



AMERICAN BENEFITS COUNCIL

January 16, 2009

FEDERAL SUBSIDIES FOR COBRA COVERAGE

Many Americans are experiencing hardship because of the current economic crisis, including the loss of employer-sponsored health coverage. Congress is considering federal subsidies for COBRA health care continuation coverage as part of an anticipated economic stimulus package. In addition, Congress is considering expanding the duration of COBRA coverage for individuals who have lost their jobs and are age 55 or older. While these proposals could make it possible for more individuals to continue health care coverage during this turbulent time, they are also likely to raise costs and administrative burdens for employers. These added costs and administrative burdens should also be minimized as part of the economic stimulus package, particularly during this time when many companies are facing unprecedented economic challenges.

Background

Under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), an employer with 20 or more employees must provide those employees and their families the option of continuing their coverage under the employer's group health plan if employment is terminated or hours are reduced (voluntarily or involuntarily) or they experience a change in family status through death, divorce or the end of a child's dependency under a parent's coverage. The duration of COBRA coverage varies depending on the qualifying event, ranging from 18 months when employment is terminated to 36 months for changes in family status. COBRA beneficiaries generally pay 102% of the premium for an active employee who is enrolled in the same health plan. Even with this full premium payment, actual health care claims paid on behalf of those who elect COBRA coverage often significantly exceed their premium payments.

Proposals Under Consideration

Provisions in the economic stimulus bills to be considered shortly would provide a 65% premium subsidy for individuals who are eligible for COBRA health coverage due to loss of employment.

One approach being considered for delivering the subsidy would authorize eligible individuals who elect COBRA continuation health coverage to pay only the unsubsidized portion of their premium (e.g., 35%) and their former employer would pay the remaining portion of the premium. The employer would then be permitted to recover its premium payments as a credit against the employer's federal payroll tax obligations. The subsidy would expire after 12 months although individuals could remain on COBRA coverage until their COBRA benefits expire by paying the full premium amount after the 12 month subsidy period ends.

For individuals who are 55 and older and eligible for subsidized COBRA coverage, provisions in the House economic stimulus bill would permit individuals who are 55 or older and "tenured" individuals with 10 years of service with an employer to remain on COBRA until they reach Medicare eligibility age or subsequently obtain health coverage through employment. As with those who are under age 55, subsidy payments would extend only for the first 12 months of the COBRA coverage period.

Employer Issues and Concerns

The cost of COBRA coverage and any federal subsidy poses concerns for employers and ultimately employees who also shoulder the rising costs of health care coverage. Even under current law, COBRA coverage can be a significant cost for employers.

- While COBRA allows employers to charge a COBRA beneficiary 100% of the premium for an active employee, plus a 2% "administrative fee", for many employers, this falls short of the actual claims cost for the COBRA beneficiary.
- This is because those who elect COBRA benefits are typically higher utilizers of the benefit than are active employees. They choose COBRA because they either cannot obtain or afford health insurance policies in the individual market.
- COBRA claims costs due to this "adverse selection" can be substantial.
- According to annual surveys by employee benefits analysts, Charles D. Spencer & Associates, claims costs for COBRA continuation coverage were on average 145% of the claims cost for active employees.
- Consequently, any expansion of COBRA benefits or increase in COBRA election, as would occur with subsidization, will result in higher employer health coverage costs. This is because subsidies for COBRA premiums will increase the take-up rate among those who are eligible for the continuation coverage while their claims experience for health care services is still likely to exceed the amount these individuals pay in premiums.
- A federal COBRA subsidy is also likely to increase administrative costs for employers as a result of additional recordkeeping, notice, reporting or other obligations and will require employers to make payroll systems changes to recover the portion of COBRA health insurance premiums that they would be required to pay on behalf of those eligible for subsidized coverage.

Recommendations

- Limit availability of COBRA subsidies to loss of employment, and not other COBRA qualifying events. In particular, applying subsidies to the continuation of health coverage following the involuntary loss of employment or an election made as part of a reduction in force would appropriately limit subsidized coverage to adverse events related to economic conditions.
- Maintain the duration of COBRA coverage under current law, and not expand to provide longer term continuation coverage under COBRA. The issues surrounding longer term coverage options should more appropriately be considered in the context of broader health reform legislation.
- Utilize an efficient administrative mechanism that does not create an undue burden on employers or increase administrative costs. The only immediately available mechanism to administer federally subsidized COBRA coverage was established for the operation of the Trade Adjustment Assistance program's health care tax credit. Under that program, eligible individuals submit 35% of their health premium to a federal contractor which combines it with a federal subsidy for the remaining 65% of the premium and forwards the full premium amount to the appropriate health plan which the individual elected. Alternatively, under this program, eligible individuals may elect to pay the full premium amount for their health coverage and be reimbursed for the subsidized portion of their premium.
- Maintain current COBRA rules for the start date of elected coverage and subsidies when available. Current COBRA rules provide a 60-day election period following a qualified event and coverage commences with the first day of the election period.
- Permit subsidies to be used for other plan options available through an employer, including retiree health plan options. Eligible individuals should have the opportunity to elect the most appropriate plan option available through their employer or a retiree health plan option when applicable.
- Provide adequate lead time for employers and plan administrators to make necessary systems changes to administer the subsidy program. Employers, plan administrators and other service providers will need sufficient time after enactment of legislation to make needed changes in the administration of COBRA benefits.
- Include a sunset provision that makes clear that the proposal is intended to target an immediate need of assisting the unemployed during the current economic crisis and is not a permanent change in COBRA benefits.