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**COVERING DISPLACED WORKERS AND THEIR CHILDREN:
ISSUES AND ALTERNATIVES**

**Based on an INSTITUTE FOR HEALTH POLICY SOLUTIONS Round-Table held
November 1, 2001, and on a Review of Pertinent Data and Research**

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COVERING DISPLACED WORKERS AND THEIR CHILDREN: ISSUES AND ALTERNATIVES

Table of Contents

EXECUTIVE SUMMARY	iii
A. Introduction and Purpose	1
<i>Acknowledgements</i>	2
B. Coverage Objectives	3
C. Target Population	5
D. Background Data and Information	6
1. <i>Short-Term v. Long-Term Uninsured</i>	6
2. <i>Lost Employer Coverage Is Often Regained Quickly</i>	6
3. <i>Who Is Eligible for COBRA (or Similar) Group Continuation Coverage?</i>	8
a. COBRA Eligibility Rules	8
b. COBRA Premiums	9
c. How Many Workers Are Potentially Eligible for COBRA Continuation Coverage? ...	9
d. How Does COBRA Eligibility Vary by Family Income?	11
e. How Many Workers Who Lose Their Jobs Take COBRA Coverage?	14
4. <i>How Many of the Unemployed Are Uninsured?</i>	14
5. <i>Who Is Eligible for (and Receives) Unemployment Insurance?</i>	17
a. Eligibility for Unemployment Insurance	17
b. Receipt of Unemployment Insurance	17
6. <i>How Do COBRA and UI Overlap?</i>	19
7. <i>Medicaid and SCHIP for the Newly Unemployed?</i>	21
a. Children.....	21
b. Adults.....	21
E. Other Key Policy Issues	23
1. <i>Impact of Selection on Employers' COBRA Costs</i>	23
2. <i>State Fiscal Capacity</i>	26
F. Analysis of Policy Alternatives (Broadly Drawn)	27
1. <i>A high-percentage COBRA subsidy for family coverage.</i>	28
• <i>Variations Based on Unemployment Status</i>	30
a. First Variant: All COBRA Eligibles.....	30
b. Second Variant: Limit COBRA Subsidies to Workers Receiving Unemployment Insurance	30

2. A modest-percentage COBRA subsidy for all members of the target population, with a means-tested supplemental subsidy for low-income workers and families.....	31
a. Administering this more complex subsidy design.....	32
b. Paying for the supplemental subsidies.....	33
3. Expansion of existing means-tested programs to cover more unemployed workers and families more easily.....	34
4. Reliance on existing means-tested programs, with improved outreach and information-and-referral linkages.....	36
G. The Importance of Outreach	36
H. Conclusion and Next Steps.....	38
SOURCES	39
Appendix A: Massachusetts Medical Security Plan	42
Appendix B: Comparison of State Medicaid Capitation Rates with COBRA Premiums, in 29 States	46

List of Tables and Figures

Table A: Advantages and Disadvantages of Four Broad Policy Alternatives on Key Criteria...	ix
Table 1: Insurance Coverage of Children Before and After Completed Spells of Uninsurance Beginning in FY93 (All Spells Completed in 12 Months or Less).....	7
Table 2: Eligibility for COBRA Among Workers and Their Adult Dependents	12
Figure 3: Percent with Any Employment-Based Insurance (EBI), and Percent Uninsured, by Family Income as a Percent of Poverty, United States, 1999.....	13
Figure 4: Health Insurance Coverage of Unemployed Adults and Unemployed Parents and Their Children, United States, 1999.....	15
Figure 5: Reason for Unemployment, October 2001	18
Figure 6: Percent Receiving Unemployment Insurance Among Different Subgroups of the Unemployed, 1990-1994	19
Figure 7: Overlap between Eligibility for COBRA Continuation Coverage and for Unemployment Insurance (UI)	20
Table A-1: Summary of Medical Security Plan Eligibility	43
Table A-2: Medical Security Plan Program Data, July 2001	45
Table B-1: Comparison of State Medicaid Capitation Rates for Five Family Types with 50% of Average COBRA Premiums, in 29 States	48
Table B-2: Comparison of State Medicaid Capitation Rates for Five Family Types with Average COBRA Premiums, in 29 States	49

EXECUTIVE SUMMARY

As a result of the economic downturn, exacerbated by the terrorist attacks of September 11, 2001, many workers have lost or will lose their jobs and their health insurance. The desire to assure continued health coverage for these displaced workers and their children has generated considerable and continuing interest, on both sides of the aisle, in alternative proposals to subsidize health insurance for displaced workers.

But what proposed approaches would be most effective in achieving coverage and continuous care and provider relationships for working families and their children? And how do these proposed approaches relate to the eligibility of many displaced workers' children for Medicaid and SCHIP? To date, policy discussions have not focused on these issues.

To explore these topics, the Institute for Health Policy Solutions (IHPS) gathered relevant background data and, on November 1, 2001, convened a roundtable of experts to brainstorm about critical issues policy makers need to consider, and to develop information and insights to inform both their thinking and subsequent analysis and research. This paper presents the most salient facts and insights from our background research and the roundtable discussion.

Note to Readers: The key approaches on the table in late October 2001, not more recent variations, served as the starting point for this expert roundtable discussion. Additional approaches that have been put forward since November 1st were not discussed at the roundtable and are therefore not addressed in depth in this paper. Most significantly, prior to November 1st, the concept of allowing displaced workers to use federal tax credits to purchase either COBRA continuation coverage or individual health insurance had not yet been put forward.¹ Nevertheless, the insights gained from the roundtable discussion were often pertinent to such other approaches, as is mentioned briefly at some points in the text.

According to a recent poll, an overwhelming majority (91%) of the public supports helping laid-off workers to keep their health insurance until they find a new job.² Roundtable participants agreed that:

- For laid-off workers and their families who would otherwise lose existing coverage, key policy objectives should be to:
 - » stabilize good, affordable major medical coverage,³ and
 - » continue existing provider relationships for these families.

¹ Of course, more general proposals that would provide tax credits for the purchase of individual health insurance to those without access to employment-based insurance had been on the table for some time prior to September 11th.

² Jobs for the Future, 2001.

³ It was noted that, just as for the children covered under active workers' coverage, children with special needs could be referred to State programs operated under Title V of the Social Security Act.

EXECUTIVE SUMMARY

Available survey data suggest that many of these displaced workers and their children will obtain coverage through a new employer after a relatively limited spell of unemployment.

- Among adults who were insured when interviewed in 2001 but had been without coverage sometime during the previous 12 months, two-thirds (65%) had been uninsured for a period of 6 months or less.⁴
- Among children who lost employer coverage and became insured again within one year, more than three-quarters (77%) went back to employer-sponsored coverage.⁵

Being able to continue their previous coverage in the interim would ease the complications and potential care disruptions of coverage-source changes for displaced workers and their children. This fact has led to proposals to provide government subsidies to help displaced workers pay for continuation of their prior employer coverage, using their continuation rights under COBRA.

Available research, as well as common sense, also suggest the value of covering parents and children together through the same health plan. Parents will know better how to get care for their children if they are familiar with how the health plan works because they use it themselves. The fact that children are more likely to use care if their parents use care is well documented.⁶ Further, existing provider relationships can more readily be continued, and potential care disruptions more likely avoided, if families' current health plan coverage can be extended.

Taken together, these observations suggest that, where it can be attained, continuing existing family coverage through COBRA may better assure continuous health care for displaced workers' children than temporarily enrolling only the children in a separate public program.

An easy, seamless transition for affected families (from employer subsidies to public subsidies) is essential if the goal of continuation under the same coverage is to be achieved. Therefore, roundtable participants emphasized the importance of administrative simplicity and speed in designing a program to address the needs of these families.

On the other hand, data show that many unemployed workers and their families—half or more—continue to have coverage through a still-working spouse or other sources, and others have sufficient income to be able to afford COBRA premiums. Thus, there is a tension between simplicity (for speedy implementation) and target efficiency (directing public resources to those most in need).

⁴ Duchon et al., 2001. See also Bennefield (1998) for earlier work yielding a similar result. (Excluding those who never had coverage at any time between February 1993 and January 1996, the median "spell of uninsurance" during that period was 5.3 months.)

⁵ Czajka, 1999. (Appendix B, Table 5.) The data do not directly address what proportion of children who lost employer coverage became insured again within one year, but about 80% of all children's episodes of uninsurance lasted 12 months or less. (Appendix B, Table 1.)

⁶ Hanson, 1998. See also Davidoff et al., 2001.

EXECUTIVE SUMMARY

- This tension between target efficiency and speedy implementation was reflected throughout participants' discussion of four broadly framed alternative approaches, which were based on proposals that had been put forward as of late October 2001, and which included:
 - » A high-percentage COBRA subsidy for family coverage.
 - » A modest-percentage subsidy for all COBRA-eligible members of the target population, with a means-tested supplemental subsidy for low-income workers and families.
 - » Expansion of existing means-tested programs to cover more unemployed workers and families more easily.
 - » Reliance on existing means-tested programs, with improved information-and-referral linkages.
- Note that, as broadly framed for the roundtable discussion, these new subsidy approaches could be implemented either by the federal government or by States, given sufficient resources through, for example, new federal grants or increased matching for current programs.

A tabular summary of some key advantages and disadvantages of each alternative is presented in Table A, below. Key insights that came out of the background research and roundtable discussion were:

- Almost all workers and dependents who have employment-based coverage have the right to continue that coverage under COBRA entirely at their own expense by paying 102% of the total group rate (employer plus employee shares combined), if they lose or leave their job.
 - » Workers at businesses with fewer than 20 workers do not have COBRA continuation rights, but may have similar group continuation rights under State law in 38 States.⁷ COBRA continuation is not available at all if the worker's employer has gone out of business entirely or otherwise terminated their health plan.
 - » Workers who have non-group insurance, such as the self-employed, do not have COBRA continuation rights. (While non-group insurance remains in force despite job changes, self-employed workers whose businesses have been hard hit by the recession may no longer be able to afford to pay for it.)
 - » Those eligible for COBRA continuation coverage include more than laid-off workers and their dependents. Early retirees and others who left voluntarily (perhaps to take another job) also qualify for COBRA. Therefore, policy makers may not want to subsidize all COBRA participants.
 - » Under current law, claims costs for COBRA participants average 50% more than for active workers, because when the premiums have to come entirely out of their own pocket and their income is down, those who know they will use the coverage are more likely to choose to enroll in COBRA than those who doubt they will need it. If government subsidies became available, it is reasonable to expect that additional COBRA

⁷ Kaiser Family Foundation, 2001a.

EXECUTIVE SUMMARY

participants would not be so expensive relative to active workers and might, in some cases, have claims costs less than those of active workers.

- » But allowing public subsidies to be used by those eligible for COBRA to purchase either COBRA continuation coverage or individual health insurance would likely be more expensive for employers than subsidizing only group continuation coverage like COBRA, due to adverse selection.
- A subsidy equal to a percentage of the COBRA premium paid seems like a very simple policy but, to be useful to low-income workers and families, the subsidy must be available when premiums are due. A credit against taxes owed at the end of the year will not work for families struggling to meet monthly bills. Therefore, new payment systems would need to be developed and implemented at the federal or state level, and doing so will take time.
 - » Tying eligibility for health insurance subsidies to receipt of unemployment insurance (UI) benefits could be a useful way of focusing subsidies on the desired target population—workers who have involuntarily lost their jobs—but not all laid-off workers qualify for UI benefits. Those left out would include part-timers and new hires, especially those with low wages. (Since 1990, Massachusetts has operated a means-tested program that provides COBRA subsidies or direct medical coverage for UI recipients.)
 - » A COBRA-subsidy approach by itself does not provide assistance to unemployed workers and families who are not eligible for COBRA, or to self-employed workers whose businesses have been hard hit by the recession, even if they had private health insurance prior to losing their job and their income.
- A subsidy equal to a simple percentage of the COBRA premium paid would disproportionately benefit higher-income displaced workers and families, especially those already participating in COBRA. Those with low incomes would often not be able to afford, for example, even \$150 per month to pay a 25% share of a typical \$600 COBRA premium for family coverage (based on the national average premium for employment-based family coverage in 2001).
 - » To assist displaced workers and families with lower incomes, a means-tested supplemental subsidy might be provided to them. Doing so would better target governmental assistance to those most in need and would make it financially more feasible for them to participate. But some might choose to avoid such a means-tested program. And administering two separate subsidy programs for the same families could be extremely cumbersome and take much longer to implement.
 - » Such a supplemental subsidy would likely be administered through State Medicaid or SCHIP programs, which have had only limited experience/success with premium assistance for private coverage.
 - » One variation would be to pay both the basic and the supplemental subsidies for low-income eligibles through the same agencies. Doing so could potentially streamline things for that population; and it could allow the basic subsidy for higher-income families to be

EXECUTIVE SUMMARY

- handled as a retrospective tax credit, thus greatly simplifying administration of that portion of the program.
- Instead of, or in addition to, providing subsidies for this COBRA continuation coverage, existing State-administered, federally matched means-tested programs (Medicaid and/or SCHIP) could be expanded to cover more unemployed workers and families.
 - » This could be the fastest way to get assistance to those unemployed who would participate in these programs, because it would build on existing, operational structures.
 - » And it would reach displaced workers and families who are not eligible for COBRA.
 - » But this approach would, in most cases, require workers and families to change their health plan and probably their providers as well, unless a COBRA-subsidy alternative was incorporated into the program, for those eligible for COBRA.
 - » And some displaced workers might choose to avoid dealing with State agencies traditionally associated with means-tested programs. Others, put off by the prospect of having to change health plans and providers (possibly multiple times), might decide not to apply unless and until their children became ill.
 - » Given the recession-induced fiscal difficulties in many States, additional federal funds (beyond current matching rates or allotments) would be necessary to make this approach feasible. To avoid fragmenting coverage sources within families and to allow the use of the most compatible systems for these populations, States should also have the option (at least) to use either Medicaid or SCHIP, or both, for this purpose.
 - Even without setting up a new subsidy program or expanding existing ones, much good could be done to cover otherwise-uninsured children of displaced workers by improving information-and-referral processes so that these parents will know how to access available SCHIP and Medicaid coverage.
 - » Because it requires no new legislation, this kind of effort can be undertaken immediately.
 - » In almost all States, it potentially could reach a large majority of the children of displaced workers, including many who are not eligible for COBRA. (Only a minority of States have effective coverage of non-destitute low-income parents, and almost none cover childless adults).
 - But supplemental federal funding of these programs would be needed to realize this potential, especially in the many States that are very hard-pressed financially due to the recession. (Note that States have generally not initiated aggressive new outreach efforts to reach children of displaced workers.)
 - » It is doubtful that more than a handful of States could afford to allocate the State funds necessary to cover the increased Medicaid and SCHIP caseloads involved. And states that have already reached their SCHIP allotment cap cannot access federal matching funds to help them pay for additional enrollment.

EXECUTIVE SUMMARY

Whichever approach (if any) is selected, an effective program of education, information dissemination and outreach will be critical to its success, roundtable participants emphasized. People cannot act on information that they do not have.

Finally, the possible use of subsidies for COBRA continuation coverage, whether through a new federal initiative or existing State programs, deserves further exploration because of its potential role in maintaining continuity of care arrangements and provider relationships for children and families during an unusually difficult transitional time.

Table A: Advantages and Disadvantages of Four Broad Policy Alternatives on Key Criteria

[These alternatives reflect approaches contained in proposals for federal or State-run programs put forward as of late October 2001.]

Policy Option	Continuity	Simplicity; Administrative ease/speed of implementation	Population Targeted and Target Efficiency
1a. High-percentage subsidy for all COBRA participants.	Continues existing employment-based coverage.	Relatively simple policy, but would require new payment system to make subsidy available (especially to low-income families) when premiums are due. This will take time to develop and implement.	Provides subsidies to some who are not displaced workers (and not to those displaced workers do not qualify for COBRA). Half of unemployed adults, and 3/4s of children with unemployed parents, already have coverage other than COBRA. Subsidy may not be sufficient for low-income eligibles.
1b. High-percentage subsidy for COBRA participants receiving UI benefits.	Continues existing employment-based coverage.	Relatively simple policy, but would require new payment system, which will take time to develop and implement. May be able to “piggyback” on existing UI payment system.	Better targeted on <u>only</u> displaced workers, but some displaced workers will not qualify for UI (and others do not qualify for COBRA). Half of unemployed adults, and 3/4s of children with unemployed parents, already have coverage other than COBRA. Subsidy may not be sufficient for low-income eligibles.
2. Modest-percentage subsidy for COBRA participants with means-tested supplemental subsidy. (Could limit to UI recipients as in 1b.) (more)	Continues existing employment-based coverage.	More complicated policy. Basic subsidy requires new payment system, which will take time to develop and implement. Supplemental subsidy would likely be administered through State Medicaid/SCHIP programs, which have had limited experience/success with premium assistance for private	Public resources better targeted on those most in need than under alternative 1, (but does not assist displaced workers not eligible for COBRA). Likely to induce greater overall participation among low-income eligibles (assuming total subsidy for low-income is higher than alternative 1). But may miss those averse to means-tested programs.

Policy Option	Continuity	Simplicity; Administrative ease/speed of implementation	Population Targeted and Target Efficiency
2. (cont'd)		<p>coverage.</p> <p>Paying both basic and supplemental subsidies for low-income eligibles through same agencies could allow basic subsidy to be handled as easier-to-administer retrospective tax credit</p>	<p>Half of unemployed adults, and 3/4s of children with unemployed parents, already have coverage other than COBRA. (Variation by income not known.)</p>
3. Expansion of existing means-tested programs to cover more unemployed workers and families.	<p>Would often require change of plan and probably providers, unless COBRA subsidy approach is incorporated for those eligible.</p>	<p>Fastest and easiest implementation, because builds on existing programs.</p> <p>But likely to be harder to explain to target population.</p> <p>Considerable State-to-State variation probable, especially if no new federal funds are made available.</p>	<p>Potentially better coverage of displaced workers and families than a subsidy limited to COBRA, but may be harder to reach displaced workers averse to dealing with means-tested programs.</p> <p>Those put off by having to change health plans and providers might decide not to apply unless and until their children became ill.</p>
4. Improve information-and-referral linkages to current means-tested programs (largely for children only).	<p>Requires change of plan and, often, providers.</p>	<p>Fast and easy implementation.</p> <p>Does not add complexity, but existing programs are already hard to understand for potential applicants and may result in different coverage sources for different family members.</p> <p>Considerable State-to-State variation.</p>	<p>Potentially reaches needy children of displaced workers effectively, but fragmentation of coverage sources within families may discourage participation.</p> <p>Spotty coverage of displaced working parents.</p> <p>No help for displaced childless workers, except in a very few States.</p>

COVERING DISPLACED WORKERS AND THEIR CHILDREN: ISSUES AND ALTERNATIVES

A. Introduction and Purpose

As a result of the recent economic downturn, exacerbated by the terrorist attacks of September 11th, many workers have lost or will lose their jobs. Many of these workers and their families will also lose their health insurance, unless they can afford the premiums for COBRA continuation coverage or can obtain coverage through another family member. Any increase in the uninsured population is of concern to many policy makers, but in the current economic environment there are also related concerns—the desire to help those directly affected by the tragic events of September 11, 2001 and the desire to revive the economy.⁸

These circumstances and concerns have generated considerable and continuing interest, on both sides of the aisle, in alternative proposals to subsidize health care coverage for displaced workers. These proposals range from direct federal subsidies to help workers pay COBRA premiums to block grants to enable States to provide assistance with health insurance costs to displaced workers. Others propose to expand, or simply to use, the already available public health insurance programs for low-income families, Medicaid and SCHIP (State Children's Health Insurance Programs).⁹

Which broad policy approach, or combination of approaches (if any), is ultimately chosen will depend on a range of economic, budgetary and political considerations which are not addressed here. Instead, *our purpose is to consider how health insurance for displaced workers and their families can be subsidized in a way that achieves coverage and continuous care and provider relationships for working families and their children.* We also consider how the proposed approaches relate to the eligibility of many displaced workers' children for Medicaid and SCHIP.

To explore these topics, the Institute for Health Policy Solutions (IHPS) convened a roundtable of experts on November 1, 2001, to brainstorm about critical issues policy makers need to consider and to develop information and insights to inform both their thinking and subsequent

⁸ Loss of earnings due to the unemployment (or death) of a breadwinner will reduce families' outlays across the board. The loss of a (former) employer's contribution toward health coverage will reduce their spending on non-health items even further for those who must pay out-of-pocket for needed medical care or, alternatively, choose to pay COBRA premiums to continue their coverage. For further elaboration of this argument, see the Appendix to Jeanne M. Lambrew's excellent recent paper for the Commonwealth Fund (Lambrew, 2001).

⁹ The key approaches on the table in late October 2001, not more recent variations, served as the starting point for the expert roundtable discussion. Additional approaches that have been put forward since November 1st were not discussed at the roundtable and are therefore not addressed in depth in this paper. Most significantly, prior to November 1st, the concept of allowing displaced workers to use federal tax credits to purchase either COBRA continuation coverage or individual health insurance had not yet been put forward. (Of course, more general proposals that would provide tax credits for the purchase of individual health insurance to those without access to employment-based insurance had been on the table for some time prior to September 11th.) Nevertheless, the insights gained from the roundtable discussion were often pertinent to such other approaches, as is mentioned briefly at some points in the text.

analysis and research. This paper presents the most salient facts and insights from our background research and the roundtable discussion.

Acknowledgements

The resources necessary to prepare and convene the roundtable were provided through IHPS' ongoing project funded by the David and Lucile Packard Foundation, "Coordinating Public and Private Financing Sources Toward Continuous Coverage Structures For Uninsured Kids." An ultimate goal of this project is to better understand what combination of financing and coverage sources, in what circumstances, will most likely achieve stable coverage and continuity of care for children. The views expressed here, however, are those of the authors, and no official endorsement by the David and Lucile Packard Foundation or its trustees is intended or should be inferred.

We invited roundtable participants with a range of relevant expertise and perspectives in order to identify the critical aspects of the issue, as well as what is and is not known about key dimensions and approaches. Participants included federal and state officials, experts on employment-based coverage (including Taft-Hartley plans and COBRA) and on children's health insurance, and other analysts, experts and policy researchers. All participants were invited for their personal analytical, research and programmatic expertise, and were not asked to represent in any way the position of their organizations on these issues. In alphabetical order, the participants included:

Kathy Bakich, The Segal Company
Jim Baumgardner, Congressional Budget Office
Linda Bilheimer, PhD, The Robert Wood Johnson Foundation
John Canham-Clyne, Hotel Employees and Restaurant Employees International Union
Cheryl Austein Casnoff, Centers for Medicare and Medicaid Services
Hinda Chaikind, Congressional Research Service
Jean Hearne, Congressional Research Service
Richard Hinz, Pension and Welfare Benefits Administration
Judy Miller Jones, National Policy Forum
Terese Klitenic, Centers for Medicare and Medicaid Services
Eugene Lewit, PhD, The David and Lucile Packard Foundation
Patricia M. Lynch, Kaiser Permanente
Susan Marquis, PhD, RAND
Jim Mays, Actuarial Research Corporation
Joseph Piacentini, Pension and Welfare Benefits Administration
Michael Perry, Lake Snell Perry Associates, Inc.
Sara Rosenbaum, JD, George Washington University
Jennifer Ryan, National Health Policy Forum
Sandra Shewry, California Managed Risk Medical Insurance Board
Patricia Stromberg, Pennsylvania Insurance Department
Barry Van Lare, The Finance Project
Kirsten WYsen, National Academy for State Health Policy
Stephen Zuckerman, The Urban Institute

Because of their institutional roles, two participants asked not to be identified publicly. The discussion was facilitated by:

Rick Curtis, Institute for Health Policy Solutions

And the following IHPS staff presented background information during the roundtable:

Edward Neuschler, Institute for Health Policy Solutions

Lynn Taylor, Institute for Health Policy Solutions

Rafe Forland, Institute for Health Policy Solutions

We also wish to acknowledge the following individuals who, although unable to participate in the roundtable, provided background information and useful insights that were incorporated into the discussion:

Anne Heller, New York City Mayor's Office of Health Insurance Access

Wendy Lazarus, The Children's Partnership

Beth Waldman, Massachusetts Division of Medical Assistance

Craig Paton, Massachusetts Division of Employment and Training

During the roundtable discussion, participants graciously shared their expertise and insights freely but there was no attempt to achieve formal consensus on any issue, and this paper represents the editors' attempt to arrange the most salient facts and insights into a format that readers will find useful. No endorsement of the contents of this paper by any of the participants is intended or should be implied.

B. Coverage Objectives

According to a recent poll, an overwhelming majority (91%) of the public supports helping laid-off workers to keep their health insurance until they find a new job.¹⁰ More generally, surveys and focus groups show a strong preference for job-based health insurance and a compelling desire for whole-family coverage (i.e., covering all family members under the same plan).

Roundtable participants agreed that, for laid-off workers and their families who would otherwise lose existing coverage, the primary focus should be on continuing that coverage. Key objectives are to:

- stabilize good, affordable major medical coverage, and
- continue existing provider relationships for these families.

Participants recognized that millions of low-income families who are still working, as well as many who have been unemployed since well before September 11th, remain without basic health care coverage, and that focusing only on displaced workers raises significant equity issues. Nevertheless, a number of participants felt that the problem of displaced workers and families was worth addressing separately, in order to keep the number of uninsured families from

¹⁰ Jobs for the Future, 2001. Highlights of this survey, conducted October 9-10, 2001, by Lake Snell Perry & Associates, were presented at the start of the roundtable on November 1, 2001.

increasing. As one participant put it, this is a triage effort, not a structural reform effort. Dealing with structural issues would require a separate effort beyond the scope of the present discussion.

Similarly, it was noted that continuing existing coverage would sensibly take priority over attempts to remedy any insufficiencies in that coverage. The concern that some children in these families may have health care needs that cannot be met through their employment-based insurance was not created by recent events. Low-income children with such needs can be enrolled in SCHIP,¹¹ at their parents' option, or in State programs for children with special health care needs. But most displaced families' primary need at this time is for affordable major medical coverage.

Available data suggest that many of these families and children will obtain coverage through a new employer after a relatively limited spell of unemployment. Being able to continue their previous coverage in the interim would ease the complications and potential care disruptions of coverage-source changes. This fact has led to proposals to provide government subsidies to help displaced workers pay for continuation of their prior employer coverage, using their continuation rights under COBRA.

Available research, as well as common sense, also suggest the value of covering parents and children together through the same health plan. Parents will know better how to get care for their children if they are familiar with how the health plan works because they use it themselves. The fact that children are more likely to use care if their parents use care is well documented.¹² Further, existing provider relationships can more readily be continued, and potential care disruptions more likely avoided, if families' current health plan coverage can be extended.

Taken together, these observations suggest that, where it can be attained, continuing existing family coverage through COBRA may better assure continuous health care for displaced workers' children than temporarily enrolling only the children in a separate public program.

Participants highlighted the tension between simplicity and target efficiency.

Given these primary objectives, participants emphasized the importance of administrative simplicity and speed. An easy, seamless transition for affected families (from employer subsidies to public subsidies) is essential if the goal of continuation under the same coverage is to be achieved. Therefore, "mechanism matters"—it must be simple for government to implement and for the public to understand, and care must be taken to avoid creating inadvertent barriers. This suggests that, to the extent possible, detailed individual eligibility determination processes or cost-effectiveness reviews should be avoided. On the other hand, data show that many unemployed workers and their families continue to have coverage through a still-working spouse or other sources, and others have sufficient income to be able to

¹¹ In most States, any required "waiting period" (i.e., any requirement that applicants must have been without employer coverage for some number of months in order to qualify for SCHIP) is waived if loss of employer coverage was involuntary, e.g., due to a parent's loss of a job.

¹² Hanson, 1998. See also Davidoff et al., 2001.

afford COBRA premiums. Thus, there is a tension between simplicity (for speedy implementation) and target efficiency (directing public resources to those most in need).

Participants also emphasized the importance of providing adequate funding for education and outreach, so that people know what their rights and options are. For example, low-income parents should know when SCHIP coverage is available for their children. Subsidies for continuation of coverage will be ineffective unless eligible people know about them, and recent revenue shortfalls are leading many states to cut back on their outreach efforts for public programs.

C. Target Population

None of the pertinent legislative proposals put forward after September 11, 2001, attempt to address long-term, structural uninsurance. And, with one exception,¹³ they all target displaced workers—those who lost health insurance for themselves and their families due to recent, presumably involuntary, job loss. But the proposals target different subgroups of this newly unemployed/uninsured population, such as:

- Workers who lost jobs after September 11, 2001.
- Workers who lost jobs and meet the criteria for receipt of unemployment insurance.
- Unemployed workers in states whose governor has certified that the events of September 11th contributed “importantly” to business closures or layoffs.
- People who have access to COBRA continuation coverage.
- Lower-income unemployed workers.

To inform later discussion, data was presented at the roundtable (see following section) to clarify what kinds of workers and families would and would not be covered under these varying definitions. Participants did not attempt to resolve the issue of the most appropriate target population, however, that issue being part of the larger budgetary and policy debate. For purposes of discussing the best ways of promoting continued coverage, care and provider relationships for working families and their children, it seemed sufficient to know that the target population is (some subset of) newly unemployed/uninsured workers and families, rather than the long-term uninsured. However, as one participant noted, it is important to “match the remedy to the population.” The term or focus of the program might change one’s perspective on the best means of promoting continuity.

Participants also noted that public funds are limited and that it may be necessary to prioritize among potentially eligible subpopulations, presumably on the basis of need. This is particularly the case at the state level, where revenues have dropped precipitously and many states are struggling just to maintain their current level of support for health coverage of low-income families and children.¹⁴

¹³ The exception is a proposal by Sen. Jeffords, which would provide a broad tax subsidy for COBRA continuation coverage not limited to involuntary job-losers.

¹⁴ This issue is discussed in greater detail below.

A caution was also raised that any standard used to target assistance to a subset of displaced workers must be seen as appropriate and fair by the body politic. If not, political support for the program will be undermined.

D. Background Data and Information

In order to understand the implications of alternative definitions of the target population, it is important to understand the extent to which newly unemployed workers and families are likely to be eligible for (a) unemployment insurance, (b) COBRA continuation coverage, and (c) existing public health coverage programs like Medicaid and SCHIP. It is also useful to review what is known about the extent to which unemployed people are uninsured, and how long people who lose employer coverage typically remain uninsured.

Various participants in the roundtable are among the nation's premier experts on these matters, and they shared their insights with other roundtable participants. This was supplemented by other relevant data and research compiled by IHPS staff. (Some of the material included in this section was not presented during the roundtable.)

1. Short-Term v. Long-Term Uninsured

Three-quarters (75%) of those who are uninsured on any given day have been uninsured for one year or more. Almost half (49%) have been uninsured for three years or longer.¹⁵ The situation of these long-term uninsured people will not generally be addressed by proposals to continue health insurance for displaced workers and families, as has already been noted.

But most episodes of uninsurance are short. That is, a large number of people who usually have coverage experience relatively short intervals without coverage. Among adults who were insured when interviewed in 2001 but had been without coverage sometime during the previous 12 months, two-thirds (65%) had been uninsured for a period of 6 months or less.¹⁶

2. Lost Employer Coverage Is Often Regained Quickly

Roundtable participants noted that most changes in insurance status are related to a “trigger event,” which is very often a job transition. This is reflected in the fact that most children who lose employment-based coverage regain employer coverage within a short period of time.

Research using the Census Bureau's Survey of Income and Program Participation (SIPP) showed that, among children who lost employer coverage between October 1992 and September 1993

¹⁵ Duchon et al., 2001. These results, from The Commonwealth Fund 2001 Health Insurance Survey, became available shortly after the roundtable was held. They are referenced here because they are newer but make the same salient points participants made during the roundtable using earlier survey results.

¹⁶ Duchon et al., 2001. See also Bennefield (1998) for earlier work yielding a similar result. (Excluding the “never insured,” the median “spell of uninsurance” between February 1993 and January 1996 was 5.3 months.)

and became insured again within one year, more than three-quarters (77%) went back to employer-sponsored coverage.¹⁷ (See Table 1.)

Table 1: Insurance Coverage of Children Before and After Completed Spells of Uninsurance Beginning in FY93 (All Spells Completed in 12 Months or Less)

Insurance Coverage Before Start of Spell	Insurance Coverage After Completion of Spell				
	Employer-sponsored	Medicaid	Other	Not in Universe	Total
Employer-sponsored	77%*	17%	5%	1%	100%
Medicaid	22%	73%	2%	3%	100%
Other	44%	22%	33%	0%	100%
Not in Universe	24%	68%	4%	4%	100%
Total	53%	41%	5%	2%	100%

* Spells of uninsurance that began with the loss of employer-sponsored coverage and ended with employer coverage being regained constituted 41.8% of all “spells of uninsurance” that were completed in 12 months or less (and such spells, in turn, were 80% of all spells that began between October 1992 and September 1993).

Source: Adapted from Czajka, 1999, Appendix B, Table 5.

The fact that many episodes of uninsurance are relatively short and appear to be related to job transitions suggests that programs to help workers and families continue coverage during periods of unemployment could be very beneficial in promoting continuity of coverage and care.¹⁸

But, because these short-term uninsured do not show up in the most frequently cited estimates of the uninsured population¹⁹—which count as “uninsured” only people who were without health insurance throughout an entire calendar year—programs aimed at maintaining continuity of coverage are unlikely to produce a significant reduction in the official uninsured rate.

¹⁷ Czajka, 1999. (Appendix B, Table 5.) The data do not directly address what proportion of children who lost employer coverage became insured again within one year, but about 80% of all children’s episodes of uninsurance lasted 12 months or less. (Appendix B, Table 1.)

¹⁸ However, participants noted that if transitional health coverage were highly subsidized, some enrollees might retain their short-term coverage even when offered health insurance from their next employer.

¹⁹ The most frequently cited estimates are based on the annual March supplement to the Census Bureau’s Current Population Survey (CPS), which inquires about insurance status during the previous calendar year. Only people who say they were without health insurance throughout the entire previous calendar year are counted as “uninsured.” (Many analysts, however, believe many respondents’ answers are based on their current insurance status at the time of the survey.)

3. Who Is Eligible for COBRA (or Similar) Group Continuation Coverage?

Most current legislative proposals contemplate providing government subsidies to unemployed workers to enable them to purchase COBRA continuation coverage. (One proposes tax credits for anyone who purchases such coverage.) Thus, it is important to understand the extent to which unemployed or dislocated workers are eligible to continue their existing group coverage.

a. COBRA Eligibility Rules

“COBRA” refers to a federal law that allows workers who leave their jobs (or become ineligible for health benefits due to a reduction in work hours) the option to continue health coverage under their employer plan at their own expense by paying 102% of the group rate (i.e., total premium) for a period of up to 18 months.²⁰ The federal requirement applies to employers with 20 or more full-time equivalent employees that provide a group health insurance plan.²¹ In addition, 38 states have similar continuation provisions for health plans covering workers in smaller firms, but often for periods of less than 18 months.²² These “mini-COBRA” provisions typically exclude self-employed workers.²³

[Separate from the COBRA option, some plans established pursuant to collective-bargaining agreements may provide for an extended period of employer-paid coverage for workers who are laid off. And some multiemployer (Taft-Hartley) plans use “hour banks” which may permit a laid-off worker to retain coverage for a limited period of time without making further contributions. Since these continuation options require at most a limited contribution from the laid-off worker, public subsidies would presumably not be required.²⁴]

²⁰ The jargon term, “COBRA,” refers to the Consolidated Omnibus Budget Reconciliation Act of 1985 (effective July 1, 1986), which added the group continuation requirement as Part 6 of Title I, Subtitle B of the Employee Retirement Income Security Act of 1974 (ERISA) [29 U.S.C. Chapter 18, §§1161 ff.]. Spouses and dependents have an independent right to continue coverage under the employer plan if the worker loses coverage or if the worker dies, the spouses are divorced, or a dependent loses dependency status. In any of the latter instances, the spouse or dependent may continue coverage at their own expense for up to 36 months. Longer coverage periods are also available for disabled persons to allow them to continue employer coverage until they become eligible for Medicare.

²¹ COBRA continuation requirements also apply to all employers participating in collectively bargained (“Taft-Hartley”) multiemployer plans if any participating employer has 20 or more workers. Church plans and federally sponsored group health plans are exempt, but the Federal Employees Health Benefits Program offers job-leavers the right to convert to individually purchased coverage through their current health plan at favorable rates. State-employee plans are subject to COBRA continuation requirements.

²² Kaiser Family Foundation, 2001a.

²³ While federal COBRA continuation requirements apply to employer plans *per se*, ERISA does not permit States to regulate employers’ health benefit plans. State “mini-COBRA” requirements are imposed instead on health plans and health insurance carriers.

²⁴ Workers who take advantage of employer-paid extended coverage may forego their COBRA rights. In general, if an employer continues subsidizing health coverage after an employee leaves employment, the employer is not obligated to continue coverage under COBRA for 18 months after the subsidy ends. Such an employer’s obligation is essentially the same as that of an employer that does not subsidize continuation: They must give an employee the opportunity to elect COBRA for 18 months after leaving the job at 102% of group premium. The employer may give the employee a choice between this and 6 months (or some other duration) of subsidized coverage. If the employee elects the latter, he or she would have no COBRA right after the subsidy ends. Employers can be more generous if they so choose. An employer who subsidizes continued coverage may elect to defer providing the

To be eligible for COBRA, workers need to have been enrolled in their employer's health plan prior to losing or leaving their job or having their work hours reduced. But no minimum enrollment period is needed to qualify—being enrolled on the day prior to the “qualifying event” is sufficient.

Thus, the primary reason why a newly unemployed worker would not qualify for group continuation coverage would be simply not having had health insurance through their previous employer. A smaller number of newly unemployed workers who did have coverage through their former employer might not qualify for group continuation because their employer is not subject to federal COBRA or state mini-COBRA requirements.

b. COBRA Premiums

The KFF/HRET Survey of Employer Health Benefits reports that premiums for employment-based health coverage averaged \$221 per month for worker-only coverage and \$588 per month for family coverage nationally in 2001.²⁵ At 102%, the equivalent *average* premiums for COBRA continuation coverage would be about \$225 per month for an individual and \$600 per month for a family. These may be compared to the national average *weekly* unemployment insurance (UI) benefit of \$246 in November 2001.²⁶ Thus, at these average rates, the COBRA premium for single coverage would cost about 21% of the average UI benefit (on a monthly basis), and the COBRA premium for family coverage would cost about 56% of the average UI benefit.

COBRA premiums vary considerably across employers, of course, and maximum UI benefits vary across States, so the variation around these averages is quite large. In a State with low UI benefits, a typical COBRA premium for family coverage could represent 3/4s of the average UI benefit (on a monthly basis).

c. How Many Workers Are Potentially Eligible for COBRA Continuation Coverage?

Ideally, policy makers would like to know how many displaced workers have the option to continue their employment-based coverage under COBRA, but this figure is difficult to estimate directly. Two recent surveys have tried to estimate the proportion of *current workers* who would have COBRA continuation rights if they were to be laid off.

- The Commonwealth Fund 2001 Health Insurance Survey found that “two of three (65%) working adults may be eligible for COBRA health insurance should they become unemployed.”²⁷

COBRA notice until the end of the subsidy period (which would normally be required within 45 days of the COBRA-qualifying event—in this case, leaving the job). But, if the employer defers providing the notice, then they must allow 18 months of coverage continuation beginning at that point.

²⁵ KFF/HRET Employer Health Benefits, 2001 Annual Survey.

²⁶ Employment and Training Administration, U.S. Department of Labor, 2001.

²⁷ Duchon et al., 2001. These survey results became available shortly after the roundtable was held. They are used here because they provide more up-to-date information than was available during our meeting.

- » One-quarter (25%) of workers ages 19-64 did not have employment-based health insurance and 10% worked for a small firm. (The percent ineligible for COBRA may be slightly overstated.)²⁸
- Using a different survey—the National Survey of America’s Families—and a different methodology, the Urban Institute recently estimated that 57% of non-elderly workers and their adult dependents were potentially eligible for COBRA continuation coverage in 1999. This estimate includes adults (including non-workers) who had coverage through a spouse’s employer. (As the authors note, the 57% figure is most likely an underestimate.)²⁹

Estimates of Potential COBRA Eligibility:

- Current Workers (2001): 65%
- Workers and Adult Dependents (1999): 57%
- “Experienced Unemployed” (1993): 34%
- “Recently Unemployed” (1990-1994): 35%

(See text for sources.)

However, turnover rates are known to be higher at firms that do not offer health benefits,³⁰ and job turnover is also known to be higher among low-wage workers, who are less likely to be offered health insurance on the job. Thus, it is likely that COBRA eligibility rates are lower among those who actually experience a spell of unemployment than among those who remain continuously employed.

- An analysis using the April 1993 Current Population Survey found that 45% of the “experienced unemployed” reported current coverage through a previous employer or past

²⁸ Duchon et al., 2001. The Commonwealth Fund survey defined small firms as having fewer than 25 workers, but only firms with fewer than 20 workers are exempt from COBRA continuation requirements. Also, the estimate counts small-firm workers as ineligible for COBRA, which is correct, but these workers might be eligible for other forms of group continuation coverage, which could be made eligible for public subsidies if desired.

²⁹ Zuckerman et al., 2001. The estimate counts small-firm workers as ineligible for COBRA, which is correct, but these workers might be eligible for other forms of group continuation coverage, which could be made eligible for public subsidies if desired. As the authors note, the estimate also potentially overstates the number of small-firm workers, and therefore understates the percentage of workers eligible for COBRA, because the survey on which it is based only has information about establishment size (number of workers at the single physical location where the respondent is employed), and not about overall firm size. The authors estimate that correcting this problem could raise their estimate of COBRA eligibility as much as 12 percentage points (i.e., to 69% of workers and adult dependents).

³⁰ KFF/HRET Employer Health Benefits, 2001 Annual Survey. Exhibit 3.5.

coverage on their last job. Investigating further, the authors estimated that 34% of the “experienced unemployed” were eligible for COBRA.³¹

- Using the 1990-92 panels of the Survey of Income and Program Participation (SIPP), Klerman found that about 35% of the “recently unemployed”—those who had held a job in the last 6 months—had left a job that provided health insurance. (The “recently unemployed” comprised slightly over half—50.8%—of those not currently employed but actively looking for work.) Presumably, some portion of this 35% had left a job not subject to COBRA requirements.

d. How Does COBRA Eligibility Vary by Family Income?

It is well known that low-income workers are less likely to have employment-based health insurance and more likely to be uninsured; they are thus also less likely to be eligible for COBRA coverage.

- For example, The Commonwealth Fund 2001 Health Insurance Survey reports that only 40% of workers (aged 19-64) with family incomes below 200% of poverty are potentially eligible for COBRA continuation coverage, compared to 75% of workers with higher family incomes and 65% of all workers.³²
 - » The primary reason for the difference is that more than half (52%) of the lower-income workers do not have employer-sponsored insurance, compared to only 14% of higher-income workers.
- Similarly, Urban Institute estimates indicate that workers (and their adult dependents) with incomes over 300% of poverty are twice as likely to be potentially eligible for COBRA as workers (and their adult dependents) with incomes under 200% of poverty: 67% v. 32%.³³ (See Table 2.) Again, most of this difference is due to lack of health insurance on the job.
 - » Among workers (and their adult dependents) who do have employment-based health insurance, those with high income (above 300% of poverty) are only somewhat more likely to be eligible for COBRA than those with low income (below 200% of poverty): 77% v. 67%.³⁴ The authors note that this difference arises because more low-income workers work for small firms not subject to federal COBRA requirements.

³¹ Berger et al., 1996. The “experienced unemployed” include “those individuals between the ages of 25 and 64 who were not employed but had previously been employed and were actively looking for work in the last 4 weeks.” Because part of the reduction from 45% to 34% represents the exclusion of those who had been out of work for more than 18 months (because they are no longer COBRA-eligible), the 34% estimate may understate the percentage of newly unemployed workers who would be eligible for COBRA. The 34% figure also excludes persons whose previous job was with the federal government, a religious organization or a small firm. As noted earlier, former small-firm workers may have been eligible for group continuation coverage through State “mini-COBRA” laws, and former federal employees have continuation rights essentially similar to COBRA.

³² Duchon et al., 2001. Table 7.

³³ Zuckerman et al., 2001. Figure 1.

³⁴ Zuckerman et al., 2001. Figure 2.

Table 2: Eligibility for COBRA Among Workers and Their Adult Dependents

Workers and Their Adult Dependents, by Family Income Relative to Poverty (FPL)	All income levels	Low Income (<200% FPL)	Moderate Income (200%-299% FPL)	High Income (300%+ FPL)
Percent Eligible for COBRA	57%	32%	55%	67%
Percent Eligible Among Those with Employer-Sponsored HI	75%	67%	75%	77%

Source: Zuckerman *et al.*, 2001. These estimates count small-firm workers as ineligible for COBRA, which is correct; but these workers might be eligible for other forms of group continuation coverage, which could be made eligible for public subsidies if desired. As the authors note, the estimate also potentially overstates the number of small-firm workers, and therefore understates the percentage of workers eligible for COBRA, because the survey on which it is based only has information about establishment size (number of workers at the single physical location where the respondent is employed), and not about overall firm size. The authors estimate that correcting this problem could raise their 57% overall estimate of COBRA eligibility as much as 12 percentage points (i.e., to 69% of workers and adult dependents).

Thus, a program of subsidies for COBRA continuation coverage would reach relatively more high-income workers and families and relatively fewer low-income workers and families, with most, but not all, of the difference accounted for by the fact that low-income workers are less likely to have employment-based insurance in the first place.

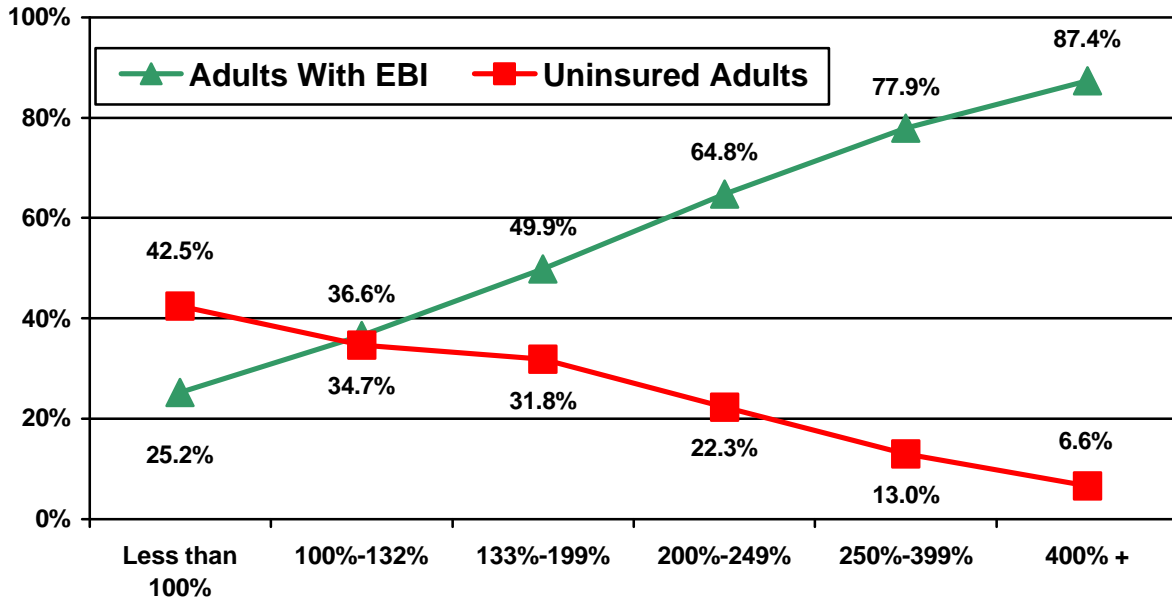
It is worth noting, however, that there are significant differences by income within the population that these surveys define as “low-income,” i.e., below 200% of poverty. Those below poverty are less likely to be employed full time and, for this and other reasons, are less likely to have employment-based health insurance than those between 100% and 200% of poverty.

Figure 3, in which more income breaks are used, shows that, for both adults and children, employer coverage rapidly becomes more prevalent once income exceeds the poverty level.³⁵ In particular, essentially half (49.9%) of adults with family incomes between 133% and 199% of poverty have employer coverage (see Figure 3a). The equivalent figure for all adults under 200% of poverty (not shown) is only 35.6%. Thus, we can expect that the COBRA-eligibility rate among low-income workers above 133% of poverty will be considerably higher than the average 32% eligibility rate shown for all low-income workers in Table 2. Something like 45% would seem to be a reasonable estimate.

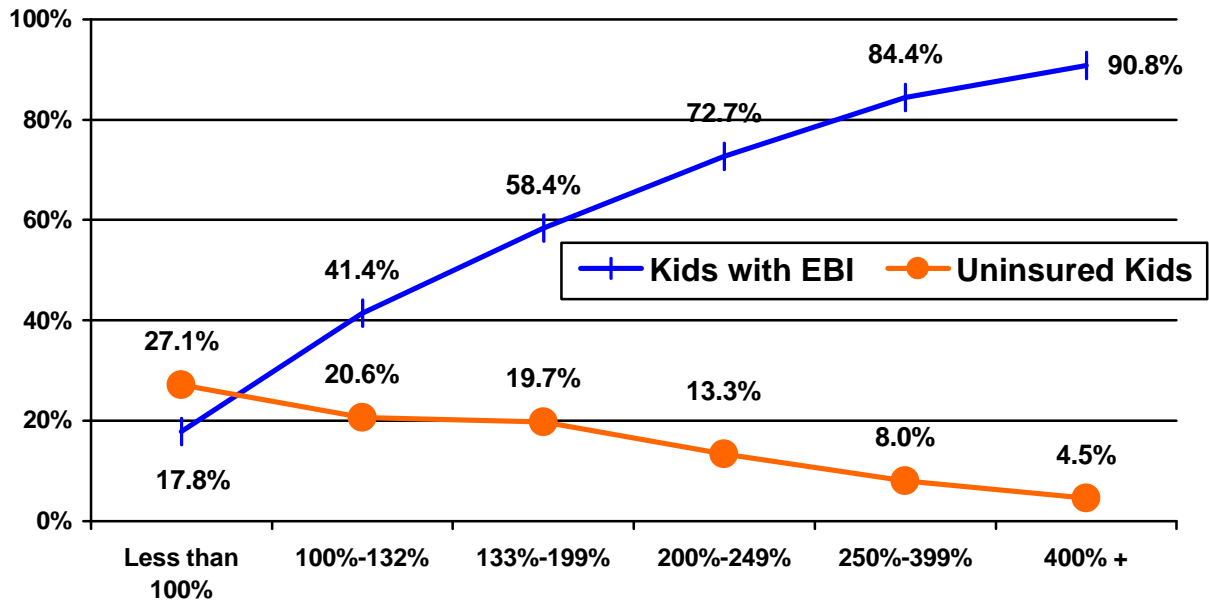
³⁵ Employer coverage rates for parents are slightly (a point or two) higher, in each income range, than employer coverage rates for children.

Figure 3: Percent with Any Employment-Based Insurance (EBI), and Percent Uninsured, by Family Income as a Percent of Poverty, United States, 1999

a. Adults



b. Children



Source: IHPS analysis of the March 2000 Current Population Survey

e. How Many Workers Who Lose Their Jobs Take COBRA Coverage?

While more than half of current workers would be eligible for COBRA continuation coverage if they lost their jobs, at present only about 20% of eligible workers who experience any “COBRA-qualifying event” choose to enroll.³⁶ And this figure includes, among others, retirees and people who leave their jobs voluntarily (perhaps to take another job elsewhere)—two groups that might be expected to elect COBRA coverage more frequently than workers who are laid off or have their work hours cut back involuntarily.³⁷ Thus, the percentage of laid-off workers who elect COBRA is probably less than 20%.

Taking the question from another direction, Urban Institute analysis indicates that 7% of unemployed adults have COBRA coverage (see the next section).³⁸ Since “the unemployed” includes people who did not have employer coverage prior to job loss, as well as people looking for work for the first time and people re-entering the labor force, the percentage of COBRA-eligible laid-off workers who elect COBRA must be greater than 7%. Thus, somewhere between 10% and 20% would seem to be a reasonable range estimate for the COBRA take-up rate among COBRA-eligible workers who lose their jobs.

4. *How Many of the Unemployed Are Uninsured?*

Even if they do not have COBRA continuation rights or elect not to use them, not everyone who becomes unemployed becomes uninsured. Many are able to obtain coverage through a spouse’s employer or a public program. Understanding the extent to which the (newly) unemployed become uninsured is important in evaluating the likely impact of proposals to provide subsidies to help the unemployed continue prior coverage.

The most readily available data report on the insurance status of all adults who are currently unemployed. (This broad definition includes subgroups, such as new entrants into the labor force, that are not a primary focus of current proposals.)

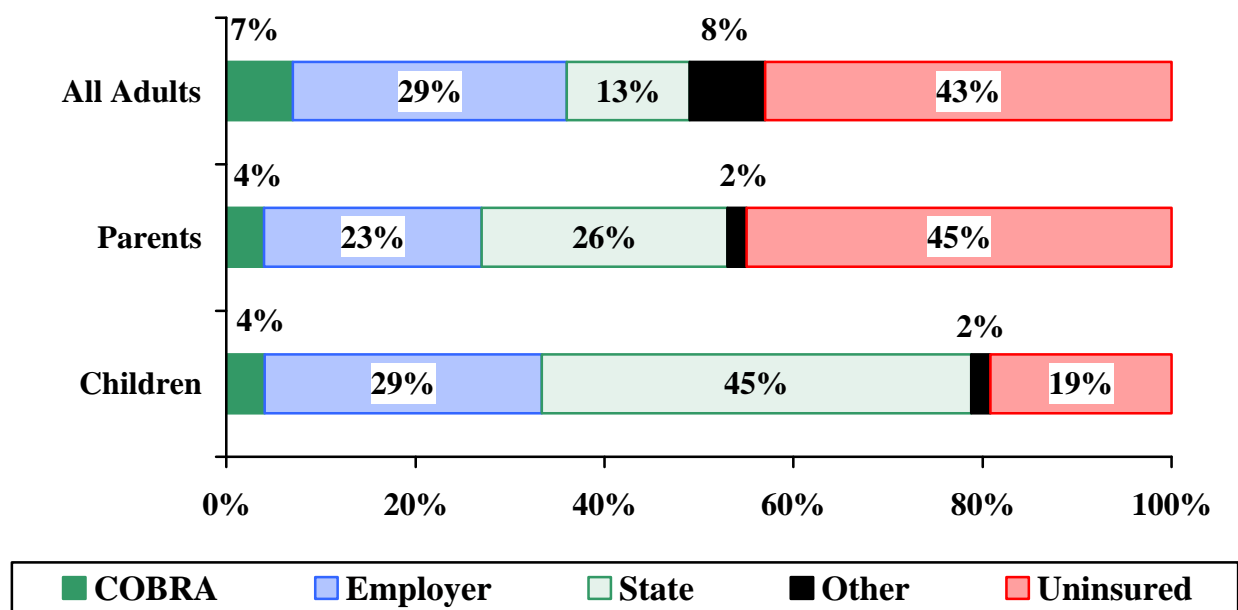
Using this measure, a variety of studies have found that *less than half—about four out of nine—adults who are unemployed at any point in time are uninsured.*³⁹

³⁶ Spencers 2000 COBRA Survey. More precisely, 19% of workers who experience any “COBRA-qualifying event” elect to enroll.

³⁷ It appears that, under current law (i.e., in the absence of subsidies), the unemployed constitute only a small proportion of actual COBRA participants. Flynn (1992), whose study focused on older workers aged 40-64, found that only 16% of COBRA policy holders were unemployed. Another 16% were working and the remainder were not in the labor force. While we might expect that this study would have found a higher proportion of COBRA participants to be unemployed if it had included younger workers as well, the fact that we also do not know what proportion of “COBRA-qualifying events” relate to involuntary job loss means that this study gives us essentially no useful information about the COBRA take-up rate among involuntary job losers.

³⁸ Zuckerman et al., 2001.

³⁹ Using SIPP data covering the 36-month period from February 1993 through January 1996, the Census Bureau’s Robert Bennefield found that 44 percent of workers with one or more job interruptions experienced one or more months without health insurance coverage during that period. (Bennefield, 1998) Also using SIPP longitudinal data, but from an earlier period (the 1990-92 panels), Klerman reports that 43.4% of all the unemployed were uninsured. The percentage differed only slightly based on whether the individual had (42.1%) or had not (44.6%) worked in the past 6 months. (Klerman, 1997b.) Using SIPP data to examine adults who experienced some unemployment

Figure 4: Health Insurance Coverage of Unemployed Adults and Unemployed Parents and Their Children, United States, 1999

Source: Unpublished tabulations from the Urban Institute's National Survey of America's Families, provided by Steve Zuckerman.

- For example, based on the Urban Institute's 1999 National Survey of America's Families, Zuckerman *et al.* report that 43% of unemployed adults were uninsured and about 7% had COBRA coverage. About 29% of unemployed adults had employer coverage (most often, presumably, through their spouses), and about 13% had public coverage.⁴⁰ (See Figure 4.)
- Compared to all unemployed adults, unemployed parents were uninsured at essentially the same rate (45% v. 43%) but were much more likely to have public coverage (26% v. 13%). Unemployed parents were less likely to have employer coverage (23% v. 29%) and less likely to have COBRA continuation coverage (4% v. 7%), but these smaller differences may not be statistically significant.⁴¹

between October 1994 and September 1995, Copeland found somewhat more uninsurance—53% were uninsured for one month or more during that period.

⁴⁰ Zuckerman et al., 2001. The estimates in this published (online) document are based on unemployed adults not on COBRA. On this basis, 46% of unemployed adults not on COBRA were uninsured, 31% had employer coverage and about 14% had public coverage. Since the study also estimated that 7% of unemployed adults participate in COBRA, we were able to re-base the percentages to reflect the entire population of unemployed adults by multiplying each percentage by 0.93 (= 100% - 7%). These results match unpublished tabulations supplied by Dr. Zuckerman.

⁴¹ Unpublished tabulations from the Urban Institute's National Survey of America's Families, provided by Steve Zuckerman.

- By comparison, the children of unemployed parents are more likely to have coverage from public sources and are therefore less likely to be uninsured than their parents. In 1999, only 19% of the children of unemployed workers were uninsured. Almost half (45%) were on Medicaid or other State-provided coverage, and 29% had employer coverage (other than COBRA).^{42,43} (See Figure 4.)

Because these data include all the unemployed, they probably do not accurately reflect the situation of the target population of current proposals—displaced workers and their children who are at risk of losing existing employment-based health insurance.

When those of the unemployed who have not worked in the recent past are excluded from the analysis, it appears that workers who have recently lost jobs are more likely to have other employer coverage and less likely to be uninsured than the unemployed in general.

- For example, one study indicated that adults who had recently left a job at which they had health insurance were more likely to have coverage during their unemployment—only about 32% were uninsured, compared to 43% among the unemployed in general in the 1990-92 SIPP panels.⁴⁴
- More recent analyses of the 1996 SIPP panel and the 1996 Medical Expenditure Panel Survey yield similar results with respect to the percent of newly unemployed adults who previously had own-employer coverage and became uninsured when unemployed (one-quarter to one-third).
- *More importantly, these analyses indicate that roughly 4 or 5 of every 10 newly unemployed, previously insured adults have group coverage from another source, presumably through their spouse's employer.*⁴⁵

⁴² Unpublished tabulations from the Urban Institute's National Survey of America's Families, provided by Steve Zuckerman.

⁴³ An earlier study using somewhat different definitions found broadly similar results but less employer coverage among children in unemployed families. Using the SIPP 1990-92 panels, Klerman reported that 26.4% of all children in unemployed families were uninsured. (These were families where neither parent was currently employed and at least one was looking for work.) Government programs covered 56% of such children. Only 4.3% had employer coverage, and 13.4% had other private coverage. (Klerman, 1997a, Tables 3 and 5). Presumably, the specification that neither parent be currently employed led to a significantly lower rate of employer coverage among these children.

⁴⁴ Klerman, 1997b. Table 2.

⁴⁵ Unpublished preliminary analyses by Susan Marquis of RAND.

5. Who Is Eligible for (and Receives) Unemployment Insurance?

a. Eligibility for Unemployment Insurance

The broadest definition of “the unemployed” includes everyone who is currently looking for work.⁴⁶ But this definition includes, among others, people who have just begun looking for work for the first time and people who left their previous job voluntarily—groups that are not a primary focus of current proposals.

Unemployment insurance (UI) is aimed at helping people who were working regularly but then lost their job through no fault of their own. Thus, if the objective of the present effort is to help people who have lost their jobs due to the economic downturn or dislocation caused by the events of September 11th, targeting displaced workers eligible for UI may be very sensible. But there are also newly unemployed workers who are ineligible for UI, and some who are eligible choose not to claim benefits, or decide to delay their claim.

Eligibility for UI varies from state to state but typically excludes people looking for part-time work and people who quit their job or refused a new shift for family reasons. Applicants must demonstrate a “substantial attachment” to the workforce by meeting a state-determined earnings threshold over a specified recent period. (Thus, “new entrants” to the labor force are excluded, as are recently hired low-wage and/or part-time workers.)

Department of Labor data for October 2001 show that 52% of the unemployed were job losers or persons who had completed a temporary job.⁴⁷ The remainder were voluntary job leavers, new entrants or re-entrants—people who would not normally be eligible for UI. (See Figure 5.)

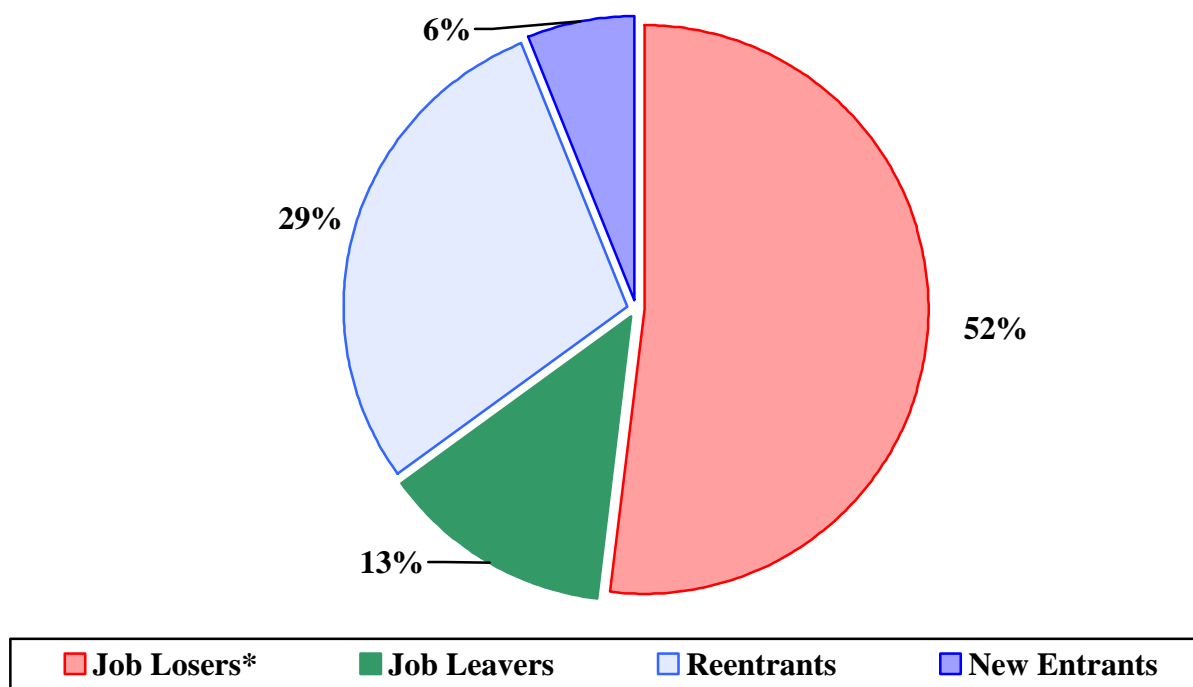
b. Receipt of Unemployment Insurance

Of those who are eligible for UI, roughly 80% choose to participate.⁴⁸ (Those not participating may include very newly unemployed people waiting a few weeks to see if they can find a new job quickly before applying, rather than start using up their 26 weeks of UI benefits immediately.) As a result, at any given point in time, only about 40% of the unemployed are receiving unemployment benefits. But the proportion seems to be a bit higher if we look only at recently unemployed who had employer coverage through their former employer:

⁴⁶ People who are not working but are not looking for work are not termed “unemployed.” Instead, they are “not in the labor force.”

⁴⁷ Bureau of Labor Statistics, October 2001. Table A-7. This is the non-seasonally adjusted figure. The seasonally adjusted figure is almost 56%.

⁴⁸ Estimate supplied by a roundtable participant knowledgeable about unemployment insurance.

Figure 5: Reason for Unemployment, October 2001

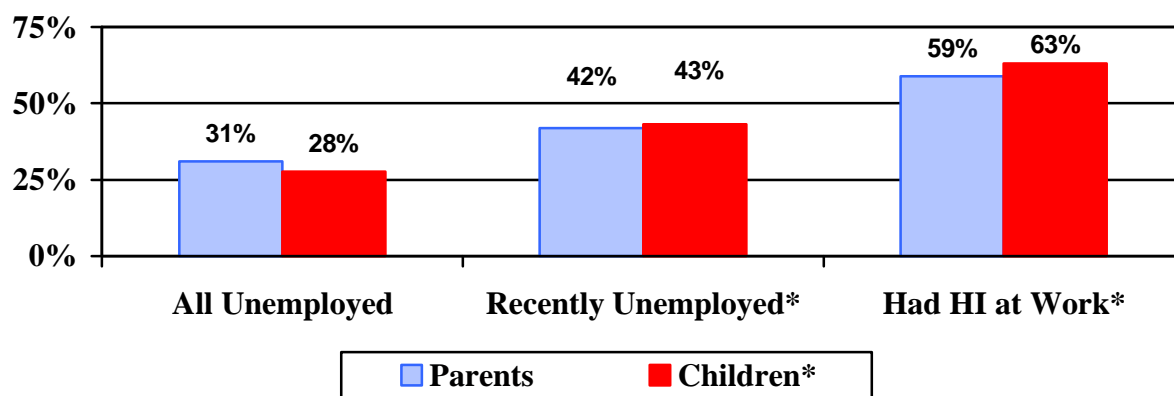
* “Job losers” include persons who completed temporary jobs and workers on temporary layoff.

Source: Bureau of Labor Statistics, October 2001. Table A-7. (Not seasonally adjusted.)

- Klerman’s analysis of longitudinal data from the 1990-92 panels of the Survey of Income and Program Participation (SIPP) found that only 31% of unemployed individuals were receiving UI, but this percentage increased to 42% when those who had not worked in the last 6 months were excluded (about half of all the unemployed at that time). Of those who had recently left a job through which they had health insurance (17.8% of all the unemployed), 59% were receiving UI.⁴⁹ (See Figure 6.)
- Applying a similar analysis to children, Klerman found that 27.6% of children in currently unemployed families were in families receiving UI, but this percentage increased to 43.2% when parents who had not worked in the last 6 months were excluded (again, about half of all the unemployed at that time). Of children whose parents had recently left a job through which they had health insurance (7.8% of all children in unemployed families), 63% were in families receiving UI.⁵⁰

⁴⁹ Klerman, 1997b. Table 2. Klerman’s analysis did not distinguish between voluntary and involuntary job loss.

⁵⁰ Klerman, 1997a. Table 10. A family was considered “unemployed” if no adult in the family was currently employed but at least one was unemployed (i.e., not working but looking for work). Again, Klerman’s analysis did not distinguish between voluntary and involuntary job loss.

Figure 6: Percent Receiving Unemployment Insurance Among Different Subgroups of the Unemployed, 1990-1994

* The “recently unemployed” have worked in the last 6 months. Those who “had HI at work” have recently left a job through which they had health insurance. Children are “receiving unemployment insurance” if any member of their family is receiving UI.

Source: Klerman, 1997a, Table 10, and 1997b, Table 2.

6. How Do COBRA and UI Overlap?

Some unemployed workers who are not eligible for UI, such as voluntary job leavers (13% of the unemployed⁵¹), would be eligible for COBRA if they had health insurance while with their previous employer. COBRA coverage may also be available to other job leavers, such as early retirees, who are not considered unemployed because they have left the labor force (i.e., they are not looking for work), as well as to workers who have taken new jobs elsewhere.⁵²

Although not drawn to scale, Figure 7 graphically illustrates the areas of definitional overlap and non-overlap among the unemployed, those eligible for UI, and those eligible for COBRA. Note that all of those eligible for UI are unemployed, whereas many of those eligible for COBRA are still working or have left the labor force entirely.

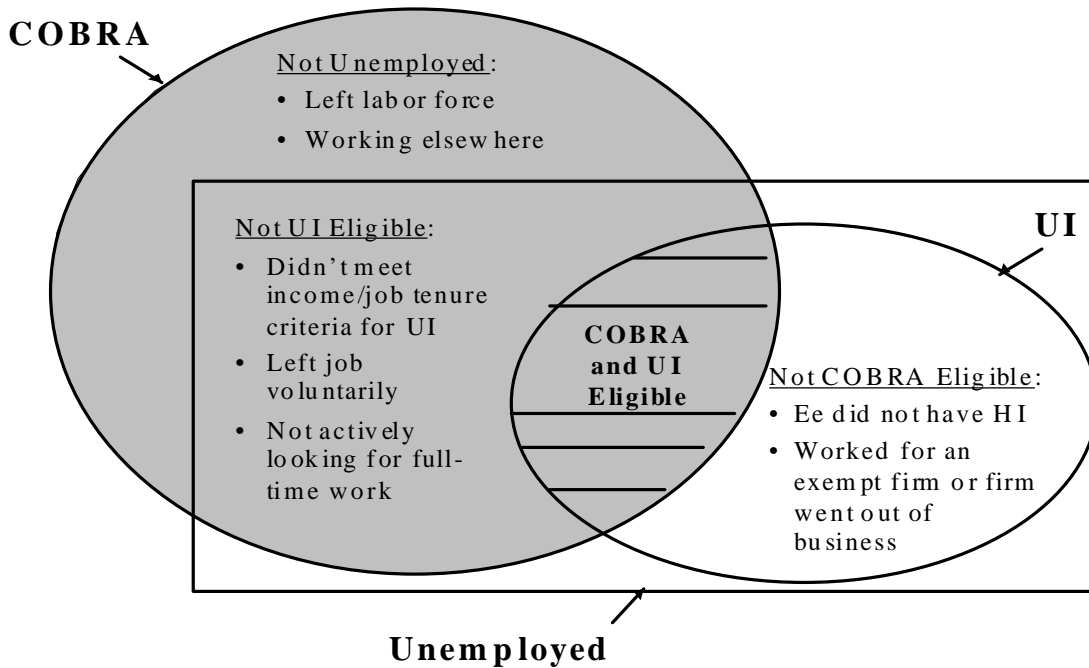
As noted above, no precise estimates are available on the number of people who qualify for both COBRA and UI, nor do we know what proportion of “COBRA-qualifying events” relate to involuntary job loss.

⁵¹ Bureau of Labor Statistics, October 2001. Table A-7.

⁵² Such a new job may or may not offer health benefits. A worker’s COBRA continuation rights do not end until the worker is actually enrolled in another employer plan and has passed any pre-existing-condition exclusion period the new plan may impose.

Figure 7: Overlap between Eligibility for COBRA Continuation Coverage and for Unemployment Insurance (UI)

[Not Drawn to Scale]



* Workers eligible for both COBRA and UI were working regularly for a year or more before they lost their job involuntarily, had health insurance from their previous employer (who is still in business and has 20 or more employees), and are now actively looking for full-time work

Key: UI = unemployment insurance. Ee = employee. HI = health insurance

7. Medicaid and SCHIP for the Newly Unemployed?

Using existing public programs like Medicaid and SCHIP to provide needed health coverage to low-income workers and children could be an alternative, or an adjunct, to public subsidies for COBRA coverage. To what extent are newly unemployed workers and children likely to qualify for these programs?

a. Children

The expansion of public coverage for children that began in the late 1980s and culminated with the enactment of SCHIP in 1997 has removed many of the non-income eligibility requirements for public coverage for children. The primary criterion for children's eligibility under Medicaid or SCHIP is now simply family income, and for the most part, income is based on current circumstances at the time of application—income level prior to application is not considered. That is, if a child's parent loses their job and then applies for public medical coverage, earnings received prior to job loss are not considered in determining eligibility. What matters is the income the family expects to receive on a monthly basis in the immediate future.⁵³

Given the low level of unemployment insurance benefits in most States, many children whose parents become unemployed will likely qualify for Medicaid and/or SCHIP.

- The income threshold (higher of Medicaid or SCHIP) is 200% of poverty or higher in almost 3/4s of the States (37 of 51).⁵⁴ None of the States using thresholds below 185% of poverty are particularly populous.
- Only five States still use an asset test when determining eligibility for SCHIP and Medicaid. (Four more use an asset test for children's Medicaid only, but not for SCHIP.)
- Although many States require children to be without health insurance for several months before they can qualify for SCHIP, the requirement is almost always waived if health insurance is lost involuntarily, such as due to a parent's lay-off for work. And no such requirement is permitted under Medicaid.
- Klerman's research using the 1990-92 panels of SIPP showed that 93% of uninsured children with recently unemployed parents were in families with (post-job-loss) incomes below 200% of poverty.⁵⁵

b. Adults

Childless adults do not qualify for federally matched public coverage except in a very few States with special waivers; in some States, they may qualify for State-funded coverage if they have virtually no income.

⁵³ This approach to counting income is required under Medicaid by federal regulation. States have full flexibility under SCHIP to decide how to count income, but the general impression of knowledgeable experts IHPS consulted was that few, if any, States are considering past income when determining children's eligibility for SCHIP.

⁵⁴ Cornell, 2001.

⁵⁵ Klerman, 1997a. Tables 11. Children in families with one employed and one unemployed parent are not included in this calculation.

Unemployed parents may qualify for health coverage programs, but they will find it harder to qualify for public coverage than their children will. Although a few States have waivers to use SCHIP for parents or to vary from regular Medicaid rules, parents generally will have to qualify under Medicaid rules.⁵⁶

As a rule, Medicaid income limits are much tighter for parents than for children:

- Only 18 States set their effective income thresholds for parents at 100% of poverty or higher.⁵⁷
- Although States often disregard some amount of earned income, making their nominal income thresholds higher, these disregards may not apply to unemployment insurance benefits.

In addition, other eligibility requirements, particularly asset limits, that have generally been eliminated for children often remain in place for adults:

- Only 10 States have completely eliminated the asset test for Medicaid eligibility of parents. The others limit assets such as bank accounts to a few thousand dollars.
- In 17 States, having a car worth more than a specified amount makes an applicant ineligible for Medicaid.⁵⁸

Asset tests, in particular, may make new unemployed parents ineligible for Medicaid, even while their children are eligible for Medicaid or SCHIP.

⁵⁶ In early August 2001, the federal Centers for Medicare and Medicaid Services released a new guidance regarding demonstration waivers. Called the “Health Insurance Flexibility and Accountability (HIFA) Demonstration Initiative,” the guidance encourages States to apply for Medicaid and/or SCHIP waivers to expand coverage of low-income populations beyond those eligible for Medicaid and SCHIP under current law, including adults not currently eligible. Under Medicaid, waivers must not increase spending on affected groups above levels expected in the absence of the waiver. Under SCHIP, the current federal allotment ceiling applies, but States that have not used their full allotment could apply to use it to cover adults, including childless adults. The Administration has specifically encouraged States to use this approach for displaced workers. Children’s advocates, on the other hand, generally oppose spending SCHIP funds on adults (beyond what would be spent to cover only the children in the family) unless and until States have made strong efforts to cover all uninsured low-income children. Although State experience with family coverage suggests that covering parents under SCHIP can be justified as an effective way to reach more uninsured children, this effect would not apply in the case of childless adults.

⁵⁷ Center on Budget and Policy Priorities, 2001.

⁵⁸ Center on Budget and Policy Priorities, 2001.

E. Other Key Policy Issues

1. Impact of Selection on Employers' COBRA Costs

The best available information suggests that roughly 20% of those eligible (for any reason) for COBRA continuation coverage elect to enroll.⁵⁹ In the absence of any subsidy, a disproportionate share of those who elect COBRA coverage are sicker than the average active worker (because, put simply, when the premiums have to come entirely out of their own pocket and their income is down, those who know they will use the coverage are more likely to choose to enroll in COBRA than those who doubt they will use it). As a result, average claims costs are typically 50% higher for COBRA participants than for active employees,⁶⁰ while the premiums paid by COBRA participants reflect the average cost for all plan participants (plus 2% for additional administrative costs). These “excess” costs become part of the overall cost of the group health plan and are borne by the plan sponsor (the employer) and participants.⁶¹

Currently, COBRA participants cost about 50% more than active workers. If COBRA participation were subsidized, would the claims costs for new COBRA participants be more or less, on average, than those of active workers?

In normal circumstances, any single employer has relatively few COBRA participants at any given time, so their “excess” costs do not increase total plan costs by a significant amount. In the current environment, in which certain industries have been very hard hit by the aftermath of the events of September 11th or by the economic situation more generally, some firms might have a much higher proportion of (subsidized) COBRA participants relative to active workers. In this situation, if COBRA premiums did not cover the full cost of COBRA participants, some self-insured firms might

⁵⁹ More precisely, 19% of workers who experience a “COBRA-qualifying event” elect to enroll. This figure includes, for example, retirees and people who leave their jobs voluntarily (perhaps to take another job elsewhere), in addition to workers who are laid off or have their work hours cut back. No information is available from this source about the percentage of workers who continue family coverage v. single coverage. About 25% of spouses and dependents who experience a separate “COBRA-qualifying event” (i.e., one not related to “their” worker’s loss of coverage) elect to enroll. Spouses and dependents have a right to elect COBRA coverage under certain circumstances, such as divorce or reaching the age at which children no longer qualify as a dependent. Spouses and dependents also have an independent right to elect COBRA coverage when “their” worker experiences a qualifying event, whether or not the worker elects to continue coverage. A very small portion of the 19% figure cited above represents dependents, and not the worker, electing to continue coverage after the worker’s job termination. However, the base for the percentage is the number of workers who experienced a COBRA-qualifying event. Spencers 2000 COBRA Survey.

⁶⁰ Spencers 2000 COBRA Survey. The comparison blends individual and family policies for both active workers and COBRA policyholders.

⁶¹ For businesses with 20-50 workers in States that prohibit insurers from varying premiums based on a business’s claims experience or the health of its plan participants, the additional costs of COBRA participants would be distributed across the pool of small businesses covered by each insurer.

have great difficulty bearing the additional costs—especially firms that are already in financial difficulty.⁶²

Thus, it is important for policy makers to understand, under alternative subsidy levels and arrangements, who is likely to elect COBRA coverage and what their claims experience would look like. Would the claims costs for new COBRA participants—those induced to participate by the subsidy—be more or less, on average, than those of active workers?

The answer to these questions, roundtable participants pointed out, will depend on:

- the population targeted by the policy,
- the amount of the subsidy, and
- whether the subsidy is restricted to COBRA premiums or could be used to purchase health insurance from another source.

For example, most current proposals target subsidies to laid-off workers, who are likely to be younger and less costly than current COBRA beneficiaries, many of whom are early retirees. But one proposal would provide subsidies (in the form of tax credits) to all COBRA participants.

A 100% subsidy would attract the highest participation rate and, presumably, negate any adverse selection (unless the age, family size or health status of the entire COBRA-eligible population varied from the average of all plan participants). As the subsidy amount falls, fewer workers could be expected to elect COBRA, and they would have increasingly higher incomes and/or increasingly larger health care needs.

- A study which used SIPP data from 1993 simulated a program that paid an average 70% subsidy for COBRA participants with incomes under 240% FPL. The model estimated that the average claims experience of subsidy eligibles would be only 5% more expensive than the insured workforce, and predicted that 80% of those eligible would enroll in the program.⁶³
- Some of the subsidy recipients would have elected COBRA even in the absence of a subsidy.⁶⁴ Presumably, like other current COBRA enrollees, this group would have worse claims experience than the average active

It is possible that new (subsidized) COBRA participants might actually have lower average costs than active workers.

⁶² Insured firms would not face the additional costs until their next rate renewal, and the extent of the increase at that time would depend on the firm's size and applicable State rules governing insurers' rating practices.

⁶³ Baumgardner (1998). The actual subsidy structure modeled was a sliding scale, paying 100% of the COBRA premium for eligible with incomes below poverty and phasing out entirely at 240% of poverty. The average subsidy across all subsidy eligibles was 70%; the average subsidy across predicted participants was 85%.

⁶⁴ Baumgardner's study did not directly estimate what proportion of subsidy eligibles would have elected COBRA in the absence of the subsidy but did note that almost 50% of "subsidized months" would be months in which the recipient would have obtained coverage through some other source (COBRA or individual coverage or, contrary to subsidy rules, through another family member) if there were no subsidy program.

worker. If so, then the new COBRA participants—those who would not have participated without the subsidy—might actually have lower average costs than active workers, and the subsidy program might reduce the total excess costs currently borne by employers.⁶⁵

Of course, this represents only a possible scenario, based on one study, and it is a “average” result. The experience of individual employers would certainly vary, depending on a range of factors, with some “winners” and some “losers.” Whenever the claims experience of new (subsidy-induced) COBRA participants exceeded the average claims cost for active workers, even by a small amount, the additional participants would increase the total excess costs borne by employers, rather than reducing them.

It was also noted that a COBRA subsidy could reduce costs that would otherwise fall on the employers of the spouses of displaced workers (including employers who did not have large layoffs). That is, a COBRA subsidy could presumably reduce the number of COBRA-eligible laid-off workers who would otherwise switch to their working spouse’s employer coverage. This is a significant issue, since 29% of the unemployed have employer coverage other than COBRA (see Figure 4). Presumably, workers who could have switched to spousal coverage would choose COBRA instead when the COBRA premium—net of subsidy—for the laid-off worker and any dependents covered under that policy was less than the marginal cost to the family of adding the laid-off worker (and other dependents) to the spouse’s employer coverage. In each such case, the spouse’s employer would save the additional employer contribution that would otherwise have been required.

Allowing public subsidies to be used to purchase either COBRA continuation coverage or individual health insurance would likely be more expensive for employers than subsidizing only group continuation coverage like COBRA, due to adverse selection.

- For many workers, employer-sponsored insurance is less expensive than an individual policy, even without any employer contribution, because group plans have lower administrative costs and benefit from pooling risk. For some young, healthy (unemployed) workers, however, underwriting and risk rating in the individual insurance market may work to their advantage, and they may be able to secure an individual policy that is cheaper. If someone who was COBRA eligible had the option to use the (same percentage) subsidy to purchase an individual policy, then those who were younger and healthier would be more likely to do so, while those who were older and less healthy would be more likely to choose COBRA. Thus, average claims costs for new COBRA participants would likely be higher

Allowing public subsidies to be used to purchase individual health insurance as an alternative to COBRA would probably be more expensive for employers than subsidizing only COBRA coverage, due to adverse selection.

⁶⁵ Assuming 20% of eligibles would have participated in the absence of any subsidy, and assuming the cost for these “original” participants is 150% of average, the 105%-of-average result for 80% participation implies that the cost of the “new” participants (60% of eligibles) is 90% of average. So long as at least 8% of subsidy eligibles would have participated even in the absence of a subsidy, the average claims cost of the “new” participants implied by this model will not exceed the average claims cost of active workers.

than they would be if the individual-insurance option were not subsidized, and COBRA premiums would cover a smaller percentage of those costs, leaving more of the cost to be covered by the employer (plan sponsor).

Proposals to make tax credits more broadly available for the purchase of non-group individual coverage, whether or not a displaced worker previously had employment-based health insurance, have also been put forward. These proposals go beyond the continue-existing-coverage focus of this report and raise a much broader range of issues and trade-offs that should be considered and analyzed. Therefore, they are not addressed here.

2. State Fiscal Capacity

Roundtable participants noted that, as policy makers consider how to structure proposals to help the newly unemployed, and the relative roles that the States and the federal government would play in funding such initiatives, they need to keep in mind that the fiscal capacity of the States becomes more limited during an economic downturn. According to a recent report from the Nelson A. Rockefeller Institute of Government, State revenues have dropped precipitously in recent months. Total state revenues declined by 3.4 percent for the July-September 2001 quarter compared to the same quarter a year earlier—the largest year-over-year drop in total state revenues since the Institute began to track state revenues over a decade ago.⁶⁶ Many states are struggling just to maintain their current level of support for health coverage of low-income families and children, and would be unable to fund expanded coverage for newly unemployed workers and children.

In addition to the immediate revenue crunch, participants noted long-term fiscal imbalances, such as slower growth in sales tax revenues due to Internet sales and a larger service sector, that suggest that State revenue growth in the future will not keep pace with overall economic growth. States also have important budget priorities other than health coverage, such as education.

⁶⁶ Jenny and Boyd, 2001.

F. Analysis of Policy Alternatives (Broadly Drawn)

Based on the objectives identified earlier and on the background data and issues presented above, roundtable participants discussed the advantages and disadvantages of alternative approaches to ensuring continued coverage for newly unemployed workers and their children. This discussion focused on broad policy approaches, not on the specific details of any particular current proposal.

Earlier in the discussion, participants emphasized the critical importance of administrative simplicity and speedy implementation in order to meet the identified objective of uninterrupted coverage for children and workers who are already being laid off and (in many cases) losing their health insurance.

But there is a basic conflict between administrative simplicity and cost-effective targeting of public resources. As the data presented make clear, many unemployed workers and their families continue to have (access to) coverage through a still-working spouse or other sources, and others have sufficient income or resources to be able to afford COBRA premiums on their own. But establishing policies and setting up administrative mechanisms to avoid “crowding out” other sources of insurance and/or to “means test” applicants would create barriers and delay, and would work against the goal of an “easy, seamless transition.” As one roundtable participant remarked, “Every rule needs a little process.”

There is a basic conflict between administrative simplicity and cost-effective targeting of public resources.

This tension between target efficiency and speedy implementation is reflected throughout the following discussion of four broadly framed alternative approaches, which were based on proposals that had been put forward as of late October 2001, and which included:

- A high-percentage COBRA subsidy for family coverage (with two variants).
- A modest-percentage subsidy for all COBRA-eligible members of the target population, with a means-tested supplemental subsidy for low-income workers and families.
- Expansion of existing means-tested programs to cover more unemployed workers and families more easily.
- Reliance on existing means-tested programs, with improved information-and-referral linkages.

(Combinations of the various approaches are, of course, also possible.)

Note that, as broadly framed for the roundtable discussion, these new subsidy approaches could be implemented either by the federal government or by States, given sufficient resources through, for example, new federal grants or increased matching for Medicaid and/or SCHIP.

Key advantages and disadvantages of these alternatives, as presented in detail in the following discussion, have been summarized in matrix form in Table A, following the Executive Summary.

1. A high-percentage COBRA subsidy for family coverage.

Under this approach, eligible workers and families who enrolled in COBRA (or similar) group-continuation coverage would receive a subsidy equal to a fixed, but high, percentage of the cost of their COBRA premiums—perhaps 75%. There would be no means test for eligibility.

The major advantage of a flat-percentage COBRA-subsidy approach is its simplicity. But how quickly even such a seemingly simple program could be implemented is open to question.

The major advantage of a COBRA-subsidy approach is its simplicity. The coverage structure itself is already in place, and no new rules or roles need to be imposed on either employers or health plans. Avoiding means testing also avoids much cumbersome paperwork and administrative burden and barriers.

But how quickly a COBRA-subsidy program could be put into place is open to question. The primary administrative resource needed to implement a COBRA subsidy program is a system for paying the subsidies. How this is done could have a significant effect on the participation rate, as well as on administrative costs. And the time necessary to develop and implement a payment system should not be underestimated.

- One approach would be to reimburse families, directly but retroactively, upon submission of proof that the COBRA premium had been paid. (This approach is used in Massachusetts, which subsidizes COBRA premiums for recipients of unemployment compensation. See Appendix A.) But this approach would reduce participation rates, particularly for lower-income eligibles, who could have significant cash-flow problems.
- A second approach would grant eligible COBRA participants a refundable tax credit equal to the specified percentage of COBRA premiums paid during the tax year. For participants who can afford to “front” the necessary funds, this would give government, in effect, until the end of the tax year to revise forms, produce the necessary instructions, etc. But, for eligibles without sufficient cash on hand to pay the premiums in the first place, such a system would be essentially useless—even worse than periodic direct reimbursement—without some mechanism for paying the subsidy in advance, as it is needed.
- Alternatively, it might be possible to have plan administrators bill subsidy eligibles for only their share of the COBRA premium (e.g., 25%), and have employers pay the remaining share of the premium (e.g., 75%). Employers would be “reimbursed” by claiming the subsidy payments as an offset against payroll and withholding taxes due to the federal government, in much the same way as advance payments of the earned-income tax credit are handled. This approach would improve participation rates, particularly for low-income eligibles, but would require plan administrators and employers to modify their current COBRA billing systems. And, unless all COBRA participants were eligible for subsidies (see further discussion below), plan administrators’ billing systems would have to differentiate between subsidy eligibles and other COBRA participants.

(Roundtable participants were not presented with and did not discuss these payment system alternatives.)

The major disadvantages of a simple percentage subsidy approach for COBRA are its lack of target efficiency and the likelihood that it would substitute for (“crowd out”) other coverage alternatives. Therefore, its budgetary costs can be expected to be relatively high per “otherwise-uninsured” worker or family enrolled.

- Many unemployed workers and their families continue to have (access to) coverage through a still-working spouse or other sources, and others have sufficient income to be able to afford COBRA premiums on their own.
- A subsidy percentage high enough to induce significant participation among low-income eligibles is likely also to be higher than many working spouses’ employers contribute toward family coverage. (On average, employers pay about 70%-75% of the cost of family coverage, but there is considerable variation around this average.) Thus, COBRA eligibles who, in the absence of a subsidy, would have switched to their working spouse’s employer coverage might decide to use the public subsidy to stay in their own employer’s plan under COBRA.⁶⁷ As noted earlier, in 1996, 4 or 5 out of every 10 previously insured workers switched to “other group coverage” upon becoming unemployed, presumably through their spouse’s employer plan in most cases.⁶⁸ (Some would view such “crowd-out” of existing employer contributions as poor targeting of public subsidy expenditures. Others would maintain that it relieves an inappropriate burden on spouses’ employers that could, in some cases, contribute to a second wave of economic distress and layoffs.)
- Workers laid off by small firms (fewer than 20 workers), and their families, would not be eligible if the subsidies were limited strictly to COBRA continuation coverage. This might be remedied in part, in States that have “mini-COBRA” laws, by making the subsidies available for any group continuation coverage. Other displaced workers not eligible for COBRA, such as the self-employed who purchased non-group insurance and workers whose firms went out of business, also would not receive assistance under this approach.
- As with any program aimed at assuring continuation of existing employment-based coverage, the benefits of a COBRA-subsidy program would be skewed toward higher-income workers and families, who are more likely to: (i) have employment-based coverage in the first place, (ii) have access to alternative coverage through a working spouse, and (iii) be able to afford their share of the COBRA premium.

A high-percentage COBRA subsidy could discourage displaced workers from using other alternatives available to them, such as coverage through a spouse’s employer.

⁶⁷ Roundtable participants did not discuss any specific policy mechanics to avoid “crowd out.” The Baumgardner simulations described above found that 50% of the “months of insurance” paid for by the simulated program would be for people who would have been insured anyway. The proposal they simulated would have excluded anyone with access to spousal insurance, but the analysts assumed some non-compliance. Also, some employers already subsidize continuing coverage, some individually purchased insurance would be purchased in the absence of the subsidy, and some people would have bought COBRA even if there were no subsidy.

⁶⁸ Unpublished, preliminary analyses of the 1996 SIPP panel and the 1996 Medical Expenditure Panel Survey by Susan Marquis of RAND.

- *Variations Based on Unemployment Status*

Two major variants of the COBRA-subsidy approach are possible with respect to defining the eligible population. In the first, everyone eligible for COBRA would be eligible for a subsidy. In the second, only workers and families receiving unemployment insurance would be eligible. Which variant is chosen also affects ease of program administration and target efficiency.

- a. First Variant: All COBRA Eligibles

Allowing all COBRA participants to qualify for a subsidy simplifies administration of the program greatly, but it also reduces target efficiency. Under this approach, retirees and people who left their jobs voluntarily, perhaps to take other jobs that do not (yet) offer them health insurance, would receive subsidies along with laid-off workers and their families.⁶⁹ (Currently, the unemployed appear to be a small fraction of COBRA participants, although a sizable subsidy would be expected to increase their numbers substantially.)

- b. Second Variant: Limit COBRA Subsidies to Workers Receiving Unemployment Insurance

In this approach, the only people who would qualify for COBRA subsidies would be unemployed workers who have applied for and are receiving unemployment insurance (UI) benefits (and their families).

Massachusetts operates such a program for UI recipients with family incomes under 400% of poverty.⁷⁰ (Massachusetts is believed to be the only State with such a program in place at the present time. See Appendix A for additional information about Massachusetts' program.)

Massachusetts' COBRA-subsidy program for UI recipients is believed to be the only such program currently operating.

A major advantage of using UI as a “screen” for COBRA subsidies is greater target efficiency. As compared to a broad COBRA subsidy, the UI eligibility criteria more closely match the desired target population for this effort—people who were working regularly but have lost their jobs due to the economic downturn or dislocation caused by the events of September 11th.

- As noted earlier, Klerman found that 59% of those who had recently (in the last 6 months) left a job through which they had health insurance were receiving UI (over the period 1990-94). Because his analysis did not distinguish between voluntary and involuntary job loss, some of the 41% not receiving UI may have been early retirees or other voluntary job leavers.⁷¹

⁶⁹ Some economists would argue that allowing voluntary job leavers to qualify would help to make the labor force more efficient, because it would make it easier for workers to transition to more productive jobs.

⁷⁰ For this purpose, income is measured over a 12-month period beginning 6 months before job loss.

⁷¹ Klerman, 1997b. Table 2.

Limiting subsidies to recipients of UI benefits would also help to limit adverse selection. By definition, UI recipients must be actively looking for work. Being healthy enough to look for work suggests that are likely to have considerably lower health care costs than the current mix of COBRA participants, which includes many early retirees who are more likely to have health conditions than active workers.

Families of deceased workers would be not be eligible for COBRA subsidies under this approach, unless special provision was made for them, and some workers who lost health insurance due to current events would be missed if UI receipt is a condition of eligibility for COBRA subsidies. The latter include formerly full-time workers whose hours were reduced below the level necessary to qualify for employer coverage, laid-off workers who had not been working long enough or had not earned enough to qualify for UI benefits, and laid-off workers who, for various reasons, are seeking part-time rather than full-time work.

Eligible laid-off workers who choose not to claim their UI benefits also would not qualify for COBRA subsidies under this approach, but presumably these workers are less in need of assistance than those who do claim benefits, or they only delay their claim for a few weeks to see if they can find new work quickly. Attaching COBRA subsidies to UI benefits would be expected to increase the participation rate in and, therefore, the cost of the UI program.

Tying COBRA subsidies to current receipt of UI benefits could lead to disruption of coverage when UI benefits run out (typically after 26 weeks) or when workers find new jobs, since many employers do not provide health insurance to new employees until after a one- to six-month probationary or waiting period has been completed. To promote continuity of coverage, COBRA subsidies might have to be continued for several months after UI benefits end.

Using UI as an eligibility criterion also potentially simplifies administration of the program, because the eligibility-determination process, and possibly the subsidy-payment process, could “piggyback” on the existing UI system. Because the federal government pays for the administrative costs of State UI programs and prohibits State UI workers from performing any non-UI functions, some modification of current federal rules might be necessary in order to permit State UI systems to administer COBRA subsidies.⁷²

2. A modest-percentage COBRA subsidy for all members of the target population, with a means-tested supplemental subsidy for low-income workers and families.

This approach would combine a percentage-of-premium COBRA subsidy for all members of the selected target population, as discussed above but at a lower rate (perhaps 50%), with a means-tested supplemental subsidy, possibly up to the full amount of the COBRA premium, for low-

⁷² The States have the direct responsibility for establishing and operating their own unemployment insurance programs, while the federal government finances the cost of administration. State unemployment insurance tax collections are used solely for the payment of benefits. Federal unemployment insurance tax collections are used to finance expenses deemed necessary for proper and efficient administration of the State unemployment insurance laws; to reimburse State funds for one-half the costs of extended benefits paid under the provisions of State laws which conform to the provisions of the Social Security Act and the Federal Unemployment Tax Act; and to make repayable advances to States when needed to pay benefit costs.

income workers and families. The aim is to target government assistance on those most in need (as measured by post-layoff income), while still providing some help to all COBRA-eligible members of the target population. The lower basic subsidy rate should encourage higher-income displaced workers who have other options (such as spousal coverage) to make use of them,⁷³ while providing greater help to the workers and families most in need will, hopefully, assure that they participate.

a. Administering this more complex subsidy design.

The trade-off for this improvement in target efficiency is greater administrative complexity. An administrative system to handle the basic COBRA subsidy would still have to be built, as discussed above. In addition, systems and processes would be needed to determine who is eligible for the additional means-tested subsidy, and to pay that additional subsidy.

Integrating the administration of the two parts of the subsidy program may seem desirable—why send two subsidy checks rather than one, for example?—but it would probably be difficult to achieve in practice. Neither employers nor COBRA plan administrators are in a position to handle means testing. Employers don’t want to be responsible for ascertaining family income and don’t want to be put in the position of administering a program that is not available to all their employees. Also, despite the successful program operating in Massachusetts, roundtable participants noted that State UI offices are known to be inexperienced at and often resistant to performing means testing based on family income.

- Administration of at least the means-tested portion of the program, therefore, would most likely be carried out by State Medicaid and SCHIP agencies. These programs would often have to develop new capabilities, including different intake linkages and/or approaches to outreach in order to reach a target population not accustomed (and perhaps averse) to dealing with means-tested programs, but at least they already handle similar eligibility-determination functions and could develop systems for paying subsidies to workers and families. A few States that help current Medicaid or SCHIP recipients to enroll in employer coverage that is available to them already have such systems in place. (These programs are called “health insurance premium payment (HIPP)” or “premium assistance.”)

Administration of the means-tested portion of a COBRA subsidy program would most likely be carried out by State Medicaid and SCHIP agencies. What new capabilities would they have to develop to reach a target population not accustomed to dealing with means-tested programs?

⁷³ For example, if the COBRA subsidy is 50% and family coverage is available through a spouse’s employer with the employer paying 70% of the cost, most families would move to the spouse’s employer plan, thus reducing “crowd-out” of private health insurance expenditures. Among higher-income workers without access to coverage through a spouse’s employer, however, the lower basic subsidy rate could actually increase the incidence of crowd-out. That is, with lower participation, it can be expected that a higher proportion of those receiving subsidies would in fact have purchased COBRA coverage even in the absence of a subsidy. [Klerman (1997b) makes this argument.] These offsetting effects leave uncertain the relative incidence of crowd-out under higher or lower subsidy percentages.

- Depending in part on the target population selected for and the State role in administering the basic subsidy, it might be sensible to have the Medicaid/SCHIP agency administer the entire subsidy for lower-income workers and families who apply for the supplemental subsidy. For these eligibles only, funds necessary to cover the basic subsidy amount would be transferred from the agency administering the basic subsidy to the State Medicaid/SCHIP agency.
 - » For example, if the basic subsidy were structured as a refundable tax credit, this approach could obviate the need to arrange a separate advance-payment mechanism to accommodate the needs of lower-income eligibles. Those with low income would apply to the State and would receive both the basic and the supplemental subsidy payments from the State Medicaid/SCHIP agency. The amount equal to the basic subsidy would be treated as an “advance payment” of the refundable tax credit.
- b. Paying for the supplemental subsidies.

Who would pay the cost of the supplemental subsidies is a critical issue. The fiscal feasibility of this approach could depend in large part on who was made eligible for the supplemental subsidies and how they were financed.

If eligibility for supplemental subsidies was limited to families or children who would otherwise be eligible for regular Medicaid or SCHIP coverage, then paying for supplemental COBRA subsidies through the applicable program would save the States money, compared to enrolling those same families or children directly in the public program. At the same time, it would be less expensive for the federal government than setting up an entirely federally funded supplemental subsidy program for low-income displaced workers and families.

The fiscal feasibility of supplemental subsidies for low-income displaced workers will depend on who is made eligible for them and how they are financed.

- If we assume the basic subsidy would be set at 50% of the COBRA premium, so that the State’s obligation would be at most the remaining 50% of the COBRA premium, then:
 - » Where an entire family was eligible for Medicaid, paying the supplemental subsidy would almost always be less expensive for a State than enrolling all members of the family directly in Medicaid.
 - » Where only the children in the family would qualify for public coverage (Medicaid or SCHIP), then paying the supplemental subsidy would sometimes be less expensive and sometimes more expensive than enrolling the eligible children (only) directly in the public program. Paying the supplemental subsidy, however, would continue coverage for the entire family, not just for the children, and would assure both children and parents of continued access to their current providers. (See Appendix B for the analysis behind these conclusions.)

As noted earlier, virtually all children in families with (post-job-loss) income below 200% of poverty will qualify for either Medicaid or SCHIP. Many of their parents, however, will not qualify under current rules; and childless adults do not qualify for federally matched public coverage at all under current law, except in a few States with special waiver programs.

Therefore, policy makers may wish to expand eligibility for supplemental COBRA-premium subsidies to encompass all COBRA-eligible displaced workers and their families with (post-job-loss) income below some specified level. Doing so would bring in a large number of adults who do not qualify for federally matched public coverage under current rules. Both Medicaid and SCHIP require States to put up some of their own money in order to draw down federal matching funds, and the total federal funds available under SCHIP are capped.⁷⁴ As roundtable participants pointed out (see earlier discussion), many States are in severe fiscal difficulty at present, and would have great difficulty finding sufficient State funds to cover these newly eligible adults. Therefore, some funding formula that reduces the burden on State revenues may be necessary to make this approach feasible and effective. Moreover, those States with the greatest proportion of unemployed workers are also likely to be the most hard-pressed for revenue. This is precisely the sort of economic situation in which use of the federal government's broader revenue base to provide counter-cyclical assistance to States is most appropriate.

3. Expansion of existing means-tested programs to cover more unemployed workers and families more easily.

COBRA-subsidy approaches do not provide assistance to unemployed workers and families who are not eligible for COBRA, even if they had private health insurance prior to losing their job. The exclusion of small-firm workers under COBRA can be addressed, in many but not all States, by extending the subsidies to State “mini-COBRA” group continuation schemes. But COBRA continuation is not available at all if the worker's employer has gone out of business entirely or otherwise terminated their health plan, and COBRA does nothing for self-employed workers whose businesses may have been hard hit by the aftermath of September 11th so that they can no longer afford to pay for the (non-group) private coverage they previously carried. If receipt of UI is used as an eligibility requirement, then additional displaced workers and families will become ineligible for subsidies, even though they are eligible for COBRA.

To fill in these gaps, or even as a complete alternative to a broad COBRA subsidy program, the desired target population⁷⁵ could be made eligible for existing means-tested, State-administered public programs such as Medicaid or SCHIP.⁷⁶ A post-job-loss-income test would apply, which might be set federally or left to State discretion.

⁷⁴ Also, children's advocates emphasize that SCHIP funds are intended primarily to cover uninsured children and that federal SCHIP funds should not be spent on adults (beyond what would be spent to cover only the children in the family) unless and until States have made strong efforts to cover all uninsured low-income children. Although State experience with family coverage suggests that covering parents under SCHIP can be justified as an effective way to reach more uninsured children, this effect would not apply in the case of childless adults.

⁷⁵ Presumably, the desired target population includes all or some subset of workers who became unemployed after September 11th, and their children, and the families of workers killed on September 11th.

⁷⁶ Legislative proposals that had been introduced as of the date of the roundtable would allow the use of Medicaid but not SCHIP to cover displaced workers and their families, presumably because federal funds for SCHIP are capped while Medicaid funds are not. However, some States still have unused allotments of federal SCHIP funds and are moving, using federal waivers, to use SCHIP to cover parents as well as children. Particularly where this is the case, it will be important to allow States the option to use SCHIP instead of or in addition to Medicaid for unemployed families.

This approach would allow States to expand coverage to parents and childless adults who have recently become unemployed (and their children who do not otherwise qualify for Medicaid or SCHIP) without requiring them to cover adults at the same income levels who are still working or have been unemployed for long periods.

An expansion of existing means-tested programs could be implemented more quickly than an entire new program to serve displaced workers and families.

A major advantage of this approach is that it could be implemented more quickly than establishing an entire new program, since it would simply broaden access to already operating programs. But, as reflected in the roundtable discussion, means-tested programs such as Medicaid might be avoided by some displaced workers and families because they see such programs as demeaning, they are apprehensive about the associated “stigma,” or their health providers do not participate in these programs; and they therefore would prefer non-means-tested subsidies to continue their existing coverage. Other families, put off by the prospect of having to change health plans and providers (possibly multiple times),

might decide not to apply unless and until their children became ill.

Even if this approach were to be implemented on its own, not in combination with a broad COBRA-subsidy approach as outlined above, it would be sensible to specifically give States the authority to use public program funds to pay COBRA premiums at State option. States currently have such authority under Medicaid and SCHIP, but it would be helpful to remove some of the current requirements on such premium assistance programs to make them easier to implement for this new eligibility group. For example, for newly unemployed adults who have access to COBRA, it should not be necessary for the State to supplement the COBRA coverage to assure that these new eligibles have access to all the same services that are covered for regular Medicaid recipients.

- In many cases, paying COBRA premiums would be less expensive than enrolling all members of the family directly in Medicaid. (See Appendix B.)
- The option to use COBRA, when available, would help to mitigate one potential disadvantage of enrolling families directly in a public program—that workers and their children would have to change plans (from their previous private coverage to new public coverage) and would likely have to change providers as well.

This option could also be used to provide coverage to newly unemployed workers and families who did not have health insurance prior to their job loss. This alternative is not explored further, as it goes beyond the specified objectives of this effort, which focus on continuing coverage for those who would otherwise lose it.

A major issue with using existing means-tested programs to provide coverage for a large new group of people is whether States can afford their required share of funds under existing matching formulas. As has been noted, the current economic downturn has caused a dramatic drop in State revenues, and long-term trends suggest that future State revenue growth will likely not keep up with the demand for State services. Therefore, many States would apparently not be able to afford to expand their programs as envisioned in this approach without virtually full

federal funding for the expansion, either directly (100% federal funding for the new eligibility groups) or indirectly (overall increase in federal Medicaid matching rate, sufficient to offset expected new State costs from the expansion).

4. Reliance on existing means-tested programs, with improved outreach and information-and-referral linkages.

Any new program to subsidize continuation of existing coverage will take, at a minimum, many months to develop and implement (after the federal and/or State authorizing legislation is passed), a fact which largely undercuts the avowed purpose of such initiatives—to provide continuous coverage and avoid disrupting families' existing provider relationships.

As has been discussed, most children of displaced workers will meet the eligibility requirements for existing means-tested public programs, and some of their parents will as well. This suggests that the fastest way to get help to newly unemployed families is to make them aware that they are likely to be eligible for these programs, which are already in place and operating, and make it easy for them to apply.

Major trade-offs are that existing programs exclude many displaced workers from receiving help and that those helped will have to change their coverage source and, often, their care arrangements. Further, most States are currently looking for budgetary savings rather than major expansions. Supplemental federal funding of current programs would be needed to realize their coverage potential, especially in the many States that are very hard-pressed financially due to the recession.

G. The Importance of Outreach

Regardless of the policy approach selected, roundtable participants emphasized that an effective program of education, information dissemination and outreach will be critical to its success. People cannot act on information that they do not have.

In implementing SCHIP, State and local agencies have gained extensive experience in ways of reaching families of potentially eligible children. Media campaigns have been launched, and cooperative ventures have been undertaken with schools and with a variety of community agencies and local service offices that eligible families are likely to visit. Any or all of these efforts could readily be modified to highlight the availability of coverage for (children in) recently unemployed families.

The current budget environment, however, has made outreach a very delicate issue politically. Outreach budgets have been cut or eliminated, leading many States to scale back their previously aggressive outreach programs, such as expensive advertising campaigns, and rely increasingly on outreach conducted by community-based organizations. (These outreach networks would require modifications in order to effectively target the recently unemployed.)

Perhaps more importantly, the prospect of severe budget deficits is apparently making State legislatures wary of any efforts to promote enrollment in public programs. Instead, the pendulum may swing in the direction of reinstating eligibility barriers that have been gradually

removed over the past few years, in order to reduce program caseloads or at least curtail their growth. Thus, the ability to gain political support at the State level for expanded outreach efforts aimed at meeting the health coverage needs of displaced workers and their children may depend critically on the availability of sufficient additional federal funds for both the outreach efforts and the coverage itself.

Operationally, in the context of an effort to provide coverage for children of newly unemployed workers, consideration obviously turns to what role the (former) employer and the State unemployment office could play in disseminating information about available coverage alternatives.

Asking employers to include information about available public coverage along with other information given to laid-off employees seems sensible *a priori*, but many public officials are concerned that actively making employers knowledgeable about the availability of public coverage to low-income families could lead some employers to restructure their contribution policies or otherwise encourage their active workers to enroll their children in the public program rather than in the employer's plan.

- For example, since March 2000, New York City has had an aggressive citywide outreach and referral effort to enroll New Yorkers, particularly children, in Medicaid and Child Health Plus. Since September 11th, the City has focused its efforts on families affected by the destruction of the World Trade Towers. "One-stop-shopping" assistance centers have been set up to link these families with various types of assistance, including health coverage. But, in a telephone conversation about options for reaching displaced workers and families, City staff expressed reluctance to pursue direct outreach through employers because of a concern that such efforts could induce crowd out of employer coverage for still-active workers and their dependents.
- In September 2000, Gov. Gray Davis vetoed a bill that would have required employers to distribute information about California's Healthy Families (SCHIP) and Medi-Cal programs. The governor's veto message cited his concern that the requirement could encourage employers to "replace existing employer-coverage with publicly funded coverage."⁷⁷

No such crowd-out risk is raised by using unemployment-insurance offices to disseminate information about public coverage that may be available to laid-off workers and their children.

- For example, the City of Seattle's "Work Source" section (formerly Employment Security) is coordinating the referral of families to enrollment specialists from the Seattle/King County Public Health Department. Each person that applies for unemployment assistance is referred directly to either the 1-800 "Healthy Kids Now" line or a Public Health enrollment specialist. Additionally, a team from the Department of Social and Health Services (DSHS) is providing in-person health-coverage assistance in the lobbies of two local Work Source offices.

⁷⁷ Veto message on AB 1974, September 28, 2000. Accessed from http://www.leginfo.ca.gov/pub/99-00/bill/asm/ab_1951-2000/ab_1974_vt_20000928.html. As yet, there appear to be no published studies that directly address the *a priori* concerns expressed by these public officials. There are relevant anecdotes, however. For example, in Iowa a small business owner stopped promoting the State's SCHIP program to his employees after he learned that workers found eligible for Medicaid (rather than SCHIP) were required to enroll in the employer's plan, with the State paying the worker's share of the premium. (Personal communication, December 7, 2001.)

At present, roundtable participants pointed out, federal rules might prohibit States from using direct UI staff to assist in educating UI applicants about health coverage alternatives. (Such staff are paid with 100% federal funds.) In the context of a national initiative to encourage continued health coverage for laid-off workers, consideration should be given to revising that rule and broadening the allowable functions of federally funded UI staff.

H. Conclusion and Next Steps

Helping laid-off workers and their children to continue health coverage that they would otherwise lose is an attractive policy goal that is endorsed by a large majority of the population, according to a recent opinion poll. Roundtable participants agreed that such an objective was sensible in the current environment, even though it would not address the broader problem of the uninsured.

Continuation of existing coverage is desirable because of the importance of maintaining current care arrangements and provider relationships, especially for the children of laid-off workers. Providing substitute coverage, while better than no coverage, could disrupt those relationships.

But programs to help families maintain existing coverage must be simple for workers to understand and easy for government to implement quickly. An easy, seamless transition for affected families is essential, and time is of the essence, given that many workers have already lost their jobs and their health insurance.

Unfortunately, a review of broadly framed alternative approaches suggests that developing a program that both (a) continues existing coverage and (b) can be implemented rapidly and “seamlessly” will be extremely difficult. Also, as summarized in Table A (following the Executive Summary), there are very real trade-offs between simplicity (for speedy implementation) and target efficiency (directing public resources to those most in need).

Finally, the impact of the recession on State revenues suggests that the federal government may have to bear most of the burden of financing whatever approach is ultimately selected.

Whatever approach is selected as a short-run response to the current crisis, the possible use of subsidies for COBRA continuation coverage, whether through a new federal initiative or existing State programs, deserves further exploration because of its potential role in maintaining continuity of care arrangements and provider relationships for children and families during an unusually difficult transitional time.

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Appendix A: Massachusetts Medical Security Plan

According to their web site, Massachusetts is the first state in the country to offer a health care plan for unemployment insurance claimants. The program has two coverage plans:

Premium assistance plan

Those with incomes below 400% FPG and the option of continuing participation in a former employer's health plan, or individual plan, can receive a monthly reimbursement at 80% of their actual premium cost up to a monthly maximum of \$532 for a family plan premium and \$234 for an individual plan premium.⁷⁸

Direct coverage plan

Those without access to a continuing health insurance plan and incomes below 200% FPG may be eligible to receive a comprehensive benefit package including doctor visits, hospital care, and treatment for mental health and substance abuse. There is no monthly premium cost for this program. There are, however, some required co-payments and deductibles for certain services provided.

Eligibility for the Medical Security Plan requires:

- » Massachusetts residency,
- » Approval to collect Massachusetts unemployment insurance benefits⁷⁹
- » Meeting the income guidelines: subscriber's family income for the previous six months, combined with his/her family's projected income for the next six months, may not exceed 400 percent of the Federal Poverty Guidelines (see Table A-1).

⁷⁸ Until September 1, 2001 the subsidy amount was considerably lower. See "History" section below.

⁷⁹ Regular Massachusetts UI benefits last for 30 weeks. Earnings criteria and separation criteria must be met:

- *Earnings eligibility* looks at wages paid to a claimant during the first four of the last five completed calendar quarters preceding the effective claim date. This is defined as the primary base period. An employee must have earned at least 30 times his or her weekly benefit rate and no less than \$2,400 during the primary base period. Individuals with insufficient wages to qualify using the primary base period will have their claims recalculated using wages paid during the 52-weeks preceding the effective date of the claim, called the alternate base period.
- For *separation eligibility*, the law requires that a worker be totally or partially unemployed through no fault on his or her part; able to work; and available for and actively seeking employment.

Table A-1: Summary of Medical Security Plan Eligibility

For MA residents receiving UI with Family Income:	<u>Eligible for:</u>
< 200% FPL	Both Plans
200-400% FPL	Premium Assistance only, although applicants can request a hardship waiver (approximately 1,000 of these are granted per year)

Additional Program Information:*History:*

- » Formed in 1990, under the now defunct Department of Medical Security.
- » Transferred to Division of Employment and Training in 1996.
- » Subsidy Amount has varied over time:

1990-1994:	Fixed Amount:	\$150/\$300 Single/Family
1995-1997:	Fixed Amount:	\$100/\$200 Single/Family
1997-1999:	Fixed Amount:	\$110/\$270 Single/Family
1999-2001:	Fixed Amount:	\$120/\$280 Single/Family
Sept 2001-present:	80% subsidy up to:	\$234/\$532 Single/Family

Administration:

The procurement of an MSP vendor is triennial. A request for proposals is issued every three years. Contracts are generally six months to one year in term and are “automatically” renewable during the three year span. John Hancock was the original vendor for MSP and Blue Cross Blue Shield of Massachusetts (BCBSMA) has held the contract since 1993. In 1993, ‘96 and ‘99, Unicare, which acquired John Hancock’s health insurance line, was BCBSMA’s sole competitor. (Unicare is the current vendor for the Massachusetts’ Department of Public Health’s Children’s Medical Security Plan.)

BCBSMA sends out material on the program to all those who file for unemployment benefits. Because the initial legislation granted an additional 30 days in which potential recipients could sign up for COBRA (for a total of 90), there don’t seem to be any timing issues in terms of getting people signed up.

In order to receive the subsidy, claimants send BCBSMA:

- » a copy of their COBRA letter [showing the amount of the premium] and

- » a copy of their canceled check [showing that they paid it]

Participation:

Program officials believe approximately 20% of the insured unemployed participated; however, this is based on a universe of 35,000 insured unemployed (as counted by DETMA). U.S. Department of Labor numbers show approximately 95,000 insured unemployed in Massachusetts making participation of 20% is difficult to compare to national numbers. (See Table A-2.)

Duration:

Program officials believe beneficiaries collect unemployment for 15 weeks on average. As noted above, beneficiaries must be collecting unemployment benefits to be eligible for the program.

Program Cost:

All funding for the Medical Security Plan comes from contributions paid by Massachusetts employers. The contribution is 0.12 percent on the first \$14,000 of each employee's salary, or \$16.80 per employee per year, from all Massachusetts employers with 6 or more employees. The PMPM costs (excluding administration) are:

Premium Assistance (subsidy only):	\$105.84
Direct Coverage:	\$124.22

Table A-2: Medical Security Plan Program Data, July 2001

(reflects \$120/\$280 subsidy levels)

	Enrolled UI Recipients	Percent w/ Family Policy	Dependents (including spouses)	Average dependents (including Spouses) on a family policy
Medical Security Plan Claimants:	6,009	35%	4,415	2.12
Premium Assistance:	2,062	34%	1,535	2.20
Direct Coverage Plan:	3,947	35%	2,880	2.08

By Claimant Income Level:	Total Policy Holders	Estimated Direct Coverage Policy Holders	Estimated Premium Assistance Policy Holders
<200% FPL	3,134	3,134	0
200-400% FPL	2,875	813	2,062

Source: Massachusetts Division of Employment and Training. Estimates of plan participation by income level by IHPS.

Appendix B: Comparison of State Medicaid Capitation Rates with COBRA Premiums, in 29 States

To determine how often paying for supplemental COBRA subsidies through Medicaid and/or SCHIP would save the States money, compared to enrolling those same families or children directly in the public program, IHPS constructed “family” capitation rates under Medicaid for five different family types using data on age-sex-adjusted per-person Medicaid capitation rates from the Urban Institute’s 1998 Medicaid Managed Care Payment and Implementation Survey.⁸⁰ The five family types were constructed to illustrate the potential range of capitation rates for Medicaid families. They were:⁸¹

- Single mother under 35 with two children between the ages of 1 and 13
- Single mother under 35 with one child aged 1-13 and one female teenager
- Two parents under 35 with two children between the ages of 1 and 13
- Two parents under 35 with one child aged 1-13 and one female teenager
- Two parents over 44 with one male and one female teenager

Estimates of average COBRA premiums for family coverage in 40 States in 1998 were derived from an employer survey, the U.S. Agency for Healthcare Research and Quality’s Medical Expenditure Panel Survey—Insurance Component.⁸² COBRA premiums for family coverage were estimated by multiplying the Statewide average premium for (full) family coverage by 102%.

Data was available from both sources for 29 States. For these States, Medicaid capitation rates for the five constructed family types were compared with estimated COBRA premiums. Two alternative program designs were analyzed.

In the first case, it was assumed that the federal government would pay a basic subsidy equal to 50% of the COBRA premium, so that the State’s obligation would be at most the remaining 50% of the COBRA premium (i.e., $50\% * 102\% = 51\%$ of the average family premium for employer coverage in the State). In this instance, where an entire family was eligible for Medicaid, paying the supplemental subsidy was found to be less expensive for a State (in 1998) than enrolling all members of the family directly in Medicaid, for all the family types examined. (See Table B-1.)

Where only the children in the family would qualify for public coverage (Medicaid or SCHIP), paying the (50%) supplemental subsidy would sometimes be less expensive and sometimes more expensive than enrolling the eligible children (only) directly in the public program.

In the second case, it was assumed that the State would be responsible for (up to) the entire COBRA premium. This case yielded mixed results (see Table B-2). In one of 29 States,

⁸⁰ Holahan et al., 1999.

⁸¹ The case of a single mother with one child was omitted because our source for employer premiums only has data on full family coverage, not on employee-plus-child coverage. Unless an employer plan offered an employee-plus-child “tier,” COBRA premiums for this family type would almost always be more expensive than Medicaid capitation rates.

⁸² AHRQ, 2000. Table II.D.1.

COBRA was always less expensive than Medicaid. In two of 29 States, COBRA was never less expensive than Medicaid. In the remaining 26 States, COBRA was less expensive for some family types and Medicaid was less expensive for others. For example:

- For a two-parent family with older parents and male and female teenagers, COBRA was less expensive than Medicaid capitation in 27 of 29 States.
- For a single mother under 35 with two younger children, Medicaid capitation was less expensive in 28 of 29 States.
- For two-parent family with younger parents and two younger children, Medicaid capitation was less expensive in 14 States, and COBRA was less expensive in 15 States.

In this second case, COBRA coverage would be very unlikely to be less expensive than Medicaid (or SCHIP) if only the children in the family were eligible.

Caveats to these conclusions include the fact that some COBRA premiums would be higher than the Statewide averages used here. Also, premiums for employer coverage have most likely risen faster than Medicaid capitation rates since 1998.

Table B-1: Comparison of State Medicaid Capitation Rates for Five Family Types with 50% of Average COBRA Premiums, in 29 States

State	# of Family Types for which COBRA is less expensive	50% of Estimated Average COBRA Premium ^b	Constructed Family Rates for Medicaid Capitation ^a				
			Single mother under 35, plus		Two parents under 35, plus		Two parents over 44, plus male 14+ and female 14+
			Two kids 1-13	One kid 1-13 and female 14+	Two kids 1-13	One kid 1-13 and female 14+	
Arizona	5	229.58	393.44	603.67	483.36	693.59	791.74
California*	5	231.24	248.25	248.25	331.00	331.00	331.00
Colorado	5	235.34	357.50	495.34	493.54	631.38	635.24
Connecticut	5	271.15	483.48	693.27	610.89	820.68	854.15
Florida	5	228.79	261.97	360.59	408.29	506.91	695.23
Georgia	5	213.93	269.60	397.06	333.66	461.12	606.54
Illinois	5	248.22	298.25	380.83	386.99	469.57	584.47
Indiana	5	233.05	274.90	356.78	390.46	472.34	491.18
Iowa	5	220.08	350.53	507.68	482.34	639.49	788.72
Kansas	5	224.59	261.53	389.08	347.73	475.28	522.67
Kentucky*	5	219.25	459.45	459.45	612.60	612.60	612.60
Maryland	5	248.56	369.54	555.84	531.41	717.71	981.81
Massachusetts*	5	260.92	521.67	521.67	695.56	695.56	695.56
Minnesota	5	213.58	417.46	600.65	513.61	696.80	764.33
Missouri	5	221.78	341.50	463.79	456.40	578.69	738.98
New Hampshire*	5	262.88	446.70	446.70	595.60	595.60	595.60
New Jersey	5	269.11	359.54	486.31	497.53	624.30	863.61
New Mexico	5	207.79	411.13	584.39	572.75	746.01	855.25
New York	5	274.25	365.63	537.94	509.19	681.50	693.93
Ohio	5	233.01	286.03	416.42	377.56	507.95	740.74
Oklahoma	5	223.64	291.92	390.46	359.31	457.85	467.17
South Carolina	5	226.35	249.53	382.42	409.47	542.36	797.81
Tennessee	5	215.03	245.85	349.08	341.28	444.51	555.12
Texas	5	237.50	414.05	643.63	569.82	799.40	792.04
Utah	5	230.36	391.07	548.32	560.14	717.39	778.68
Virginia	5	227.55	318.85	458.69	471.97	611.81	799.31
Washington	5	240.97	375.67	561.68	483.69	669.70	695.37
West Virginia	5	229.93	301.14	401.04	379.93	479.83	629.05
Wisconsin*	5	249.25	312.93	312.93	417.24	417.24	417.24

* California, Hawaii, Kentucky, Massachusetts, New Hampshire, and Wisconsin submitted a single statewide rate for all age groups.

Sources: a. Holahan, 1999. b. AHRQ, 2000.

Table B-2: Comparison of State Medicaid Capitation Rates for Five Family Types with Average COBRA Premiums, in 29 States

State	# of Family Types for which COBRA is less expensive	Estimated Average COBRA Premium ^b	Constructed Family Rates for Medicaid Capitation ^a				
			Single mother under 35, plus		Two parents under 35, plus		Two parents over 44, plus male 14+ and female 14+
			Two kids 1-13	One kid 1-13 and female 14+	Two kids 1-13	One kid 1-13 and female 14+	
Arizona	4	459.16	393.44	603.67	483.36	693.59	791.74
California*	0	462.49	248.25	248.25	331.00	331.00	331.00
Colorado	4	470.68	357.50	495.34	493.54	631.38	635.24
Connecticut	4	542.31	483.48	693.27	610.89	820.68	854.15
Florida	2	457.57	261.97	360.59	408.29	506.91	695.23
Georgia	2	427.87	269.60	397.06	333.66	461.12	606.54
Illinois	1	496.43	298.25	380.83	386.99	469.57	584.47
Indiana	2	466.10	274.90	356.78	390.46	472.34	491.18
Iowa	4	440.15	350.53	507.68	482.34	639.49	788.72
Kansas	2	449.18	261.53	389.08	347.73	475.28	522.67
Kentucky*	5	438.51	459.45	459.45	612.60	612.60	612.60
Maryland	4	497.13	369.54	555.84	531.41	717.71	981.81
Massachusetts*	3	521.84	521.67	521.67	695.56	695.56	695.56
Minnesota	4	427.16	417.46	600.65	513.61	696.80	764.33
Missouri	4	443.55	341.50	463.79	456.40	578.69	738.98
New Hampshire*	3	525.76	446.70	446.70	595.60	595.60	595.60
New Jersey	2	538.23	359.54	486.31	497.53	624.30	863.61
New Mexico	4	415.58	411.13	584.39	572.75	746.01	855.25
New York	2	548.49	365.63	537.94	509.19	681.50	693.93
Ohio	2	466.02	286.03	416.42	377.56	507.95	740.74
Oklahoma	2	447.27	291.92	390.46	359.31	457.85	467.17
South Carolina	2	452.70	249.53	382.42	409.47	542.36	797.81
Tennessee	2	430.06	245.85	349.08	341.28	444.51	555.12
Texas	4	475.00	414.05	643.63	569.82	799.40	792.04
Utah	4	460.73	391.07	548.32	560.14	717.39	778.68
Virginia	4	455.11	318.85	458.69	471.97	611.81	799.31
Washington	4	481.94	375.67	561.68	483.69	669.70	695.37
West Virginia	2	459.86	301.14	401.04	379.93	479.83	629.05
Wisconsin*	0	498.49	312.93	312.93	417.24	417.24	417.24

* California, Hawaii, Kentucky, Massachusetts, New Hampshire, and Wisconsin submitted a single statewide rate for all age groups.

Sources: a. Holahan, 1999. b. AHRQ, 2000.