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Health Insurance for Laid-Off Workers: A Time for Action

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As the new Congress begins its work, the most recent government statistics show that more than eight million Americans now seek but cannot find work. Unemployment rates among Hispanics (7.8 percent) and Blacks (10.3 percent) exceed the national unemployment rate of 5.7 percent. During each of the past 15 months, the number of unemployed has exceeded 8 million. The Congressional Budget Office forecasts continued unemployment at current or slightly higher levels throughout 2003 and 2004.

Federal policymakers have shown bipartisan responsiveness to the urgent problems of these laid-off workers. Although some question whether it fully meets workers' needs, an extension of Unemployment Insurance (UI) was enacted as the new Congress' first order of business and immediately signed by President Bush.

Federal officials have a similar opportunity to help laid-off workers retain their health insurance while they are without a paycheck. Last year, both the Bush Administration and Congressional Democrats proposed investing approximately \$7 billion a year in short-term health coverage assistance for laid-off workers. However, philosophical disagreements about how to provide coverage could not be resolved in time to include health assistance in the final economic stimulus legislation. Last August, Congress and the Bush Administration revisited and resolved these issues in the Trade Act of 2002, P.L. 107-210, which provides federal income tax credits covering 65 percent of health insurance premiums for laid-off workers displaced by foreign competition.

Laid-off workers are not the only uninsured Americans who need help, and other incremental coverage expan-

sions are also worth considering. Nevertheless, a confluence of factors makes this an opportune time to target laid-off workers for help. Unemployment levels are high and unlikely to drop substantially any time soon; health coverage assistance for laid-off workers passed the House several times during the last Congressional session and won a majority of votes in the Senate; and in the Trade Act, bipartisan leaders agreed on policy solutions for a subset of laid-off workers that could serve as the basis for a larger expansion.

Accordingly, this report explains the benefits of providing health coverage to involuntarily unemployed workers. It then identifies several ways policymakers could build on the Trade Act and cover laid-off workers using practical methods with elements that appeal to multiple schools of thought. Finally, the report explores why such assistance comprises good health policy.

The need for assistance

For many workers, a lay-off ends health insurance. If their former employers are covered by COBRA or state mini-COBRA laws, unemployed workers can continue their employer-sponsored insurance, but only by paying the full health insurance premium. That now averages \$663 a month for family coverage and \$255 for individual coverage. With unemployment benefits averaging \$1122 a month, few laid-off workers can afford to pay these premiums, so many become uninsured. While 65 percent of all workers qualify for COBRA, only 7 percent of those who lose their jobs enroll in COBRA. More than 46 percent of unemployed workers lack health coverage, according to the Census Bureau. Thus, of America's 8.3

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million currently unemployed workers, approximately 3.9 million are uninsured.

Numerous Americans would benefit from health coverage assistance for laid-off workers. Most of the 3.9 million currently unemployed and uninsured Americans who are the initial recipients of health assistance will eventually find new jobs, and their subsidies will end. Their place will be taken, however, by other workers who lose employment and health coverage. Under recent economic conditions, over 1.5 million Americans lose their jobs monthly, according to the Bureau of Labor Statistics. More than 690,000 of these workers also lose their health coverage (over 20,000 a day). During a three month period, more than 2 million newly laid-off and uninsured workers (and their families) would thus benefit from health coverage assistance, even with a stable aggregate number of unemployed persons.

The problem is greater now than during last year's federal stimulus debate. At that time, policymakers ranging from President Bush to then-Majority-Leader Daschle pledged to help laid-off workers obtain health coverage. Unemployment averaged 5.5 percent during that period. Since then, unemployment has increased. In the last six months, unemployment has averaged 5.8 percent. Long-term unemployment, which substantially depletes household resources and thus is particularly likely to involve a loss in health coverage, has grown more dramatically. The number of workers unemployed for six months or more, for example, rose by 54 percent, from an average of 1.1 million during the previous stimulus debate to an average of 1.7 million in the last six months. Unemployment now averages 18.4 weeks duration, or more than four months.

Even short-term losses of health coverage can have serious consequences. Under the federal HIPAA law, losing health insurance for as few as 63 days permits the next health insurer to exclude coverage of preexisting conditions for up to 12 months, which can cause grim results for laid-off workers and their family members with chronic illness. In 2001, among workers uninsured for short periods of time (generally six or fewer months), 37 percent had been contacted by a collection agency seeking payment of medical bills, 31 percent could not see a doctor when they got sick, and 35 percent did not fill prescriptions because of cost.

In responding to these problems, helping unemployed workers buy health insurance would direct resources to individuals harmed by economic slowdown. Health insurance assistance would be targeted to workers suffering economic loss and lack of health insurance, whatever their industry or geographic area.

The total amount of health insurance subsidies for laid-off workers would adjust automatically both to increased needs and to improved economic conditions,

without cumbersome and centralized policymaking. Automatically, new federal resources would enter regions and employment sectors experiencing job loss. As workers find new jobs, the subsidies would end. Such automatic stabilizers do not involve the delays that almost inevitably plague decisions to start or stop new spending made by officials responding as best they can to observed economic changes.

The public strongly supports helping laid-off workers retain health coverage. National surveys conducted in October 2001 found more public support for health coverage than for any other form of expanded assistance to recently unemployed workers. Health coverage for such workers was supported by 91 percent of Americans, including 94 percent of Democrats, 90 percent of Republicans, and 93 percent of Independents.

The Trade Act may provide a base on which to build bipartisan policy

Trade legislation gives workers displaced by trade liberalization a federal income tax credit covering 65 percent of health insurance premiums. The credit is fully refundable, so it is available whether or not households owe federal income tax. Beginning in August 2003, the credit can be paid in advance to insurers, as premiums come due. Workers can use credits to enroll in (1) insurance offered by former employers under COBRA; (2) nongroup coverage, if workers had such coverage during their final 30 days of employment; and (3) coverage available, under certain circumstances, from employers of displaced workers' spouses.

With some revisions, these elements of Trade Act legislation could be incorporated into a broader credit for involuntarily unemployed workers generally, whether or not their layoffs were due to trade policy. In expanding this tax credit, policymakers would need to decide such questions as whether to limit credits to UI recipients or extend them to other involuntarily unemployed workers. For example, some workers are ineligible for UI because, although they worked as many hours as other UI recipients, their jobs paid low wages, so their total earnings did not meet their state's requirements for UI.¹

Many laid-off workers lack access to the three forms of coverage described above, so more options for using tax credits are necessary. The Trade Act addressed this concern by creating a fourth category of coverage for which tax credits could be used: namely, certain health plans contracting with state government. However, states are not yet moving quickly to contract with such plans. There is a very good chance that the next year or two will see many tax credit beneficiaries with nowhere to take their credits. In addition, disagreements have emerged over whether the statute requires states to ar-

range for group coverage or permits them to offer nongroup coverage.

Under one approach to renewed bipartisan agreement in the wake of these problems, a laid-off worker could use a tax credit to buy coverage in the current nongroup market if the worker has no access to group coverage. Tax credit beneficiaries with access to current group coverage (whether through former employers, their spouses' employers, or programs like Medicaid or SCHIP) could use credits only through such groups. This would give all tax credit beneficiaries immediate access to health coverage through existing mechanisms, without any new health plan contracts or market reforms. Such an approach would also protect COBRA and other group plans from the adverse selection that might occur if low-risk eligible workers could use their tax credits for nongroup insurance. This approach offers a bipartisan compromise by maximizing available group coverage, using the nongroup market for those who lack access to group insurance today and for whom new group arrangements may not be available soon enough to meet their needs.

Such a policy could be structured to provide needed fiscal relief for state Medicaid and SCHIP programs. The rise of unemployment from 4.5 percent to 6.0 percent was projected to increase state Medicaid enrollment by an estimated 2.4 million adults and children. The approach suggested here would help states cope with these caseload increases by providing tax credits for laid-off workers enrolled in public programs, substantially defraying public program costs for these beneficiaries. Those with access to employer coverage (through COBRA or spouses) would have two choices. They could use tax credits to retain private insurance and (in many cases) ongoing relationships with current providers, and Medicaid would furnish supplemental coverage. Alternatively, they could shift to the standard public program. Beneficiaries without access to employer coverage, on the other hand, would use their credits in the only group available to them – namely the standard public program. In all cases, credits would cover 65 percent of costs for laid-off workers and their dependents. The remaining 35 percent would be paid by the state (with standard federal match), along with any household premium contributions under the public program. This approach would neither expand nor contract Medicaid eligibility or covered services. It would, however, provide states with increased funding specifically targeted to caseload growth resulting from lay-offs.

Offering new tax credits for laid-off workers would increase the urgency of developing better coverage arrangements than those offered by the current nongroup market. Federal policymakers could address this limitation by providing grants to help states offer laid-off workers coverage comparable to what federal workers

receive through the Federal Employees Health Benefits Program (FEHBP), which has significant bipartisan support. FEHBP incorporates some of the appealing features of nongroup insurance, including consumer choice among many competing options, openness to innovation, financial inducements for consumers to select lower-priced coverage, and market incentives as the primary force encouraging good coverage. At the same time, it offers key advantages of group insurance, such as community rates, guaranteed issue, and comprehensive benefits. States could offer such coverage themselves, as California has done with its well-known CALPERS system; or contract with the federal government to offer state residents FEHBP-type coverage, as has been done with some D.C. government workers.

Although states may move faster than under the Trade Act to implement an expanded program serving a much larger group of laid-off workers, time and effort would nevertheless be required to establish FEHBP-type structures at the state level and to develop templates for state contracts with federal authorities administering FEHBP. These new systems thus may not be the most promising vehicles for helping today's laid-off workers as soon as possible, which justifies interim use of currently available coverage. However, a FEHBP-type system could become increasingly important in 2004 and beyond to policymakers concerned about the problems of the current nongroup market, on the one hand, or limited choices available to COBRA beneficiaries, on the other. Once a state puts a FEHBP-type system in place, COBRA-eligible, state mini-COBRA-eligible, and other tax credit beneficiaries would use their credits to purchase coverage through the FEHBP-type system, with a Medicaid wrap-around option for public program eligibles who elect one of these plans. Among other results, this approach would relieve employers of many burdens associated with COBRA, while greatly improving laid-off workers' health coverage options.²

Providing health coverage for laid-off workers is good health policy

Tax credits for laid-off workers can be a valuable element of a phased-in national strategy to assist the uninsured. As suggested by the Trade Act, laid-off workers can receive effective, temporary "bridge" coverage between jobs, without a final resolution of philosophical disputes about the future evolution of health coverage.

Targeting this group for help offers several advantages. First – and perhaps most important – providing health insurance to workers losing employment would address one of the basic, structural problems of American health insurance – namely, its frequent disappearance after employment ends. Most uninsured Americans had health coverage at some recent point but then lost it,

typically because of unemployment, but sometimes for other reasons, such as aging out of a parent's policy or wage increases that exceed public program limits. Targeting these key transition points for financing to continue coverage is one of the most promising strategies to reduce the number of uninsured. And as suggested by the above-described public opinion polls showing more than 90 percent public support for aiding laid-off workers, this would address an important worry among the 165 million Americans under age 65 who have employer-based insurance – namely, that a pink slip could end their health insurance.

Helping laid-off workers obtain health coverage, regardless of the cause of their unemployment, would also remedy an inequity created by the Trade Act. It is hard to justify covering unemployed workers whose lay-offs result from foreign competition while denying help to equally needy and hard-working Americans who are laid-off for other reasons.

Moreover, a tax credit targeted to those who lose employment would not risk unraveling employer group coverage. Some policymakers fear that generous credits to assist the employed uninsured could cause some businesses to drop coverage or that young and healthy workers could disproportionately take up credits, leaving employers responsible for the higher-cost group left behind. If credits were limited to laid-off workers, such problems would not arise.

This targeting of health coverage assistance would also shore up our health care safety net at some of its weakest points. Current economic conditions have taken a toll on most state and local governments and many health care providers. Providing increased resources precisely where unemployment and rising uninsurance are greatest may be an efficient strategy to target these state and local governments' and health care providers' most serious needs.

Crucially, tax credits for laid-off workers can be structured to promote high take-up by providing assistance when and where it is needed. The short history of SCHIP illustrates that it is not enough simply to enact a system of health coverage subsidies. Potentially eligible individuals must learn of available assistance and have consumer-friendly opportunities to apply. These goals could be reached using existing infrastructure that automatically comes into play with job loss, including COBRA and mini-COBRA notices, UI application processes, and One Stop centers operated by state workforce agencies. Those mechanisms could incorporate information about tax credits and public coverage, as well as application materials and easy (or even default) enrollment mechanisms. State workforce agencies could determine eligibility for credits as part of the UI applica-

tion process, even if credits were available to workers ineligible for UI because of such factors as prior low-wage employment. Equally applicable to the approaches discussed here is last year's Bush Administration testimony supporting refundable and advanceable tax credits for laid-off workers: "Because [such an approach] builds on the existing infrastructure of programs to assist displaced workers, and because it strengthens all of the coverage options available to displaced workers now, it can be fully implemented in a matter of a few months."

From a more long-term perspective, this approach would provide experience using tax credits to subsidize both group and nongroup coverage for uninsured Americans. Without placing at risk beneficiaries of current coverage systems, this could safely provide useful information to guide future reforms, satisfying important criteria for incremental health coverage expansions.

Conclusion

New and effective measures to assist the uninsured are increasingly necessary. Serious health care inflation is back, endangering both the adequacy of employer-sponsored benefits and risking further coverage losses. A weakened economy is harming workers' jobs and earnings. The number of uninsured, already above 41 million, is again on the rise, because of both job loss and Medicaid cutbacks. Leaders in both parties need to find a way to move forward on this issue. Health insurance tax credits for laid-off workers, built around the Trade Act compromise, could help millions of deserving, uninsured Americans and may be one of the most promising options for bipartisan action.

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Unemployment by State, December 2002

State	Unemployment rate	Number of unemployed
Alabama	5.8%	125,800
Alaska	7.4%	24,700
Arizona	5.6%	139,300
Arkansas	5.1%	65,100
California	6.6%	1,164,600
Colorado	5.5%	129,400
Connecticut	4.6%	80,000
Delaware	3.9%	16,100
D.C.	6.6%	17,800
Florida	5.3%	411,600
Georgia	4.8%	203,600
Hawaii	4.2%	24,900
Idaho	5.6%	38,600
Illinois	6.4%	398,400
Indiana	4.8%	148,900
Iowa	3.9%	63,000
Kansas	4.6%	66,100
Kentucky	5.4%	106,700
Louisiana	6.3%	127,400
Maine	4.7%	32,300
Maryland	4.1%	118,500
Massachusetts	5.2%	175,700
Michigan	5.9%	301,600
Minnesota	3.9%	111,100
Mississippi	6.7%	87,800
Missouri	4.9%	144,800
Montana	4.2%	20,200

State	Unemployment rate	Number of unemployed
Nebraska	3.4%	32,900
Nevada	5.0%	52,400
New Hampshire	4.8%	33,900
New Jersey	5.5%	236,000
New Mexico	5.9%	51,200
New York	6.3%	564,000
North Carolina	6.4%	254,100
North Dakota	3.0%	10,000
Ohio	5.3%	314,200
Oklahoma	4.7%	79,100
Oregon	7.0%	127,200
Pennsylvania	6.0%	369,300
Rhode Island	5.4%	27,300
South Carolina	6.0%	122,000
South Dakota	3.0%	12,300
Tennessee	4.7%	134,200
Texas	6.2%	668,900
Utah	5.6%	63,600
Vermont	4.2%	14,600
Virginia	3.9%	146,300
Washington	6.8%	209,000
West Virginia	5.6%	45,300
Wisconsin	5.4%	166,100
Wyoming	4.4%	12,000

Notes: December 2002 numbers are preliminary. For final November 2002 state numbers, see <http://www.bls.gov/news.release/laus.t03.htm>.

Source: Bureau of Labor Statistics, 1/28/03 (seasonally adjusted results).

Notes

¹ As an example of other policy questions worth addressing while expanding health insurance tax credits, many low-income, unemployed workers could have difficulty paying 35 percent of health insurance premiums. To give them additional help without new means-testing, supplemental assistance could go to credit beneficiaries who receive other income-related benefits. Parents could qualify for extra help by showing that their children are enrolled in Medicaid or SCHIP. Childless adults could show that they receive food stamps, subsidized housing, fuel assistance, earned income tax credits, etc.

² Among the issues requiring policy analysis beyond the scope of this short paper are preserving unemployed workers' incentives to find new work, preventing significant tax relief from going to laid-off workers who would have received private insurance even without credits, and preventing uncapped tax credits from costing excessive amounts. See the annotated version of this paper, which is available at www.esresearch.org/newsletter/january03/stan_lynn_long.pdf.