

Uninsured, Unemployed Workers and their Families: The Problem and Policy Options

Overview

Families who lose health insurance while they are between jobs are a small but important group of uninsured Americans. These families pay for health insurance for most of their lives, but go through brief periods without coverage when they are temporarily unemployed. If they experience a catastrophic illness during this transition, the benefit of their years' worth of premium payments is lost. Worse, for families with an ill child or a worker with a chronic condition, the loss of health insurance while between jobs can make it financially impossible to regain coverage. This paper outlines the scope of this problem and policy options that help reduce it.

More People Experience Job Transitions

In today's economy, an increasing number of Americans will at some point lose their jobs. While the unemployment rate remains low and job creation remains high, the fast-moving economy has resulted in rapid job turnover and job elimination. In a *New York Times* article on the topic, economist Paul Krugman wrote, "What economists call 'labor market flexibility' is a euphemism for a certain amount of brutality. But it seems an unfortunate price we have to pay for having as dynamic an economy as we do." (NYT, 12/29/96; p. 22).

About 9.4 million Americans (8% of all workers) lost their jobs due to plant or company closure, insufficient work, or elimination of their positions between January 1993 and December 1995. This number is about the same as in the early 1990s, when there was a recession, and is an increase from 5.9 million displaced workers between 1989 and 1991. While about 7 in 10 of the displaced workers were reemployed, more than half did not receive written advance notice of their job termination and probably spent time unerrmployed between jobs. The manufacturing sector — which also has a higher than average proportion of workers with health insurance — accounted for the largest proportion of displaced workers. (USDL, 10/25/96)

Job loss and transitions do not affect a small subset of the population. In 1995, over 15 million American workers received unemployment compensation at some point (USDL, 12/17/ 96). An estimated X% of workers will receive unemployment compensation at some point in their careers [CHECK]. These workers' unemployment affects a larger number of people, including spouses and children. In a recent poll, one in two people were somewhat or very concerned that someone in their household would be laid off in the next two or three years. (NYT, 12/29/96; p. 22).

Changing Jobs Leads to Changing Insurance

In the United States, health insurance is usually linked to employment. Nearly 148

million (64% of the nonelderly, civilian population) receive health insurance through an employment-based plan (EBRI, 1996). About half of this number (76 million) are the workers themselves; the other half includes spouses and children gaining coverage through the worker's plan.

Since health insurance is often employment based, change in employment is a major reason why people lose health insurance. About 42% of workers with one or more job interruptions experienced at least a month without health insurance between 1992 and 1995. This compares to only 13% of full-time workers without job interruptions (Bennefield, 1996). According to one study, 58% of the two million Americans who lose their health insurance each month cite a change in employment as the primary reason for losing coverage (Sheils & Alecxih, 1996). This affects family as well as workers: nearly 45% of children who lose their health insurance do so due to a change in their parent's employment status (Sheils & Alecxih, 1996).

The Unemployed are Often Uninsured

In 1995, there were about 9 million uninsured and unemployed people in the U.S. This includes people who are out of the labor force, do not receive unemployment compensation, and/or did not receive insurance on their last job. This number does not include the spouses and children of unemployed workers who also may lack insurance. It also is a point-in-time estimate; since unemployed workers usually spend only part of the year between jobs, this snapshot only captures some of the temporarily unemployed and uninsured.

While only a minority of the total uninsured (x%), the unemployed are more likely to be uninsured than the rest of the population. Three times as many uninsured were unemployed, compared to the proportion of all adults who were unemployed and looking for work (Klerman, 1995). Over one-third of workers who left an insured job, became unemployed, and received unemployment compensation became uninsured (Klerman, 1995). This is twice the proportion of uninsured in the general population. [NOTE: GET NUMBER OF ELIGIBLES FROM DHHS]

Policies and Proposals for Uninsured, Unemployed Families

Three sets of policies exist today that assist uninsured, unemployed families. Additionally, several have been proposed to address the gaps left by these policies.

COBRA. The 1986 Consolidated Omnibus Reconciliation Act (COBRA) allows most employees to purchase health coverage from their former employer for up to 18 months after their employment ends.¹ The employee must pay the full premium for this

¹Employees of firms with fewer than 20 workers or who were terminated from their jobs under certain circumstances are not eligible for COBRA.

coverage (up to 102% of the group rate). Given the high premiums in the individual market and the possibility of denied coverage for pre-existing conditions, these premiums are probably the lowest that most unemployed, uninsured workers and their families can find.

Most researchers agree that COBRA has improved health coverage among the unemployed. About 20 to 30% of all eligible take the option (Flynn, 1992; Klerman, 1995; Berger, Black & Scott, 1996). In part, these rates underestimate COBRA's assistance since many of the unemployed join the health plans of spouses with employer-based insurance. When looking only at the unemployed with no access to spousal coverage, the rate of COBRA coverage increases to over 40%. Additionally, when only the unemployed who receive unemployment compensation are examined, 43% appear to have taken COBRA coverage (Klerman, 1995). On the whole, evidence supports claims that COBRA decreases the probability that a person between jobs is uninsured, reduces "job lock", and covers workers during pre-existing condition waiting periods (Gruber and Madrian, 1995; Klerman, 1995; Berger, Black & Scott, 1996).

One concern about the policy, however, is its use by low-income unemployed. The difference in take-up rates for low-income people is significant: only 15% of eligible unemployed with income below \$25,000 participated in COBRA and over two-thirds remained uninsured. This compares to a participation rate of 33% for unemployed with higher income, and an uninsured rate of 33% (Berger, Black & Scott, 1996).

Medicaid. Three Medicaid eligibility provisions help unemployed, uninsured families. In the 1988 Family Support Act, states were required to extend eligibility to two-parent families whose principal wage earner is unemployed (the Aid to Families with Dependent Children Unemployed Parent program (AFDC-UP)). To qualify, the worker must have worked a certain number of quarters or be eligible to receive unemployment compensation. In OBRA 1990, Medicaid eligibility was broadened to cover all poor children and pregnant women. To the extent that the unemployed, uninsured are poor, their children may be covered by Medicaid. Additionally, states have the option to pay for COBRA coverage for poor workers whose firm had 75 or more employees; few states have taken this option.

There are no data on how many people have been covered through the AFDC - UP and COBRA coverage options. However, given the low AFDC standards, it is unlikely that the number is high. Furthermore, with welfare reform, it is unclear how states will manage this program [CHECK: WAS ALL FSA SUNSET REPEALED OR JUST TRANSITION BENEFIT].

HIPAA. Third, the Health Insurance Portability and Accountability Act (HIPAA) of 1996 makes it easier to maintain continuous health insurance coverage for workers and their families. It ensures access to health insurance for people changing jobs with a history

of coverage, regardless of pre-existing conditions. However, if a worker loses coverage for more than two months while unemployed, these protections are no longer available [CHECK]. Since the Act's provisions begin in 1997, its implications for the unemployed and uninsured have yet to be determined.

Administration's Proposal. While COBRA, Medicaid, and HIPAA offer access to insurance for uninsured, unemployed families, the question of affordability remains largely unaddressed.

Consequently, the Administration has put forth a new proposal, called the Workers Between Jobs Initiative. This program would provide temporary premium assistance for people who previously had health insurance through their employer, are in between jobs, and cannot afford COBRA or other coverage on their own. Families with income below poverty are eligible for a full subsidy, while families with income up to 240 percent of poverty can receive a partial subsidy for a basic benefits package. Only workers and dependents who receive unemployment compensation, do not have access to health insurance through a spouse, and are not eligible for Medicaid qualify for assistance. The program would be run as a capped entitlement to states, who would design the operation of the program. The Office of Management and Budget (OMB) estimates that the Workers Between Jobs Initiative will cost about \$2 billion a year, \$11 billion over 5 years [CHECK].

According to Administration analysis, over 3 million people, including 700,000 children, would participate in this program in 1997 (if it were fully implemented in that year). About 80% of these participants would be middle class (defined as being in the second through fourth income quintile). [CHECK]

Discussion Questions

- Why should Federal money be spent on this population versus other groups of uninsured like children?
- Since people between jobs will probably get insurance eventually anyway, what is the need for additional assistance?
- Federal policies already provide access to health insurance for the uninsured unemployed; why aren't they sufficient?
- Won't additional funding for the temporarily unemployed cause more people to become unemployed or stay unemployed longer?
- Rather than creating a new program, why not just increase unemployment compensation so that the unemployed can afford health insurance?

- Why not just increase Medicaid's coverage for these people?
- Would extending COBRA to workers in small firms or over a longer period of time help?

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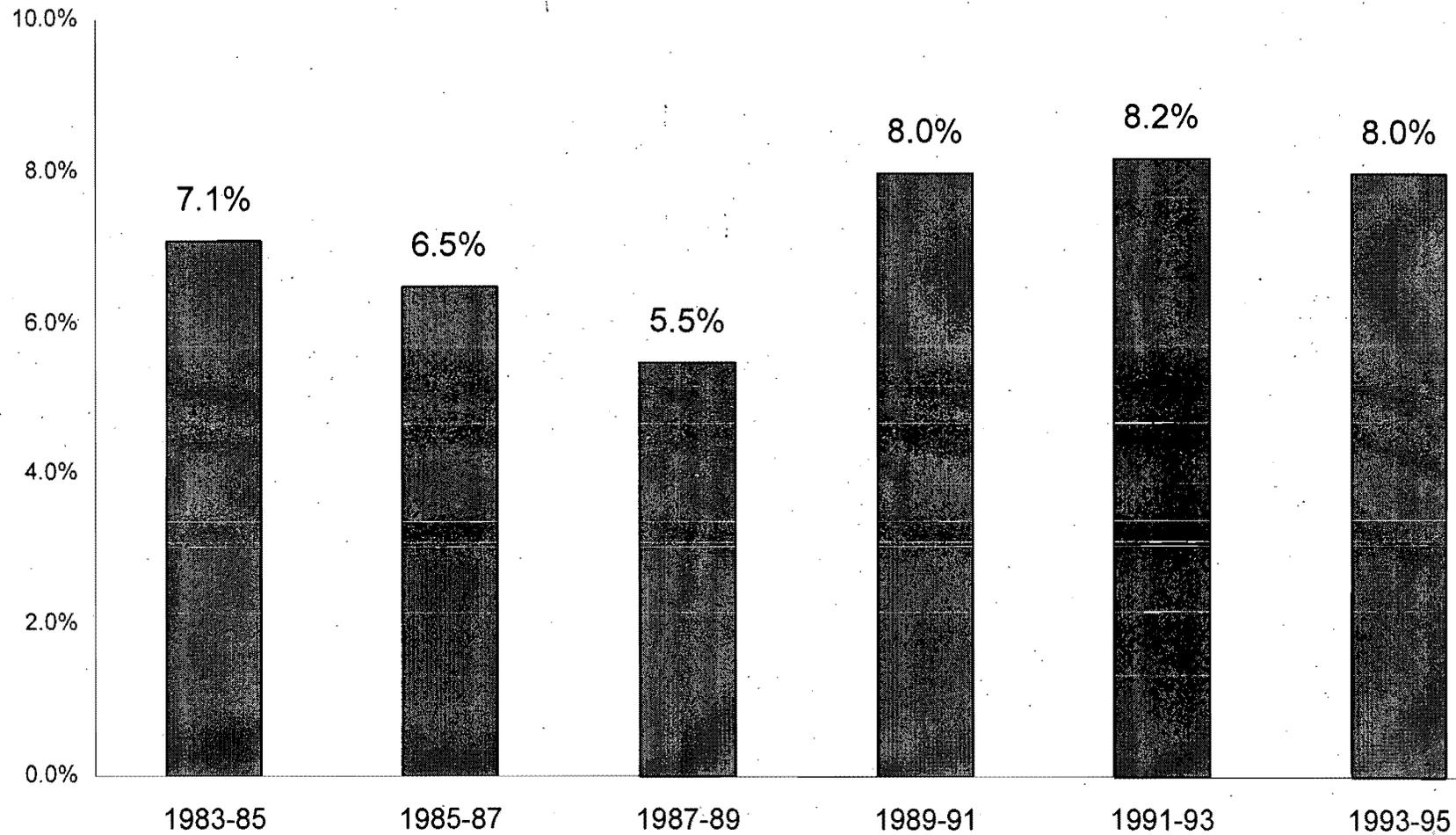
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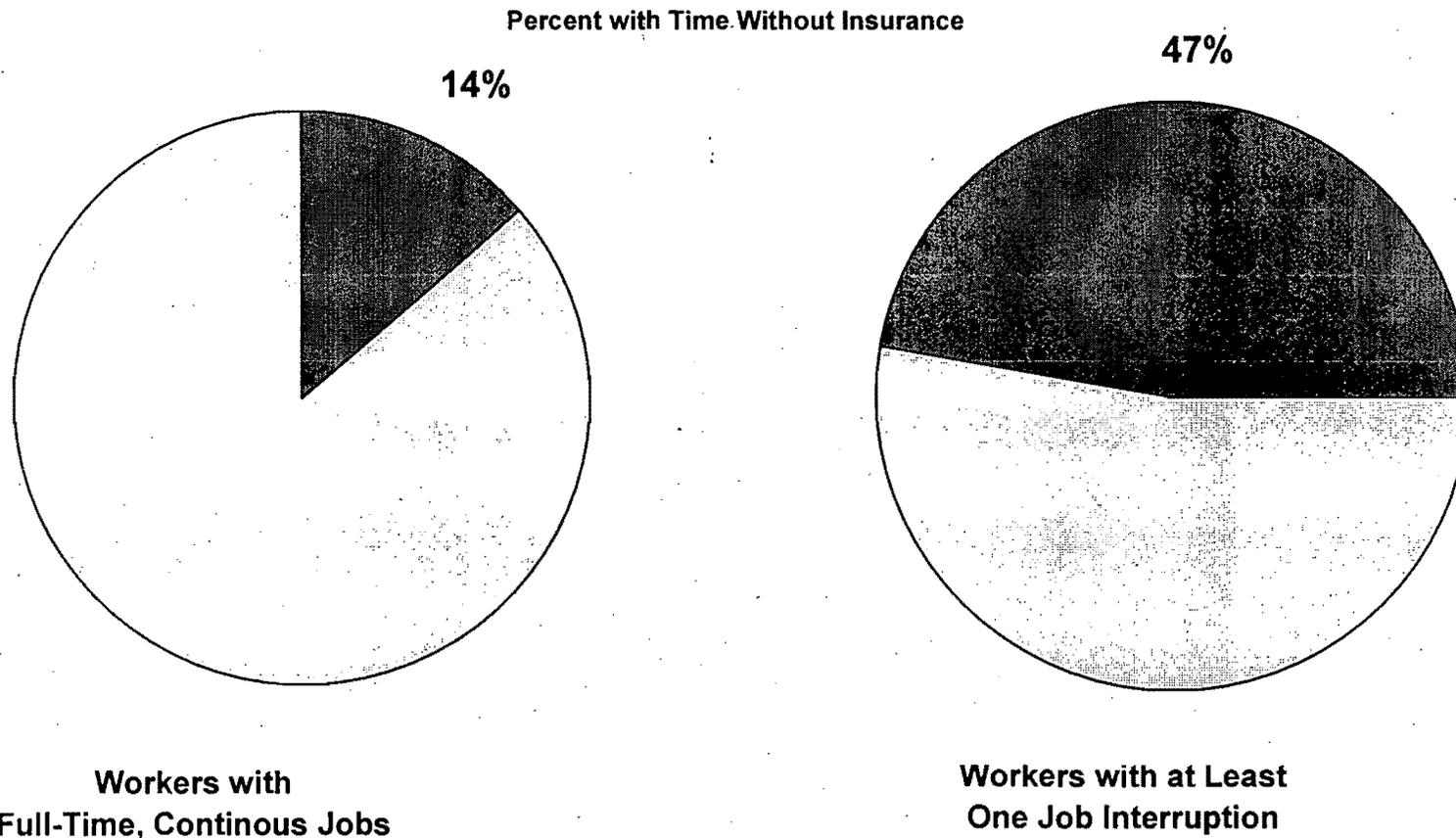
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Percent of Workforce with Permanent Job Loss Remains High



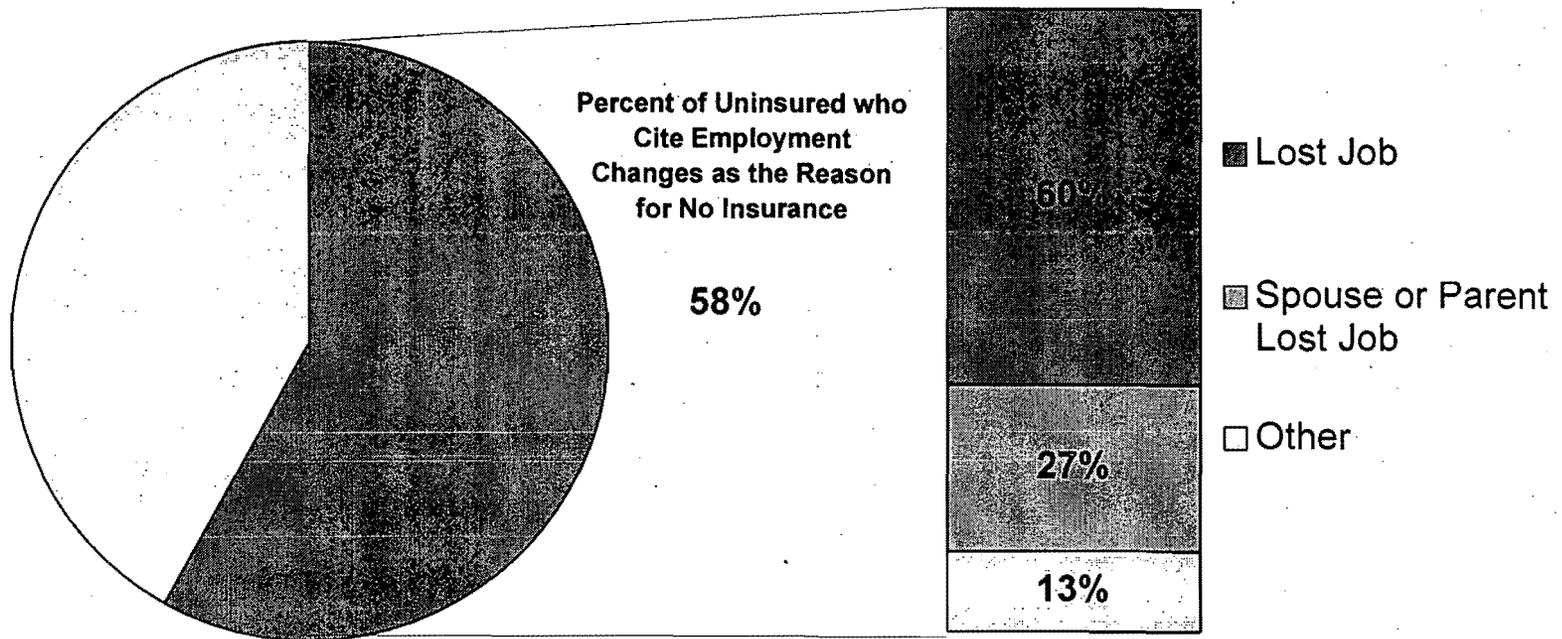
Source: U.S. Department of Labor, Bureau of Labor Statistics (1996).

Workers With Job Transitions Are More Likely to Experience Gaps in Health Insurance



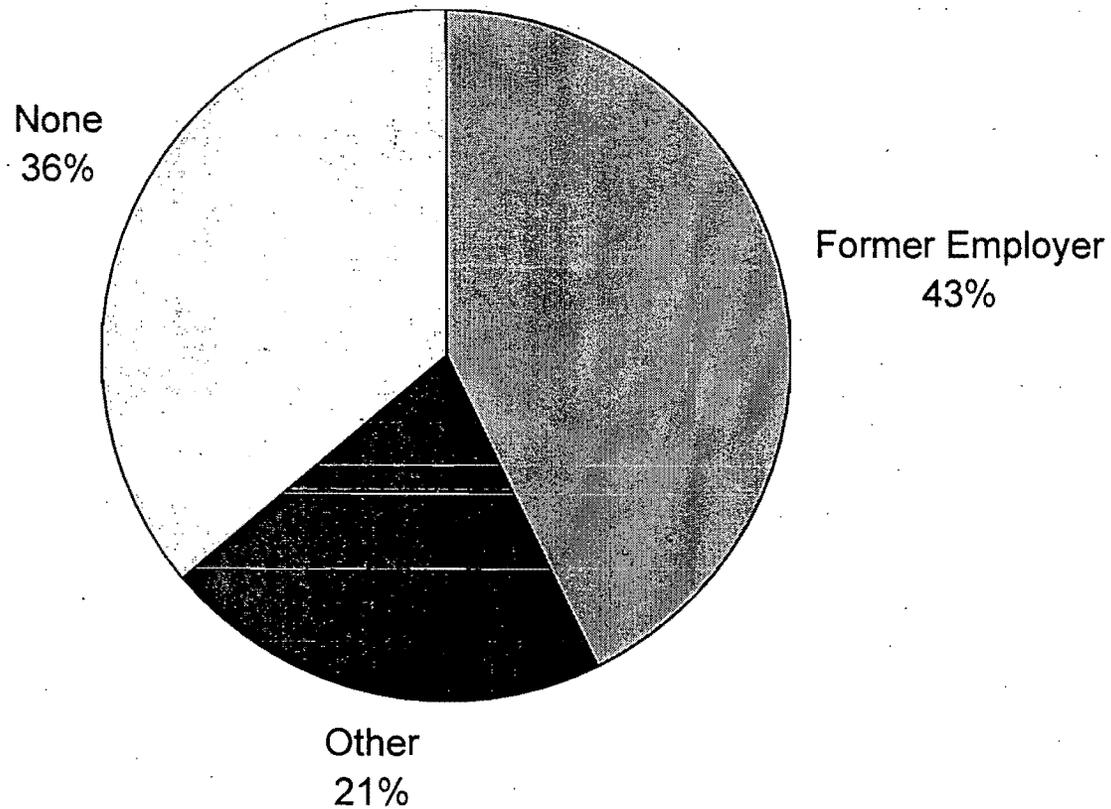
Source: Bennefield, 1996: Who Loses Coverage and for How Long? US Dept. of Commerce.

Changes in Employment Cause Most Loses of Employer-Based Health Insurance



Source: Sheils & Alexih (1996). Recent Trends in Employer Health Insurance Coverage and Benefits.

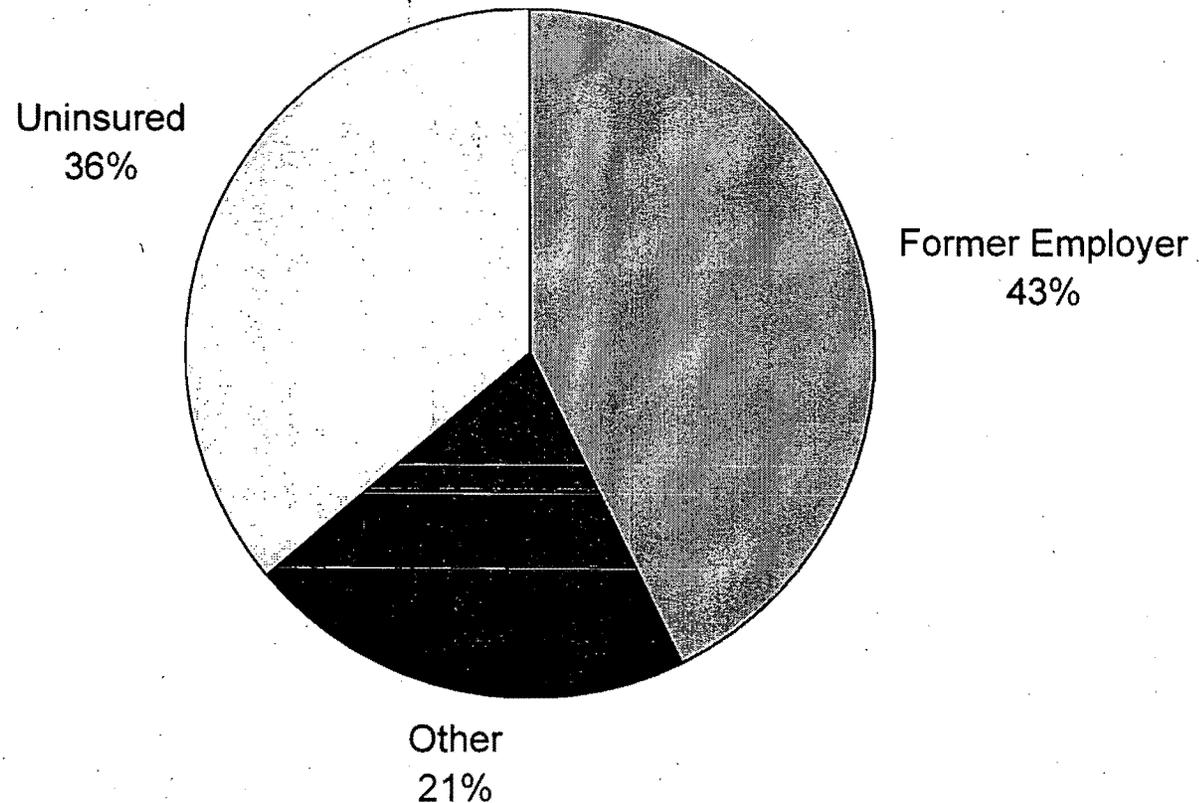
Health Coverage of Workers who Leave an Insured Job, Become Unemployed, & Receive Unemployment Compensation



Note: Former employer usually means the person participated in COBRA

Source: Klerman (1995). Health Insurance for the Unemployed: An Options Paper.

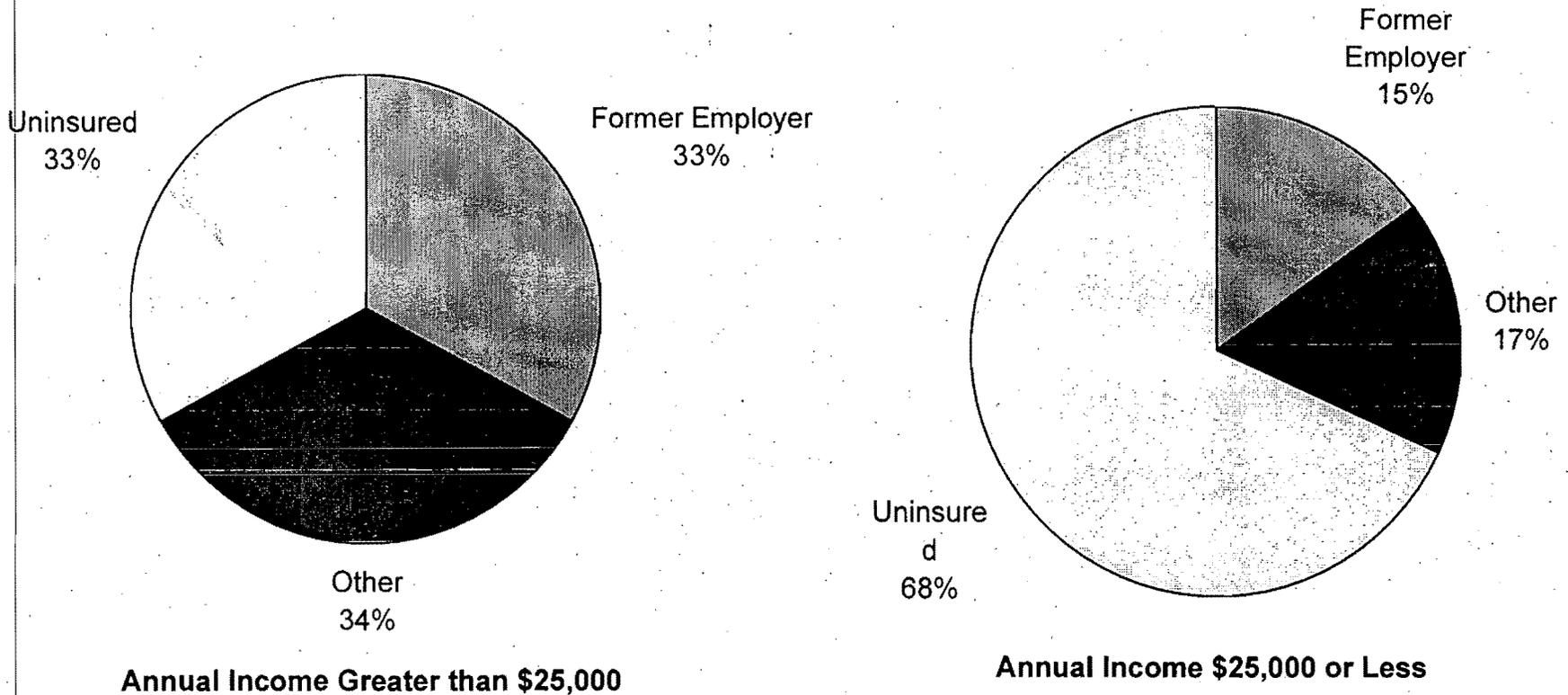
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Low-Income Unemployed are Less Likely to Be Insured

Health Insurance Coverage of COBRA-Eligible Unemployed



Note: Former employer usually means the person participated in COBRA
Source: Berger, Black & Scott (1996). Health Insurance Coverage of the Unemployed.

your copy
Workers In Between Jobs
(or temporarily unemployed) File

January 23, 1997

TO: Larry Atkins

FR: Chris Jennings

RE: Health Care Initiative for Workers In-Between Jobs

Per our conversation, I have attached: 1) a background/rationale document, which is for internal use only, not for circulation. 2) Q&As which were prepared to respond to questions and attacks raised by Republicans during the campaign. Since the election they have not been so vehemently opposed to this initiative; 3) lastly, a summary of the legislation prepared last year.

I hope this information is useful. Please call me at 456-5560 with any questions.

Background/Rationale

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Overview

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In today's economy, an increasing number of Americans will at some point lose their jobs. While the unemployment rate remains low and job creation remains high, the fast-moving economy has resulted in rapid job turnover and job elimination. In a *New York Times* article on the topic, economist Paul Krugman wrote, "What economists call 'labor market flexibility' is a euphemism for a certain amount of brutality. But it seems an unfortunate price we have to pay for having as dynamic an economy as we do." (Lohr, 1996).

About 9.4 million Americans (8% of all workers) lost their jobs due to plant or company closure, insufficient work, or elimination of their positions between January 1993 and December 1995. This number is about the same as in the early 1990s, when there was a recession, and is an increase from 5.9 million displaced workers between 1989 and 1991. Increasingly, these are white collar workers. While about 7 in 10 of the displaced workers were reemployed, more than half did not receive written advance notice of their job termination and probably spent time unemployed between jobs. Less than half of displaced workers were reemployed in full-time jobs with earnings the same or higher (USDL, 10/25/96).

Job loss and transitions do not affect a small subset of the population. In 1995, over 15 million American workers received unemployment compensation at some point (USDL, 12/17/96). An estimated one out of every four workers will make an unemployment claim once over a four year period. (Myer & Rosenberg, 1996). These workers' unemployment affects a larger number of people, including spouses and children. In a recent poll, one in two people were somewhat or very concerned that someone in their household would be laid off in the next two or three years (Lohr, 1996).

Changing Jobs Leads to Changing Insurance

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Since health insurance is often employment based, change in employment is a major reason why people lose health insurance. About 42% of workers with one or more job interruptions experienced at least a month without health insurance between 1992 and 1995. This compares to only 13% of full-time workers without job interruptions (Bennefield, 1996). According to one study, 58% of the two million Americans who lose their health insurance each month cite a change in employment as the primary reason for losing coverage (Sheils & Alecxi, 1996). This affects family as well as workers: nearly 45% of children who lose their health insurance do so due to a change in their parent's employment status (Sheils & Alecxi, 1996).

The Unemployed are Often Uninsured

In 1995, about 16 million of the 40 million uninsured were nonworkers (8.7 million), part-year workers and their dependents (3.0 million) and full year workers and dependents with some unemployment (4.4 million) (EBRI, 1996). This includes people who are out of the labor force, do not receive unemployment compensation, and/or did not receive insurance on their last job. This number is a point-in-time estimate; since unemployed workers usually spend only part of the year between jobs, this snapshot only captures some of the temporarily unemployed and uninsured.

While only a minority of the total uninsured, the unemployed are more likely to be uninsured than the rest of the population. Three times as many uninsured were unemployed, compared to the proportion of all adults who were unemployed and looking for work (Klerman, 1995). Over one-third of workers who left an insured job, became unemployed, and received unemployment compensation also became uninsured (Klerman, 1995). This is twice the proportion of uninsured in the general population.

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Three sets of policies exist today that assist uninsured, unemployed families. Additionally, several have been proposed to address the gaps left by these policies.

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after their employment ends.¹ The employee must pay the full premium for this coverage (up to 102% of the group rate). Given the high premiums in the individual market and the possibility of denied coverage for pre-existing conditions, these premiums are probably the lowest that most unemployed, uninsured workers and their families can find.

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One concern about the policy, however, is its use by low-income unemployed. The difference in take-up rates for low-income people is significant: only 15% of eligible unemployed with income below \$25,000 participated in COBRA and over two-thirds remained uninsured. This compares to a participation rate of 33% for unemployed with higher income, and an uninsured rate of 33% (Berger, Black & Scott, 1996).

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HIPAA. The Health Insurance Portability and Accountability Act of 1996 (HIPAA or the

¹Employees of firms with fewer than 20 workers or who were terminated from their jobs under certain circumstances are not eligible for COBRA.

Kassebaum-Kennedy bill), makes it easier for workers and their families to maintain health insurance coverage. Under HIPAA, health plans are prohibited from imposing new pre-existing condition exclusions for enrollees with more than 12 months of previous continuous coverage.² Preexisting conditions are limited to 12 months and can be imposed only for conditions diagnosed or treated within the 6 months prior to enrollment.

However, HIPAA only helps those who maintain their health care coverage between jobs. If a worker loses coverage for more than sixty-three days while unemployed, these protections are no longer available. Since the Act's provisions begin in 1997, its implications for the unemployed and uninsured have yet to be determined. However, it is clear that it is extremely important that Americans are able to maintain their health care coverage while they are looking for a new job to benefit the guarantees in HIPAA.

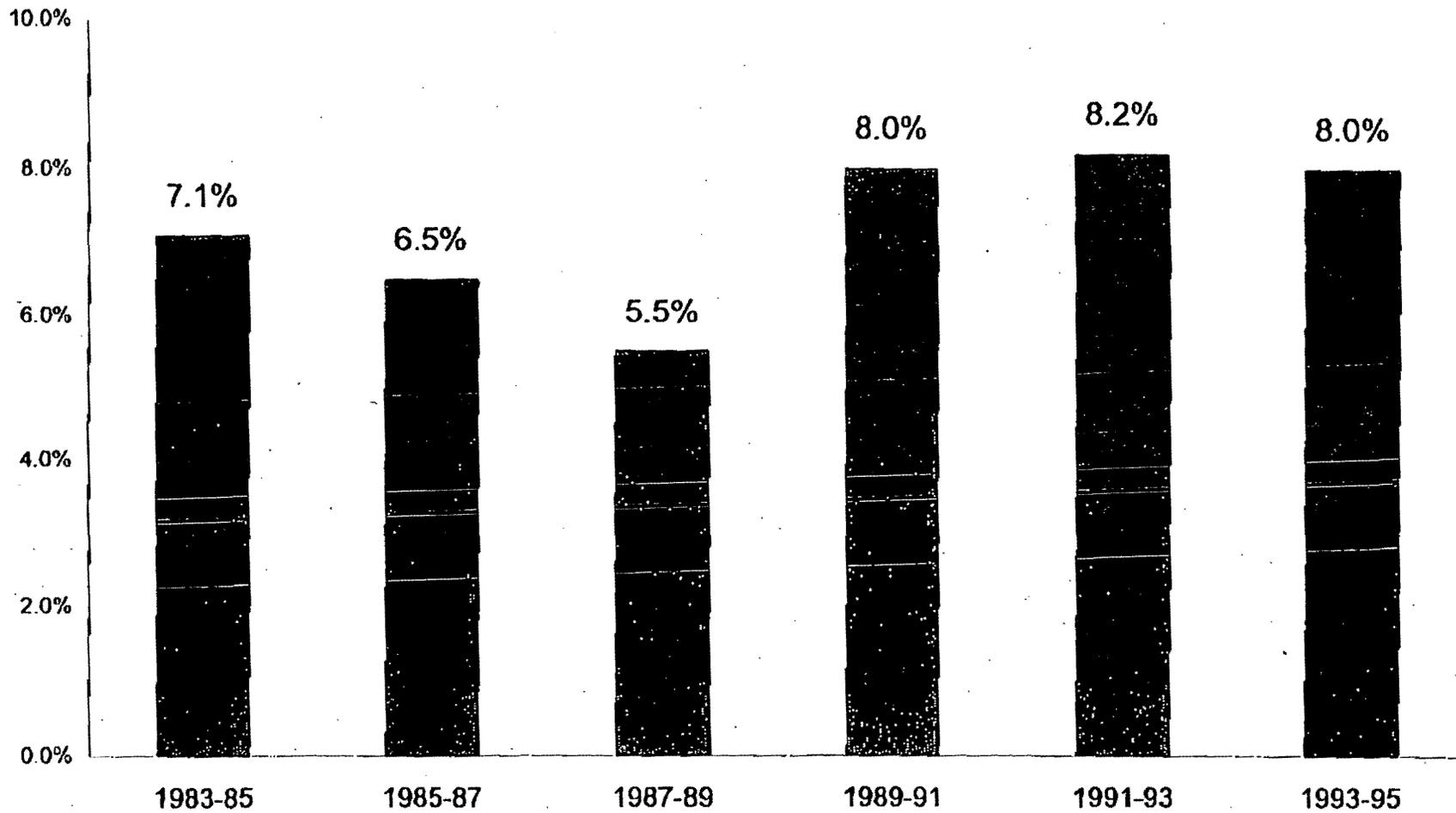
Administration's Proposal. While COBRA, Medicaid, and HIPAA offer access to insurance for uninsured, unemployed families, the question of affordability remains largely unaddressed. Workers who are temporarily unemployed often are not qualified for Medicaid and cannot afford to buy into COBRA. At a time when they have lost a major source of income, they have to pay their health care costs alone. They (and their family) have no protection against the costs of a catastrophic illness, and they are unlikely to receive important preventive services which help avoid costlier services later.

Consequently, the Administration has put forth a new proposal to help workers who are between jobs. This program would provide temporary premium assistance for people who previously had health insurance through their employer, are in between jobs, and cannot afford COBRA or other coverage on their own. Families with income below poverty are eligible for a full subsidy, while families with income up to 240 percent of poverty can receive a partial subsidy for a basic benefits package. Only workers and dependents who receive unemployment compensation, do not have access to health insurance through a spouse, and are not eligible for Medicaid qualify for assistance. The program would be run as a capped entitlement to states, who would design the operation of the program. The Office of Management and Budget (OMB) estimates that this initiative will cost about \$2 billion a year [pending final budget decisions].

According to Administration analysis, over 3 million people, including 700,000 children, would participate in this program in 1997 (if it were fully implemented in that year). About 85% of these participants would be middle class (defined as being in the second through fourth income quintile).

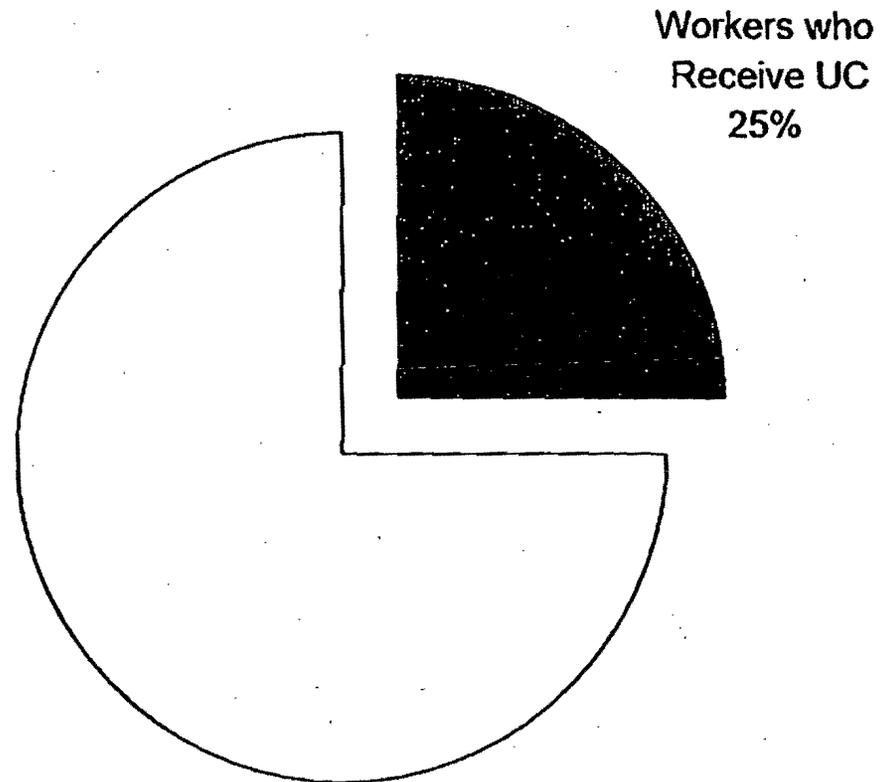
²Enrollees who have up to twelve months of health care coverage are subject to pre-existing conditions for 12 months minus the number of months they have previously been insured.

Percent of Workforce with Permanent Job Loss Remains High



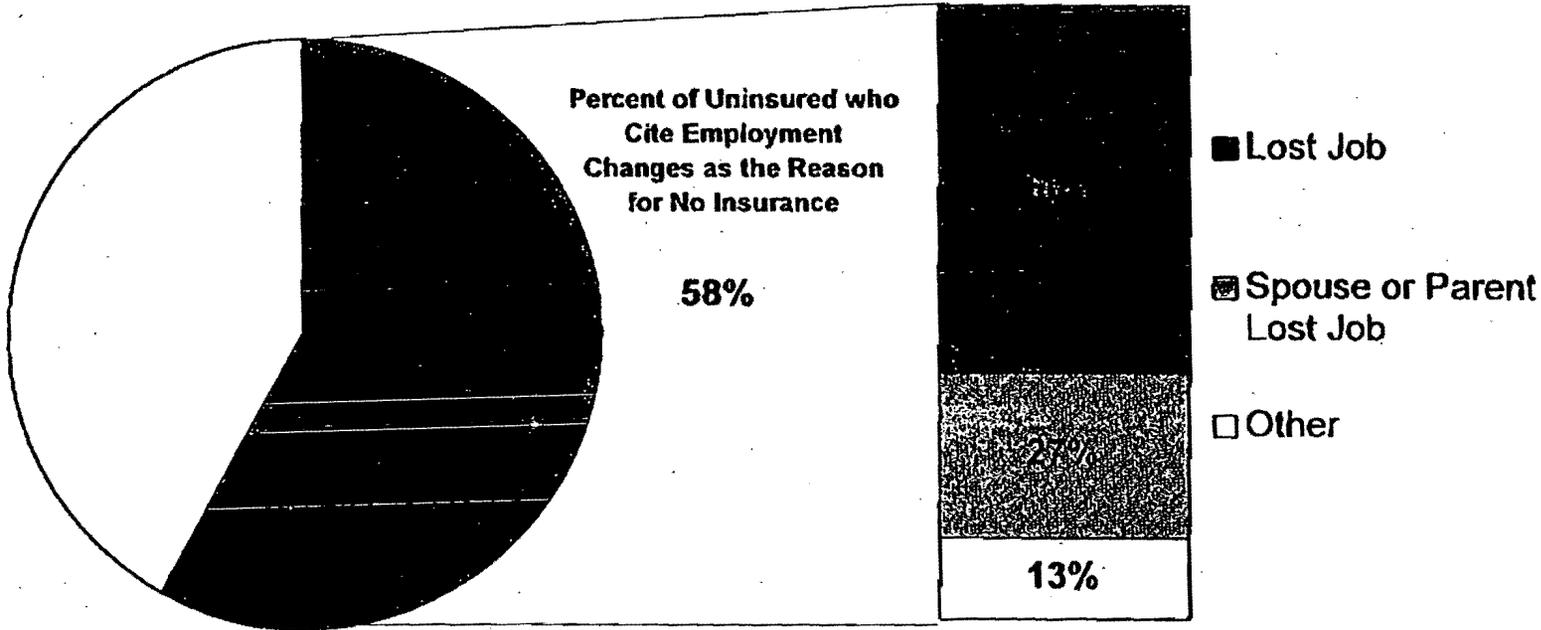
Source: U.S. Department of Labor, Bureau of Labor Statistics (1996).

Nearly One in Four Workers Receives Unemployment Compensation over a 4-Year Period



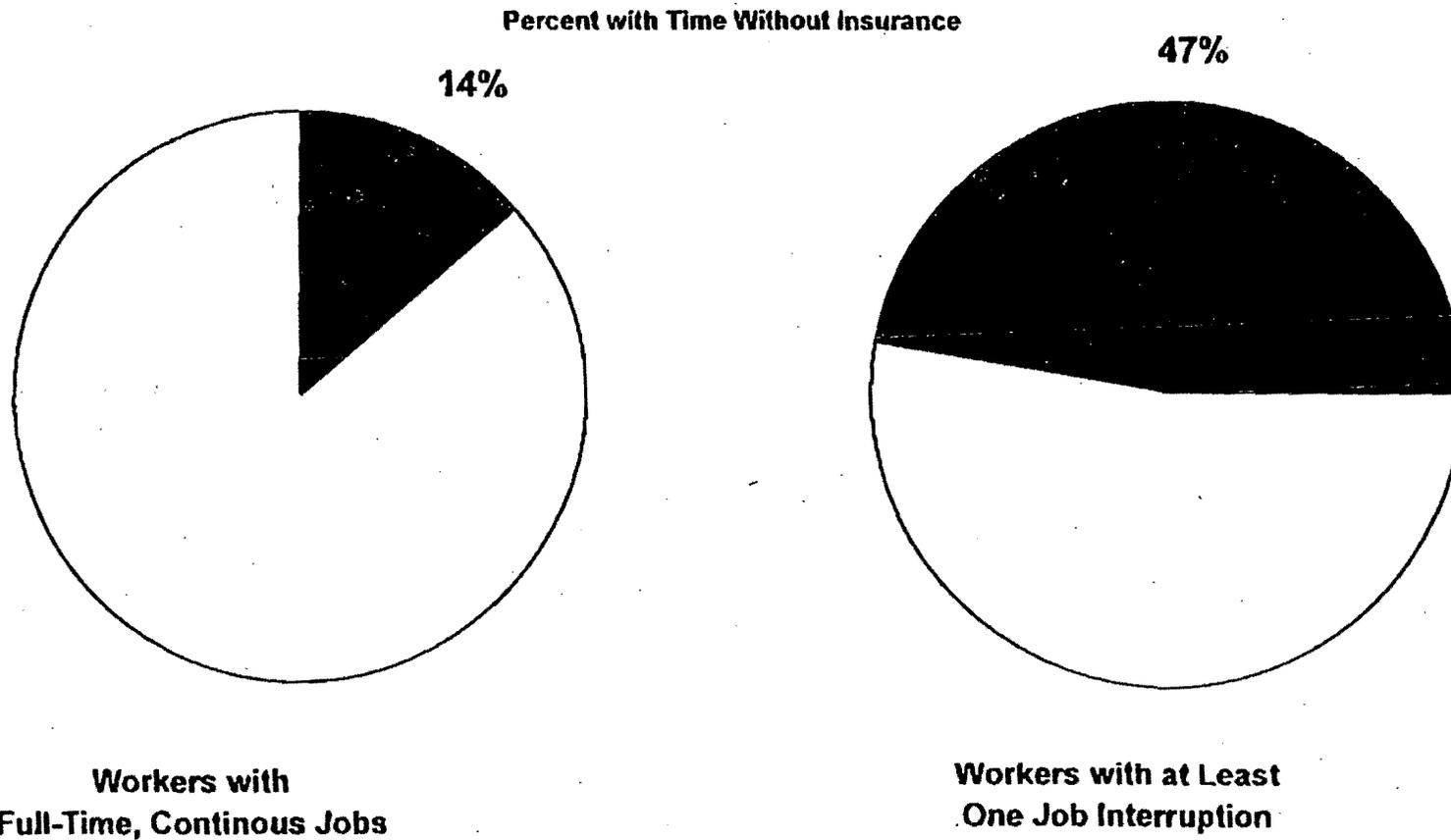
Source: Myer & Rosenberg (1996). Repeat Use of Unemployment Insurance.

Changes in Employment Cause Most Loses of Employer-Based Health Insurance



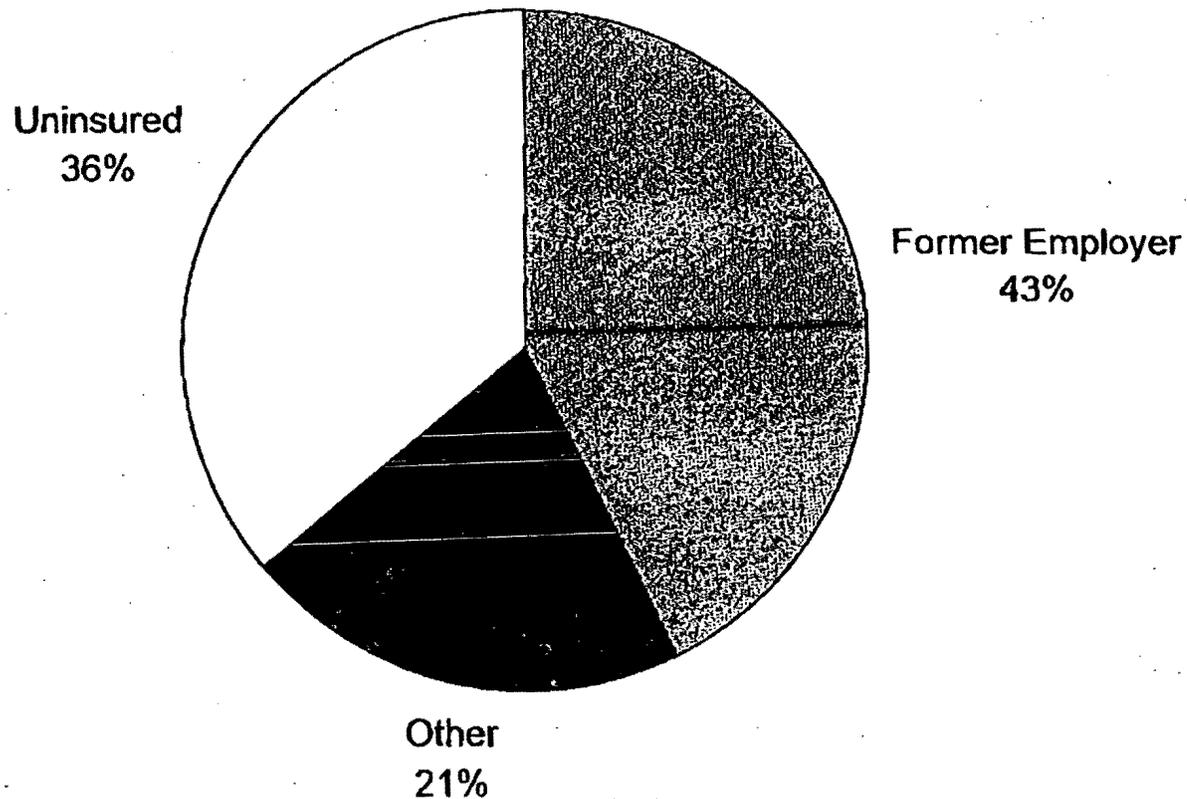
Source: Sheils & Alecxih (1996). Recent Trends in Employer Health Insurance Coverage and Benefits.

Workers With Job Transitions Are More Likely to Experience Gaps in Health Insurance



Source: Bennefield, 1996: Who Loses Coverage and for How Long? US Dept. of Commerce.

Health Coverage of Workers who Leave an Insured Job, Become Unemployed, & Receive Unemployment Compensation

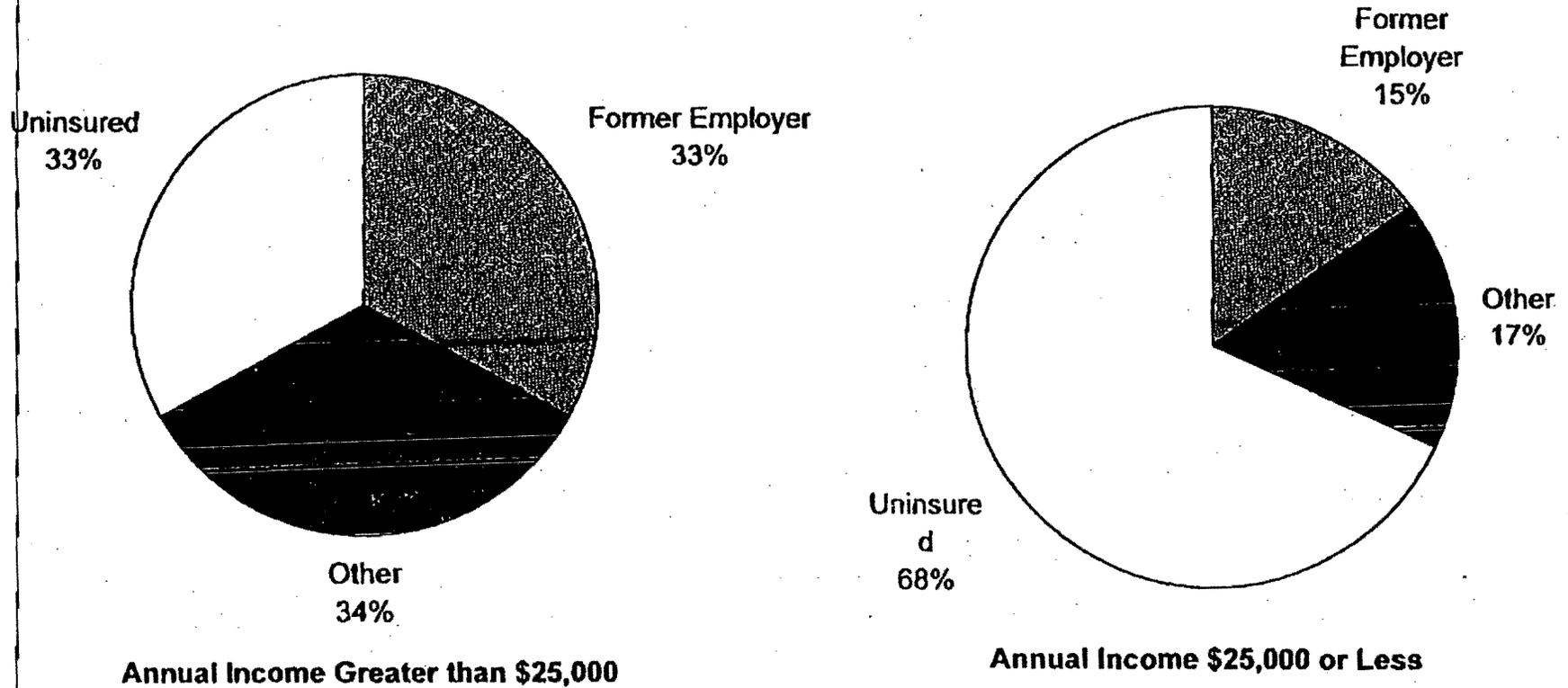


Note: Former employer usually means the person participated in COBRA

Source: Klerman (1995). Health Insurance for the Unemployed: An Options Paper.

Low-Income Unemployed are Less Likely to Be Insured

Health Insurance Coverage of COBRA-Eligible Unemployed



Note: Former employer usually means the person participated in COBRA
Source: Berger, Black & Scott (1996). Health Insurance Coverage of the Unemployed.

QUESTIONS AND ANSWERS

Question: Isn't this just another open-ended entitlement that will be much more expensive than you assume?

Answer: The Workers' Transition Health Care Initiative is a capped entitlement to states, meaning that the federal costs can never exceed the amount specified in the legislation. Also, our analysts developed cost estimates for this program using conservative assumptions about the number of people who will participate in the program and how much health care coverage would cost per beneficiary.

Question: Aren't your estimates a bit unrealistic given the fact that this new generous benefit will cause more people to stay unemployed for the six month duration they are eligible for this subsidy?

Answer: The likelihood of people turning down a job simply so that they can keep a modest, time-limited health insurance subsidy are almost none. The vast majority of people would rather start a new job as soon as possible, even if it means giving up premium assistance for their health insurance. Our current unemployed insurance program (UI) provides evidence that most Americans, when given the option, choose work over a modest government benefit. Although UI coverage is available for 24 weeks, most leave the program after less than 17 weeks. Because the health insurance premium benefit is only \$240 a month, it would be even less likely for people to give up a job for this more modest benefit. However, extremely conservative estimates were used, including the unlikely assumption that some people would unwisely delay re-employment for a period of time.

Question: What happens if there is a recession?

Answer: This program gives states the flexibility to allow for changes in the unemployment rate. States are allowed to retain funds in low unemployment years to offset increased costs in higher unemployment years. States are given the flexibility to design a program that meets the needs of a changing economy. This proposal would also use a small portion of appropriations to establish a Federal loan fund that states could access in times of need.

Question: What are the income limits for this health insurance premium support?

Answer: Families with incomes below poverty (\$15,600 for a family of four) would get full assistance covering their premiums. The premium assistance would be phased out up to 240% of poverty, or a \$37,440 family income, for a family of four. However, since eligibility is determined on current monthly income, many families who previously had higher incomes and have little to none because of unemployment would be eligible.

Question: Why are you proposing a program that helps people who were previously insured but ignores the millions of Americans who still lack health insurance?

Answer: This program will help millions of Americans keep their health insurance. According to the Lewin Group study, the cost of coverage is a significant barrier for workers who are in between jobs. And while workers who are eligible for COBRA often cannot afford the cost of keeping their coverage, workers who were employed in firms with under 20 people are not even eligible for COBRA, so they must try and enter the difficult and expensive individual market. The Workers' Transition Health Care Initiative will give these workers access to insurance and the means to pay for it while they look for their next job.

This initiative, of course, does not resolve all of the problems in our current health care system. It will, however, provide health insurance for 3 million Americans, including 700,000 children each year. And it builds on the step-by-step approach the President is committed to pursuing.

Question: Is this another big government health care proposal?

Answer: No. This initiative is a limited demonstration that is phased out after four years. At that time, the Congress and the President can decide if it is an effective way to help Americans who are in between jobs keep their health insurance. This proposal is also already paid for in the President's balanced budget. Furthermore, this idea also has enjoyed longstanding bipartisan support. As *The Washington Times*, reported on September 6, the Dole Campaign has made clear that Senator Dole proposed a similar idea ten years ago as Senate Minority Leader.

Question: The Republicans on the Senate Budget Committee estimate that subsidizing health insurance for the full six months would cost taxpayers between \$15 and \$22 billion over six years. How do you justify your own estimates?

Answer: In their estimate, the Republican Budget Committee assumes that every individual who participates in this program will receive benefits for the entire six months of eligibility. It is ridiculous to expect that all of these workers would pass up a job simply to get this benefit for the maximum amount of time. This has never been the case with unemployment insurance and there is no reason to expect that people would remain unemployed for this even more modest benefit. Their analysis really has no bearing on this policy.

Question: The proposal mysteriously terminates in the year 2002, presumably because extending beyond 2002 would push the President's budget plan even farther out of balance."

Answer: The President's *demonstration* program is intended to determine if providing assistance to workers between jobs is a cost-effective method to assuring that individuals and their families do not lose insurance coverage while they are in between jobs. Like all other demonstration programs, the program is intentionally designed to end at a specified date. At that time, if the program is successful, Congress and the President are free to extend the demonstration or continue it as a permanent program. Ironically, this is the same mechanism that Senator Domenici himself used in the mental health parity initiative that the President supported.

Question: The Republican Budget Committee cites a provision in COBRA 1985 called 'continuation coverage' that allows the unemployed to buy into their former employer's health plan for up to 18 months while looking for another job. They then conclude that the problem, [for the unemployed], is "not a loss of health insurance, but a loss of income."

Answer: For most workers, a loss of income means a loss of health insurance. According to the Lewin Group study, less than 20 percent of eligible workers elect to use COBRA, and the cost of health insurance coverage is often a formidable barrier for those who do not. The Workers' Transition Health Care Initiative is designed to provide premium assistance to workers in between jobs, so that they do not have to forgo their health insurance while they are searching for a new job. It is important to note that firms with fewer than 20 workers do not have to provide COBRA to their former workers. For these workers, without some type of assistance, they will undoubtedly lose their health coverage.

Question: The Republican Budget Committee has asked why we don't just give the unemployed cash? They state that 'if health insurance is needed, the cash can be used to pay for COBRA continuation coverage. If health insurance is available (maybe through a spouse), the cash could be used to pay for food, housing, education, or job training.' What is wrong with this idea?

Answer: The President's proposal gives states the flexibility to provide coverage through COBRA or other private insurance. If a state shows they can provide cash to participants and still assure that participants have health coverage, then the Secretary of Health and Human Services can approve the state's program. However, States must ensure that they are providing this benefit to those individuals who would not otherwise have access to health insurance. For example, if an individual can receive health care coverage through their spouse, then they are not eligible to receive benefits from this program. States must demonstrate that the money they spend is targeted to meet the goals of this program: to help provide health care coverage for those who would otherwise lose their insurance.

Question: The Republican Budget Committee claims that the Administration is proposing to tax workers (or increase deficits) to subsidize non-workers. Is that true?

Answer: Absolutely not. The President's proposal is a part of his balanced budget proposal. As such, the costs are offset by savings in other programs. The Administration has not proposed to tax workers nor increase the deficit to pay for this program.

Question: It also states that while the President's rhetoric may lead people to believe that he is promising they will have health insurance for six months if they lose their job. In reality, he says 'up to six months'

Answer: Under the President's plan, individuals will be eligible to receive benefits for six months, if necessary. The vast majority of the people who participate in this program will not need to receive the benefit for the entire six months, as they will find a new job before they reach the six month limit.

WORKERS' TRANSITION HEALTH CARE INITIATIVE

The Workers' Transition Health Care Initiative is a carefully constructed, targeted and paid for program that builds on the Kennedy-Kassebaum law (The Health Insurance Portability and Accountability Act of 1996). It would provide health insurance premium assistance for an estimated 3 million Americans, including 700,000 children. According to the September 1996 Lewin Group study, the cost of health insurance coverage presents a significant barrier for many people who are in between jobs. In fact, less than 20 percent of workers elect to use COBRA, which allows the unemployed to keep their old insurance policy while looking for another job. The Workers' Transition Health Care Initiative:

- Provides temporary premium assistance for up to six months for those who previously had health insurance through their employer, are in between jobs, and may not be able to pay the full cost of coverage on their own.
- Assures that the Kennedy-Kassebaum protection against pre-existing conditions are not placed at risk because of breaks in insurance coverage. It achieves this goal by helping working families retain their health coverage through premium assistance during a time in which they lose all or much of their income.
- Strengthens the safety net for middle-income, working Americans in an increasingly mobile workforce. While low-income workers would certainly be helped by this benefit, over half of participants would come from families who previously had incomes over \$31,200, for a family of four. However, the 240% of poverty cap on assistance assures that limited federal dollars are cost-effectively targeted to those most in need.
- Gives states the flexibility to provide coverage in the way that best meets the needs of their populations. While states have the flexibility to design their own programs, this initiative is targeted only to those who would not otherwise have health care coverage. For example, individuals who are in between jobs that have access to insurance through a spouse whose employer contributes at least 50% of the cost of the premium are not eligible.
- Costs approximately \$2 billion a year and is paid for in the President's balanced budget.

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QUESTIONS AND ANSWERS

Question: **Isn't this just another open-ended entitlement that will be much more expensive than you assume?**

Answer: The Workers' Transition Health Care Initiative is a capped entitlement to states, meaning that the federal costs can never exceed the amount specified in the legislation. Also, our analysts developed cost estimates for this program using conservative assumptions about the number of people who will participate in the program and how much health care coverage would cost per beneficiary.

Question: **Aren't your estimates a bit unrealistic given the fact that this new generous benefit will cause more people to stay unemployed for the six month duration they are eligible for this subsidy?**

Answer: The likelihood of people turning down a job simply so that they can keep a modest, time-limited health insurance subsidy are almost none. The vast majority of people would rather start a new job as soon as possible, even if it means giving up premium assistance for their health insurance. Our current unemployed insurance program (UI) provides evidence that most Americans, when given the option, choose work over a modest government benefit. Although UI coverage is available for 24 weeks, most leave the program after less than 17 weeks. Because the health insurance premium benefit is only \$240 a month, it would be even less likely for people to give up a job for this more modest benefit. However, extremely conservative estimates were used, including the unlikely assumption that some people would unwisely delay re-employment for a period of time.

Question: **What happens if there is a recession?**

Answer: This program gives states the flexibility to allow for changes in the unemployment rate. States are allowed to retain funds in low unemployment years to offset increased costs in higher unemployment years. States are given the flexibility to design a program that meets the needs of a changing economy. This proposal would also use a small portion of appropriations to establish a Federal loan fund that states could access in times of need.

Question: What are the income limits for this health insurance premium support?

Answer: Families with incomes below poverty (\$15,600 for a family of four) would get full assistance covering their premiums. The premium assistance would be phased out up to 240% of poverty, or a \$37,440 family income, for a family of four. However, since eligibility is determined on current monthly income, many families who previously had higher incomes and have little to none because of unemployment would be eligible.

Question: Why are you proposing a program that helps people who were previously insured but ignores the millions of Americans who still lack health insurance?

Answer: This program will help millions of Americans keep their health insurance. According to the Lewin Group study, the cost of coverage is a significant barrier for workers who are in between jobs. And while workers who are eligible for COBRA often cannot afford the cost of keeping their coverage, workers who were employed in firms with under 20 people are not even eligible for COBRA, so they must try and enter the difficult and expensive individual market. The Workers' Transition Health Care Initiative will give these workers access to insurance and the means to pay for it while they look for their next job.

This initiative, of course, does not resolve all of the problems in our current health care system. It will, however, provide health insurance for 3 million Americans, including 700,000 children each year. And it builds on the step-by-step approach the President is committed to pursuing.

Question: Is this another big government health care proposal?

Answer: No. This initiative is a limited demonstration that is phased out after four years. At that time, the Congress and the President can decide if it is an effective way to help Americans who are in between jobs keep their health insurance. This proposal is also already paid for in the President's balanced budget. Furthermore, this idea also has enjoyed longstanding bipartisan support. As *The Washington Times*, reported on September 6, the Dole Campaign has made clear that Senator Dole proposed a similar idea ten years ago as Senate Minority Leader.

Question: The Republicans on the Senate Budget Committee estimate that subsidizing health insurance for the full six months would cost taxpayers between \$15 and \$22 billion over six years. How do you justify your own estimates?

Answer: In their estimate, the Republican Budget Committee assumes that every individual who participates in this program will receive benefits for the entire six months of eligibility. It is ridiculous to expect that all of these workers would pass up a job simply to get this benefit for the maximum amount of time. This has never been the case with unemployment insurance and there is no reason to expect that people would remain unemployed for this even more modest benefit. Their analysis really has no bearing on this policy.

Question: The proposal mysteriously terminates in the year 2002, presumably because extending beyond 2002 would push the President's budget plan even farther out of balance."

Answer: The President's *demonstration* program is intended to determine if providing assistance to workers between jobs is a cost-effective method to assuring that individuals and their families do not lose insurance coverage while they are in between jobs. Like all other demonstration programs, the program is intentionally designed to end at a specified date. At that time, if the program is successful, Congress and the President are free to extend the demonstration or continue it as a permanent program. Ironically, this is the same mechanism that Senator Domenici himself used in the mental health parity initiative that the President supported.

Question: The Republican Budget Committee cites a provision in COBRA 1985 called 'continuation coverage' that allows the unemployed to buy into their former employer's health plan for up to 18 months while looking for another job. They then conclude that the problem, [for the unemployed], is "not a loss of health insurance, but a loss of income."

Answer: For most workers, a loss of income means a loss of health insurance. According to the Lewin Group study, less than 20 percent of eligible workers elect to use COBRA, and the cost of health insurance coverage is often a formidable barrier for those who do not. The Workers' Transition Health Care Initiative is designed to provide premium assistance to workers in between jobs, so that they do not have to forgo their health insurance while they are searching for a new job. It is important to note that firms with fewer than 20 workers do not have to provide COBRA to their former workers. For these workers, without some type of assistance, they will undoubtedly lose their health coverage.

Question: The Republican Budget Committee has asked why we don't just give the unemployed cash? They state that 'if health insurance is needed, the cash can be used to pay for COBRA continuation coverage. If health insurance is available (maybe through a spouse), the cash could be used to pay for food, housing, education, or job training.' What is wrong with this idea?

Answer: The President's proposal gives states the flexibility to provide coverage through COBRA or other private insurance. If a state shows they can provide cash to participants and still assure that participants have health coverage, then the Secretary of Health and Human Services can approve the state's program. However, States must ensure that they are providing this benefit to those individuals who would not otherwise have access to health insurance. For example, if an individual can receive health care coverage through their spouse, then they are not eligible to receive benefits from this program. States must demonstrate that the money they spend is targeted to meet the goals of this program: to help provide health care coverage for those who would otherwise lose their insurance.

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Answer: Under the President's plan, individuals will be eligible to receive benefits for six months, if necessary. The vast majority of the people who participate in this program will not need to receive the benefit for the entire six months, as they will find a new job before they reach the six month limit.

Fact on Insurance & Employment

Job Turnover is High

- The fast-moving economy has created job turnover.
 - The proportion of job displacements remains high despite the end of the recession.
 - A recent *New York Times* poll found that half of all respondents worried that they or someone in their family would be laid off.
- One in four workers will make an unemployment claim over a four-year period.
- Over 15 million workers received unemployment in 1995.

Health Insurance is Linked to Jobs

- Workers with job changes are more than 3 times more likely to have gaps in insurance than continuous workers.
- Over 50% of the uninsured lost insurance due to a job change. Many of these are spouses and children of the worker.
- Over one-third of workers who had a job with insurance, became unemployed and received unemployment compensation become uninsured.

Uninsured, Unemployed Workers and their Families: The Problem and Policy Options

Overview

Families who lose health insurance while they are between jobs are a small but important group of uninsured Americans. These families pay for health insurance for most of their lives, but go through brief periods without coverage when they are temporarily unemployed. If they experience a catastrophic illness during this transition, the benefit of their years' worth of premium payments is lost. They have to cover their health care costs alone at a time when they no longer have a major source of income. Worse, for families with an ill child or a worker with a chronic condition, the loss of health insurance while between jobs can make it financially impossible to regain coverage. This paper outlines the scope of this problem and policy options that help reduce it.

More People Experience Job Transitions

In today's economy, an increasing number of Americans will at some point lose their jobs. While the unemployment rate remains low and job creation remains high, the fast-moving economy has resulted in rapid job turnover and job elimination. In a *New York Times* article on the topic, economist Paul Krugman wrote, "What economists call 'labor market flexibility' is a euphemism for a certain amount of brutality. But it seems an unfortunate price we have to pay for having as dynamic an economy as we do." (Lohr, 1996).

About 9.4 million Americans (8% of all workers) lost their jobs due to plant or company closure, insufficient work, or elimination of their positions between January 1993 and December 1995. This number is about the same as in the early 1990s, when there was a recession, and is an increase from 5.9 million displaced workers between 1989 and 1991. Increasingly, these are white collar workers. While about 7 in 10 of the displaced workers were reemployed, more than half did not receive written advance notice of their job termination and probably spent time unemployed between jobs. Less than half of displaced workers were reemployed in full-time jobs with earnings the same or higher (USDOL, 10/25/96).

Job loss and transitions do not affect a small subset of the population. In 1995, over 15 million American workers received unemployment compensation at some point (USDOL, 12/17/96). An estimated one out of every four workers will make an unemployment claim once over a four year period. (Myer & Rosenberg, 1996). These workers' unemployment affects a larger number of people, including spouses and children. In a recent poll, one in two people were somewhat or very concerned that someone in their household would be laid off in the next two or three years (Lohr, 1996).

Changing Jobs Leads to Changing Insurance

In the United States, health insurance is usually linked to employment. Nearly 148 million (64% of the nonelderly, civilian population) receive health insurance through an employment-based plan (EBRI, 1996). About half of this number (76 million) are the workers themselves; the other half includes spouses and children gaining coverage through the worker's plan.

Since health insurance is often employment based, change in employment is a major reason why people lose health insurance. About 42% of workers with one or more job interruptions experienced at least a month without health insurance between 1992 and 1995. This compares to only 13% of full-time workers without job interruptions (Bennefield, 1996). According to one study, 58% of the two million Americans who lose their health insurance each month cite a change in employment as the primary reason for losing coverage (Sheils & Alecxih, 1996). This affects family as well as workers: nearly 45% of children who lose their health insurance do so due to a change in their parent's employment status (Sheils & Alecxih, 1996).

The Unemployed are Often Uninsured

In 1995, about 16 million of the 40 million uninsured were nonworkers (8.7 million), part-year workers and their dependents (3.0 million) and full year workers and dependents with some unemployment (4.4 million) (EBRI, 1996). This includes people who are out of the labor force, do not receive unemployment compensation, and/or did not receive insurance on their last job. This number is a point-in-time estimate; since unemployed workers usually spend only part of the year between jobs, this snapshot only captures some of the temporarily unemployed and uninsured.

While only a minority of the total uninsured, the unemployed are more likely to be uninsured than the rest of the population. Three times as many uninsured were unemployed, compared to the proportion of all adults who were unemployed and looking for work (Klerman, 1995). Over one-third of workers who left an insured job, became unemployed, and received unemployment compensation also became uninsured (Klerman, 1995). This is twice the proportion of uninsured in the general population.

Policies and Proposals for Uninsured, Unemployed Families

Three sets of policies exist today that assist uninsured, unemployed families. Additionally, several have been proposed to address the gaps left by these policies.

COBRA. The 1986 Consolidated Omnibus Reconciliation Act (COBRA) allows most employees to purchase health coverage from their former employer for up to 18 months

after their employment ends.¹ The employee must pay the full premium for this coverage (up to 102% of the group rate). Given the high premiums in the individual market and the possibility of denied coverage for pre-existing conditions, these premiums are probably the lowest that most unemployed, uninsured workers and their families can find.

Most researchers agree that COBRA has improved health coverage among the unemployed. About 20 to 30% of all eligible take the option (Flynn, 1992; Klerman, 1995; Berger, Black & Scott, 1996). In part, these rates underestimate COBRA's assistance since many of the unemployed join the health plans of spouses with employer-based insurance. When looking only at the unemployed with no access to spousal coverage, the rate of COBRA coverage increases to over 40%. Additionally, when only the unemployed who receive unemployment compensation are examined, 43% appear to have taken COBRA coverage (Klerman, 1995). On the whole, evidence supports claims that COBRA decreases the probability that a person between jobs is uninsured, reduces "job lock", and covers workers during pre-existing condition waiting periods (Gruber and Madrian, 1994; Klerman, 1995; Berger, Black & Scott, 1996).

One concern about the policy, however, is its use by low-income unemployed. The difference in take-up rates for low-income people is significant: only 15% of eligible unemployed with income below \$25,000 participated in COBRA and over two-thirds remained uninsured. This compares to a participation rate of 33% for unemployed with higher income, and an uninsured rate of 33% (Berger, Black & Scott, 1996).

Medicaid. Three Medicaid eligibility provisions help unemployed, uninsured families. In the 1988 Family Support Act, states were required to extend eligibility to two-parent families whose principal wage earner is unemployed (the Aid to Families with Dependent Children Unemployed Parent program (AFDC-UP)). To qualify, the worker must have worked a certain number of quarters or be eligible to receive unemployment compensation. In OBRA 1990, Medicaid eligibility was broadened to cover all poor children and pregnant women. To the extent that the unemployed, uninsured are poor, their children may be covered by Medicaid. Additionally, states have the option to pay for COBRA coverage for poor workers whose firm had 75 or more employees; few states have taken this option (Congressional Research Service, 1993). It is not known how many people have been covered through the AFDC-UP and COBRA coverage options.

HIPAA. The Health Insurance Portability and Accountability Act of 1996 (HIPAA or the

¹Employees of firms with fewer than 20 workers or who were terminated from their jobs under certain circumstances are not eligible for COBRA.

Kassebaum-Kennedy bill), makes it easier for workers and their families to maintain health insurance coverage. Under HIPAA, health plans are prohibited from imposing new pre-existing condition exclusions for enrollees with more than 12 months of previous continuous coverage.² Preexisting conditions are limited to 12 months and can be imposed only for conditions diagnosed or treated within the 6 months prior to enrollment.

However, HIPAA only helps those who maintain their health care coverage between jobs. If a worker loses coverage for more than sixty-three days while unemployed, these protections are no longer available. Since the Act's provisions begin in 1997, its implications for the unemployed and uninsured have yet to be determined. However, it is clear that it is extremely important that Americans are able to maintain their health care coverage while they are looking for a new job to benefit the guarantees in HIPAA.

Administration's Proposal. While COBRA, Medicaid, and HIPAA offer access to insurance for uninsured, unemployed families, the question of affordability remains largely unaddressed. Workers who are temporarily unemployed often are not qualified for Medicaid and cannot afford to buy into COBRA. At a time when they have lost a major source of income, they have to pay their health care costs alone. They (and their family) have no protection against the costs of a catastrophic illness, and they are unlikely to receive important preventive services which help avoid costlier services later.

Consequently, the Administration has put forth a new proposal to help workers who are between jobs. This program would provide temporary premium assistance for people who previously had health insurance through their employer, are in between jobs, and cannot afford COBRA or other coverage on their own. Families with income below poverty are eligible for a full subsidy, while families with income up to 240 percent of poverty can receive a partial subsidy for a basic benefits package. Only workers and dependents who receive unemployment compensation, do not have access to health insurance through a spouse, and are not eligible for Medicaid qualify for assistance. The program would be run as a capped entitlement to states, who would design the operation of the program. The Office of Management and Budget (OMB) estimates that this initiative will cost about \$2 billion a year [old #, pending final budget decisions].

According to Administration analysis, over 3 million people, including 700,000 children, would participate in this program in 1997 (if it were fully implemented in that year). About 85% of these participants would be middle class (defined as being in the second through fourth income quintile).

²Enrollees who have up to twelve months of health care coverage are subject to pre-existing conditions for 12 months minus the number of months they have previously been insured.

Discussion Questions

- Why should Federal money be spent on this population versus other groups of uninsured like children?
- Since people between jobs will probably get insurance eventually anyway, what is the need for additional assistance?
- Federal policies already provide access to health insurance for the uninsured unemployed; why aren't they sufficient?
- Won't additional funding for the temporarily unemployed cause more people to become unemployed or stay unemployed longer?
- Rather than creating a new program, why not just increase unemployment compensation so that the unemployed can afford health insurance?
- Why not just increase Medicaid's coverage for these people?
- Would extending COBRA to workers in small firms or over a longer period of time help?

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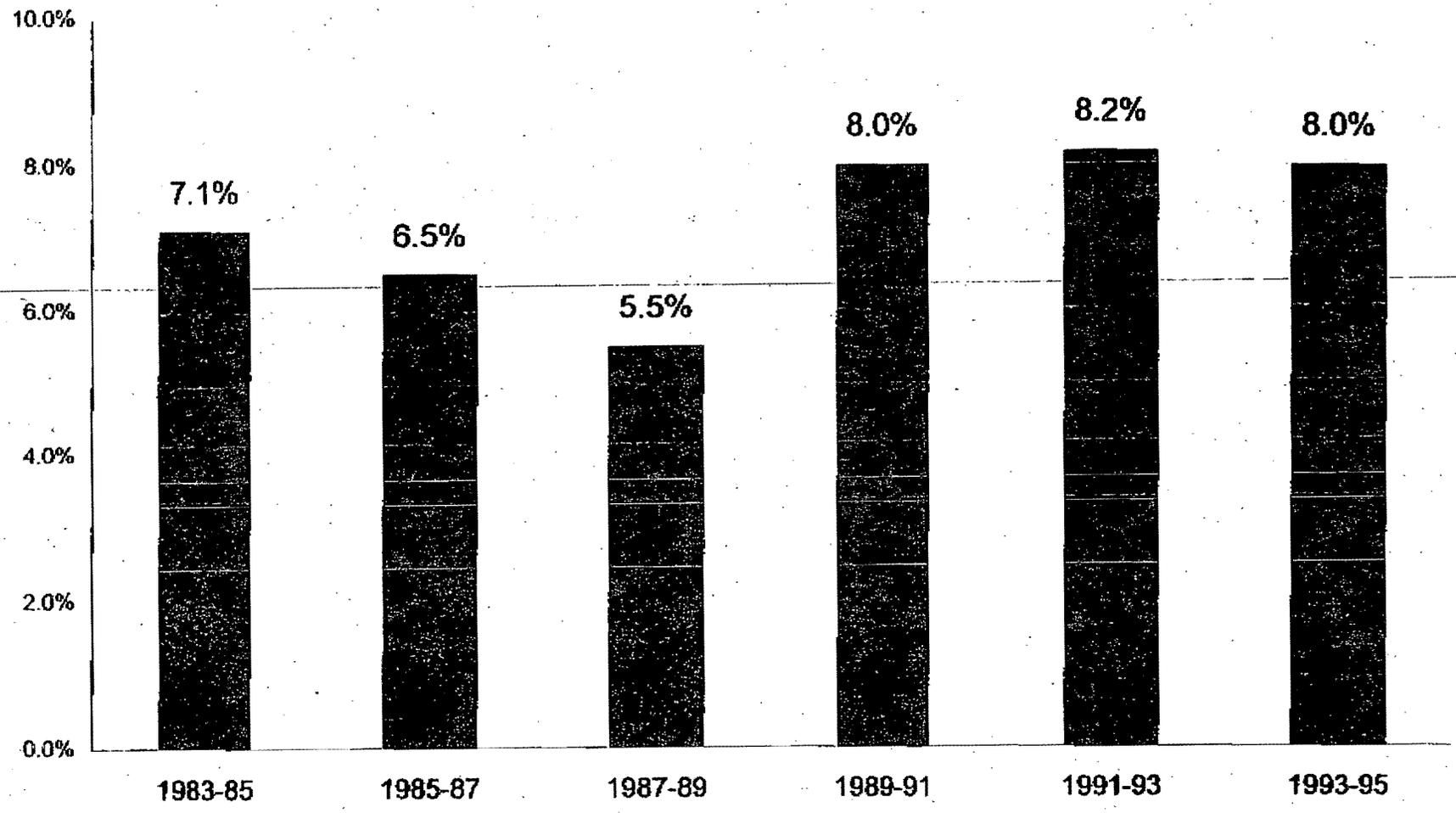
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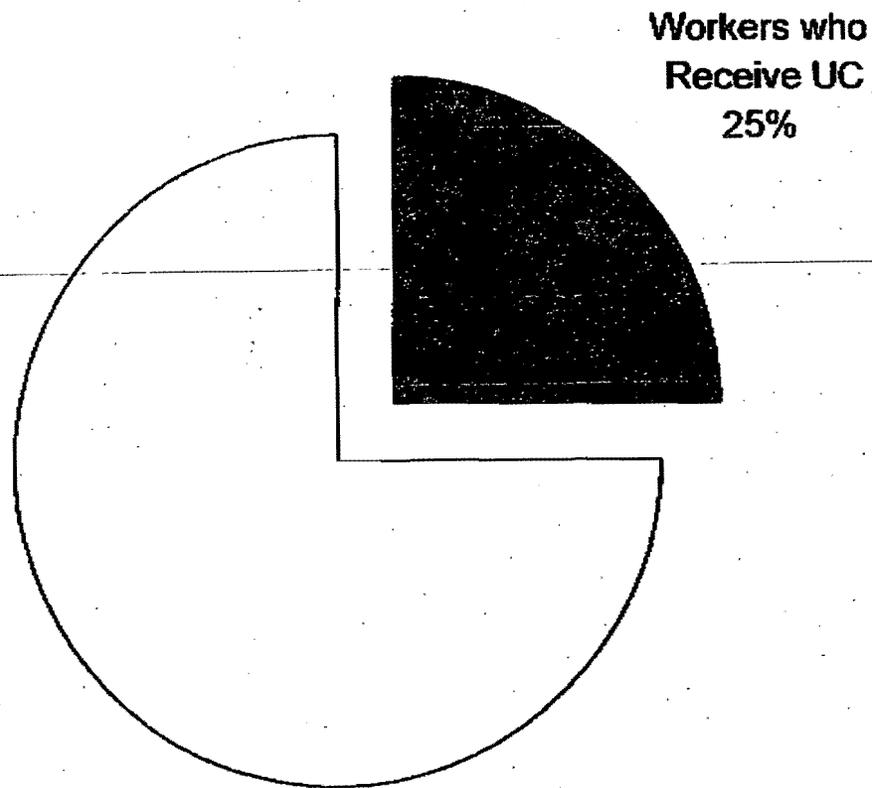
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Percent of Workforce with Permanent Job Loss Remains High



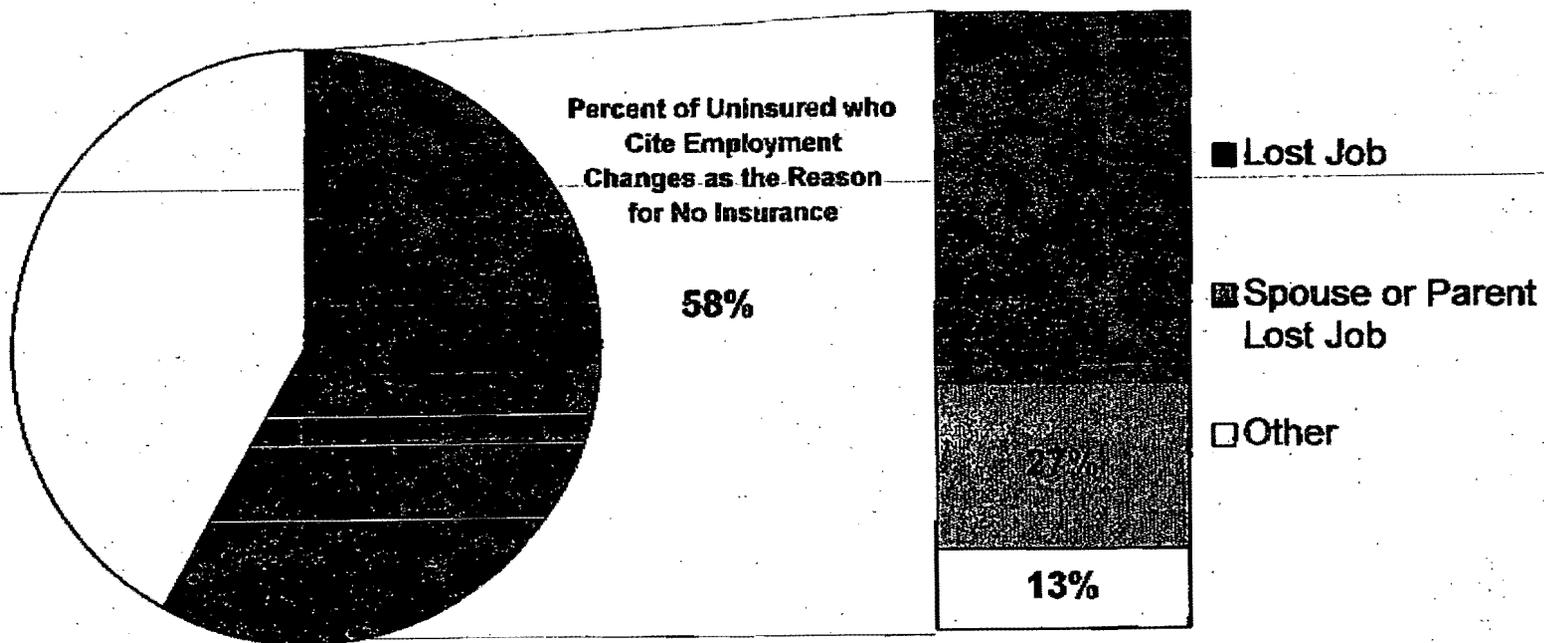
Source: U.S. Department of Labor, Bureau of Labor Statistics (1996).

Nearly One in Four Workers Receives Unemployment Compensation over a 4-Year Period



Source: Myer & Rosenberg (1996). Repeat Use of Unemployment Insurance.

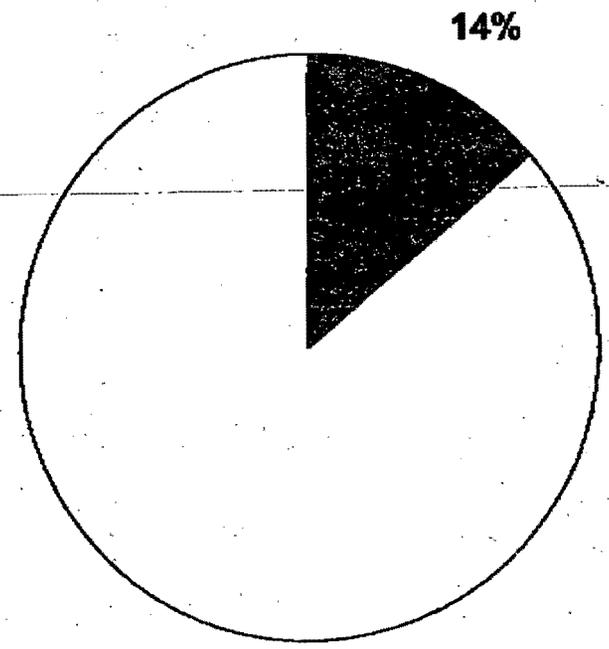
Changes in Employment Cause Most Loses of Employer-Based Health Insurance



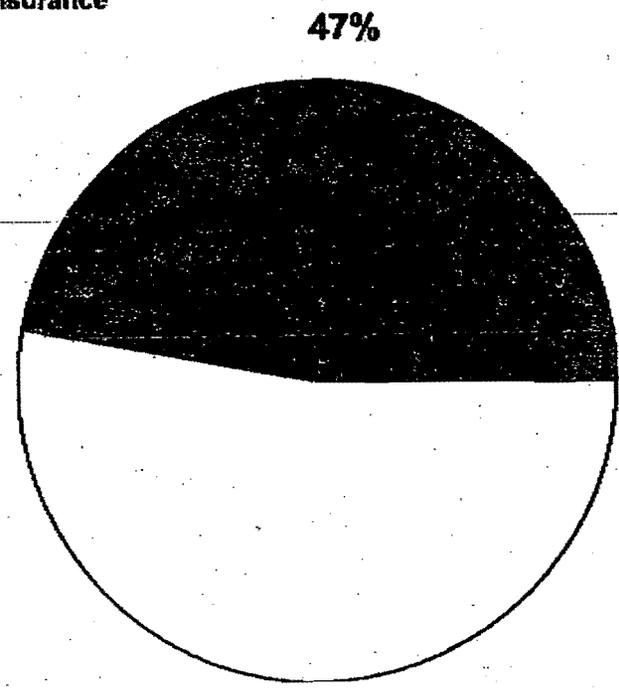
Source: Sheils & Alexih (1996). Recent Trends in Employer Health Insurance Coverage and Benefits.

Workers With Job Transitions Are More Likely to Experience Gaps in Health Insurance

Percent with Time Without Insurance



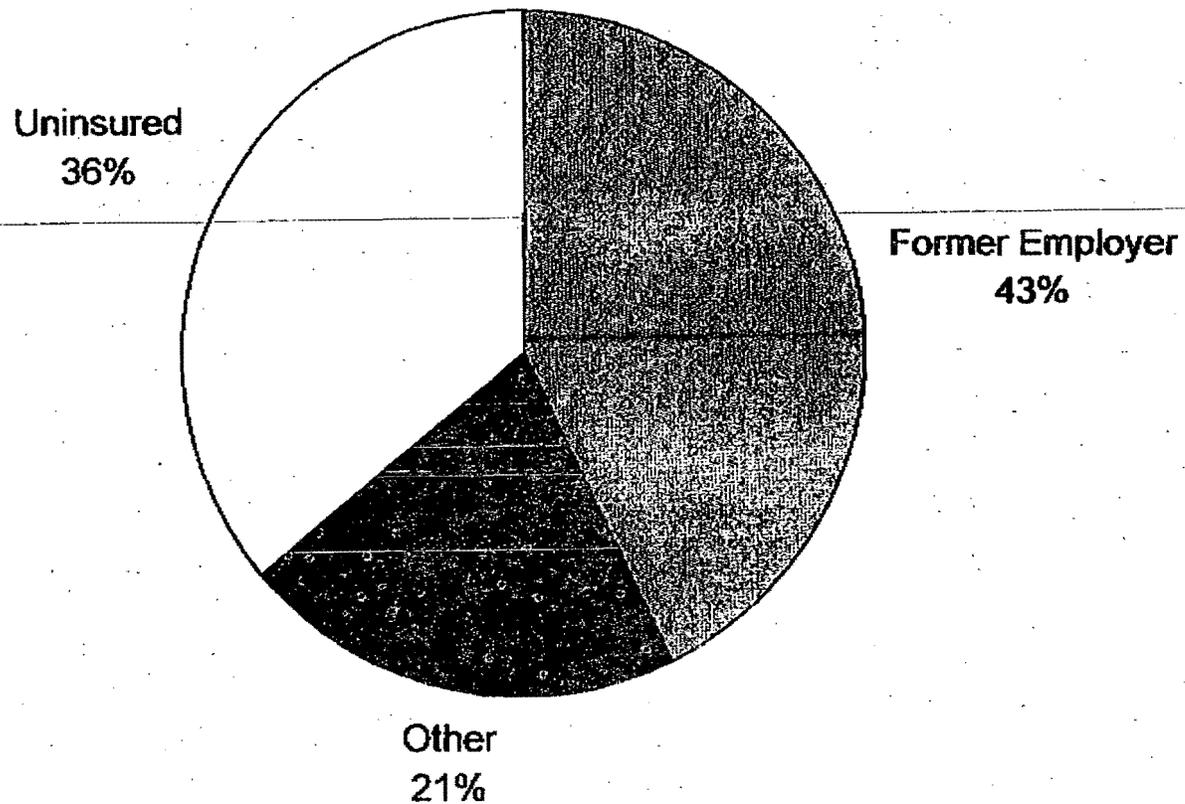
Workers with Full-Time, Continuous Jobs



Workers with at Least One Job Interruption

Source: Bennefield, 1996: Who Loses Coverage and for How Long? US Dept. of Commerce.

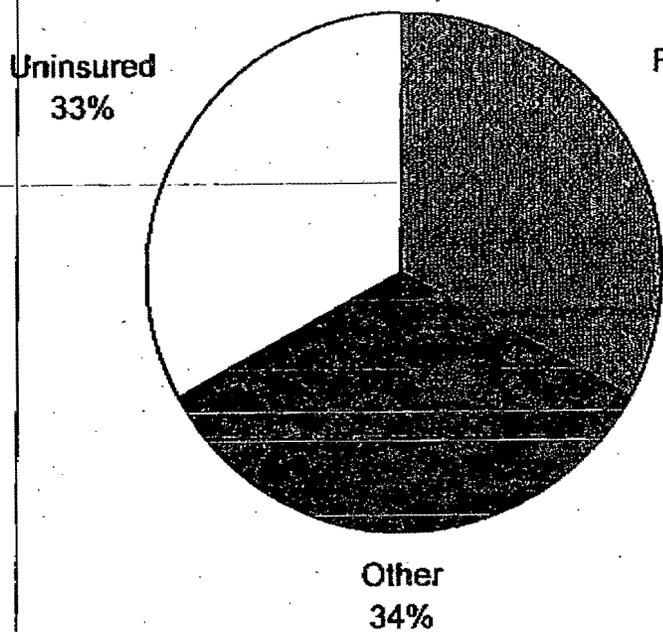
Health Coverage of Workers who Leave an Insured Job, Become Unemployed, & Receive Unemployment Compensation



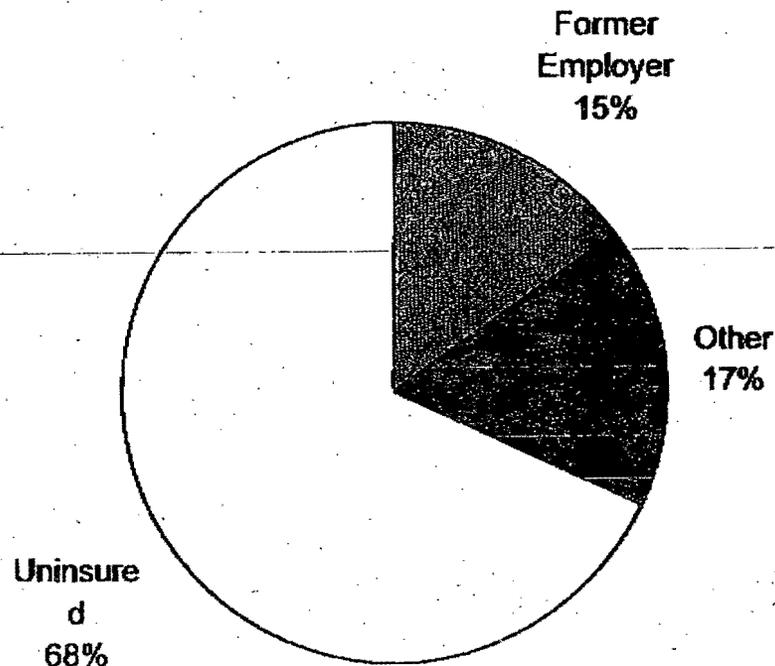
Note: Former employer usually means the person participated in COBRA
Source: Klerman (1995). Health Insurance for the Unemployed: An Options Paper.

Low-Income Unemployed are Less Likely to Be Insured

Health Insurance Coverage of COBRA-Eligible Unemployed



Annual Income Greater than \$25,000



Annual Income \$25,000 or Less

Note: Former employer usually means the person participated in COBRA.
Source: Berger, Black & Scott (1996). Health Insurance Coverage of the Unemployed.

MEMORANDUM

August 12, 1996

TO: Nancy-Ann Min and Chris Jennings
FR: Sarah Bianchi
RE: RAND Analysis of Proposals to Extend Health Insurance to the Unemployed

This memorandum responds to your request for an analysis of Jacob Klerman's article *Evaluating Proposals to Extend Health Insurance Among the Unemployed*. Klerman believes that extending health insurance to the unemployed would be relatively inexpensive and useful to the small population that would meet the narrow requirements of this program.

I. Who's eligible?

One of Klerman's central points is that the current proposals to cover the temporarily unemployed are narrowly targeted and would only reach a small portion of the uninsured. In fact, it would not even help most of the unemployed. The majority of unemployed workers (61%) already have health insurance. Half are insured through COBRA, 25% through their spouse's employment, and the remaining 25% through Medicaid. Of the unemployed workers who are uninsured, only some would be eligible for health insurance subsidies, since most of the current insurance proposals would make benefits contingent on receiving unemployment insurance. (Many unemployed workers are not eligible for unemployment insurance i.e., they are new entrants to the labor market, or have used up their unemployment insurance). Also, many would be ineligible because they were not insured in their previous job. Klerman estimates that of the seven million unemployed, only one million, or 14%, would be eligible for health insurance coverage at any given time. Between 1.5-2 million would be eligible per year (4 million including dependents).

II. Who Would Sign Up?

Of the eligible population, only a portion would elect to participate in the program. Klerman argues that costs will be highly sensitive to the size and duration of the subsidy. Klerman estimates that under the Administration's proposal which, as you know, offers full subsidies to those below 100% of the poverty rate and a sliding scale between 100% and 240%, about 44%

would participate in the program. The percentage of the unemployed who are insured would increase from 63% to 81%. Due to the limited eligibility, the program would have relatively modest costs, approximately \$1.57 billion per year.

However, some of the enrollees would have already received health insurance coverage without this new subsidy. They would have either paid the full costs of their COBRA premium or received coverage through their spouse's insurance plan. Klerman estimates about two out five participants would be newly insured. The cost of the program per participant is \$2,352; however, the cost per additional insured family is more than two times that, \$5,766. Therefore, most of the dollars would go to subsidizing individuals who would have had insurance anyway. Furthermore, Klerman argues that since subsidizing health insurance will enhance the value of being unemployed, it will lengthen the duration of unemployment by 21%.

III. Conclusions

Klerman believes that this policy will only extend coverage to a small portion of Americans who currently lack health insurance. It will not even reach the majority of the unemployed, who tend to have better access to affordable health insurance (through COBRA) and often have incomes higher than many who are uninsured but employed. Klerman wonders whether the unemployed is the segment of the uninsured population that is most in need of assistance, rather than those who are employed and still lack health care coverage.

However, Klerman does acknowledge that this proposal would be useful to those who qualify, particularly to those unemployed Americans living only on unemployment insurance who can no longer afford to pay their premiums. Perhaps more importantly, he argues that this program could give "peace of mind" to many middle class Americans who worry that if they lose their job, they will no longer have health care coverage.

homes to home- and community-based settings without Federal waivers.

- *Coverage expansions without waivers.*—The plan enables States, without waivers, to expand coverage to any person whose income is under 150 percent of the poverty line. States would pursue these expansions within their per-person limits, thereby limiting Federal costs.

Protections for the Most Vulnerable

The budget retains the policy of helping low-income seniors and people with disabilities by preserving the shared Federal-State responsibility for their Medicare premiums, copayments, and deductibles. It also retains payment protections for Medicaid-eligible Native Americans treated in Indian Health Service and other facilities. These protections are not subject to the per-person cap.

MAINTAINING AND EXPANDING COVERAGE FOR WORKING AMERICANS

Reforms to Make Health Coverage More Accessible and Affordable

In his State of the Union address, the President challenged Congress to enact insurance reforms to enable more Americans to maintain health insurance coverage when they change jobs, and stop insurance companies from denying coverage for pre-existing conditions. The budget proposes that plans make coverage available to all groups of businesses, regardless of the health status of any group members. Insurers would have to provide an open enrollment period of at least 30 days for all new employees (whether or not they were previously insured), and insurers could not individually underwrite new enrollees—i.e., their premiums would have to match other enrollees' with similar demographic characteristics.

To increase affordability, the President's insurance reforms phase out the use of claims experience, duration of coverage, and health status in determining rates for small businesses. To put the self-employed on a more equal footing with other businesses, the reforms gradually raise the self-employed tax deduction for health insurance premiums from 30 to 50 percent. And to help give small

businesses the purchasing clout that larger businesses have, the budget proposes \$25 million a year in grants that States can use for technical assistance and for setting up voluntary purchasing cooperatives.

Health Insurance for the Temporarily Unemployed

The budget gives premium subsidies to individuals who lose their health insurance when they lose their jobs, to pay for private insurance coverage for up to six months. States would receive funding to design and administer the program, which would provide coverage for about 3.8 million Americans a year. During the four-year period for which this program is authorized, a Commission would study and provide recommendations to the Administration and Congress as to making it permanent.

PROMOTING PUBLIC HEALTH

The budget continues our Nation's critical investment in basic biomedical research, an investment that plants the seeds for lifesaving advances in medicine. The budget proposes \$12.4 billion for NIH, a \$467 million increase over 1996 and a 20 percent increase since 1993. Further, the budget advances our efforts to eradicate, once and for all, the dreaded disease of polio. And it supports childhood immunizations, which have proven their cost-effectiveness time and again.

The budget continues the President's strong commitment to HIV/AIDS prevention and treatment. It increases funds to prevent HIV transmission by \$34 million over 1996 levels. It increases Ryan White funding by \$32 million over 1996 to ensure that our most hard-hit cities, States, and local clinics can assist those with AIDS. It increases funding for potentially life-prolonging therapies, including some of the newly-discovered drugs that show so much promise in treating AIDS. It increases support for drug treatment—one of the most effective forms of HIV prevention. And it increases AIDS research funding at NIH in the continuing search for effective treatments, vaccines, and a cure.

The budget also gives substance abuse treatment and prevention a 17 percent increase, helping expand efforts against drugs.

WORKER TRANSITION INITIATIVE

I. WORKER TRANSITION INITIATIVE

This provision addresses affordability of health care coverage for workers in transition from job-to-job. Through a grant program with the states, it would provide premium assistance to temporarily unemployed workers and their families for up to six months of coverage.

II. PURPOSE

This provision would take the next logical step toward improving coverage to millions of working Americans are at risk of not being able to afford coverage. In so doing, it would assure that individuals retain the continuous health care coverage necessary to receive portability benefits under the Kennedy/Kassebaum health insurance reform bill.

III. IMPACT

- Approximately 3 million people, including at least 700,000 children, would benefit each year.
- The program would cost an estimated \$2 billion/year.
- This program would be paid for in the context of the President's balanced budget proposal. It demonstrates that the nation can invest in important programs while still being fiscally responsible.

IV. SPECIFIC PROVISIONS

- The program would give assistance to states to provide health care coverage to individuals who are between jobs.
- The program would give states substantial flexibility to administer the program. Under the program states could decide how to deliver benefits and whether to expand eligibility and benefits.
- Program information and applications would be made available through local unemployment offices.

V. ADMINISTRATION HISTORY ON ISSUE

Over the past few years, the President fought long and hard for health care reform. In passing the Kennedy/Kassebaum legislation, Congress took the first steps toward meaningful reform. The next logical step is to ensure affordability of health care and to guarantee that individuals do not lose the protections gained in the Kennedy/Kassebaum legislation.

This provision has been included in all of the President's balanced budget proposals and is paid for in this context.

Worker Transition Initiative

HEALTH INSURANCE FOR THE TEMPORARILY UNEMPLOYED

Building on the Health Insurance Portability and Accountability Act, funds would be made available to states to finance up to six months of coverage for unemployed workers and their families. The program would be available to those who had employer-based coverage in their prior job, are now receiving unemployment benefits, and have income below certain thresholds. The program would be a four year demonstration project and would provide States with substantial flexibility in how to administer the program.

I. Federal Funds for States

- o Establishes a four year demonstration project. Provides annual grants to states which choose to participate. HHS would operate a program in a state that chooses not to participate.
- o The funding would be a capped entitlement to the state.
- o States would be allowed to accumulate a small surplus to cover years with shortfalls, and the federal government would also operate a loan program to assist States with shortfall.
- o Funds would be allocated based on the proportion of unemployed persons in the State who collected unemployment income (UI) benefits relative to all persons in the nation who collected UI benefits.

II. Eligibility for Coverage

- o Recipients must be in active unemployment insurance claims status.
- o Coverage would not exceed 6 months.
- o Individuals must have had health insurance coverage through their last employer for at least the six previous months (including plans where the employee paid the full cost).
- o A full subsidy is provided up to 100% of the poverty level for family income and phased out at 240% of the poverty level.
- o An employed spouse must not have health insurance coverage or, if covered, the employer contributes less than 50% of the premium.
- o The individual or family must not be eligible for Medicaid or Medicare.
- o Individuals will be eligible based on their place of residence.
- o No reduction can be made in the duration or amount of unemployment benefits as the result of an individual participating in the health care coverage program.

III. Benefits

- o States would have the flexibility in how to use funds to assure access to an insurance product:
 - COBRA coverage from their prior employer;
 - An insurance product in the private market;
 - Alternative means of coverage (e.g., state high risk pools, Medicaid buy-in, special plan for the temporarily unemployed);
- o State would have the option of extending eligibility periods or providing a more generous package using state funds.
- o Any reduction in either the duration or extent of health coverage, benefits would have to be approved by the Secretary of HHS.

IV. Administration

- o The state (or its contractor) must conduct all eligibility determinations.
- o Unemployment claimants are informed of possible coverage eligibility at the time that an eligibility determination for UI benefits is made.
- o Recipients must be informed that program funds are limited, and that benefits could be reduced or eliminated if funds become exhausted.
- o Funds from the grant will take the form of letters of credit to the states.
- o Program information and applications will be available in every local unemployment office/one-stop office.

Estimated Costs of the Temporarily Unemployed Program
(Fiscal Years, Billions of Dollars)

	1997	1998	1999	2000	2001	2002	Total 1997-2002
OUTLAYS							
Temporarily Unemployed Program	1.3	1.9	2.1	2.3	0.0	0.0	7.6
							12.5

0.8
14.3 ↓

Free for those with incomes below 100%; sliding-scale subsidy for those w/ income 100 - 240%
 Limit to those who formerly had insurance; excludes mandatory Medicaid eligibles and uninsured.
 These estimates assume some employer or employee dropping of insurance, which would result in small, increased tax revenues.
 Assumes that unemployment compensation is included in income determinations. Assume that 75% of ESI eligibles participate.

Decrease in unemployment rate

07-Aug-96

Temporarily Unemployed Program
Distribution of Participants and Costs: By Income Quintile, 1997
(Participants in millions, dollars in billions)

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	TOTAL
Participants	0.2	0.7	1.1	0.7	0.3	3.0
<i>Percent of Participants</i>	5.5%	23.4%	36.7%	23.7%	10.6%	100%
Costs	0.2	0.6	0.6	0.3	0.1	1.8
<i>Percent of Costs</i>	11.1%	36.4%	34.1%	13.7%	4.7%	100%

Participants and costs are for a full, calendar year 1997.

Quintiles based on monthly cash income.

Annualized quintiles (1996\$):

1st quintile: \$0-\$8224

2nd quintile: \$8250-\$17374

3rd quintile: \$17375-\$30541

4th quintile: \$30542-\$49956

5th quintile: \$49957 +

Temporarily Unemployed Program
Distribution of Participants and Costs: By Percent of Poverty, 1997
(Participants in millions, dollars in billions)

	< 100%	100 - 133%	133-150%	150-185%	185-200%	200 - 240%	240 - 300%	300% +	Total
Participants	0.3	0.3	0.2	0.4	0.2	0.4	0.5	0.8	3.0
<i>Percent of Participants</i>	9%	10%	7%	13%	6%	12%	16%	26%	100%
Costs	0.3	0.3	0.1	0.2	0.1	0.2	0.2	0.3	1.7
<i>Percent of Costs</i>	16%	17%	8%	14%	6%	11%	12%	17%	100%

Participants and costs are for a full, calendar year 1997.
Poverty breaks based on monthly cash income

07-Aug-96

Temporarily Unemployed Program
Distribution of Participants and Costs: By Former Insurance Status, 1997
(Participants in millions, dollars in billions)

	Employer-Sponsored Insurance	Non-Group * Insurance	Optional Medicaid	Mandatory Medicaid	Uninsured	Total
Participants	1.1	1.3	0.4	0.0	0.1	3.0
<i>Percent of Participants</i>	38%	45%	12%	0%	5%	100%
Costs	1.0	0.4	0.3	0.0	0.0	1.7
<i>Percent of Participants</i>	60%	25%	16%	0%	0%	100%

Participants and costs are for a full, calendar year 1997.

* Includes non-group, ESI other and other.

Insurance status reflects the insurance that the person had at any time during the year, not necessarily immediately prior to being unemployed.

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Temporarily Unemployed Program
Distribution of Participants and Costs: By Age, 1997
 (Participants in millions, dollars in billions)

	0 to 18	19 to 24	25 to 44	45 to 64	Total
Participants	0.7	0.2	1.4	0.7	3.0
<i>Percent of Participants</i>	23%	8%	47%	22%	100%
Costs	0.2	0.1	1.0	0.4	1.7
<i>Percent of Participants</i>	12%	8%	56%	24%	100%

Participants and costs are for a full, calendar year 1997.
 Quintiles based on monthly cash income.

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Temporarily Unemployed Program
Distribution of Participants and Costs: By Firm Size Of Unemployed Person, 1997
(Participants in millions, dollars in billions)

	Unknown	< 10	10 to 24	25 to 99	100 to 499	500 +	Total
Participants	0.1	0.4	0.4	0.5	0.5	1.1	3.0
<i>Percent of Participants</i>	2%	14%	14%	17%	17%	37%	100%
Costs	0.1	0.2	0.2	0.3	0.3	0.6	1.7
<i>Percent of Participants</i>	5%	13%	13%	16%	18%	35%	100%

Participants and costs are for a full, calendar year 1997.
Quintiles based on monthly cash income.

07-Aug-96