



Toward a Policy to Provide Health Insurance to Laid Off Workers in Washington State

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Problem: The existing options to help laid-off workers in Washington keep their health insurance are inadequate, and leave most working families vulnerable to slipping into poverty. Workers' loss of health coverage will also exacerbate the state's current economic downturn by dampening consumer confidence, overloading already strained state-funded health programs, and creating higher future health care costs.

Solution: The Basic Health Plan provides a solid, affordable package of benefits to working families in our state. We could allow laid off Washington workers to access the Basic Health Plan.

Current Options Available to Laid-off Workers are Inadequate

Currently, laid-off workers in Washington have the following options for health insurance: COBRA, individual private insurance, Basic Health Plan (BHP) and Medicaid. These programs each have serious limitations that put them out of reach for most working families.

COBRA

- COBRA allows workers who change or lose their jobs to maintain their health coverage by paying 102% of the premium. COBRA coverage is available for up to 18 months.
- COBRA is not available to those who work for companies with fewer than 20 employees, federal employees, and those who are laid-off because their employer goes out of business.
- The eligibility rules strongly favor high income families – 67% of high income families are eligible, versus only 32% of low income families.¹
- COBRA coverage can eat up a significant part of the budget for a laid-off worker since he or she becomes responsible for the entire premium.
- A single parent on unemployment with two kids may have to pay 40% of her monthly budget (about \$490) to buy COBRA, leaving less than \$750 for rent, food, clothing and utilities.

Individual Insurance

- Preventive, first dollar coverage is not available in the individual market.
- Individual insurance plans typically have deductibles ranging from \$500 to \$10,000. While these policies protect families from catastrophic loss, they require out of pocket costs that laid-off workers often cannot afford, and thus deter families from seeking cost-effective preventive care. In addition, the premiums in the individual market can be very expensive.
- Those with pre-existing health conditions may be excluded from this market and relegated to the extremely expensive high risk pool.

Basic Health Plan

- The BHP currently has a 11,000 person waiting list because of funding shortages.
- Even if more slots were made available, because of income ceilings, a family of three with one parent working, and one receiving unemployment could make \$100 too much to qualify for the program.

¹ Zuckerman, Haley and Fragale, "Could Subsidizing COBRA Health Insurance Coverage Help Most Low-income Unemployed?", report for the Urban Institute, October 17, 2001, page 2. Online at: http://www.urban.org/pdfs/HPOnline_2.PDF

Medicaid

- Medicaid would not be available to many people receiving unemployment income because even this small amount of income would disqualify them.

A Policy for Laid-off Workers

A policy that would allow laid-off workers to buy into the Basic Health Plan would keep many Washington families from slipping into poverty by maintaining protection against costly unforeseen health problems – health care bills are responsible for about half of all bankruptcy claims.² Helping families maintain health insurance helps maintain consumer confidence and prevents avoidable future health care costs incurred by those who delay care.

We estimate that perhaps 30% of laid off workers would take advantage of such a policy. It is assumed that those families who could afford it would pay for COBRA coverage, as the Basic Health Plan is considered a “bare bones” plan. Some laid-off workers would be able to access coverage through their spouses’ plans. Still others will choose to go uninsured to avoid any health care costs.

Families would be allowed to use their Unemployment Insurance (UI) income to determine eligibility. This would be less complex for individuals than for entire families, especially those with two incomes. Currently it can take up to 2-3 months from the application date to enroll someone in the BHP. The BHP requires proof of income during the 30 days prior to application. In order to prevent such a lag and in order to use UI income to determine eligibility, there would need to be a new mechanism, perhaps an agreement between the Employment Securities Division and the Health Care Authority, to share this information.

Health benefits could be available for the entire duration of unemployment, which is capped at 30 weeks at full benefit level. Those who are in training programs that last for one year or more, or those who find new jobs without health benefits, could become a priority population for continued coverage in the BHP.

→What is the BHP?

- The BHP began in 1987 as a pilot project seeking to provide health insurance to the working poor and currently covers 125,000 people in Washington.
- Washington residents with incomes at or below 200% of the Federal Poverty Level (FPL) – \$1477/month before taxes for an individual and \$3017/month for a family of four – are eligible for the BHP.
- Monthly premiums are based on family size, income, age, and the health plan selected. Every enrollee pays into the program, with premiums ranging from \$10 - \$190 per month. The state covers the balance of the premium.
- BHP provides a no-frills package of health care benefits, including: doctor and hospital care, emergency services, maternity, prescription drugs, and some limited mental health, chemical dependency and physical therapy. BHP does not cover: dental care, eye exams, eyeglasses, contacts, or speech or occupational therapy.
- Co-payments are required for most services, but there are no deductibles or coinsurance. Co-payments range from \$0 for preventive care to \$10 for an office visit and \$100 for a hospital admission.
- BHP enrollment is currently capped due to a lack of funding. A policy to help laid-off workers enroll in the BHP could create a new category for this group so they would not be subject to the enrollment cap or take slots from those on the waiting list.

² Jeanne Lambrew, “How the Slowing U.S. Economy Threatens Employer-based Health Insurance,” report for the Commonwealth Fund, November 2001, page vii. Online at: http://www.cmwf.org/programs/insurance/lambrew_slowingeconomy_511.pdf.

→Who would qualify?

- Currently, only families living at or below 200% of poverty – \$1477/month before taxes for an individual and \$3017/month for a family of four – qualify for the Basic Health Plan.
- Families of three or more who were making the maximum UI benefit (\$1984/month) and had no other source of income would qualify for BHP coverage under current rules.
- If eligibility was extended to 250% of poverty and an additional premium structure was added, couples and individual parents with one child, making the maximum UI benefit with no other income, would also qualify for BHP.
- Individuals using the maximum UI benefit as their only income would not qualify for BHP coverage unless eligibility was extended to 275% of poverty.
- Families with income above UI benefits might not qualify for the BHP depending on family size and income amount.
- While technically undocumented laid-off workers could qualify for BHP coverage, many would not qualify because they do not have reportable wages or a valid Social Security number.

→What does BHP cost?

Laid-off workers & families

- Every enrolled family pays something into the BHP, with the premium determined by an income-based sliding scale.
- For a laid-off Boeing worker with a partner and two children, making the maximum weekly Unemployment Insurance benefit, BHP coverage for the entire family would cost \$122.18 per month, a savings of about \$500 over the cost of COBRA.
- For a similar family making 60% of maximum benefits (\$299/week), BHP coverage for the entire family would cost \$56 per month.

Washington State

Covering laid-off workers under the Basic Health Plan would cost Washington state between \$84 million during a non-recession year to \$106.4 million during a recession year. (See Appendix A for calculations of these estimates.)

→How would the state pay for this program?

Possible sources of revenue include, and are not limited to:

The Unemployment Insurance Trust Fund

- As of May 2002, the balance of the UI trust fund is \$1.7 million.
- The severity of the recession in Washington and the uncertainty posed by Referendum 53 (which attempts to roll back hard fought improvements to the UI system made during the 2002 session) make the UI trust fund less stable than its current balance suggests.

Closing Tax Loopholes

There are a variety of tax loopholes and exemptions that lead to unrealized revenue for Washington state to the tune of almost \$2 billion. (See Appendix B).

Changing unemployment benefits to reflect the cost of buying health care

Since most workers also lose their health insurance when they are laid off, it seems logical that unemployment benefits would include the cost of continuing health coverage. Unemployment benefits could be adjusted upward to reflect the fact that health insurance is both costly and integral to economic security.

Federal assistance with COBRA or BHP coverage

The U.S. Congress debated providing COBRA assistance to laid-off workers after September 11, 2001, but made no progress. While this issue is off the agenda for the time-being, it may resurface. If and when Congress begins debating this issue again, it may be possible to ask that assistance be expanded beyond COBRA to include payment assistance for state programs like the BHP.

→How would this policy affect the BHP risk pool?

Insurance works by pooling large numbers of people into one group so that each member pays a small amount to protect themselves in case of an unforeseen catastrophic health problem or loss. As health insurance becomes more expensive, those with expensive chronic conditions or illnesses are the most likely to keep their coverage because they are certain that their medical bills will outpace their individual contributions.

It is likely that among laid-off workers who had health insurance when they lost their jobs, the sickest workers would find a way to pay the cost of COBRA coverage to prevent pre-existing condition concerns and avoid the risk of going without coverage. The remaining group of laid-off workers, if they have been covered by insurance for most of their work time, are likely to be good for the BHP risk pool, increasing the overall health of the pool and lowering costs for everyone.

Laid-off workers who did not have health insurance prior to being laid off could enter the BHP with higher health costs.

→How would this affect workers with pre-existing conditions?

Federal legislation (HIPAA) requires that employees leaving jobs be exempt from pre-existing condition waiting periods as long as they do not let their coverage lapse for more than 63 days. Under this law, insured employees who are leaving a job must obtain from their employer a certificate of coverage which indicates the period of time the employee and any dependent was covered on the employer plan. The participant then takes the certificate to the next insurer and uses it to get credit for pre-existing condition waiting periods.

Those employees who did not have health coverage at their former jobs or who allow their coverage to lapse for more than 63 days may be subject to pre-existing condition waiting times. In Washington state, the maximum waiting period for a pre-existing condition is 9 months. During this time an enrollee will still have access to health care, but treatment related to their pre-existing condition may not be covered by insurance.

Next Steps

- If the issue of health care for laid-off workers resurfaces at the federal level, stakeholders in Washington state should be prepared to work with our Congressional delegation to support legislation that would not only provide assistance with COBRA, but also assistance to those wishing to enroll in state-based health programs such as the BHP.
- Given the enormity of the budget shortfall Washington's legislature will face next session, legislators may consider a range of strategies for raising new revenue, including closing tax loopholes or turning to new, more progressive taxes. Stakeholders should be prepared to make the case for expanding access to health care for laid-off workers.
- At a future date stakeholders may be able to push for further expansion of unemployment benefits, including additional payments directly to workers to reflect the cost of buying health care or additional funding to cover the state's share of a BHP premium for laid-off workers and their families.



Appendix A: Cost Estimates

Cost to Fund Health Care Maintenance for Laid-off Workers – Normal Year

Week #	# of Claimants	Avg. Weekly Cost to State	4-Week Subtotal	Compounded Total
1	5,625	\$225,731		
2	11,250	\$451,463		
3	16,875	\$677,194		
4	22,500	\$902,925	\$2,257,313	\$2,257,313
5	24,375	\$978,169		
6	26,250	\$1,053,413		
7	28,125	\$1,128,656		
8	30,000	\$1,203,900	\$4,364,138	\$6,621,450
9	31,875	\$1,279,144		
10	33,750	\$1,354,388		
11	35,625	\$1,429,631		
12	37,500	\$1,504,875	\$5,568,038	\$12,189,488
13	39,375	\$1,580,119		
14	41,250	\$1,655,363		
15	43,125	\$1,730,606		
16	45,000	\$1,805,850	\$6,771,938	\$18,961,425
17	45,000	\$1,805,850		
18	45,000	\$1,805,850		
19	45,000	\$1,805,850		
20	45,000	\$1,805,850	\$7,223,400	\$26,184,825
21	45,000	\$1,805,850		
22	45,000	\$1,805,850		
23	45,000	\$1,805,850		
24	45,000	\$1,805,850	\$7,223,400	\$33,408,225
25	45,000	\$1,805,850		
26	45,000	\$1,805,850		
27	45,000	\$1,805,850		
28	45,000	\$1,805,850	\$7,223,400	\$40,631,625
29	45,000	\$1,805,850		
30	45,000	\$1,805,850		
31	45,000	\$1,805,850		
32	45,000	\$1,805,850	\$7,223,400	\$47,855,025
33	45,000	\$1,805,850		
34	45,000	\$1,805,850		
35	45,000	\$1,805,850		
36	45,000	\$1,805,850	\$7,223,400	\$55,078,425
37	45,000	\$1,805,850		
38	45,000	\$1,805,850		
39	45,000	\$1,805,850		
40	45,000	\$1,805,850	\$7,223,400	\$62,301,825
41	45,000	\$1,805,850		
42	45,000	\$1,805,850		
43	45,000	\$1,805,850		
44	45,000	\$1,805,850	\$7,223,400	\$69,525,225
45	45,000	\$1,805,850		
46	45,000	\$1,805,850		
47	45,000	\$1,805,850		
48	45,000	\$1,805,850	\$7,223,400	\$76,748,625
49	45,000	\$1,805,850		
50	45,000	\$1,805,850		
51	45,000	\$1,805,850		
52	45,000	\$1,805,850	\$7,223,400	\$83,972,025
TOTAL		\$83,972,025		

ASSUMPTIONS:

Average of 6250 new UI claimants each week. (This is a rough estimate based on high year #.)
20% take COBRA. (This is a standard COBRA take-up rate estimate).
25% take spousal coverage. (This is a loose estimate based on the fact that 56% of those who work less than 20 hours a week, and 39% of those who work 20-34 hours a week, have spousal coverage. www.communityvoices.org/PDF/Workers-Without-Insurance.pdf)
25% elect to go uninsured. (We can assume that because families will have to pay a premium to join the BHP, many will decide that it is too expensive or that they are healthy enough to risk going without insurance.)
TOTAL: 30% or 1875 each week left to take coverage
During the first month, a backlog of unemployed workers causes this number to triple to 5625.
\$40.13 average per week cost to state to cover BHP enrollee (\$160.50/month)
16 weeks average duration, so levels off at 16 weeks with as many people joining as leaving (16.4 weeks was avg. duration during 2001)

Cost to Fund Health Care Maintenance for Laid-off Workers – Recession Year

Week #	# of Claimants	Avg. Weekly Cost to State	4-Week Subtotal	Compounded Total
1	6,345	\$254,625		
2	12,690	\$509,250		
3	19,035	\$763,875		
4	25,380	\$1,018,499	\$2,546,249	\$2,546,249
5	27,495	\$1,103,374		
6	29,610	\$1,188,249		
7	31,725	\$1,273,124		
8	33,840	\$1,357,999	\$4,922,747	\$7,468,996
9	35,955	\$1,442,874		
10	38,070	\$1,527,749		
11	40,185	\$1,612,624		
12	42,300	\$1,697,499	\$6,280,746	\$13,749,742
13	44,415	\$1,782,374		
14	46,530	\$1,867,249		
15	48,645	\$1,952,124		
16	50,760	\$2,036,999	\$7,638,746	\$21,388,487
17	52,875	\$2,121,874		
18	54,990	\$2,206,749		
19	57,105	\$2,291,624		
20	59,220	\$2,376,499	\$8,996,745	\$30,385,232
21	59,220	\$2,376,499		
22	59,220	\$2,376,499		
23	59,220	\$2,376,499		
24	59,220	\$2,376,499	\$9,505,994	\$39,891,227
25	59,220	\$2,376,499		
26	59,220	\$2,376,499		
27	59,220	\$2,376,499		
28	59,220	\$2,376,499	\$9,505,994	\$49,397,221
29	59,220	\$2,376,499		
30	59,220	\$2,376,499		
31	59,220	\$2,376,499		
32	59,220	\$2,376,499	\$9,505,994	\$58,903,215
33	59,220	\$2,376,499		
34	59,220	\$2,376,499		
35	59,220	\$2,376,499		
36	59,220	\$2,376,499	\$9,505,994	\$68,409,210
37	59,220	\$2,376,499		
38	59,220	\$2,376,499		
39	59,220	\$2,376,499		
40	59,220	\$2,376,499	\$9,505,994	\$77,915,204
41	59,220	\$2,376,499		
42	59,220	\$2,376,499		
43	59,220	\$2,376,499		
44	59,220	\$2,376,499	\$9,505,994	\$87,421,199
45	59,220	\$2,376,499		
46	59,220	\$2,376,499		
47	59,220	\$2,376,499		
48	59,220	\$2,376,499	\$9,505,994	\$96,927,193

49	59,220	\$2,376,499		
50	59,220	\$2,376,499		
51	59,220	\$2,376,499		
52	59,220	\$2,376,499	\$9,505,994	\$106,433,187
TOTAL		\$106,433,187		

ASSUMPTIONS:

Average of 7050 new UI claimants each week. This # is the 4-week moving average reported for the week of March 23, 2002.
20% take COBRA. (This is a standard COBRA take-up rate estimate).
25% take spousal coverage. (This is a loose estimate based on the fact that 56% of those who work less than 20 hours a week, and 39% of those who work 20-34 hours a week, have spousal coverage. www.communityvoices.org/PDF/Workers-Without-Insurance.pdf)
25% elect to go uninsured. (We can assume that because families will have to pay a premium to join the BHP, many will decide that it is too expensive or that they are healthy enough to risk going without insurance.)
TOTAL: 30% or 2115 each week left to take coverage
During the first month, a backlog of unemployed workers causes this number to triple to 6345.
\$40.13 average per week cost to state to cover BHP enrollee (\$160.50/month)
20 weeks average duration, so levels off at 20 weeks with as many people joining as leaving



Appendix B: Select Tax Exemptions in Washington State

EXEMPTION	EXPLANATION	UNREALIZED STATE REVENUES
Sales Tax Exemption of Machinery & Equipment	<ul style="list-style-type: none"> • Enacted in 1995 • Has been expanded over the years by adding categories that count as machinery or equipment. • If repealed or temporarily suspended, local governments would also benefit (about \$43 million per year). 	\$170 million per year
Sales Tax Exemption for Warehousing	<ul style="list-style-type: none"> • Enacted in 1997. • An exemption of machinery and equipment for construction of large grain elevators and warehouses 	\$3 million per year
Rural County Sales Tax Exemption	<ul style="list-style-type: none"> • Passed as a deferral of sales taxes in 1994 for economically distressed counties. • In 1999 it was changed to an outright exemption and made available to all rural counties. • Is set to expire on July 1, 2004, so could be sunset earlier or restored to its more limited and targeted original purpose. 	\$25 million per year
Sales Tax on professional and personal services	<ul style="list-style-type: none"> • Enacted in 1935. • Services such as medical, legal, engineering and other business services are exempt from the sales tax for both businesses and consumers. • DOR states that “there is no theoretical reason that any services should be excluded” from a consumption tax. In fact, the sales tax was extended to some services – like landscaping and horticultural services – in 1993, during the last recession. 	\$1.6 billion per year
High Technology Tax Breaks	<p>There are two kinds of tax breaks for high tech and research companies:</p> <ul style="list-style-type: none"> • 1) The sales tax exemption was passed as a tax deferral in 1994, but quickly converted to an outright exemption in 1995. • 2) Certain firms’ R&D costs get a credit on the B&O tax. Passed as a 2.5% credit in 1994, the tax credit was reduced to 1.5% in 1998. • An evaluation of both of these tax breaks by DOR in 2000 found that less than half of the companies receiving the tax breaks had expanded their business and less than half of the new employees were Washington residents! Some firms have moved portions of their business out of state. 	\$25-\$75 million per year
B&O Tax Credit for New Jobs	<ul style="list-style-type: none"> • Enacted in 1986. • The state allows up to \$7.5 million to be spent on tax credits for certain firms that create new jobs in rural counties or empowerment zones. • The program was supposed to expire in 1997 but its expiration was repealed. • It has been expanded numerous times, including in 1999 when the requirement that the rural counties be distressed was repealed. Now the exemption applies to any rural county. • The credit could be sunset, the total amount the state spends on it could be reduced and/or it could be restored to its narrower, more targeted purpose. 	\$7.5 million per year

<p>Poultry for Production Exemption</p>	<ul style="list-style-type: none"> • Enacted in 1935. • Income from growing or producing any agricultural or horticultural crop, animals, birds, fish, poultry, eggs, fur, etc., is exempt from B&O tax if the products are sold at wholesale. • In 1985 the requirement that animal products must be sold was removed (including birds, insects, and the milk, eggs, wool, fur, meat, honey, etc. there from). Thus certain contract growers, primarily in the chicken industry, who do not own the animals but raise them for others were also allowed the exemption. Also exempt are sales of poultry products and hatching eggs that are used in the production of poultry. • The purpose of this exemption is presumably to aid an industry that was severely depressed in 1935. The exemption recognized low profit margins that prevailed in this industry, high transportation costs, and the fact that as a group farmers had little ability to affect the prices received for their products and therefore were unable to pass the cost of the tax on to their customers. • Primary Beneficiaries: Approximately 35,000 producers of agricultural products; however, only an estimated 15,000 producers would have actual tax liability above the B&O credit amount. 	<p>\$27.9 million in FY 2003</p>
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