

### **Could Subsidizing COBRA Health Insurance Coverage Help Most Low-income Unemployed?**

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#### **Introduction**

In response to the accelerating economic downturn, the Bush Administration and Congress are developing an economic stimulus package. A number of proposals include temporary assistance to laid off workers to preserve their health insurance coverage between jobs.

For example, Senators Baucus and Kennedy would subsidize 50 percent of the premiums for those workers and their families who qualify for Consolidated Omnibus Budget Reconciliation Act (COBRA) coverage and institute a new Medicaid option for workers displaced from small businesses and others who do not qualify for COBRA. Other alternatives suggest subsidies of 75 percent of the COBRA premium or a sliding scale. The COBRA health benefit, which was enacted in 1986, allows employees, retirees, and their families the right to temporarily continue health coverage at group rates through their former employers.<sup>1</sup> Normally, coverage can be continued for up to 18 months, but the employee must choose the COBRA option within 60 days of termination.<sup>2</sup>

Efforts to assess the potential impact of such proposals are hampered by the fact that little data exist about who is eligible for COBRA and who among the eligible purchases the coverage. Data that allow for the identification of COBRA eligibility and coverage, however, are now available through the 1999 National Survey of America's Families (NSAF), and form the basis for this analysis (see Sidebar).

The estimates provided here will help close the information gap. In addition to estimating rates of COBRA eligibility, this analysis shows the extent to which unsubsidized unemployed workers chose COBRA coverage and, for those that did not, what coverage they had.<sup>3</sup> If large numbers of the unemployed are also uninsured, or not eligible for COBRA, proposals that blend subsidies for COBRA with a special Medicaid eligibility category may be needed.

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<sup>1</sup> COBRA applies to group health plans with 20 or more employees. It applies to private health plans and those sponsored by state and local governments, but does not apply to federal health plans or those sponsored by some church-related organizations. The plan may charge the former employee up to 102 percent of the group premium under COBRA.

<sup>2</sup> In the case of the death of the employee, a divorce or legal separation, or the employee becoming entitled to Medicare, COBRA coverage can be continued for up to 36 months by the dependent.

<sup>3</sup> We identify COBRA coverage as employer-sponsored insurance that the unemployed adult or the adult spouse has through a former employer they worked for within the past two years. We recognize that most former employees can only keep COBRA coverage for up to 18 months. We used two years as a cutoff because it was not possible within NSAF to identify the number of months since the last employer.

## Results

### *Workers Potentially Eligible for COBRA Coverage*

*Findings:* Only 57 percent of non-elderly workers and their adult dependents were potentially eligible for COBRA in 1999 (Figure 1).<sup>4</sup> Those who are not potentially eligible failed to qualify because they did not have employer-sponsored health insurance, were employed at small firms that are not required to offer a COBRA option, or were self-employed.

*Implications:* Even if a large share of the potential COBRA eligibles used a new subsidy to purchase coverage, many adults could still not be covered under COBRA.

### *Workers' Potential COBRA Eligibility and Income Variations*

*Findings:* The data also show that potential COBRA eligibility varies with income (Figure 1). Only 32 percent of workers and their adult dependents in families with low incomes (below 200 percent of the federal poverty level) would have the option of COBRA coverage. This potential COBRA eligibility rate increases to 55 percent for those with moderate incomes (between 200 and 300 percent of the federal poverty level) and 67 percent to those with higher incomes.

*Implications:* These differences show that COBRA should not be regarded as a major source of health insurance coverage for low-income adults. A major reason that a smaller share of low-income adults are potentially eligible for COBRA is that the share that already have employer-sponsored insurance is smaller among those with low incomes.

### *COBRA Eligibility among Workers with Employer-Sponsored Coverage*

*Findings:* If the focus is only on those workers and their adult dependents who have employer-sponsored

#### **About the Data and Methods**

One reason that COBRA is a relatively understudied policy issue is that data sources routinely used to measure insurance coverage (e.g., Current Population Survey) do not collect information that allow for identification of COBRA coverage. However, the Urban Institute's National Survey of America's Families (NSAF), a nationally representative survey of over 42,000 households, distinguishes COBRA coverage from other types of employer-sponsored insurance and offers detailed information on demographic and family characteristics as well as income and employment.

This analysis is based on 1999 NSAF data, the most recent available at this time. In particular, it focuses on the pool of adults who would be potentially eligible to acquire COBRA coverage in the event of a layoff as well as on the insurance coverage distribution of unemployed workers.

#### **Definition of Potential COBRA Eligibility**

Following COBRA rules, potential eligibles are defined as those workers and their dependents who have employer-sponsored coverage and work for a firm with more than 20 employees.\* Our estimates of the share of workers and their dependents who are potentially eligible for COBRA is almost certainly higher than the share who would *actually* become eligible by being laid off. This results from laid-off workers being more likely to have lower incomes than the average worker and, therefore, less likely to be insured or work for a firm with more than 20 employees and qualify for COBRA. To explore this issue, potential COBRA eligibles will be measured for all workers, for those with employer-sponsored insurance, and for different income groups.\*\*

#### **Limitations**

Estimates based on data from 1999 are not likely to mirror economic conditions in late 2001. The number of unemployed in 2001 will exceed the number from 1999 and will likely be composed of different types of workers. In 1999, unemployment was more likely to be the result of time spent between jobs in a strong economy, whereas in 2001 the unemployed are more likely to reflect workers from high-tech firms, airlines, and the tourist and entertainment industries.

\*Federal employees are not covered by COBRA. However, because state and local government employees are covered by COBRA and because NSAF cannot distinguish between the two groups of public sector employees, all public sector employees are included as potentially eligible for COBRA.

\*\* Family income is measured for the calendar year prior to the survey and almost surely overstates income during the period of unemployment.

<sup>4</sup> NSAF only provides data on establishment size as opposed to firm size. Other research shows that a larger share of workers are at firms with more than 20 workers than are at establishments with more than 20 workers (Nichols, et al., 1997). This means that the estimates of potential eligibility for COBRA among workers based on NSAF are lower than they would be if they could have been based on firm size. Given that Nichols, et al. show that about 12 percentage points more workers are at firms with more than 20 workers than are at establishments with more than 20 workers, the potential eligibility rate for COBRA coverage estimated from NSAF could be 12 percentage points lower than an estimate based on firm size.

coverage (the true target group for COBRA subsidies), it is still the case that about one-quarter would not be eligible to continue that coverage (Figure 2). However, these differences across income groups in the rate of potential eligibility for COBRA are smaller than those in Figure 1. This is expected because potential COBRA eligibility rates vary across income groups, in part as a result of variation in rates of employer-sponsored coverage (Figure 1). After eliminating those workers and their adult dependents who do not have employer-sponsored insurance, these potential eligibility rates only range from 67 percent for those with low incomes to 77 percent for those with high incomes.

*Implications:* These estimates do not imply that a sizeable share of *all* low-income workers could be helped by COBRA subsidies, but the findings do show that COBRA subsidies might help those who already chose to have employer-sponsored coverage.

### ***Unemployed Adults with COBRA Coverage***

*Findings:* In 1999 only 7 percent of unemployed adults had coverage through COBRA (Figure 3). This rate ranged from 5 percent for low-income adults to 11 percent for those with higher incomes. This confirms other studies that show that few insured adults have COBRA coverage (Klerman and Rahman, 1992; Flynn, 1992).

*Implications:* These low rates of COBRA coverage among unemployed adults suggest either that actual eligibility for COBRA is much lower among workers who become unemployed than is suggested by potential eligibility estimates or that very few unemployed workers choose to take COBRA coverage. The latter is likely the more important reason, given the costs associated with COBRA coverage and the precarious financial position many adults are in when they become unemployed. However, given the available data, it is not possible to determine the share of unemployed adults and their dependents who were potentially eligible for COBRA because it is not known whether they had coverage through their last job or if they worked for a firm with more than 20 employees.

### ***Unemployed Adults with Other Types of Coverage***

*Findings:* What types of health insurance coverage do unemployed adults have if they are not covered through the COBRA option? Forty-six percent of all unemployed adults without COBRA coverage are uninsured (Figure 3). This is almost three times higher than the uninsurance rate of 16 percent observed for all adults (Zuckerman et al., 2001). Thirty-one percent of unemployed adults without COBRA are able to maintain employer-sponsored coverage through a spouse's plan, 14 percent are able to enroll in Medicaid or a state program, and 9 percent obtain some other type of coverage (primarily, private non-group coverage).

Patterns of insurance coverage vary with incomes among unemployed adults not covered by COBRA. As the income groups are defined above, 58 percent of unemployed adults in 1999 had low incomes, 15 had moderate incomes, and 27 percent higher incomes. Over 50 percent of unemployed adults with incomes in the low- and moderate-income groups are uninsured compared to 30 percent for those with higher incomes. In large part, income variation is driven by the fact that employer-sponsored dependent coverage appears to be more affordable for those

at higher incomes. Fifty-seven percent of higher-income unemployed adults have employer-sponsored coverage compared to 19 percent of those in low-income families. By design, Medicaid plays a much larger role among low-income unemployed adults, covering 22 percent of them versus 3 percent of the higher-income group. However, since only about one-quarter of low-income unemployed workers have any type of coverage through a private plan, the risk of Medicaid coverage crowding out private coverage is low.

### **Legislative Considerations**

What do these estimates mean for the economic stimulus proposals now under Congressional consideration?

The data indicate that many adults would be helped by COBRA subsidies in an economic downturn, but that there would still be many for whom this approach would not be effective. COBRA subsidies are likely to be least effective among low-income adults, who are less likely than other income groups to be potentially eligible for COBRA coverage. In fact, if the 32 percent of low-income unemployed adults who are potentially eligible for COBRA could be given subsidies that encouraged them to take the coverage—a very unlikely scenario—then their rate of employer-sponsored coverage would still be below the rate observed for the unemployed with higher incomes in an unsubsidized COBRA environment. Therefore, although using COBRA subsidies as part of an economic stimulus package may be an effective means for covering some unemployed adults, it is not likely to reach a large share of those with the lowest incomes.

This suggests the need for some additional mechanism for providing coverage to low-income unemployed workers, such as a new optional category within Medicaid. For example, the federal government could allow states to make all unemployed workers with incomes below 200 percent of the federal poverty level eligible for Medicaid. In reality, since states already have the option to make parents eligible for Medicaid, this new optional category would be designed to let childless adults be covered.<sup>5</sup> Analysis of the NSAF data show that about 55 percent of low-income unemployed adults are non-parents.

To get some idea of the number of people who might be made newly eligible for Medicaid under this policy, assume that the income distribution of the unemployed adults remained the same as it was in 1999. At that time, NSAF data showed that 58 percent of unemployed adults without COBRA coverage had incomes below 200 percent of the federal poverty level and would be eligible for Medicaid under this policy option. If the unemployment rate rose to 6.5 percent, approximately 9.2 million adults would be unemployed, with 5.3 million below 200 percent of poverty and thus eligible for Medicaid. However, some of these people would be eligible under existing Medicaid rules. In fact, 22 percent of low-income unemployed adults are already eligible and enrolled in Medicaid under current rules. Analyses of eligibility among children show that, across all categories of eligibility, about 50 percent of eligibles enroll (Dubay, Kenney, and Haley, 2001). If this enrollment rate is applied to adults, we can assume another 22 percent of unemployed adults are already eligible but not enrolled. This means that

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<sup>5</sup> The Center on Budget and Policy Priorities indicated that Medicaid programs would need to be allowed to enroll low-income parents as well as other adults who currently are not in any of the current Medicaid categories.

roughly 56 percent of the 5.3 million low-income unemployed adults, or about 3.0 million people, would be newly eligible for Medicaid under this new policy option. As parents, some of these 3.0 million people could have been covered by states under existing Medicaid options so the new optional coverage would be most directly relevant to the non-parents.

### **Conclusion**

If the goal is for workers who are laid off to retain health insurance, then a policy that blends subsidies for COBRA with the creation of new optional categories of Medicaid eligibility may be more effective than one that only subsidizes COBRA. Although it is difficult to predict how many people would use COBRA subsidies or enroll in Medicaid, a structure that includes both would give several million unemployed adults the opportunity to have coverage. However, given that the pace of layoffs has been accelerating, Congress would need to enact and implement the new policy rapidly or lengthen the 60-day COBRA decision period.

*The views expressed are those of the authors and do not necessarily reflect those of the Urban Institute, its trustees, or its sponsors.*

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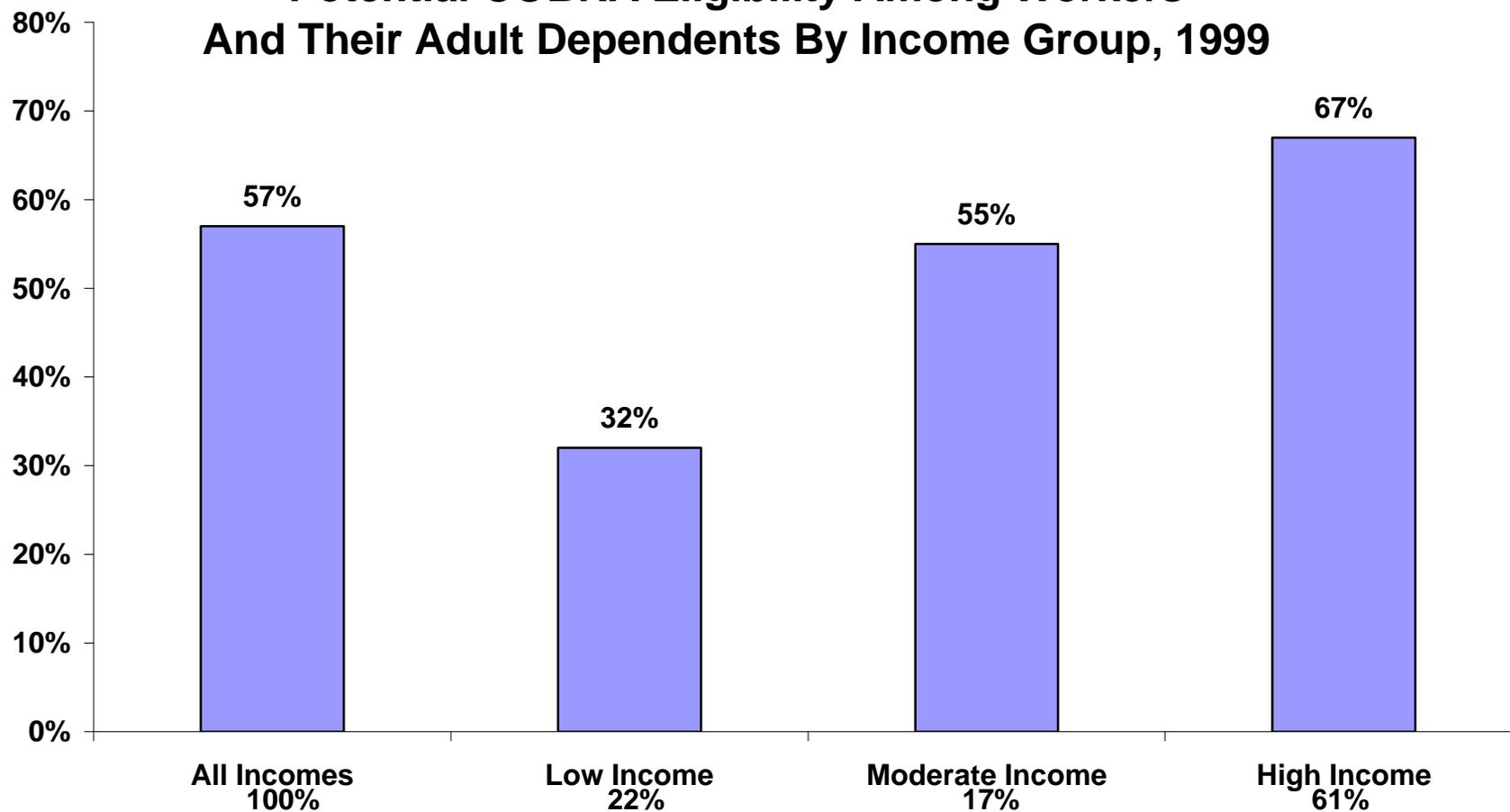
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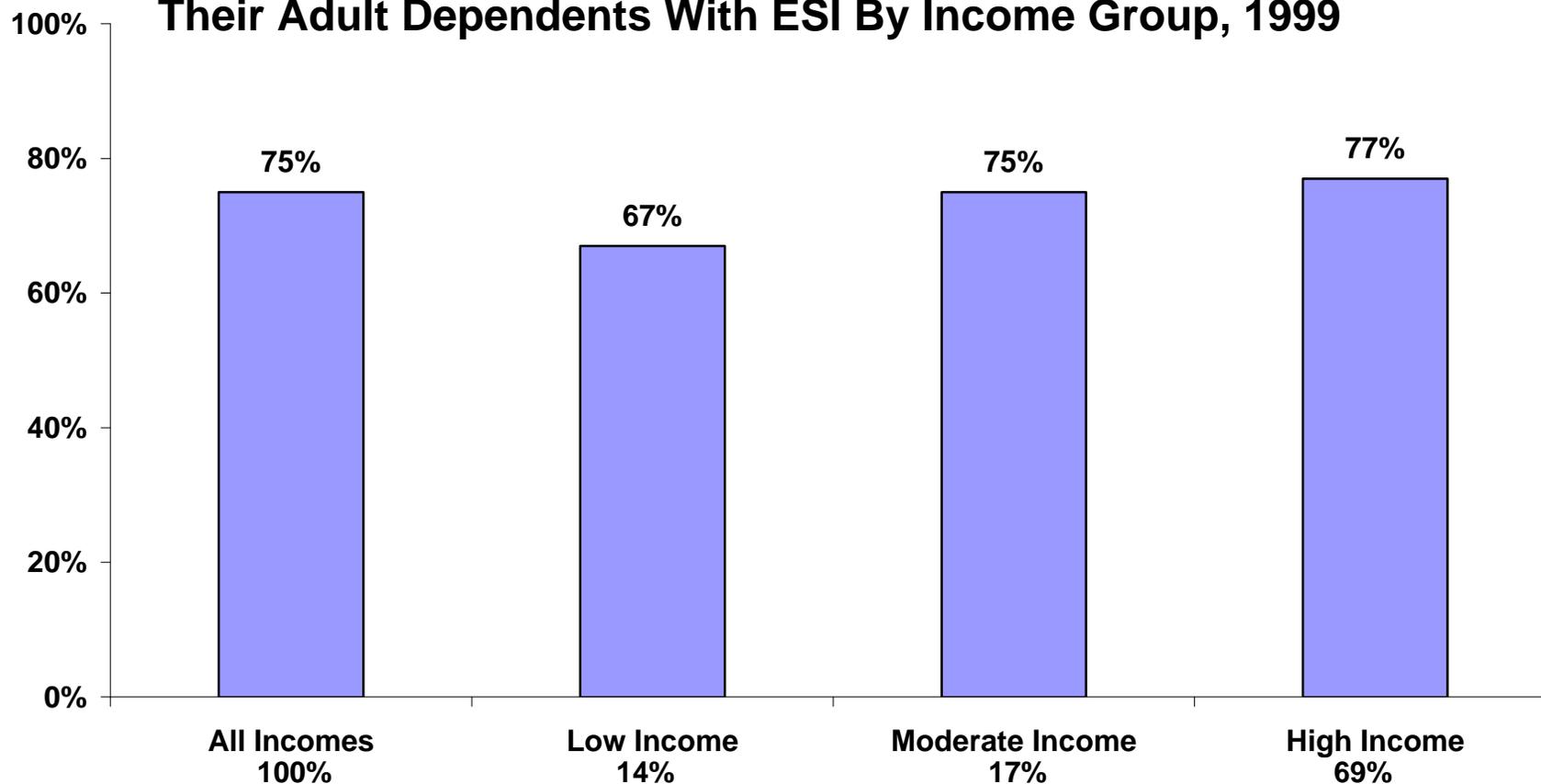
**Figure 1**  
**Potential COBRA Eligibility Among Workers**  
**And Their Adult Dependents By Income Group, 1999**



Note: Percents shown below each income group are the share of all workers and their adult dependents in that group.

Source: Urban Institute tabulations of the National Survey of America's Families (NSAF), 1999.

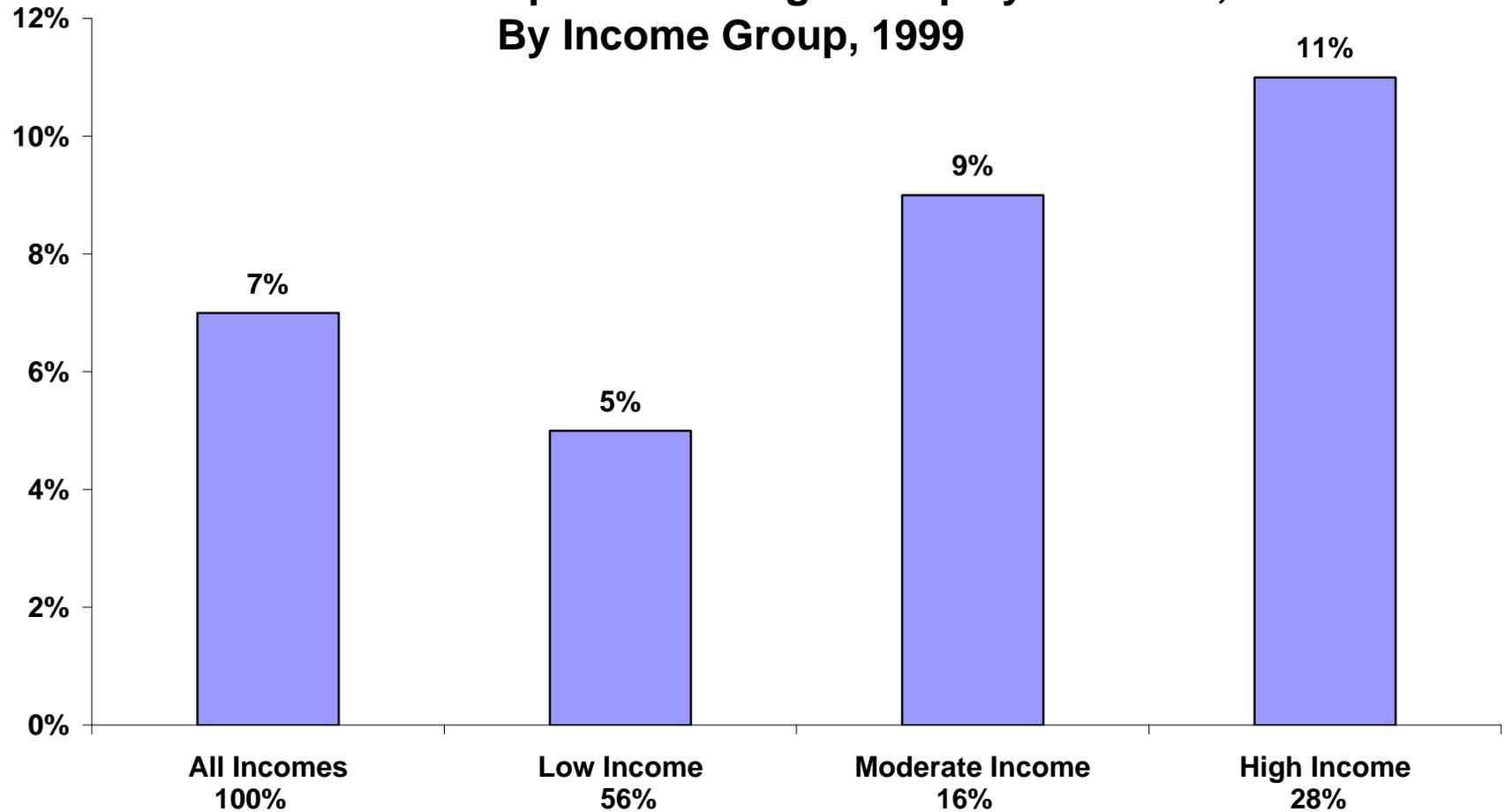
**Figure 2**  
**Potential COBRA Eligibility Among Workers and Their Adult Dependents With ESI By Income Group, 1999**



Note: Percents shown below each income group are the share of all workers and their adult dependents with ESI (Employer Sponsored Insurance) in that group.

Source: Urban Institute tabulations of the National Survey of America's Families (NSAF), 1999.

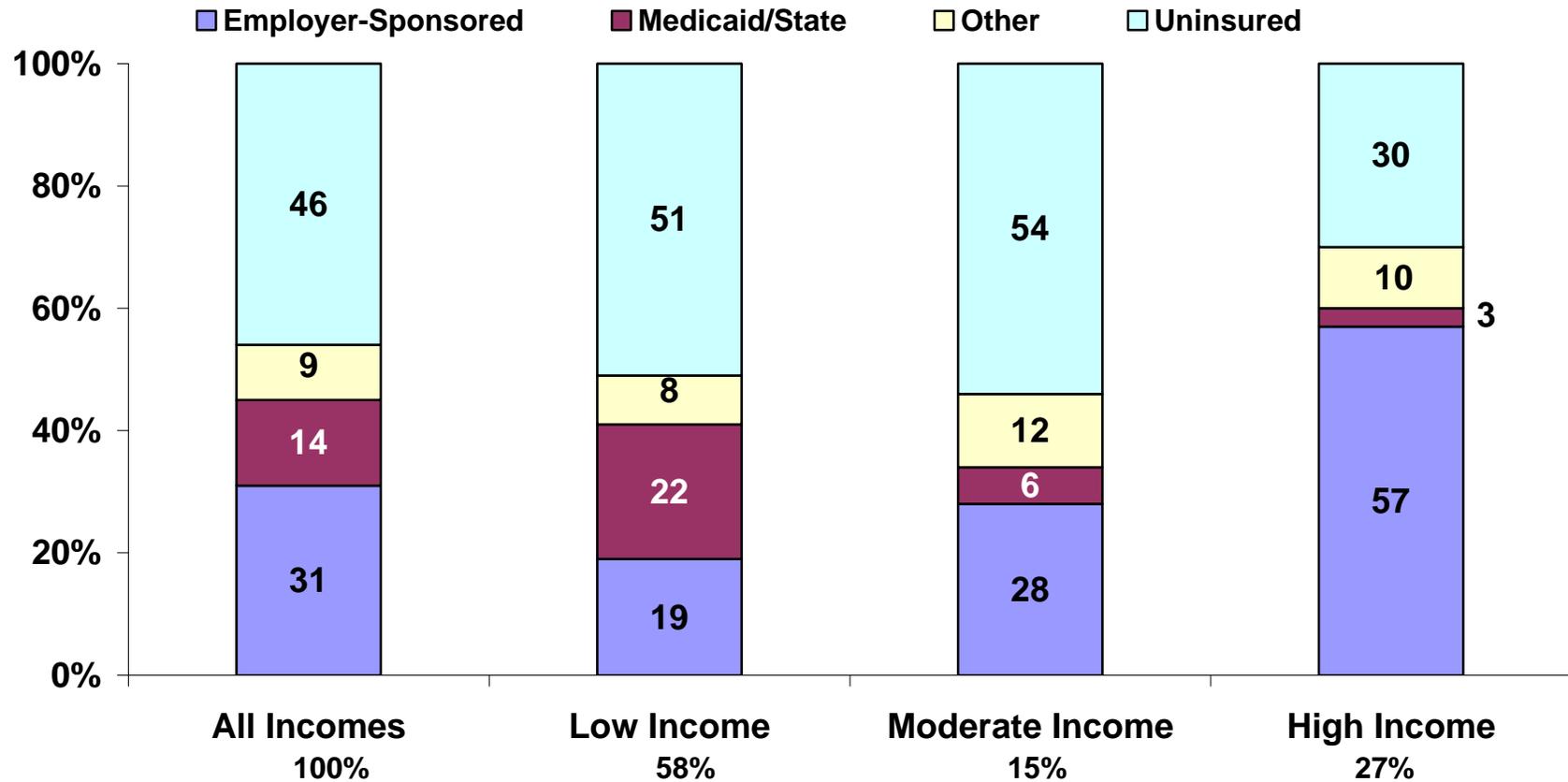
**Figure 3**  
**COBRA Participation Among Unemployed Adults,**  
**By Income Group, 1999**



Note: Percents shown below each income group are the share of all unemployed adults in that group.

Source: Urban Institute tabulations of the National Survey of America's Families (NSAF), 1999.

**Figure 4**  
**Health Insurance Coverage of Unemployed Adults**  
**Without COBRA Coverage, by Income, 1999**



Note: Percents shown below each income group are the share of all unemployed adults without COBRA coverage in that group.

Source: Urban Institute tabulations of the National Survey of America's Families (NSAF), 1999.