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## Issue Brief

# Maintaining Health Insurance During a Recession: Likely COBRA Eligibility

*Findings from The Commonwealth Fund 2001 Health Insurance Survey*

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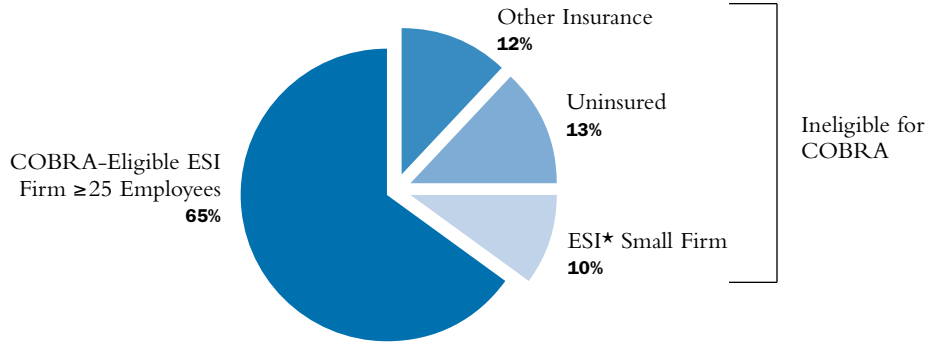
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**A**s the U.S. economic downturn continues, more working Americans are likely to lose their access to affordable health benefits as job losses mount. Because the majority of U.S. workers obtain their health insurance through employers, who also contribute to their employees' annual insurance premiums, loss of a job triggers loss of substantial employer premium payments as well as wages.

One option to help unemployed workers maintain health coverage is to provide premium assistance to extend job-based coverage between jobs. Such a public policy option would build on the 1986 Consolidated Omnibus Budget Reconciliation Act (COBRA), which allows laid-off workers to retain their health coverage under their former employers' insurance plans by paying the entire premium cost (employer and employee shares), plus 2 percent for administrative expenses. This federal protection is available only to workers insured through firms with 20 or more employees.

Conducted during mid-2001, The Commonwealth Fund 2001 Health Insurance Survey provides data on the potential and limits of COBRA as a strategy for protecting workforce health and financial security. Survey findings indicate that millions could benefit if COBRA were made affordable through premium assistance. At the same time, a majority of low-income workers earning less than \$20,000 per year, or 200 percent of the poverty level, most likely would be ineligible for COBRA if they became unemployed. These workers would therefore need other sources of support.

FIGURE 1

**COBRA Eligibility for Working Adults, Ages 19–64**

\*Employer-sponsored insurance coverage

Source: The Commonwealth Fund 2001 Health Insurance Survey.

*An estimated  
42 million current  
workers would be  
ineligible for  
COBRA if they  
became unemployed.*

### **Two-Thirds of All Current Workers, If Laid Off, Would Be Eligible for COBRA**

Federal COBRA protections are available for workers who were insured by employers at the time they were laid off and who worked in firms with 20 or more employees. The survey finds an estimated 65 percent of all current workers are likely to be eligible for COBRA if they become unemployed (Figure 1). (Because the survey defines small firms as having fewer than 25 employees, the analysis may underestimate potential COBRA eligibility.)

The remaining one-third, or an estimated 42 million current workers, however, would be ineligible for COBRA if they became unemployed. These ineligible workers include the working uninsured (13%), workers insured through small businesses (10%), and those with other insurance sources (12%) such as public and individually purchased coverage.

### **Low-Wage and Minority Workers Less Likely to Benefit from COBRA Premium Assistance**

Low-income workers (with family income below 200 percent of poverty) are markedly less likely than

higher-income workers to be eligible for COBRA. Probably only 40 percent of low-income workers would qualify. One-third of these low-income workers are currently uninsured, and another 8 percent are insured by small firms that are not subject to the COBRA requirement. About 20 percent are insured through sources other than their own job (Table 1).

Hispanic workers also are notably less likely to be COBRA-eligible than white or black workers. Based on the survey, only 50 percent of Hispanic workers are COBRA-eligible compared with two of three white (67%) and black (66%) workers (Figure 2). The main reason Hispanic workers are ineligible for COBRA is that—similar to low-income workers in general—although they are employed, they are uninsured.

In general, COBRA protections are most likely to apply to employees earning \$20,000 or more per year or with incomes above 200 percent of the poverty level. Three of four workers (75%) with incomes at or above 200 percent of the poverty level would most likely qualify for COBRA. Another 11 percent who are insured

**TABLE 1**

**COBRA Eligibility, Currently Employed Adults, Ages 19–64**

	TOTAL	ELIGIBLE FOR COBRA		INELIGIBLE FOR COBRA	
		ESI COVERAGE* FIRM ≥ 25 EMPLOYEES	ESI COVERAGE SMALL FIRM**	NON-ESI COVERAGE	CURRENTLY UNINSURED
ESTIMATED MILLIONS OF EMPLOYED ADULTS 19–64	118.5	76.8	11.6	14.6	15.4
PERCENTAGE DISTRIBUTION	100%	65%	10%	12%	13%
<b>ANNUAL INCOME</b>					
Less than \$20,000	20%	33%	7%	24%	36%
\$20,000–\$34,999	17	64	10	9	17
\$35,000–\$59,999	31	73	12	9	6
\$60,000 or more	24	82	8	8	2
<b>POVERTY STATUS</b>					
Below 200% of poverty level	28	40	8	20	32
200% of poverty level or more	72	75	11	8	6
<b>RACE/ETHNICITY</b>					
White	73	67	10	12	11
Black	12	66	8	14	11
Hispanic	11	50	10	11	30
<b>AGE</b>					
19–29	25	53	9	17	22
30–39	27	66	8	12	14
40–49	28	72	11	8	8
50–64	20	68	11	13	7
<b>SELF-RATED HEALTH STATUS</b>					
Excellent or Very Good	65	69	10	12	9
Good	27	58	9	14	19
Fair or Poor	8	52	9	11	28

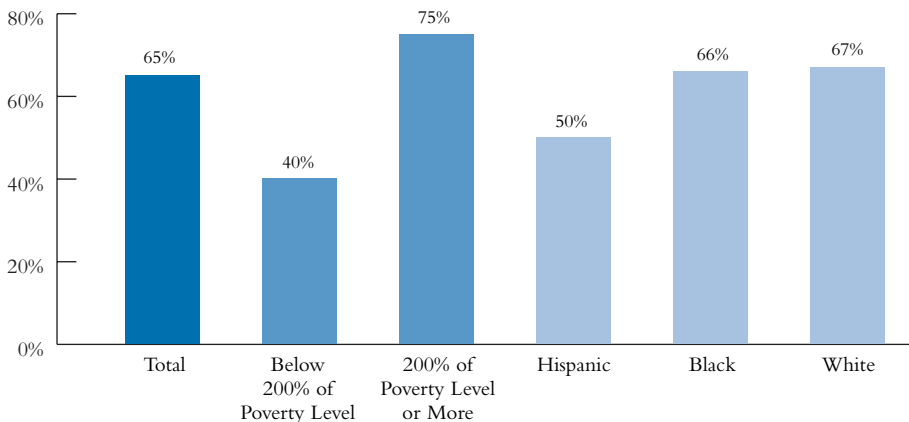
\*Employer-sponsored insurance coverage obtained by respondent or through spouse.  
 \*\*Insured through a firm with fewer than 25 employees.

*In general, COBRA protections are most likely to apply to employees earning \$20,000 or more per year or with incomes above 200 percent of the poverty level.*

**FIGURE 2**

**Low-income and Hispanic workers are least likely to be eligible for COBRA.**

Percentage of workers ages 19–64 who would likely be COBRA-eligible if laid off



\*Employer-sponsored insurance coverage  
 Source: The Commonwealth Fund 2001 Health Insurance Survey.

through small employers would qualify only if they lived in states that extend COBRA to firms with fewer than 20 employees.

### Premium Assistance for COBRA-Eligible Workers

Even if laid-off workers are eligible to continue their health insurance through COBRA, they will face much higher premium costs at a time of depressed income. Currently, most workers with employer-sponsored coverage pay only part of the premiums; employee premium shares average 15 percent of an individual plan premium and 27 percent of a family plan premium, based on recent employer surveys.<sup>1</sup>

Premium costs reported by adults in The Commonwealth Fund survey reflected these partial premium shares. When surveyed, nearly 70 percent of workers likely to be COBRA-eligible reported premium payments of less than \$1,500 per year (less than \$125 per month); half paid less than \$1,000 per year (\$80 or less per month) (Table 2). These costs are well below the annual premiums for either individual or family employer group

coverage. Based on average employer plan costs in 2001, unemployed workers would face average premium costs of \$2,700 for an individual plan and \$7,000 for a family plan.

Even with employers contributing to premiums, more than one of three low-income workers (36%) said it was difficult to pay their premiums, as did 16 percent of workers with incomes at or above 200 percent of the poverty level. The vast majority of those having difficulty paying their premium shares reported premiums of more than \$1,000 per year. Some low-wage workers do not participate in employer coverage because their premium shares are unaffordable. The survey found that 22 percent of uninsured workers were eligible to participate in an employer plan at work but remained uncovered.

If laid off, unemployed workers would have to pay the full premium plus an additional 2 percent to maintain their current coverage. On average, this would result in a fivefold or more increase in monthly premiums for a family plan at a time of sharply reduced income. Based on employer surveys,

*Even with their employers contributing, more than one of three low-income workers said it was difficult to pay their insurance premiums.*

**TABLE 2**

#### Premiums and Affordability, COBRA-Eligible Adults,\* Ages 19–64

	TOTAL	BELOW 200% OF POVERTY LEVEL	200% OF POVERTY LEVEL OR MORE
<b>ANNUAL SHARE OF JOB-BASED PREMIUM COSTS</b>			
Employee pays none of premium	22%	19%	23%
\$1–\$499	14	13	14
\$500–\$999	17	18	17
\$1,000–\$1,499	14	15	13
\$1,500 or more	19	20	20
Don't know	14	14	12
<b>HOW DIFFICULT IS IT TO PAY PREMIUM?</b>			
Very or somewhat difficult	19	36	16
Not too or not at all difficult	81	62	84

\*Currently employed adults ages 19 to 64 insured through a firm with 25 or more employees.

Source: The Commonwealth Fund 2001 Health Insurance Survey.

even if public policies only tried to replace lost employer premium payments, substantial assistance covering 75 to 85 percent of the total premium cost would be necessary to hold unemployed workers' payments to the levels paid while working.

COBRA premium assistance will fail to reach a majority of low-wage unemployed workers, however, because these workers are more likely to be uninsured even when working. This is because they work for firms that do not offer group coverage. Among all low-income workers, less than half (47%) are offered and eligible to participate in a health plan at work.

To protect low-wage workers' access to medical care in the event of job loss, other alternatives are required to assist the one-third of workers not eligible for COBRA. These might include expanded coverage under Medicaid, programs such as the State Children's Health

Insurance Program (CHIP), or state programs covering adults.

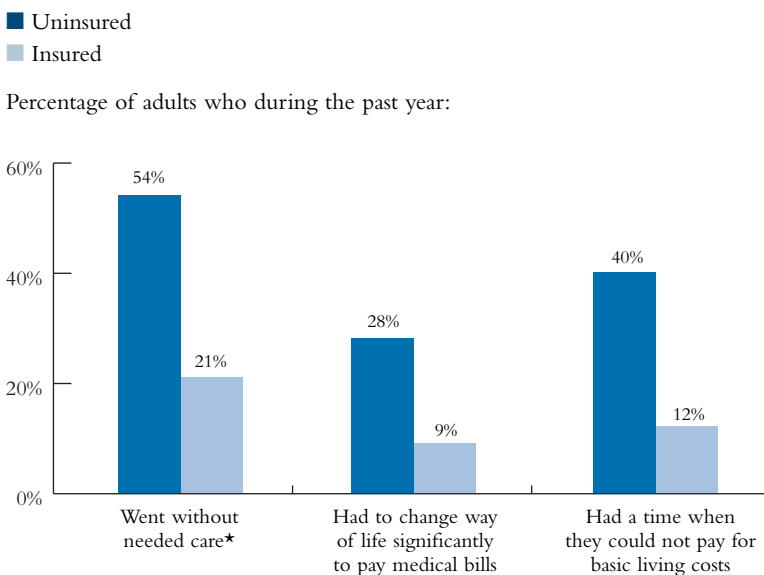
**Importance of Maintaining Health Insurance Coverage**

Maintaining health insurance coverage during periods of unemployment is likely to enhance family economic security as well as preserve access to medical care when needed. The survey found that adults are at high health and economic risk when they lose health insurance, even for a short period. More than half (54%) of uninsured adults went without needed medical care—failing to fill prescriptions, get recommended tests or treatment, or see a doctor when sick (Figure 3). More than one-fourth (28%) of uninsured adults reported that medical bills were so severe a problem that they had to change their way of life. Some had to exhaust family savings while others were unable to pay for basic necessities. Two of five (40%) of

*More than half of uninsured adults went without needed medical care—failing to fill prescriptions, get recommended tests or treatment, or see a doctor when sick.*

**FIGURE 3**

**Losing health insurance often results in delayed care and financial burdens.**



\*Did not see a doctor when sick, see a specialist when needed, fill a prescription, or get recommended tests or treatment because of cost.

Source: The Commonwealth Fund 2001 Health Insurance Survey.

the uninsured reported such high levels of general economic stress that they were unable to meet the basic costs such as food, rent, or utility bills. The risks to security were particularly high for the uninsured with annual incomes below 200 percent of the poverty level. Nearly half (47%) of low-income uninsured adults said they were unable to meet the costs of basic necessities and one-third had to change their way of life significantly in order to pay their medical bills.

The high level of economic stress experienced by the uninsured came at a time when most were working (63 percent were in a working family). If these generally low-wage workers lose their jobs, the risks to health and family security are likely to escalate without public efforts.

Moreover, gaps in health coverage between jobs can result in barriers to obtaining insurance in the future. Currently, the federal Health Insurance Portability and Accountability Act (HIPAA) protects workers' access to insurance when they move from one job to another as long as they maintain their job-based group coverage. Loss of employer group coverage following a layoff can trigger a new round of waiting periods in a new job and/or new preexisting condition exclusions, sometimes making it difficult for workers to access health coverage once they find jobs.

### **Summary**

Helping workers maintain employer-based health insurance coverage during times of economic recession is vital to the health and economic security of working Americans. The

Commonwealth Fund survey findings point to the potential as well as the limits of COBRA as a strategy for protecting workforce access to affordable health care benefits. If COBRA were made affordable through premium assistance, two-thirds of recently laid-off workers likely would benefit; however, this protection would fail to reach the majority of low-wage workers, who may be the most likely to lose jobs and to suffer economic hardship. To protect the health and security of this vulnerable group in the face of unemployment will require other forms of public assistance, such as expanding eligibility for public health insurance programs.

### **NOTE**

<sup>1</sup> Jon Gabel et al., "Job-Based Health Insurance in 2001: Inflation Hits Double Digits, Managed Care Retreats," *Health Affairs* 20 (Sept./Oct. 2001). This study is also the source for cited average employer group premiums.

### **METHODOLOGY**

The Commonwealth Fund 2001 Health Insurance Survey, conducted by Princeton Survey Research Associates from April 27 through July 29, 2001, consisted of 25-minute telephone interviews in either English or Spanish with a random, national sample of 3,508 adults, ages 19 and older, living in households with telephones in the continental United States. This issue brief is based on 2,829 adults ages 19 to 64. To represent the adult population more accurately, the analysis weighted responses to the March 2000 Current Population Survey by age, sex, race/ethnicity, education, household size, geographic region, and telephone service interruption. The survey has an overall margin of sampling error of  $\pm 2$  percentage points at the 95 percent confidence level.

*Gaps in health coverage between jobs can result in barriers to obtaining insurance in the future.*