Issue BRIEF

October 2003

A Shelter in the Storm: How a Subsidy Could Help Unemployed Workers Get Health Insurance

The rise in unemployment over the past three years has contributed to a substantial increase in the number of Americans without health insurance. Because health insurance is prohibitively expensive for most unemployed workers, some form of subsidy is needed to help workers and their families keep their health insurance during periods of unemployment.

The Trade Adjustment Assistance Reform Act of 2002 (TAARA) health insurance subsidy is one possible model for providing financial assistance to unemployed workers for the purchase of health coverage. It provides a subsidy, via the tax system, of 65 percent of the cost of purchasing health insurance coverage. Although the TAARA subsidy is currently available only to a very limited population and is still being implemented, early experience with the program provides some guidance for what a broader subsidy program should entail.

A broader program, tied to a worker's receipt of unemployment insurance benefits, could be a lifeline for unemployed workers and their families. To help unemployed workers—and especially to reach lower-income workers and their families—the subsidy would need to be increased. Also, the consumer protections included in TAARA should be strengthened. And finally, the program should be extended to unemployed workers who cannot qualify for unemployment benefits because of their state's outdated unemployment insurance eligibility rules. With these improvements, this unemployment health insurance subsidy could be a significant incremental step towards helping the uninsured.

FamiliesUSA
The Voice for Health Care Consumers

Unemployed Workers and Their Families Have Limited Options for Keeping Health Coverage

Unemployment has risen substantially since 2001

Unemployment has risen from 4.1 percent in January 2001 to 6.1 percent in August 2003. The number of unemployed workers increased by nearly three million during that time period, from 5,951,000 to 8,905,000.[1]

More unemployment means more uninsured

Most Americans (58 percent in 2001) get their health insurance from their employer or that of a family member.[2] When people lose their jobs, they often lose their health insurance as well, so when unemployment increases, the number of uninsured also rises. According to the U.S Census Bureau, 44 percent of workers who lose their jobs also lose health insurance.[3] Of the nearly three million new unemployed workers, therefore, about 1.3 million have lost health insurance coverage.

More than these 1.3 million people are affected, however. Millions of people are covered through the employer-provided health insurance of a spouse or parent. When that person loses his or her job, the entire family can lose their health insurance. Unless families can find a way to replace all or part of their coverage, they become uninsured. As a result, the effect of a job loss and the accompanying loss of health insurance is multiplied across an entire family. A recent Kaiser Family Foundation study estimates that, when dependent family members are taken into account, for every 100 people who lose jobs, 85 lose health insurance.[4] This means that since early 2001, about 2.5 million people have lost health insurance because of rising unemployment.

Public programs can help some low-income families, especially their children

Public programs like Medicaid and SCHIP (the State Children's Health Insurance Program) provide health insurance for low-income children and, in some states, their parents. Eligibility varies by state, but typically, children in families earning up to 200 percent of the federal poverty level ($36,800 for a family of four) are eligible. Eligibility for parents and other adults is extremely limited in most states, however: In over half the states, parents working full-time at minimum wage earn too much to qualify for Medicaid. And in 40 states, adults without children cannot qualify for public health insurance at all, regardless of income, unless they are severely disabled.[5]

Unemployed workers may be eligible for COBRA

Federal COBRA law (the Consolidated Omnibus Budget Reconciliation Act of 1985) is a potential lifeline to many unemployed workers and their families. This law requires that many employers allow former workers—if they are willing and able to pay the full cost of coverage—to remain in the employer's group health plan for a period of time. COBRA generally provides 18 months of continuation coverage to workers laid off from firms with 20 or more employees. Workers may continue coverage for both themselves and their families.

What Happens to Workers in Small Firms?

In 38 states, COBRA-like laws supplement the federal law. These state laws help workers laid off from firms with fewer than 20 employees by requiring varying periods of access to continuation coverage.

Only 57 percent of all workers and adult dependents are eligible for federal COBRA.[6] Even workers in firms with 20 or more employees may not qualify. The federal law requires that a worker has to have been employed for at least six months in order to qualify. This means that people who have changed jobs recently (sometimes due to previous layoffs) or recent entrants into the labor market (like those leaving welfare) cannot take advantage of the law. Workers must also have had employer-provided health insurance coverage to begin with. Low-wage workers in particular are less likely to have health insurance and to qualify for COBRA. Only 32 percent of workers and adult dependents with earnings below 200 percent of the federal poverty level ($17,960 for an individual) are eligible for COBRA. These workers often lack insurance either because their employers do not offer insurance or because they (the workers) cannot afford to pay their portion of the premiums. Nevertheless, COBRA has the potential to provide health security to many recently unemployed workers and their families.

COBRA's high cost limits participation

Despite the attractiveness of continuing health insurance coverage, very few workers actually purchase COBRA coverage. In 1999, only about 7 percent of eligible workers purchased federal COBRA coverage.[7] The primary reason for this low take-up rate is the prohibitively high cost. Eligible workers must pay 100 percent of the cost of their premiums (including all of their former employer's share), plus a 2 percent administrative fee.

The average employer-based health insurance premium for family coverage, plus the 2 percent administrative fee, comes to $771 per month.[8] A monthly unemployment insurance benefit averages only about $1,040.[9] Few unemployed workers can afford to pay the full cost of their premiums while struggling to make ends meet during

a period of unemployment. Unemployed workers who rely entirely on their unemployment benefits would have to spend, on average, nearly three-fourths of their already limited income on continuing their health insurance. It is scarcely surprising that few unemployed workers take advantage of COBRA coverage.

Providing a substantial subsidy could be a viable way of improving COBRA take-up and reducing uninsurance among unemployed workers and their families. The TAARA health insurance subsidy, enacted in 2002, is a first step in that direction.

The TAARA Health Insurance Subsidy Provides Help to a Limited Number of Unemployed Workers and Retirees Who Have Lost Health Insurance Coverage

The TAARA health insurance subsidy provides substantial help towards the purchase of health insurance coverage

TAARA, signed into law on August 8, 2002, offers a 65 percent subsidy toward the purchase of particular types of health insurance coverage for certain workers whose employer-sponsored health coverage is lost because of increased imports or trade-related relocation. This subsidy is delivered through the federal personal income tax system. A more detailed description of the TAARA health insurance subsidy, entitled "The Health Insurance Tax Credit in the Trade Adjustment Assistance Reform Act of 2002," is available from Families USA or online at (http://www.familiesusa.org/site/DocServer/TAARA_brief_final.pdf).

Eligible beneficiaries can receive the health insurance subsidy either when they file their personal income tax return (as a tax credit) or have it sent directly each month to the health insurance provider (as an advance tax credit). Even if the beneficiary owes little or no personal income taxes, he or she will receive the full subsidy (such tax credits are said to be "refundable" tax credits).

Few individuals who have lost health insurance are currently eligible for the TAARA health insurance subsidy

Three groups of people—and their spouses and dependents—are eligible for the TAARA health insurance subsidy: 1) trade-displaced workers; 2) alternative trade-displaced older workers; and 3) Pension Benefit Guaranty Corporation (PBGC) retirees.[10]

These three groups of people have all recently lost jobs or retiree health care, but they make up only a fraction of the large number of unemployed people. [11] Estimates of the number of currently eligible individuals range from as many as 260,600 to as few as 182,100 individuals.[12]

Eligible individuals can use the TAARA subsidy to purchase specified health insurance plans

Three types of coverage automatically qualify for purchase using the TAARA health insurance subsidy: 1) coverage under a COBRA continuation provision, 2) certain coverage under a group plan available through the employment of the eligible individual's spouse, and 3) coverage under an existing individual health insurance policy if the individual was covered by this policy during the entire 30-day period before he or she became separated from employment.

In addition, states may designate alternative types of coverage for tax credit users who cannot enroll in any of the three types above. There are six types of health insurance coverage that states can designate for TAARA health insurance subsidy purposes: 1) state COBRA coverage; 2) coverage offered through a qualified state high-risk pool; 3) coverage under a health insurance program offered for state employees; 4) coverage under a state-based health insurance program that is comparable to the health insurance program for state employees; 5) coverage through an arrangement entered into by a state and a group health plan, issuer of health insurance coverage, an administrator, or an employer; and 6) coverage offered through a state arrangement with a private sector health care coverage purchasing pool.

Nearly half the states have already designated plans for individuals eligible for the TAARA health insurance subsidy

All 10 states with the highest number of eligible individuals will have designated plans for the TAARA health insurance subsidy by October 2003.[13] States with low numbers of eligible individuals are also designating plans, even though this issue must compete with the Medicaid budget crisis and other urgent health care issues facing governors and legislators. As of early October 2003, 24 states have designated a qualified plan, and three more states—Connecticut, Massachusetts, and New Hampshire—are expected to designate plans shortly.[14] Four of these states have designated state-based continuation coverage, and 10 have designated a high-risk pool. Six states have designated coverage through an arrangement with a group health plan, and five have designated coverage through an arrangement with an individual health plan.[15]

Some state plans provide more extensive consumer protections than are required by federal law

TAARA protects consumer by requiring that designated plans meet the following conditions: 1) guaranteed issue (insurers must offer a policy to anyone who applies); 2) no exclusions for pre-existing conditions; 3) nondiscrimination in premiums; and 4) nondiscrimination in benefits. These consumer protections must be provided to all individuals who have three months of prior creditable coverage (continuous coverage with no break of over 63 days) at the time they *seek to enroll* in the designated plan.

Pennsylvania, Maryland, and Illinois require more extensive consumer protections than are provided in the federal law. In Pennsylvania, the designated plan is offered on a guaranteed issue basis to all individuals eligible for the TAARA subsidy, regardless of the length of prior coverage or gaps in coverage.

In Maryland, TAARA-eligible individuals—regardless of the length of prior health coverage or gaps in coverage—were able to enter the state-designated plan until October 1, 2003 with no pre-existing condition exclusion.

In Illinois, additional consumer protections were provided until October 1, 2003. Eligible individuals who had coverage in a qualified plan on December 1, 2002 (generally employer-sponsored coverage or COBRA)—regardless of gaps in coverage—were able to enter the state-designated plan with no pre-existing condition exclusion.

How Might the TAARA Health Insurance Subsidy Be Expanded?

A subsidy could be tied to the unemployment insurance system

Even when the TAARA health insurance subsidy is fully implemented, it can only help a very limited number of unemployed workers—those specifically designated as trade-displaced. Extending the subsidy to all workers receiving unemployment insurance is a relatively simple way to reach a larger number of workers. Workers would be able to sign up for a health insurance subsidy at the same time that they sign up for unemployment insurance benefits. They could then use that subsidy to purchase COBRA insurance, if it is available, or to buy insurance through one of the other state-designated options available under the TAARA subsidy.

Tying a health insurance subsidy to unemployment insurance could strengthen workers' economic security during difficult economic times, and it would be a significant help to a large number of workers and their families. It is, however, an incomplete solution. Several additional steps are necessary to make a TAARA-like health insurance subsidy work for most unemployed people.

The 65 percent subsidy is too low to help many working people

Even with a 65 percent subsidy, health insurance premiums would remain too high for many low-income people to afford. A family receiving the subsidy would still have to pay about $270 per month on average for family coverage through COBRA. This amounts to over one-fourth of an average unemployment insurance payment of $1,040 a month. Low-income families coping with the additional financial strain of losing a job will find it very difficult to come up with the additional resources to take advantage of the health insurance subsidy.

A more generous subsidy would make it feasible for more workers to purchase COBRA insurance. Raising the subsidy to 75 percent would significantly increase the purchase of COBRA coverage by all workers, including low-income workers. A 2002 survey of COBRA-eligible workers found that 59 percent of all workers, and 37 percent of low-income workers, said they would be "very likely" to buy COBRA coverage if they received a subsidy in the range of 75 percent.[16]

Clearly, a 75 percent subsidy will improve the take-up rate of the subsidy for all workers. However, to improve the take-up rate for low-income workers, an additional targeted subsidy will be essential if the remaining out-of-pocket cost of COBRA continuation coverage or state-designated plan coverage is to fit into the very tight budgets of low-income families. In fact, for the lowest-income unemployed workers, or for longer-term unemployed workers, such a subsidy approach may not be the best or most cost-efficient way to provide a health insurance safety net. For these groups, expanding the reach of public programs like Medicaid and SCHIP can provide another critical incremental part of the solution. Medicaid and SCHIP already provide a partial safety net by covering most low-income children. Childless adults, some immigrants, and many parents,

however, remain uncovered today because of very low state income eligibility levels.[17] The federal government should provide financial incentives to states to expand adult public program coverage.

Consumer protections should prohibit states from designating individual health insurance plans

Some states have interpreted TAARA as letting them designate plans in the individual market as alternatives for the TAARA tax credit. Although some members of Congress believed that TAARA would prevent states from designating these types of plans, the actual TAARA statutory language says that the premiums or benefits must be the same as those provided to a "similarly situated individual who is not a qualifying individual."[18] Four states (out of 24 that have designated plans) have already designated individual market plans that charge higher premiums for older individuals or individuals in less-than-perfect health (called "health risk factor underwriting"). Few states regulate premium rates in the individual market, so these premiums can be very high—the cost of these plans may be two or even three times higher if the individual has any serious health problems or has had a history of high health bills paid for by previous insurers. The premium may even go up again when it comes time for the individual to renew the plan. Language in the TAARA statute should be strengthened to clearly prohibit states from designating individual market plans that underwrite premiums so that health insurance coverage remains affordable for the most vulnerable unemployed workers.

Eligible individuals need more time to enroll in health coverage plans

TAARA has also been interpreted to mean that the consumer protections must be provided to all individuals who have three months of prior creditable coverage (continuous coverage with no break of more than 63 days) *at the time they seek to enroll* in the designated plan. This language should be amended so that the consumer protections will be provided to all individuals who have three months of prior creditable coverage *at the time they lose their job or retiree health insurance coverage*, regardless of any gaps in coverage after that point. This change would allow more time for eligible individuals to enroll in plans that provide consumer protections. It often takes more than 63 days from

the time an individual loses employment or retiree health benefits to learn about the TAARA subsidy, receive trade readjustment assistance benefits, and enroll in the TAARA health insurance subsidy program. Also, most individuals eligible for the TAARA subsidy have been insured through work for long periods of time, and the only gap in coverage they have begins with the period after they've lost their job or retiree coverage.

Eligibility should go beyond state rules for unemployment insurance

A subsidy tied to the unemployment insurance system has the advantage of making it easy to identify qualified workers. Those who qualify for unemployment insurance would also qualify for the subsidy. A major weakness of this plan, however, is that many unemployed workers do not qualify for unemployment insurance. In fact, only about 44 percent of unemployed workers receive unemployment insurance benefits.[19] In addition, unemployment benefits usually last for only six months, although the federal government has often extended them during recessions. An extended health insurance subsidy ideally should last until workers obtain health insurance at their new jobs.

There are many reasons for the limited reach of unemployment insurance, and a detailed explanation is beyond the scope of this report. In general, though, low-income workers are disproportionately ineligible for unemployment benefits.[20] Eligibility rules for unemployment insurance vary from state to state. Typically, low-income workers do not qualify because their earnings are too low to meet state requirements, or because their most recent earnings are not counted for administrative reasons. Part-time workers are also often disqualified from receiving benefits,[21] as are workers who voluntarily leave a job for compelling reasons—such as a spouse moving to another state for a new job.[22]

There are numerous steps states can take to update unemployment insurance eligibility rules to reflect the modern labor market, such as counting part-time work and using technology to verify a worker's most recent wages. Some states have already moved in this direction.[23] An extension of the TAARA health insurance subsidy should reflect these changes as well, so that low-income workers and their families may benefit from the program, even if their state has not modernized their unemployment insurance system.

Endnotes

[1] Bureau of Labor Statistics, U.S. Department of Labor, Unemployment Level, Seasonally Adjusted Series LNS13000000, available online at (http://data.bls.gov/cgi-bin/surveymost?ln).

[2] Kaiser Family Foundation, State Health Facts Online, *Population Distribution by Insurance Status, U.S. 2001,* available online at (http://www.statehealthfacts.kff.org/cgi-bin/healthfacts.cgi?action=compare&category=Health+Coverage +%26+Uninsured &subcategory=Insurance+Status&topic=Distribution+by+Insurance+Status).

[3] Robert L. Bennefield, *Who Loses Coverage and for How Long? Dynamics of Economic Well-Being: Health Insurance, 1993-1995* (Suitland, Maryland: U.S. Census Bureau, Economics and Statistics Administration, August 1998).

[4] Jonathan Gruber and Larry Levitt, *Rising Unemployment and the Uninsured* (Washington: Kaiser Family Foundation, January 2002).

[5] Kathleen Stoll, *The Health Care Safety Net: Millions of Low-Income People Left Uninsured* (Washington: Families USA, July 2001).

[6] Stephen Zuckerman, Jennifer Hale, and Matthew Fragale, *Could Subsidizing COBRA Health Insurance Coverage Help Most Low-Income Unemployed?* (Washington: Urban Institute, October 2001).

[7] Zuckerman, et al., op. cit.

[8] The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits, 2003 Annual Survey* (Menlo Park, California: Henry J. Kaiser Family Foundation, 2003).

[9] U.S. Department of Labor, Employment and Training Administration, *State UI Program Data, U.S. Totals* (for month ending July 31, 2003), available online at (http://workforcesecurity.doleta.gov/unemploy/claimssum_us.asp).

[10] Trade-displaced workers have worked for employers that are directly affected by increased imports or a shift in production to another country, as well as workers who are secondarily affected as suppliers or “downstream producers” (for example, parts suppliers or assembly plants) for directly affected employers. Such trade-displaced workers are eligible for trade assistance cash benefits, which can last for up to two years. The U.S. Department of Labor certifies employers for trade adjustment assistance. Alternative trade displaced workers are individuals who are at least 50 years old and obtain other employment at a lower wage than earned in the adversely affected employment. PBGC retirees are individuals who receive any portion of their pension benefits from the PBGC and who are age 55 or older.

[11] These estimates do not include spouses and dependents who are covered by the tax credit, so the total number of eligible individuals is larger.

[12] In February 2003, the U.S. Department of Labor has estimated, 260,600 individuals nationwide were eligible for the TAARA health insurance subsidy. In July 2003, the Internal Revenue Service estimated that 182,100 individuals nationwide were eligible for the TAARA health insurance subsidy.

[13] Based on July 2003 estimates provided by the U.S. Department of Treasury. The Massachusetts plan is likely to be designated by October 2003. The delay most likely occurred because the population of eligibile individuals in Massachusetts grew in the spring of 2003.

[14] Note: Some states have designated more than one type of plan.

[15] One of these states, Vermont, requires community rating in its individual health insurance market.

[16] Jennifer N. Edwards, Michelle M. Doty, and Cath Schoen, *The Erosion of Employer-Based Health Coverage and the Threat to Workers’ Health Care: Findings from the Commonwealth Fund 2002 Workplace Health Insurance Survey* (New York: The Commonwealth Fund, August 2002).

[17] See Kathleen Stoll, *The Health Care Safety Net: Millions of Low-Income People Left Uninsured* (Washington: Families USA, July 2001).

[18] 26 USC 35(e)(2)(A)(iii).

[19] Maurice Emsellem, Jessica Goldberg, Rick McHugh, Wendell Primus, Rebecca Smith, and Jeffrey Wegner, *Failing the Unemployed: A State by State Evaluation of Unemployment Insurance Systems* (Washington: Economic Policy Institute, Center on Budget and Policy Priorities, National Employment Law Project, March 2002).

[20] National Employment Law Project, *What Is an "Alternative Base Period" and Why Does My State Need One?* (April 2003), available online at (http://www.nelp.org/ui/state/access/abpfactsheet041003.cfm).

[21] Emsellem, et al., op. cit.

[22] Rebecca Smith, Rick McHugh, Andrew Stettner, and Nancy Segal, *Between a Rock and a Hard Place: Confronting the Failure of State Unemployment Insurance Systems to Serve Women and Working Families* (New York: National Employment Law Project and Program on Gender, Work, and Family, 2003).

[23] Emsellem, et al., op. cit.

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