kaiser commission on medicaid and the uninsured

COVERAGE BASICS

THE HENRY J. KAISER FAMILY FOUNDATION

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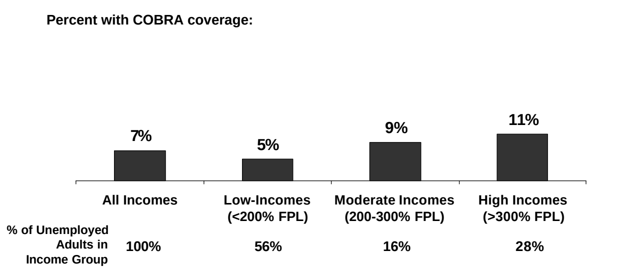
COBRA Coverage for Low-Income Unemployed Workers

Because most Americans (65%) receive their health insurance through an employer, losing or leaving a job often means losing or changing health coverage. In 1985, Congress adopted legislation under Title X of the Consolidated Omnibus Budget Reconciliation Act (PL 99-272), commonly referred to as COBRA, to help workers and their families maintain health coverage when they change or lose their jobs. Although COBRA has helped many maintain coverage during difficult times, only 7 percent of unemployed workers and their families used COBRA in 1999 (Figure 1). Eligibility requirements and the high cost of COBRA coverage limit participation, particularly for low-income, unemployed workers.

Figure 1

COBRA Participation Among Unemployed Adults, by Income, 1999



SOURCE: Zuckerman, Haley, and Fragale, 2001.

Overview of Relevant COBRA Provisions

COBRA requires that group health plans, including self-insured plans, offer qualified part-time and former employees and their spouses and dependents the opportunity to pay for continued coverage under certain conditions.

Who is eligible and how much does it cost? Individuals qualify for COBRA if they have been working for a firm with 20 or more employees and they leave their job or their hours of work are reduced for any reason other than gross misconduct. COBRA allows qualified individuals to purchase coverage under their former employer's group health plan at full cost (meaning that they must continue to pay their own as well as their employer's share of the premium), plus two percent to cover administrative expenses.

COBRA premiums were typically about $400 per month nationally in 2000 (averaging lower cost individual coverage with family coverage premiums). The option is available to the terminated worker, his or her spouse, and dependents, if they were covered by the employer plan while the worker was employed. Individuals who were not offered health insurance by their employers or who were offered coverage but did join the plan are not eligible. Under COBRA rules, workers do not have to be unemployed in order to qualify for COBRA; some workers elect COBRA and continue even after they find a new job.

How is COBRA administered? Qualified individuals must be notified of their COBRA eligibility by the group health plan within 14 days of the employer informing the plan of a "qualifying event." The employer has 30 days after the event to do so if the plan is not self-administered. Qualified individuals then have 60 days to elect COBRA coverage. The election may be made separately by any of the family members who qualify for COBRA.

Premiums (102% of the full cost of coverage) are paid to the plan monthly, with the first payment due within 45 days of electing COBRA. Payments can be made by third parties, such as a state Medicaid agency, the worker's union, or a new employer. Benefits remain identical to those provided to employed individuals currently covered by the employer group plan. COBRA eligibility is generally limited to 18 months, with an additional 11 months of coverage available at 150 percent of the cost of the premium if the qualified individual is or becomes disabled.

COBRA Limitations

COBRA has been an important bridge providing health coverage between jobs for eligible workers. In 1999, roughly 4.7 million people – one in five of those eligible for COBRA – elected COBRA coverage. This number includes former employees and their spouses and dependents. Roughly one in four of the eligible spouses and dependents selected the option in 2000.

While COBRA has played an important role for many who lose or change jobs, there are several major limitations to the COBRA option.

Firm size limitations. Individuals and families of individuals who worked for firms employing fewer than 20 workers are not eligible for the federally-established COBRA option. In 1999, nearly 39 million workers were employed in firms with fewer than 25 workers. However, 38 states have extended the COBRA option to small firms in their states, usually for periods less than 18 months. In these states, the option is available without regard to firm size so long as the plan is not self-insured. Self-employed workers are also not eligible for COBRA.

Only previously insured individuals are eligible. COBRA coverage is available only to individuals who were covered under the employer plan the day before the worker lost his or her job. Workers and their spouses and dependents who were either not offered job-based coverage or were offered coverage but could not afford to take up the offer do not qualify for COBRA.

This limitation on the COBRA option disproportionately impacts low-wage workers and their families as the likelihood of having job-based coverage is highly dependent on income. In 1999, only 38 percent of workers with incomes below 200% of the federal poverty level (about $42,000 for a family of three in 1999) had

1450 G STREET NW, SUITE 250, WASHINGTON, DC 20005
PHONE: 202-347-5270, FAX: 202-347-5274, PUBLICATIONS: 1-800-656-4533
WWW.KFF.ORG