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kaiser commission on medicaid and the uninsured

THE HENRY J. KAISER FAMILY FOUNDATION

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Health Coverage in a Period of Rising Unemployment

By Karyn Schwartz

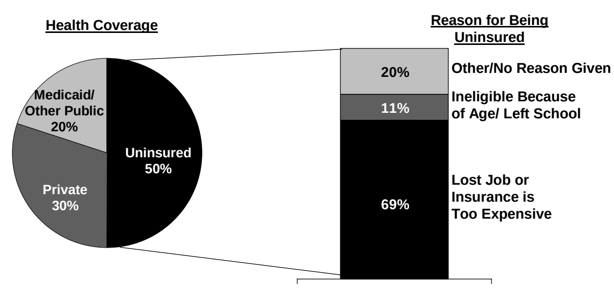
In October 2008, the U.S. unemployment rate reached 6.5%, the highest it has been since 1994.[1] This increase in unemployment jeopardizes health coverage for the 61% of the nonelderly population in the U.S. that receives health insurance through an employer. When individuals with employer-sponsored coverage become unemployed, they face the loss of both income and health insurance. Moreover, if an employee's dependents are covered through the employer, they too may lose coverage. Low- and moderate-income workers are especially vulnerable to becoming uninsured, since they typically have little savings to pay premiums when they are unemployed.

The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) was designed to help people continue their health coverage after leaving a job. However, many workers find that after losing a job they are not able to afford the premiums required to continue employer-sponsored insurance through COBRA. Public coverage plays an important role in maintaining coverage for children whose parents become unemployed, but that coverage is often not available for parents or other adults.

In 2007, half of adults who were unemployed and looking for work were uninsured. Among those adults, 69% said they were uninsured because they lost their job or they were unable to afford coverage (Figure 1). Without insurance, these adults are more likely to forgo needed medical care and incur medical debt. They are also at risk of having their health problems treated as pre-existing conditions if they later regain employer-sponsored coverage.

Figure 1

Health Coverage of Unemployed Adults and Their Reasons for Being Uninsured, 2007



Analysis of adults age 18-64 who said that they were not working but were looking for work in the week prior to being surveyed.
SOURCE: KCMU analysis of 2007 NHIS data

This policy brief outlines the public and private options available to help people maintain coverage if they become unemployed during a recession and cannot access employer-sponsored coverage through a spouse. Specifically, it examines COBRA, the non-group insurance market, and Medicaid. It also explores why, despite these options, many of the unemployed become uninsured. This brief also explains what happened to health coverage during the 2001 recession and how the current rise in unemployment may affect coverage trends.

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Cobra Coverage

COBRA was created to help people maintain coverage while they are between jobs. However, COBRA's cost and structure can make it difficult for the unemployed to retain their coverage through the program.

Who is eligible for COBRA?

COBRA provides employees and their dependents with the right to temporarily continue purchasing health insurance through their former employer after they would otherwise have lost coverage due to a layoff, divorce or another qualifying event. Not all employees are eligible for COBRA under federal law. Only individuals who have been insured by employer-sponsored coverage through a company with the equivalent of 20 or more full-time workers are eligible. In 39 states and the District of Columbia, employees in firms that are too small to offer COBRA are eligible for continuation coverage, but that coverage may be more limited than COBRA. Because workers in lower income families are more likely to work for small firms, they are less likely to be eligible for COBRA.

Employees who lose their job because their employer goes out of business cannot qualify for COBRA because their employer is no longer offering a health plan. Similarly, if an employer stops offering health insurance to all of its workers, those workers are not eligible for COBRA because there is no health plan to continue.

How much does COBRA cost?

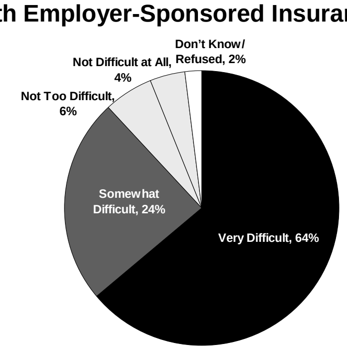
To maintain coverage through COBRA, the beneficiary must typically pay the entire premium plus an additional 2% of the premium to cover administrative costs. Since most employers subsidize their employees' premiums, paying 102% of the premium to maintain coverage through COBRA is often a dramatically higher cost than the amount workers were paying while employed. On average, employees with employer-sponsored coverage pay 16% of the cost of their own coverage and 27% of the cost of family coverage.[2] In 2008, the full annual cost of employer-sponsored health insurance averaged $4,704 for an individual policy and $12,680 for a family policy.[3]

Workers in low- and moderate-income families are very likely to have trouble paying for insurance premiums through COBRA. In 2004, the median amount of financial assets held by an insured household below 300% of poverty (about $64,000 a year for a family of four in 2007) was just $800.[4] After losing a job, someone in a family with this low level of savings may not have the money available to pay for COBRA coverage.

In a recent Kaiser Family Foundation survey, almost two-thirds of employees said that it would be very difficult for them to pay the full cost of their employer-sponsored insurance premiums if they were no longer employed (Figure 2). Coverage for an entire family may be jeopardized if a worker is laid off and cannot afford COBRA.

Figure 2

Difficulty of Paying for COBRA Among Individuals with Employer-Sponsored Insurance, 2008



Respondents were asked how difficult it would be to pay for the full cost of employer-sponsored coverage if they or their spouse (if the respondent was insured through the spouse's employer) lost their job.
SOURCE: Kaiser Health Tracking Poll: Election 2008 – August 2008 (#7807)

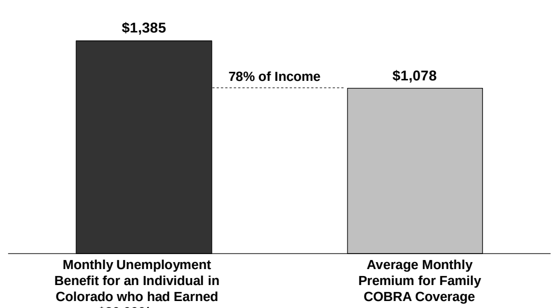
How do people enroll in COBRA?
People who qualify for COBRA have 60 days to decide to enroll in the coverage and must pay the full premiums for the time since they qualified for the coverage. For example, if a person decides to purchase COBRA on the 60th day after they are no longer employed, that person would then have to pay 102% of the full premiums owed for that entire 60 day period. Since the average monthly premium for employer-sponsored family coverage is $1,057, on day 60 an employee would have to pay an average of $2,156 to continue family coverage through COBRA. If that person decided to sign up for COBRA coverage, he or she would then have an additional 45 days to pay those back premiums. The timeframe for enrolling in COBRA may add to the difficulty of affording the coverage since some people may not be able to find the money to pay their premiums within the time limit for electing COBRA.

How long does COBRA coverage last?
Those who participate in COBRA are allowed to continue their previous coverage for up to 18 months through the program. An additional 11 months of coverage is available to disabled individuals at 150% of the premium cost. Workers who are unable to find another job that offers employer-sponsored coverage before COBRA expires often then have to seek coverage in the individual market, also known as the non-group market.

Case Example: A Single Mother in Colorado

If a single mother in Colorado earning $30,000 lost her job, she would qualify for approximately $346 a week (or about $1,385 a month) in unemployment insurance benefits.[5] As the only source of income for herself and her children, this single mother would likely be struggling to meet her family's basic needs with her unemployment benefits. Assuming her employer-sponsored coverage had premiums equal to the national average, COBRA would cost her $1,078 a month for family coverage and $400 for individual coverage. These premiums are 102% of the average total cost of a month of employer-sponsored coverage. The average monthly COBRA payment for family coverage would require her to spend 78% of her income on health insurance and individual COBRA coverage would require spending 29% of her income on health insurance. These costs would probably prove unaffordable to most families in this situation and show the importance of public coverage available through Medicaid or SCHIP for low-income children.

Cost of COBRA Coverage Compared to Income from Unemployment Benefits, 2008



SOURCE: Colorado Internet Unemployment Claims System, Kaiser/HRET Employer Health Benefits Survey, 2008.

Coverage in the Non-Group Market

Unemployed workers who are unable to afford COBRA may look for coverage in the non-group market. Individuals purchase non-group coverage directly, instead of buying it through their employers, and premiums for this coverage generally vary by age, gender, state of residence and health status. Insurance policies purchased in the non-group market may be more limited than employer-sponsored insurance, with some plans not covering maternity care or having strict limits on prescription drug coverage. Deductibles and other cost sharing in non-group plans may also be higher than in employer-sponsored insurance policies.

When unemployed adults with health problems try to purchase non-group coverage, they may find that even though they previously had coverage they are either charged a higher premium because of their health status or health plans refuse to offer them coverage at any price. Some federal protections exist for those trying to purchase coverage in the non-group market, but these protections are limited and do not apply to all individuals. Federal law mandates that in each state there must be a health plan that accepts those who meet the following criteria: previously insured for 18 months and most recently had group coverage, exhausted COBRA, not eligible for a group or public insurance plan, and uninsured for less than 63 days.[6] There are no federal limits on the premiums for this coverage, although some states do have limits. In 33 states, individuals who have been denied coverage on the non-group market can purchase coverage through a high-risk pool.[7] Premiums for this coverage are typically much higher than for other non-group policies.

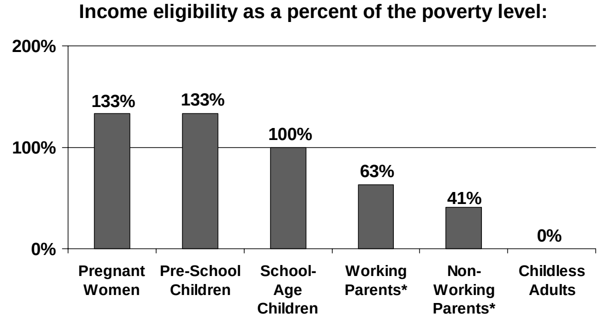
Since the cost of coverage in the non-group market is usually based on health status, it is easier for younger adults to find affordable coverage in the individual market. In 2007, 11% of young adults age 19-24 were covered by non-group insurance, compared to 5% of the overall nonelderly population.[8] In 2005, nearly three in five adults who considered buying non-group coverage had difficulty finding a plan that they could afford, and one in five were either turned down by an insurance carrier, charged a higher premium based on health status, or had a specific health condition excluded from coverage.[9]

The Role of Public Coverage During a Recession

Some individuals who lose employer-sponsored coverage during a recession are able to qualify for public coverage primarily through Medicaid and the State Children's Health Insurance Program (SCHIP). These joint federal-state programs play a crucial role during economic downturns by automatically expanding enrollment as more people qualify for the programs. Although Medicaid and SCHIP

Figure 3

Minimum Medicaid Eligibility Levels, 2008



* National median Medicaid income eligibility levels for parents in 2008.

enrollment increase during recessions, some individuals cannot qualify for these programs regardless of their income.

To qualify for Medicaid, an individual must meet financial criteria and also belong to one of the groups that are “categorically eligible” for the program, including children, parents of dependent children, pregnant women, people with disabilities, and the elderly (Figure 3). These eligibility levels typically vary by category, with children usually being much more likely to qualify for the program than their parents. The categorical limits on Medicaid also leave most childless adults without a public coverage option regardless of their income.

Medicaid has been instrumental to maintaining coverage for children in low-income families who lose access to private insurance when a parent is laid off or can no longer afford private insurance. Income eligibility thresholds for children are generally set so that most low-income children qualify for Medicaid or SCHIP. In forty-three states and the District of Columbia, the eligibility threshold for public coverage is set at or above 200% of the federal poverty level (FPL), which is about $42,000 a year for a family of four. Children on Medicaid and SCHIP have access to health care that is comparable to children with private coverage.

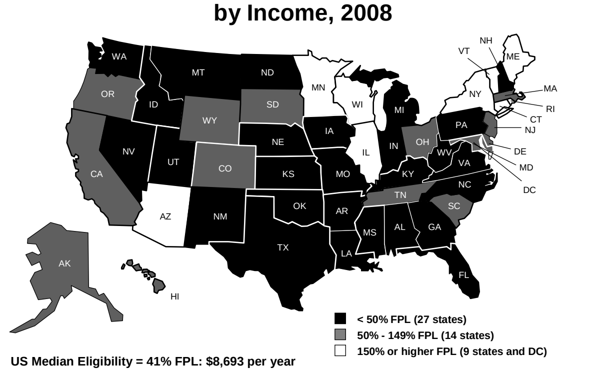
Parents whose children newly qualify for public coverage during an economic downturn may not be familiar with Medicaid and SCHIP. They may not have heard of these programs or may not realize that their children are eligible. They also may not know how to apply for public coverage and may not understand how to navigate the enrollment process.

While unemployed parents may find that their children qualify for public coverage, parents themselves may not qualify because eligibility levels for parents are often set much lower than for children. To help more parents with limited resources qualify for Medicaid, many states do not count a portion of a parent's income when making Medicaid eligibility determinations. This mechanism, known as income disregards, allows states to disregard the income that parents have to devote to work-related expenses such as transportation and child care costs. Once parents become unemployed, the income disregards on earned income no longer apply, even though unemployed parents may still accrue expenses for transportation and childcare as they look for work. However, states have the option of providing disregards against unemployment benefits.

Without the disregards on earned income, eligibility for unemployed parents is more limited than for working parents. As with eligibility for working parents, income eligibility cut-offs for non-working parents vary by state (Figure 4). In

Figure 4

Authorized Medicaid Eligibility for Non-Working Parents by Income, 2008



*The Census poverty threshold for a family of four in 2007 is $21,203 per year.
SOURCE: Based on a national survey conducted by the Center on Budget and Policy Priorities for KCMU, 2008.

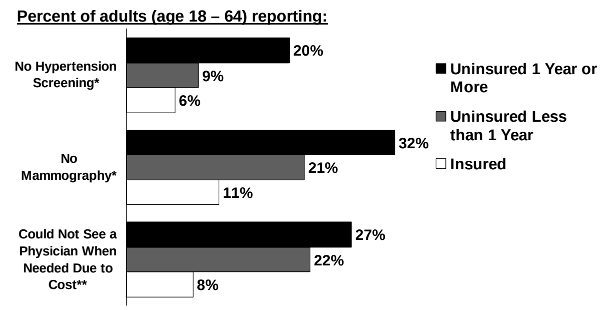
27 states the eligibility cut-off for non-working parents is set below 50% of the poverty level (about $10,600 a year for a family of four). Given current Medicaid eligibility levels, many parents may find that the income from their unemployment benefits is enough to disqualify them, and possibly also their children, from receiving public coverage. However, those unemployment benefits may not provide enough money to purchase health insurance after paying for necessities such as rent and food.

Consequences of Lapses in Coverage

Individuals who are uninsured while they are looking for work may be putting both their health and their financial security at risk. Compared to insured adults, adults who have been uninsured for less than one year are significantly less likely to receive recommended screenings and are more likely to have gone without a needed physician visit due to cost (Figure 5). These access problems occur even though these adults have been uninsured for less than a full year. Studies have found similar patterns in children who are uninsured for less than one year.[10]

Figure 5

Access to Care and Use of Preventive Screenings by Insurance Status



Note: Percentages are adjusted for demographic characteristics.
* In past two years (mammography question asked of women age 50-64 and hypertension screening asked of all adults 25-64)
** In past 12 months
SOURCE: J. Ayanian et al., 2000, "Unmet Health Needs of Uninsured Adults in the United States," *JAMA* 284(16):2061-9

When individuals become sick after losing their health coverage, they may not receive the care they need. Health providers are not required to provide care to the uninsured. Only emergency departments are required by federal law to screen and stabilize all individuals. If the uninsured are unable to pay for care in full, they are often turned away when they seek follow-up care for urgent medical conditions.[11] When the uninsured do receive care, they are typically billed for any care they receive, often paying higher charges than the insured.[12] Those bills can lead to medical debt for the unemployed, who already may be struggling to pay daily expenses on a limited income. If the uninsured forgo care to avoid medical debt, their health problems may worsen.[13] This may potentially make it harder for them to rejoin the workforce.

Even if those who lose coverage after a layoff are able to avoid needing medical care while they are uninsured, having been uninsured may continue to have consequences once they regain coverage. If an individual is uninsured for 63 days or more, pre-existing condition exclusions can be imposed by their new health plan for most health conditions for which treatment, advice or diagnosis were received in the six months prior to enrolling in an employer-sponsored insurance plan.[14] Insurers can typically refuse to cover medical care related to pre-existing conditions for up to one year after an individual starts a new job with health benefits.

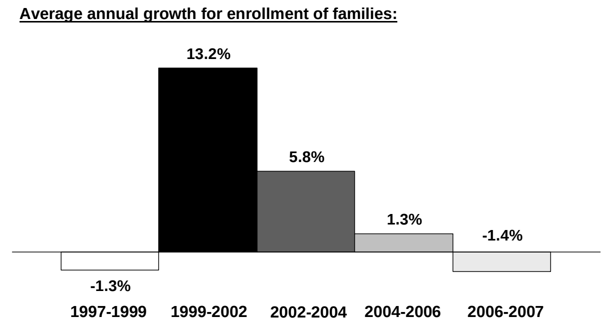
The 2001 Recession

During the previous recession, a rise in unemployment translated into an increase in the uninsured rate as employer-sponsored coverage declined. From 2000 to 2002, the uninsured rate for adults increased from 17.9% to 19.6%, representing an increase of 3.9 million in uninsured adults.[15] During that same period, the unemployment rate rose from a low of 3.8% to a high of 6.0%.

There was no change in the uninsured rate among children during the 2001 recession because the decrease in private coverage was primarily offset by an increase in coverage through Medicaid and SCHIP. Medicaid enrollment increased much more quickly during the 2001 recession and in its aftermath than in earlier and later periods when the economy was stronger (Figure 6).

Figure 6

Medicaid Enrollment Growth
Average Annual Growth Rates, 1997-2007



SOURCE: KCMU and Urban Institute estimates based on KCMU Medicaid enrollment data collected by Health Management Associates from 44 states, inflated proportionally to national totals, 2008.

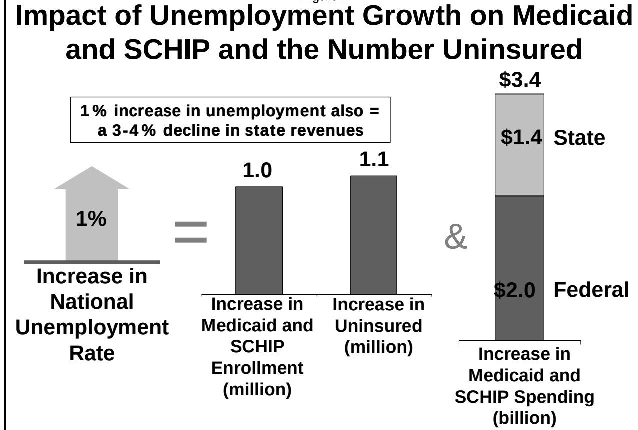
In 2003, states received additional federal aid to help fund the increases in Medicaid enrollment through a program of federal fiscal relief. This $20 billion of federal funds in the form of grants and a temporary increase in the federal share of Medicaid spending helped states to balance their budgets and maintain coverage. However, this funding came about two years after the recession began, leaving many states to make cuts to the program earlier in the recession to try to control costs as enrollment grew. Once states began receiving the additional federal funds, they were required to maintain eligibility levels. However, states were permitted to make other cuts to the program, such as reducing benefits or adding administrative hurdles that delay or make enrollment more difficult. In 2003 and 2004, all states and Washington, DC implemented at least one cost containment measure.[16] Federal fiscal relief was not extended to SCHIP, which is a capped program, and in 2003 six states froze enrollment in SCHIP.[17] This enrollment freeze meant that children in those states whose family incomes were low enough to make them eligible for the program were not covered.

The Current Recession

The recession that began in late 2007 has already led to increases in unemployment. From November 2007 to October 2008, the number of unemployed people in the U.S. increased by 2.8 million to 10.1 million and the unemployment rate reached 6.5%. Additionally, 2.3 million of the unemployed have been looking for work for 27 weeks or longer. These job losses are hitting most sectors of the economy.

As in the 2001 recession, increases in unemployment will likely lead to an increased number of uninsured. Recent analysis predicts that each 1 percentage point increase in unemployment will lead to 1.1 million more uninsured adults (Figure 7).[18] The number of uninsured children, however, is not projected to increase significantly as long as states maintain their public coverage programs, since children who lose private coverage are usually eligible for Medicaid or SCHIP.

Figure 7

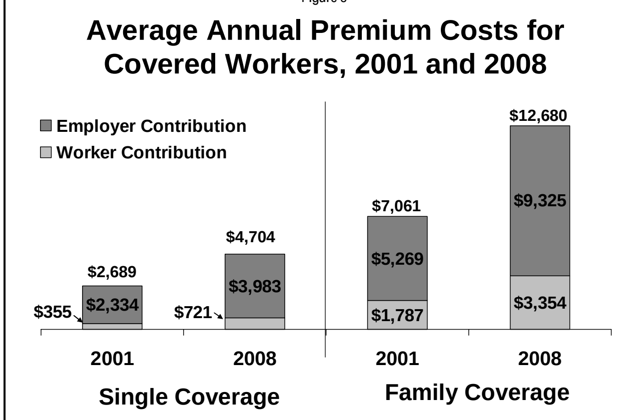


Source: Stan Dorn, Bowen Garrett, John Holahan, and Aimee Williams, Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses, prepared for the Kaiser Commission on Medicaid and the Uninsured, April 2008

The rise in unemployment and resulting increase in Medicaid and SCHIP beneficiaries will likely strain states, since they are required to balance their budgets. Each 1 percent increase in unemployment is expected to result in a $1.4 billion increase in spending for the states' share of Medicaid and SCHIP. Additionally, a 1 percent rise in unemployment also leads to a 3 to 4 percent decline in state revenues.

Since 2001, the cost of employer-sponsored insurance has increased more rapidly than wages (Figure 8). This will make it more difficult for workers who become unemployed in 2008 and 2009 to afford to continue purchasing coverage through COBRA. Additionally, more workers are now working part-time.[19] In many states part-time workers do not qualify for unemployment benefits and therefore would likely find it very difficult to pay for health coverage after becoming unemployed.

Figure 8



Family coverage is defined as health coverage for a family of four.
SOURCE: Kaiser/HRET Employer Health Benefits Survey, 2008.

Even families who do not experience a layoff may find it more difficult to afford the premiums and cost-sharing associated with their private insurance. Some employees will see their wages cut when their hours are reduced by employers looking to lower payroll costs. Also, some employers may try to save money by shifting more of the costs of health insurance to employees.

Over the past ten years, the share of adults that have problems affording health care has risen.[20] About one in three Americans in 2008 report their family had problems paying medical bills in the past year, up from about a quarter saying the same two years ago.[21]

Outlook

The current recession is expected to continue in 2009, leaving more people struggling to find affordable coverage. As workers lose their jobs, many will be unable to afford COBRA or find coverage on the individual market. While many children who lose employer-sponsored insurance will become eligible for Medicaid or SCHIP, their parents and other adults are much less likely to qualify for public coverage.

If states were able to expand Medicaid to more adults and reach all eligible children, the program could help soften the shock of the recession for many families. However, in the absence of additional federal aid, states may instead try to contain Medicaid enrollment as they confront declines in their tax revenue and an increase in the number of people eligible for the program. States face additional uncertainty as the number of children eligible for SCHIP expands due to the recession. Currently federal funding for SCHIP runs through March 2009. A timely SCHIP reauthorization with long-term and expanded funding will help states cope with the rising number of children losing private coverage. As Congress considers another economic stimulus package, providing fiscal aid to states through Medicaid and SCHIP could both help them meet the increasing needs of residents trying to find affordable health insurance and maintain coverage during this recession.

[1] Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey.

[2] Claxton, G., et al., "Health Benefits In 2008: Premiums Moderately Higher, While Enrollment in Consumer-Directed Plans Rises in Small Firms," *Health Affairs* 2008; 27(6): w492-w502.

[3] Kaiser Family Foundation and Health Research & Educational Trust. *2008 Kaiser/HRET Employer Health Benefits Survey*, 2008 (#7790).

[4] Jacobs, P.D., Claxton, G., "Comparing The Assets Of Uninsured Households To Cost Sharing Under High-Deductible Health Plans," *Health Affairs* 2008: 27.3.w214.

[5] State of Colorado, Colorado Internet Unemployment Claims System, available at: http://www.coworkforce.com/uibEstimator/

[6] National Endowment for Financial Education, *Understanding Private Health Insurance*, 2006.

[7] A high-risk pool also exists in Florida, but it is closed to new beneficiaries. More information about high-risk pools is available at The National Association of State Comprehensive Health Insurance Plans website: http://www.naschip.org/

[8] Hoffman, C., Schwartz, K. and Tolbert, J., *The Uninsured: A Primer*, Kaiser Commission on Medicaid and the Uninsured, 2008 (#7451).

[9] Collins, S.R., et al., "Squeezed: Why Rising Exposure to Health Care Costs Threatens the Health and Financial Well-being of American Families," The Commonwealth Fund, 2006.

[10] Olson, L.M., Tang, S.S. and Newacheck, P.W., "Children in the United States with Discontinuous Health Insurance," *New England Journal of Medicine*, 2005; 353(4).

[11] Asplin, B., et al, "Insurance Status and Access to Urgent Ambulatory Care Follow-up Appointments," *JAMA*, 2005; 294(10):1248-54.

[12] Anderson, G., "From 'Soak The Rich' To 'Soak The Poor': Recent Trends In Hospital Pricing." *Health Affairs*, 2007; 26(4): 780-789.

[13] Schwartz, K., "How Trends in the Health Care System Affect Low-Income Adults: Identifying Access Problems and Financial Burdens," Kaiser Commission on Medicaid and the Uninsured, 2007 (#7705).

[14] More details on pre-existing condition exclusions for individuals who regain employer-sponsored coverage are available at: "Frequently Asked Questions about Portability of Health Coverage and HIPAA" http://www.dol.gov/ebsa/faqs/faq_consumer_hipaa.html (accessed Nov. 24, 2008).

[15] Holahan, J. and Wang, M., "Changes In Health Insurance Coverage During The Economic Downturn: 2000-2002," *Health Affairs*, 2004; w4.31.

[16] Wachino, V., O'Malley, M. and Rudowitz, R., *Financing Health Coverage: The Fiscal Relief Experience*, Kaiser Commission on Medicaid and the Uninsured, 2008 (#7434).

[17] Ross, D.C. and Cox, L., "Out In The Cold: Enrollment Freezes in Six State Children's Health Insurance Programs Withhold Coverage from Eligible Children," Kaiser Commission on Medicaid and the Uninsured, 2003 (#4159).

[18] Dorn, S., "Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses," Kaiser Commission on Medicaid and the Uninsured, 2008 (#7770)

[19] Cunningham, P., Artiga, S. and Schwartz, K., "The Fraying Link Between Work and Health Insurance: Trends in Employer-Sponsored Insurance for Employees, 2000-2007," Kaiser Commission on Medicaid and the Uninsured, 2008 (#7840).

[20] Hoffman, C. and Schwartz, K., "Trends in Access to Care Among Working-Age Adults, 1997 – 2006," Kaiser Commission on Medicaid and the Uninsured, 2008 (#7824).

[21] Kaiser Family Foundation, " Kaiser Health Tracking Poll: Election 2008 – October 2008."

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