months after the job loss, provided the individual pays the full premium costs.<sup>1</sup> Many — including the Bush Administration, Senators Baucus, Kennedy, and Jeffords, House Democrats, the National Governors' Association (NGA) and the National Conference of State Legislatures — have proposed that a stimulus package include some type of subsidy to help newly unemployed workers afford to purchase COBRA coverage.<sup>2</sup>

Such a provision could be an important first step in helping unemployed workers obtain health insurance because, for those eligible for COBRA coverage, the high cost of that coverage is a significant barrier to using it. By itself, however, such a subsidy policy would leave many unemployed workers — including the vast bulk of unemployed workers who are in greatest need — without health insurance. A temporary option for states to provide coverage through their Medicaid programs to low-income unemployed workers, designed in a way that states could afford to offer this option, would fill this gap.

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<sup>1</sup> Technically, to purchase COBRA coverage, an individual must pay 102 percent of the premium costs.

<sup>2</sup> These proposals vary widely. Senators Baucus and Kennedy and the House Democrats have proposed providing the direct subsidies to insurers and issuers while Senator Jeffords has proposed providing the subsidy through a tax credit. The Administration has proposed a very small block grant to states, under which one of the permitted uses of block grant funds would be use for COBRA subsidies. NGA and NCSL have not specified the mechanism by which a COBRA subsidy should be provided.

## Who Is Left Out?

Many unemployed workers are ineligible for COBRA coverage. Under federal law, workers who were employed by firms with less than 20 employees are ineligible for COBRA when they are laid off, as are self-employed individuals and workers who did not have employer-sponsored coverage while they were working.<sup>3</sup> A recent Urban Institute report finds that in 1999, some 43 percent of all non-elderly workers and their dependents would *not* have been eligible for COBRA coverage if they had lost their jobs.<sup>4</sup>

Among low-income workers, COBRA coverage is limited to a far greater degree. The Urban Institute study found that 68 percent of all workers with incomes below 200 percent of the poverty line would not have access to COBRA coverage if they lost their jobs.

Furthermore, for many of those who are eligible for COBRA coverage when they are laid off, the high cost of the coverage acts as a powerful barrier to its use. The average cost of group insurance for family coverage is now approximately \$7,000 a year, a very substantial cost for an unemployed worker to absorb.<sup>5</sup> Given this cost, it is not surprising that studies find that only 20 percent to 25 percent of all former workers eligible for COBRA coverage choose to purchase this coverage.<sup>6</sup>

The effects here, too, are most problematic for low-income workers who lose their jobs. The Urban Institute study found that in 1999, only five percent of all unemployed workers with incomes below 200 percent of the poverty line — only one in every 20 — had health insurance coverage through COBRA.<sup>7</sup>

Subsidizing COBRA coverage for those eligible to purchase it should increase the number of unemployed workers who are able to retain health insurance for themselves and their families. As the data presented above demonstrate, however, subsidizing COBRA coverage alone will not assist large numbers of unemployed workers. It will not affect the 68 percent of low-income workers who are ineligible for COBRA. It also will have only small effects on low-

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<sup>3</sup> Both workers whose employer did not offer health insurance and workers who chose not to participate in an employer-sponsored plan are ineligible for COBRA coverage if they lose their jobs.

<sup>4</sup> The Urban Institute report notes that given a limitation of the data source used (the National Survey of American's Families), the estimate of the proportion of individuals with access to COBRA coverage could be somewhat understated. The difference, however, is not likely to be large.

<sup>5</sup> Kaiser/Health Research and Education Trust, Survey of Employer-Sponsored Health Benefits, 2001.

<sup>6</sup> See Thomas Rice, Subsidizing COBRA: An Option for Expanding Health Insurance Coverage, Kaiser Family Foundation, October 1999 and public presentation materials from the Kaiser Commission on Medicaid and the Uninsured, October 2, 2001.

<sup>7</sup> Among unemployed adults with incomes above 200 percent of the poverty line, 11 percent had coverage through COBRA.

income unemployed workers who are eligible for COBRA, since most such workers will not be able to pay 25 percent or 50 percent of COBRA premiums. The most common proposals to provide a COBRA subsidy as part of an economic stimulus package would subsidize 50 percent to 75 percent of COBRA premium costs.

## **Helping the Unemployed Obtain Health Insurance Is Important to Families and Useful to the Economy**

Many unemployed individuals and their families — particularly those with modest earnings prior to losing their jobs — struggle to make ends meet. Such families are ill-equipped to pay for health care expenses. If they have insurance, they may forgo health care for all but very serious conditions. Delaying or forgoing preventive care or care for non-emergency services, however, can lead to poorer health outcomes and result in higher future health care costs if an untreated minor condition becomes more serious. When serious health problems do arise, such families often must deplete even modest savings and, in some cases, rely on publicly-funded health care through hospitals and emergency rooms, increasing the costs for state and local governments that fund such health care providers.

Providing health care coverage to unemployed workers and their families during an economic downturn not only safeguards such individuals' health but also is important for state and local governments and useful to the economy.

- If unemployed individuals who lack health insurance forgo health care, the health care industry could be hurt during the downturn. (Although some unemployed workers also lacked health insurance *prior* to being laid off, these workers will be less able to afford health care services when they are no longer receiving a paycheck than when they were working and uninsured.) This reduction in the purchase of health care services has an effect on the economy similar to that of other reductions in consumer spending — it further dampens economic activity.

This should be a matter of concern, as the health care sector is a key component of the U.S. economy. *Business Week* has reported that the health care sector has been one of the most vibrant sectors of the economy in recent years, having been responsible for 30 percent of the real growth in the gross domestic product and 45 percent of the net increase in jobs over the past year.<sup>8</sup>

Furthermore, to the extent that unemployed individuals who lack health insurance use some of their limited incomes to purchase health care services, they are likely to forgo other spending, causing a drag on other sectors of the economy.

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<sup>8</sup> Michael Mandel, "Health Care May Be Just What the Economy Ordered," *Business Week*, Sept. 17, 2001.

- If the number of uninsured individuals increases and more people seek free (or very low cost) health care services through “safety net” providers such as public hospitals and community health centers, these providers will need additional government resources to meet the growing demand. State and local governments, however, will be hard-pressed to provide additional funding; they increasingly are facing looming budget shortfalls as a result of the reductions in state tax revenues the recession is causing. Nearly all states must balance their budgets even during recessions. To the extent that states do provide additional resources to “safety net” health care providers, they generally will have to offset these increased costs with deeper budget cuts in other areas or larger tax increases.

In short, a significant decline in health insurance coverage would exert further downward pressure on economic activity. As a result, extending health care coverage to more of the unemployed would benefit the economy. Such measures would lead to increased health care spending because many of the individuals and families that would be covered would otherwise have to forgo health care services or cut back on other purchases to free up room in their family budgets for higher health care expenditures. Such measures also should ease pressures on state and local budgets, because public health facilities would not be as heavily burdened by large increases in the number of uninsured patients.

### **Providing Health Coverage to Unemployed Workers and their Families: The Mechanics**

The most efficient way to provide health care coverage to newly unemployed workers who lack access to COBRA coverage — or for whom even subsidized COBRA coverage is unaffordable — is through a temporary option for states to provide health care coverage through their Medicaid programs to low-income unemployed workers.<sup>9</sup> Medicaid is an existing public program that provides health care coverage to lower-income individuals and has existing application processes and mechanisms, such as contracts with health care providers, for delivering health care services. The extension of eligibility to a new group of individuals — low-income unemployed workers — could be implemented far more quickly if it were done through existing Medicaid programs than if a new mechanism or new program had to be designed and implemented at state and local levels.

For states to adopt such a temporary option, however, the federal government must pay nearly all of the costs of providing the coverage. Due to the economic downturn, states are

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<sup>9</sup> A substantial share of unemployed workers who do not have low incomes have access to COBRA coverage and should be able to afford COBRA premiums if the premiums are subsidized sufficiently. In addition, those middle- and upper-income unemployed workers who lack access to COBRA coverage are more likely to have adequate income or assets to purchase other health insurance or necessary health care services. A universal program covering all unemployed workers who lack access to COBRA would be too expensive for federal policymakers to consider.

currently facing serious fiscal problems as their revenues fall short of projections and needs for state services increase. Such an option should require states to pay no more than 10 percent of the cost of providing coverage to these unemployed individuals. If the required state contribution is set too high, large numbers of states will conclude they can not afford to adopt the option, and low-income unemployed workers in their state will lose access to health care coverage.