

# Covering America

REAL REMEDIES  
FOR THE UNINSURED

Economic and Social Research Institute

## ISSUE ALERT

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### Health Coverage for Laid-off Workers: Searching for Common Ground

*by Stan Dorn and Jack A. Meyer*

During the federal stimulus debate, a broad range of policymakers agreed on investing significant resources to provide health coverage to uninsured, laid-off workers. Lawmakers disagreed, however, whether coverage should be offered in part through the private, non-group market or some combination of employer-sponsored coverage, Medicaid, and the State Children's Health Insurance Program (SCHIP). As a result, health coverage was left out of the final bill. At least in part, this dispute appeared to reflect broader, philosophical disagreements about private vs. public solutions.

The problem has not gone away. More than eight million Americans are still unemployed.<sup>1</sup> Two in five unemployed workers and many of their dependents lack health coverage.<sup>2</sup> The first two months of this year alone, more than 400,000 workers suffered large-scale lay-offs.<sup>3</sup> In March 2002, unemployment reached 5.7 percent, only slightly below its 5.8 percent peak in December.<sup>4</sup> Even though economic recovery apparently has begun, the Federal Reserve Board projects unemployment in the range of 6 percent to 6.25 percent by the end of 2002.<sup>5</sup>

In March 2002, the average duration of unemployment was 15.4 weeks, but many had been unemployed longer, including 1.2 million people out of work for more than six months.<sup>6</sup> More than half a million had been unemployed for over a year.<sup>7</sup> Even brief periods without coverage can cause workers and their families to go without necessary health care and create significant financial problems.<sup>8</sup> Moreover, under federal rules, a worker uncovered for just 63 days can later be denied coverage of pre-existing

conditions for 12 to 18 months after health coverage restarts, threatening ongoing harm to short-term unemployed workers and family members with chronic illness.

To address this problem while bridging previous disagreements, Congress could provide unemployed workers with affordable coverage using policies that integrate elements appealing to different schools of thought. Those elements include federal income tax credits, the private, non-group health insurance market, employer coverage, and public programs like Medicaid and SCHIP. This paper describes in general terms two such hybrid approaches, suggesting various possibilities for structuring each approach to help laid-off, uninsured workers without undermining current systems of coverage.

For purposes of analysis, we assume that one objective would be to provide access to coverage at least as generous as what employers typically offer. Such coverage could facilitate continuity of care among those formerly covered by employers.<sup>9</sup> Moreover, evidence suggests that relatively broad coverage improves access to primary care, preventive services, and early treatment of illness; and that most workers and employers offered "bare bones" coverage in the past have not taken it up.<sup>10</sup>

The point of this discussion is not to advocate any of the assorted policies described below. Rather, this paper seeks to illustrate that pragmatic approaches to helping laid-off workers obtain affordable health coverage could be made attractive to people with different perspectives and policy preferences.

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*Option #1, consumer choice: Let laid-off workers use refundable tax credits to choose the public or private system that works best for them.*

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This first approach would resolve the philosophical impasse by letting affected individuals choose between public and private alternatives. Here are two key elements:

- **Tax credits usable in the private, non-group market.**

This market offers a remarkably broad range of plans from which many workers could pick coverage that fits their individual circumstances. Under this option, Congress could perhaps avoid regulating the non-group market within a subsidy system for laid-off workers, because such workers unhappy with that market could use their credits to obtain comprehensive, affordable coverage elsewhere, as explained below.

- **Tax credits usable for comprehensive group coverage, including through public programs like Medicaid and SCHIP.**

Many laid-off workers, particularly at lower income levels, do not qualify for former employer coverage through COBRA or “mini-COBRA” laws adopted in 38 states. To give all tax credit beneficiaries access to broad coverage, tax credits could be made usable through not only COBRA but also groups not sponsored by former employers. Such groups could include the Federal Employees Health Benefits Program (FEHBP), state Medicaid and SCHIP programs, and state-chosen groups such as purchasing cooperatives, public employee plans, etc.

For FEHBP to be a viable option, existing FEHBP enrollees would need to be insulated from possible adverse effects, particularly increased claims costs that would result if sicker-than-average unemployed people tended to enroll. One strategy would place tax credit enrollees into a separate pool, with new federal funds paying any increased costs over each plan’s usual FEHBP premiums for federal workers. Such an approach would not be entirely unprecedented. FEHBP has covered diverse groups outside civilian federal employment, including military retirees, former spouses of federal workers, and D.C. schoolteachers.<sup>11</sup> Many key administrative functions could be handled by the Office of Personnel Management, which runs

FEHBP, and state workforce agencies, which could determine eligibility for credits, help laid-off workers choose a plan, deduct worker premium payments from unemployment benefits, etc.

If tax credit beneficiaries could enroll in Medicaid and SCHIP, states could likewise be insulated from new costs, as explained below. Such enrollment could help unemployed, low-income parents join health plans together with their children, most of whom already qualify for these programs. This could increase the number who sign-up for coverage and simplify the process of seeking care. States might also be allowed to give Medicaid and SCHIP beneficiaries in families with laid-off workers a choice to use the tax credit system, with firewalls in place as described below.

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*Option #2, different programs for different groups: Tax credits for higher-income, laid-off workers, and public programs for lower-income, laid-off workers.*

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To bridge the philosophical gulf, this approach would use both subsidy systems, applying each to the population most familiar with it. Important features include:

- **Medicaid and SCHIP for lower-income unemployed.**

Laid-off workers with incomes below a designated level would qualify for Medicaid or SCHIP. Federal law could set either a single, nationwide standard or a “default” minimum level that states would have the option to raise.

- **Tax credits for higher-income unemployed.** Those with incomes above the designated level could receive tax credits to buy insurance through the non-group market, former employers covered by COBRA, or other groups available under current law or offered by states. Such credits could decline with income, starting at high percentages of premium costs for families with income just above the cutoff for public programs. Alternatively, credits could stay at one level for all higher-income unemployed.

- **Immediate coverage.** To prevent health care delays while government agencies sort out which program is responsible for a particular person, subsidy applicants could

### **Tax credits for laid-off workers are unlikely to endanger employer-based coverage**

Many quite reasonably fear that broad health insurance tax credits for all the uninsured, employed and unemployed alike, could encourage young and healthy employees to shift from employer coverage into the non-group market. This would leave behind a sicker group, increasing firms’ health costs. Such fears are probably unfounded, however, if tax credits are limited to laid-off workers. The unemployed have no present employer to leave. Some young and healthy laid-off workers could be tempted to abandon employer coverage available through working spouses, but the effect on companies’ total health costs would be minor. Young and healthy laid-off spouses comprise only a small percentage of any given employer’s total health insurance pool. Moreover, many laid-off workers would likely prefer to stay with their spouse’s coverage, both for continuity of care and to avoid delays restarting employer coverage after tax credits end. In any event, policymakers could deny or scale back credits for laid-off workers who admit they have access to dependent coverage subsidized by a family member’s employer. Such policies would have the additional effect of focusing federal dollars on covering the uninsured rather than subsidizing laid-off workers with health coverage.

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immediately receive tax credits or be enrolled in their state's public program, based on an initial income evaluation. Using current models, financial reconciliation among government agencies could happen later, after laid-off workers begin receiving coverage.

An earlier publication in the *Covering America* series analyzed a similar hybrid proposal aimed at a much larger group of uninsured.<sup>12</sup>

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*Each approach would need to address important design challenges.*

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Following is a partial list:

- **No new state costs.** Just as federal dollars would fund all subsidy costs for tax credits, so the federal government could pay all costs for Medicaid and SCHIP expansions under option 2 and, together with worker premium payments, all costs for buying into these programs under option 1. Such funding may be necessary for states with major budget shortfalls to expand or revise these programs.
- **Incentives for rapid state action.** Powerful financial incentives may also be needed for states to overcome normal hurdles to quick policy change and act (whether opening programs to credits or implementing expansions) by a specific, early date. For example, states that met their target dates under either option could receive new health care block grants or enhanced federal match rates for all their Medicaid and SCHIP beneficiaries.
- **Substantial assistance for laid-off workers with little or no discretionary income.** Programs helping low-income workers purchase health coverage have found that few enroll if asked to pay more than small amounts.<sup>13</sup> For such workers to use tax credits under option 1 and purchase insurance resembling typical employer-sponsored coverage, credits would need to cover more premium costs than under most recent federal proposals. To control federal spending, credits could shrink for higher-income families, as they do under many broader health insurance tax credit proposals and the current Earned Income Tax Credit. With option 2, public programs would cover all or virtually all premium costs for low-income beneficiaries.
- **Firewalls to keep credits from replacing Medicaid and SCHIP.** States facing budget problems could have an incentive to move current beneficiaries from these two programs, which states partially fund, into tax credits financed exclusively by the federal government. If children and other vulnerable populations were forced out of their current public coverage into a tax credit system, continuity of care could be disrupted, and federal dollars intended for the uninsured would turn into state fiscal relief. If the new, untested system experienced glitches, some public program beneficiaries could lose benefits, experience increased costs, or fall through the cracks and be dropped from coverage. To prevent this, the financial incentives described above could be conditioned on states

retaining prior eligibility rules; tax credit applicants could be screened for Medicaid and SCHIP eligibility and enrolled if eligible; and states could be required to retain current levels of financial responsibility for any Medicaid and SCHIP eligibles given tax credits. Less rigorous safeguards might suffice under option 2, if public programs, rather than tax credits, were available throughout the income range served by these programs.

- **Income measurement.** Some of the ideas mentioned above require assessing laid-off workers' income, which necessarily involves some administrative complexity and risk of error. Using existing institutions could simplify this process somewhat. For example, family income could be checked using recent earnings data within reach of state workforce agencies, supplemented by federal income tax information and application forms completed by laid-off workers seeking health coverage.
- **Assistance for involuntarily unemployed workers not receiving unemployment insurance (UI).** Subsidies could cover, not just UI recipients and those whose UI has expired, but also involuntarily unemployed workers denied UI because they worked at low-wage jobs not meeting earnings requirements for UI; they seek only part-time work; or they recently entered or rejoined the workforce, and their state's UI program does not count their most recent earnings.

## Final comments

Some may believe that, with the economy in apparent recovery, deficit reduction should be a higher priority than providing health coverage for laid-off workers, most of whom will regain employment within months. Others may question whether laid-off, uninsured workers are the right group to target for coverage expansions. For example, policymakers could focus instead on the lowest income uninsured Americans, including both employed and unemployed workers ineligible for government assistance today. Prioritizing the latter group, rather than uninsured, laid-off workers at all income levels, could focus resources more equitably based simply on families' inability to afford coverage. In addition, such an approach would value work more than subsidies limited to the unemployed and help people suffering greater harm because of longer periods without insurance.

That said, one striking feature of the stimulus debate was the bipartisan agreement to invest tens of billions of dollars providing health coverage to uninsured workers laid-off, through no fault of their own, during the recent economic downturn. Such a broad consensus on domestic priorities does not happen very often. It provides an opportunity to help a large and generally needy group of uninsured Americans who have fallen through a major structural gap in the country's health coverage system, even if other groups also have compelling claims to limited public resources.

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## Notes

<sup>1</sup>Bureau of Labor Statistics (BLS). *Employment status of the civilian noninstitutional population 16 years and over, 1969 to date*. April 5, 2002. [ftp://ftp.bls.gov/pub/suppl/empsit.cpseea1.txt](http://ftp.bls.gov/pub/suppl/empsit.cpseea1.txt)

<sup>2</sup>Jeanne M. Lambrew. *How the Slowing U.S. Economy Threatens Employer-Based Health Insurance*. The Commonwealth Fund, November 2001 (37% of unemployed workers are uninsured). [http://www.cmwf.org/programs/insurance/lambrew\\_slowingeconomy\\_511.pdf](http://www.cmwf.org/programs/insurance/lambrew_slowingeconomy_511.pdf) Stephen Zuckerman, Jennifer Haley, Matthew Fragale. *Could Subsidizing COBRA Health Insurance Coverage Help Most Low-income Unemployed?* Urban Institute, October 17, 2001, [http://www.urban.org/UploadedPDF/410351\\_HPOneLine\\_2.pdf](http://www.urban.org/UploadedPDF/410351_HPOneLine_2.pdf), analyzed by Ed Neuschler and Lynn Taylor. *Covering Displaced Workers And Their Children: Issues And Alternatives*. Institute for Health Policy Solutions, January 2002 (43% of unemployed workers are uninsured). [http://www.ihps.org/Covering\\_Displaced\\_Workers+Kids.PDF](http://www.ihps.org/Covering_Displaced_Workers+Kids.PDF)

<sup>3</sup>BLS. *Mass layoff events and initial claimants for unemployment insurance, January 2000 to February 2002*. March 28, 2002. <http://www.bls.gov/news.release/mmls.t01.htm>

<sup>4</sup>BLS, April 2002, *supra*.

<sup>5</sup>Board of Governors of the Federal Reserve System. *Monetary Policy Report to the Congress*. February 27, 2002. <http://www.federalreserve.gov/boarddocs/hh/2002/February/FullReport.htm>

<sup>6</sup>BLS. *Duration of unemployment*. April 5, 2002 (seasonally adjusted estimates). [ftp://ftp.bls.gov/pub/suppl/empsit.cpseea13.txt](http://ftp.bls.gov/pub/suppl/empsit.cpseea13.txt)

<sup>7</sup>BLS. *Unemployed total and full-time workers by duration of unemployment*. April 5, 2002 (estimates not seasonally adjusted of 1.383 million workers unemployed for more than 6 months, including 637,000 unemployed for more than a year). [ftp://ftp.bls.gov/pub/suppl/empsit.cpseea33.txt](http://ftp.bls.gov/pub/suppl/empsit.cpseea33.txt). BLS does not publish seasonally adjusted, monthly estimates of the number of workers unemployed for more than 52 weeks.

<sup>8</sup>Lisa Duchon, Cathy Schoen, Michelle M. Doty, Karen Davis, Erin Strumpf, Stephanie Brugman. *Security Matters: How Instability in Health Insurance Puts U.S. Workers at Risk*. The Commonwealth Fund. December 2001. [http://www.cmwf.org/programs/insurance/duchon\\_securitymatters\\_512.pdf](http://www.cmwf.org/programs/insurance/duchon_securitymatters_512.pdf)

<sup>9</sup>Neuschler, *supra*.

<sup>10</sup>Stan Dorn, Jack A. Meyer. *What coverage would laid-off workers obtain under recent tax credit proposals?* Economic and Social Research Institute. March 2002. <http://www.esresearch.org/Documents/alert2.pdf>

<sup>11</sup>Beth C. Fuchs. "Increasing Health Insurance Coverage through an Extended Federal Employees Health Benefits Program." *Inquiry*. Summer 2001. <http://www.inquiryjournal.org/cont18.html#increasing>

<sup>12</sup>Judith Feder, Larry Levitt, Ellen O'Brien, Diane Rowland. "Assessing the Combination of Public Programs and Tax Credits." *Covering America: Real Remedies for the Uninsured*. Economic and Social Research Institute. June 2001. <http://www.esresearch.org/RWJ11PDF/feder.pdf>

<sup>13</sup>Leighton Ku and Teresa A. Coughlin. *The Use of Sliding Scale Premiums in Subsidized Insurance Programs*. Urban Institute. March 1997 (empirical experience with low-income subsidy programs shows take-up rate declines from 57 to 35 to 18 percent of eligible households as workers' premium obligations rise from 1 to 3 to 5 percent of income). <http://www.urban.org/Template.cfm?Section=ByAuthor&NavMenuID=63&template=/TaggedContent/ViewPublication.cfm&PublicationID=6201> But see Mark Pauly, Bradley Herring. "Expanding Coverage Via Tax Credits: Trade-Offs and Outcomes" *Health Affairs*. January/February 2001 (approximately half of uninsured workers with incomes up to 300% of the federal poverty level eventually would take-up tax credits paying 50% of premiums, if over the long run they came to understand the benefits of insurance or the impact of employer-funded health coverage on wages). [http://130.94.25.113/1130\\_abstract\\_c.php?ID=/usr/local/apache/sites/healthaffairs.org/htdocs/Library/v20n1/s3.pdf](http://130.94.25.113/1130_abstract_c.php?ID=/usr/local/apache/sites/healthaffairs.org/htdocs/Library/v20n1/s3.pdf)