



**U.S. TREASURY DEPARTMENT
OFFICE OF ECONOMIC POLICY**

**COBRA INSURANCE COVERAGE SINCE THE RECOVERY ACT:
RESULTS FROM NEW SURVEY DATA**

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Executive Summary

- The American Reinvestment and Recovery Act (ARRA) established a tax credit that paid 65 percent of the cost of health insurance premiums for unemployed workers who maintained their employer sponsored health insurance through the Consolidated Omnibus Budget Reconciliation Act (COBRA) continuing health insurance program.
- Drawing on a new representative survey of over 6,000 New Jersey workers who were receiving Unemployment Insurance (UI) in the fall and winter of 2009, this report provides the first summary of the profile of unemployed individuals who obtained continuing health insurance coverage with the help of the ARRA COBRA subsidy.
- Roughly 15 percent of UI beneficiaries received health insurance coverage via COBRA. Taking into account the main eligibility requirements for the ARRA subsidy, we estimate that between a quarter and a third of eligible unemployed workers enrolled in subsidized COBRA for continuing health insurance.
- Around 80 percent of individuals who made use of the ARRA COBRA subsidy are from households with annual incomes between \$30,000 and \$134,000, the middle three quintiles of the household income distribution in New Jersey. Thus, the subsidy appears to have been especially important for maintaining health insurance coverage for middle-class families during the recession.

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Introduction

COBRA continuation coverage allows workers who have separated from their job to continue their employer-sponsored health insurance for up to 18 or 36 months, depending on the reason for the separation. Normally, workers on COBRA coverage are required to pay up to 102 percent of the total cost of the premiums, but the American Reinvestment and Recovery Act (ARRA) of February 2009 included a federal subsidy for 65 percent of the cost of COBRA continuation coverage for up to nine months for workers involuntarily terminated from their jobs after September 2008. For a typical family, the ARRA subsidy reduced the cost of COBRA from about \$13,500 to \$4,725. In December 2009, Congress extended the duration of the COBRA subsidy to fifteen months.

Most administrative data sets on health insurance coverage are published with a significant time lag, making contemporaneous evaluation of health policy reforms difficult. Moreover, these datasets are not always available at the individual-level and thus comparing how specific groups react to health policy changes can be difficult. Over the course of several months during the fall and winter of 2009, the Princeton University Survey Research Center (PSRC) collected weekly survey data on a representative sample of some 6,000 New Jersey workers on Unemployment Insurance, which included questions on health insurance status.

This report summarizes a number of key findings on the overall use of the ARRA subsidy. First, roughly 15 percent of respondents report having insurance through COBRA. However, after taking into account the main eligibility requirements for the ARRA subsidy, we estimate that between a quarter and a third of subsidy-eligible workers utilized the COBRA subsidy for continuing health insurance.

Enrollment in COBRA continuing health insurance is especially high among those with middle-class and higher incomes. After adjusting for the fact that the highest-income households are ineligible for the ARRA COBRA subsidy, it appears that 80 percent of individuals using the subsidy are in households with annual income between \$30,000 and \$134,000, the middle three quintiles of the New Jersey household income distribution.

Overall, the results suggest that COBRA has been an important source of insurance coverage during the recession, especially for the middle class. Indeed, the availability of the program may have significantly slowed the growth of the uninsured population, which had been skyrocketing through February 2009. Figure 1 shows that a sudden flattening in the growth of the uninsured adult population began around the time that employers and employees received guidance on the

ARRA COBRA subsidy. The large participation in the COBRA program by unemployed middle-class workers could have been a major contributing factor to the relative stability in the share of Americans without health insurance since February 2009.

Background on COBRA

The federal COBRA provision of 1985 allowed employees covered by their employers' insurance plan at the time of a job separation to remain on that plan for up to 18 or 36 months (depending on the reason for the job separation).¹ The federal COBRA law applies only to firms with more than 20 employees, but most states have since established their own laws (so called "mini-COBRA" laws) that establish the right to continuation coverage for workers in smaller firms, so that essentially any employee that currently has employer-sponsored health insurance is eligible to initially maintain that coverage via COBRA.

In typical circumstances, the cost of health insurance premiums under COBRA is paid entirely by the worker. Although employers are free to provide terminated workers severance packages that may include support for continuation coverage, under COBRA the employer has the right to demand that workers on continuation coverage pay the full (employer plus employee share) cost of the premium, as well as an additional two percent intended to cover employers' administrative costs.

The ARRA COBRA subsidy

The average cost of a single and family employee health insurance plan is, respectively, \$4,824 and \$13,375, which may be prohibitively expensive for laid-off workers, especially during a deep recession when finding another well-paying job is difficult and savings have been devastated by a financial crisis.² The Recovery Act provides for a subsidy of 65 percent of unemployed workers' health insurance premiums under COBRA provided that they:

- (i) Were on their employer's health plan at the time of termination and were eligible for COBRA or "mini-COBRA" continuation coverage.
- (ii) Were involuntarily terminated from their job after August 2008.

¹ The provision on continuation coverage was part of the Consolidated Omnibus Budget Reconciliation Act of 1985. The continuation coverage itself has since become known as COBRA, the acronym of the bill.

² For average premiums, see the Kaiser Family Foundation Employer Health Benefits 2009 Annual Survey at <http://ehbs.kff.org/pdf/2009/7936.pdf>.

- (iii) Do not have access to other sources of health insurance (e.g., Medicare or spousal coverage).
- (iv) Have household adjusted gross income below \$145,000 for single filers or \$290,000 for joint filers (note that the subsidy phases out proportionally between \$125,000 and \$145,000 for single filers and \$250,000 and \$290,000 for joint filers).

Generally, workers send a check to their employers for COBRA coverage, as before, though under ARRA the check must cover only 35 percent of the premium, not 102 percent. As before, the employer then retains the worker in the health plan and pays the insurer. Employers initially advance the remaining 65 percent to the insurer, and are reimbursed by the IRS via adjusted payroll tax withholding on their next quarterly filing.

Collection of the New Jersey Data

To date, individual-level data on COBRA enrollment since the Recovery Act are available for only one state, New Jersey. In September of 2009 the Princeton University Survey Research Center obtained a list of the roughly 360,000 UI beneficiaries in New Jersey. The data were then subjected to a stratified random sampling procedure (stratified first by whether the individual had an email address on file and second by weeks of benefits already received) to obtain a sample of 63,813 UI recipients. Selected individuals were contacted either by email or letter, and invited to participate in the survey. The survey was conducted once a week over the Internet through December 14, 2009.³ A total of 6,025 recipients completed at least one week of the survey. A follow-up web survey of longer-term unemployed workers was also conducted that asked about health insurance coverage on their job prior to displacement. This report makes use of deidentified data collected in the web surveys.

Sampling weights were used to adjust the sample of respondents to be representative of all New Jersey workers on UI. The survey questionnaires can be found at www.princeton.edu/~psrc/NJWS/ENTRY.pdf and www.princeton.edu/~psrc/NJWS/WEEKLY.pdf. All of the data summarized in this report were obtained from these surveys.

Background on New Jersey's COBRA laws, economy, and health coverage

Before analyzing the PSRC survey data, it is useful to provide some context on New Jersey, especially with regard to residents' health insurance coverage and the state's employment

³ The web survey was implemented by the Cornell University Survey Research Institute. The web format was chosen to minimize costs and respondent burden because respondents were surveyed over several weeks.

landscape. In general, New Jersey is a high-income state, but it also mirrors the nation as a whole in several important respects.

Like many other states, New Jersey extends benefits similar to COBRA continuation coverage to employees in firms with fewer than twenty employees. New Jersey Continuation, as the program is called, was established in 1994 with additional amendments in 2004. The ARRA 65 percent COBRA subsidy applies almost identically to workers covered under New Jersey Continuation as to workers covered under traditional COBRA, provided they meet the four requirements noted previously.

New Jersey's economic performance has closely mirrored that of the nation as a whole during the recession. For example, the state's unemployment rate in February of 2010 (the most recent month for which state-level rates are available from the BLS) was 9.8 percent compared with 9.7 percent for the nation as a whole. Moreover, as Figure 2 shows, the state unemployment rate has generally tracked the national rate during the course of the recession.

New Jersey is also typical of the nation as a whole with respect to overall health insurance coverage. Based on 2008 data from the Current Population Survey (CPS), 86.1 percent of New Jersey residents have health insurance, compared with 84.6 for the nation as a whole. However, 72.7 percent and 23.6 percent of the state's residents are on, respectively, private and public insurance, compared with 66.7 percent and 29.0 percent for the nation as a whole. The lower rate of public insurance in the state is not surprising given the relative income level of its residents: the median household income in New Jersey in 2007-08 was \$64,070, more than \$12,000 above the national median and fifth highest among all states.⁴

COBRA coverage among workers in the New Jersey data

The survey asked respondents whether they were currently uninsured, had coverage via COBRA or NJ Continuation (hereafter, just "COBRA"), had other private coverage (e.g., through a relative or spouse), or had public insurance such as Medicaid or Medicare.⁵ The health insurance question was asked in the second week of the survey and repeated every four weeks. Unless otherwise noted, we use all responses for each respondent, so individuals may appear more than once in the analysis sample. Workers who lost their jobs before September 2008 are excluded from the

⁴ The insurance and household income figures in this paragraph are taken from the U.S. Census Bureau publication, "Income, Poverty and Health Insurance Coverage in the United States: 2008," which can be found at <http://www.census.gov/prod/2009pubs/p60-236.pdf>. The Census report, which is based on CPS data, publishes state income figures as the average over two years to address concerns about sample size.

⁵ The specific question was, "Do you currently have health insurance coverage?" The response set was: <1> Yes, through Medicaid, Medicare or other government program; <2> Yes, through COBRA (COBRA is a group insurance you buy from a former job); <3> Yes, I pay for myself/I am covered on a relative's or spouse's plan; <4> Yes, other; <5> No.

sample, as they are not eligible for the ARRA COBRA subsidy, and workers are also excluded once they report starting a new job. Further, workers age 65 and over are excluded because they are likely eligible for Medicare. These restrictions result in a sample of 2,729 unemployed workers who answered the COBRA question, and a total of 4,241 weekly observations.

We report results for the health insurance question for the entire sample, as well as for specific subgroups, in Table 1.⁶ Overall, 15 percent of the unemployed workers in the survey who lost their job since subsidized COBRA became available report having insurance through COBRA. Those with a college degree or higher are the most likely groups to report COBRA coverage, probably reflecting the fact that more highly educated workers are more likely to have had employer-sponsored insurance in the first place. COBRA coverage also rises with income.

Nearly 40 percent of workers in the sample reported that they did not have health insurance. This figure is significantly greater than the roughly one-fifth of non-elderly adults that report being uninsured according to the 2008 Current Population Survey, consistent with the unemployed having in general a higher likelihood of being uninsured.⁷ More than half of the unemployed from households with income below \$50,000 in 2008 lacked health insurance, as compared with 17 percent of those from households with income greater than \$100,000.

Figure 3 displays the cumulative distribution function of household income for COBRA enrollees. Just over 5 percent of COBRA participants fall in the lowest-income quintile of New Jersey households (household income below \$30,000). About 20 percent of COBRA enrollees were from households with \$50,000 or less income. Recall that to qualify for COBRA, workers must have been on their employer's health insurance plan before losing their jobs. As many low- and moderate-income workers do not receive employer-sponsored health insurance, they are ineligible for COBRA. Furthermore, workers who did have employee health insurance before their termination may not be able to afford the 35-percent payment while unemployed if their household income is sufficiently limited.

While there is no income cutoff for COBRA participation, the Recovery Act restricts the COBRA 65 percent subsidy to households with adjusted gross income below \$145,000 for single filers or \$290,000 for joint filers. Excluding those who would be ineligible for the COBRA subsidy based on their 2008 income, we calculate that 80 percent of the unemployed workers who used the COBRA continuing health insurance subsidy fell in the middle three income quintiles of the distribution of income for all New Jersey households.⁸ Thus, the benefit of the ARRA COBRA

⁶ The distribution of insurance status when only one observation per individual is included, from the first time the health insurance question was asked, is nearly identical to that shown in col. (1).

⁷ In the 2008 American Community Survey, 48.0 percent of unemployed 18-64-year olds were uninsured, compared with 16.6 percent for the age group generally.

⁸ To be precise, 79.8 percent of all COBRA enrollees who appear to be eligible for the ARRA subsidy have household income between \$30,000 and \$134,000, which are the 20th and 80th percentiles, respectively, of the distribution of household income in New Jersey according to the 2008 American Community Survey. Because

subsidy appears to accrue primarily to middle-class families.

COBRA coverage among workers eligible for the ARRA subsidy

It is important to note that the figures in Table 1 do not represent take-up rates, defined as the percent of workers *eligible* for the ARRA COBRA subsidy who actually enroll. Recall that eligibility for the 65 percent ARRA COBRA subsidy requires that the individual lost his or her job after August 2008, had been on employer-sponsored insurance at the time of termination, did not have access to spousal coverage or government insurance, and met certain income restrictions. We can only indirectly estimate take-up rates among subsidy-eligible workers with the available data.

We use a few different approaches to estimate COBRA enrollment among respondents most likely to be eligible for the Recovery Act subsidy. As a first step, we restrict the sample to those who lost their job after August 31, 2008 and eliminate respondents who were currently on government insurance, as they would not be eligible for the ARRA subsidy. These results are shown in the first column of Table 2. The overall share on COBRA rises from 15.0 percent to 17.1 percent when this group of ineligible workers is excluded. Each subgroup's COBRA enrollment rate also rises, roughly proportionately. Note that this methodology still produces an understatement of take-up rates because the denominator counts some individuals who are eligible for public insurance even if they have not enrolled in it and are thus ineligible for COBRA, as well as those who did not have health insurance on their job prior to separation and those who are covered by their spouse's insurance.

In the next two columns of Table 2, we adjust the COBRA enrollment estimates for the fact that many workers in the sample are not eligible for COBRA—and thus for the ARRA subsidy—because they were not on their employer's health plan prior to losing their job. To correct for this factor, we generate two estimates of the share of unemployed New Jersey workers who were on their employer's plan at the time of termination. First, a question was added to the survey in January of 2010 that asked the remaining 847 unemployed workers in the survey whether they had been on their employer health plan at the time they lost their jobs. Roughly 64 percent of this group reported being on their employer's health plan when they lost their job. The results in col.

income data collected in the web survey are categorical, this calculation assumes that 76 percent of individuals in the \$100,000 to \$150,000 income group in New Jersey have income between \$100,000 and \$133,000, based on the distribution of New Jersey household income in the 2008 ACS. The highest income category in the PSRC survey is "\$150,000 and above." Given that adjusted gross income in this range would disqualify all single tax-filers, we assume that all non-married individuals in the highest income category are ineligible. Joint tax-filers can qualify with adjusted gross income of up to \$290,000. Based on ACS data, 22 percent of married couples with household income above \$150,000 have household income above \$290,000, so we assumed 22 percent of married individuals in the top income category are ineligible for COBRA. Because we use self-reported 2008 household income, as opposed to adjusted gross income from the relevant tax return for these calculations, the estimates are necessarily approximate.

(2) scale each group's COBRA share by the inverse of the group's probability of originally being on an employer plan. That is, a group-specific pre-displacement coverage rate is used to adjust each group's take-up rate.

Second, we use the share of currently employed private sector workers on their employer's health plan as recorded in the 2008 Medical Expenditure Panel Survey (MEPS). The MEPS data indicate that this share is roughly 52 percent in New Jersey. Note that because only aggregate data are available from MEPS, we cannot use a group-specific adjustment factor in col. (3).

Both adjustments have limitations. The first approach is subject to selection bias as only a subsample of workers who remained in the survey because they had yet to find employment after three months were surveyed, and the second is based on currently employed workers instead of unemployed workers, and not group-specific. Nevertheless, the two scaling factors are relatively close to each other and provide a plausible range for the share of ARRA-subsidy-eligible workers currently enrolled in COBRA.

The second column of Table 2 indicates that, using the first approach to rescaling the take-up rate, 29 percent of unemployed workers who were eligible for the ARRA COBRA subsidy enrolled in COBRA. The third column, using the MEPS adjustment factor, indicates that nearly a third of eligible workers enrolled in COBRA.

While the exact adjustment factors are imperfect, it is important to note that there are reasons to suspect that the enrollment rates reported in Tables 1 and 2 *underestimate* the enrollment rate of eligible workers. For example, we cannot eliminate those who have access to spousal coverage as that variable is not reported in the survey data, even though such workers are not eligible for the ARRA subsidy. As with those eligible for public insurance who do not take it up, individuals with spousal coverage appear in the denominator of the enrollment rate even though they are not eligible for the subsidy, which produces an underestimate of the take-up rate of eligible workers.

Conclusion

The sample of New Jersey workers analyzed in this report permits the first statistical summary of the use of the ARRA COBRA subsidy by eligible workers. New Jersey's labor market experience during the current recession mirrored that of the nation as a whole, with unemployment hovering around ten percent at the end of 2009, so the findings are unlikely to be skewed by the particulars of the New Jersey economy. The data indicate that unemployed workers in New Jersey made considerable use of COBRA continuation coverage. A conservative estimate is that between a quarter and a third of workers eligible for the ARRA subsidy enrolled in COBRA.

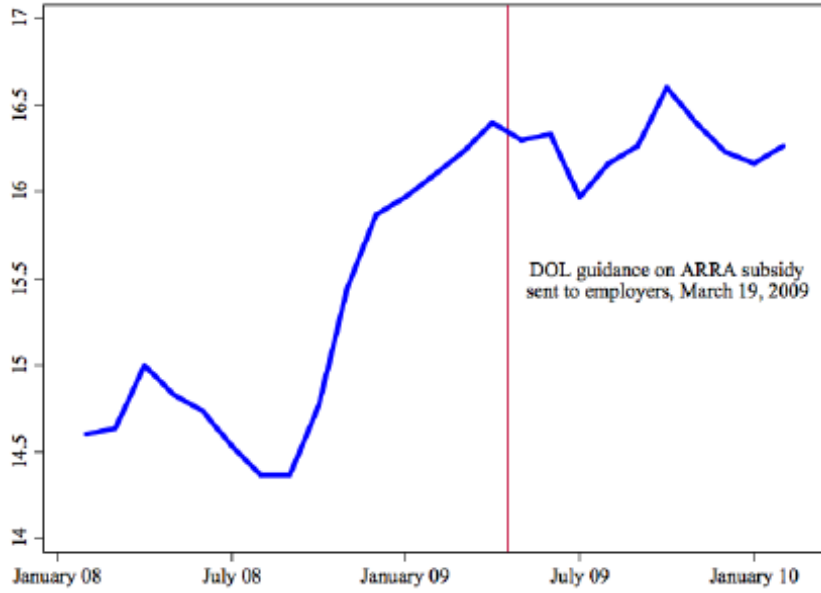
While causal inference is always difficult, there is evidence that the ARRA COBRA subsidy

reduced the number of Americans who would otherwise have gone uninsured during the recession. As shown in Figure 1, Gallup data suggest that the number of American adults losing health insurance, which had accelerated after the financial crisis deepened in September 2008, suddenly flattened after the passage of the Recovery Act. Moreover, studies have documented that implementation of the ARRA COBRA subsidy has gone relatively smoothly and information about the benefit has reached a majority of eligible workers.⁹ Our analysis of unemployed workers in New Jersey provides further evidence that the Recovery Act played a critical role in providing health insurance security to unemployed workers and their families during the recession, particularly for those in the middle class.

⁹ See “Cobra Subsidies for Laid-Off Workers: An Initial Report Card” by the Commonwealth Fund at <http://www.commonwealthfund.org/Content/Publications/Issue-Briefs/2009/Dec/The-New-COBRA-Subsidy-for-Laid-Off-Workers.aspx>.

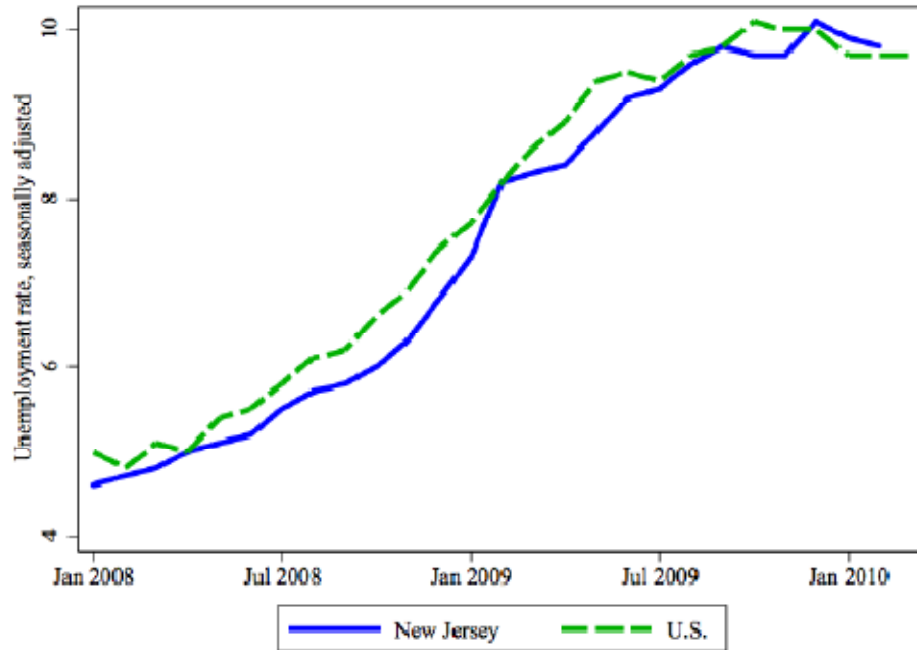
Figures and Tables

Figure 1: Percent of U.S. adults without health insurance



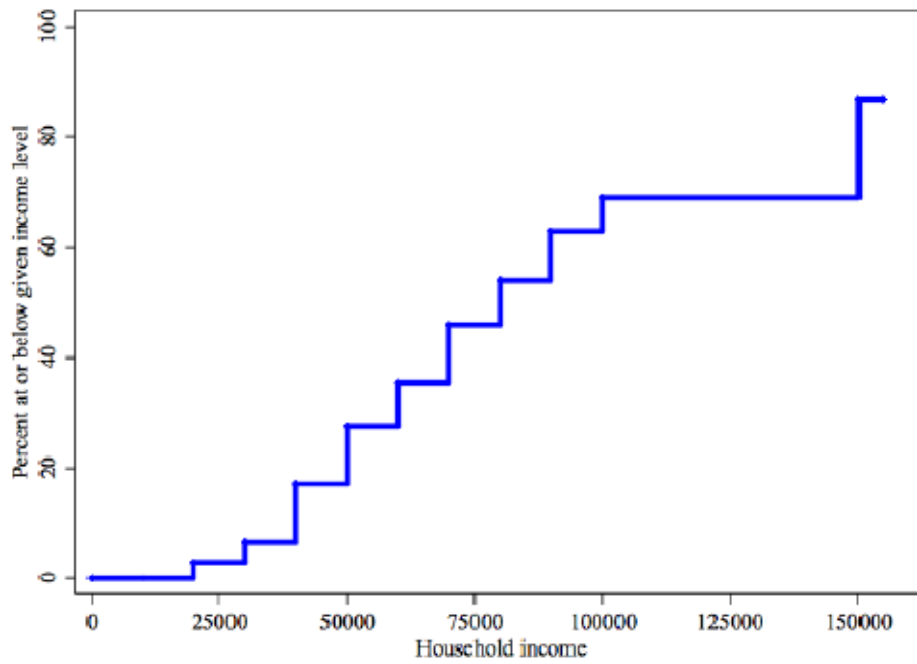
Notes: The graph shows the centered three-month moving average for each month from the Gallup daily poll of 1,000 American adults age 18 and older.

Figure 2: Unemployment in New Jersey and the U.S.



Source: Bureau of Labor Statistics

Figure 3: Cumulative Distribution of COBRA enrollees with respect to household income



Notes: Figure based on PSRC data.. Thirteen percent of COBRA recipients in the sample reported household income above \$150,000, the top open-ended bracket in web survey.

Table 1: Insurance Status of unemployed workers in New Jersey

	Respondents' Source of Insurance (percent in each category)				
	COBRA	Spouse / Other Private	Public	Other	Uninsured
<i>All</i>	15.0	20.1	12.9	13.3	38.7
<i>Education</i>					
HS of less	10.2	11.9	20.4	12.3	45.2
Some College	12.0	18.1	13.8	14.3	41.8
College Degree	23.6	28.9	4.6	10.9	32.0
Beyond College	22.5	34.0	3.7	16.4	23.5
<i>Income</i>					
Under \$50,000	8.2	6.8	23.1	8.4	53.5
\$50,000 - \$100,000	20.6	29.0	3.4	17.9	29.1
Above \$100,000	23.1	40.2	0.8	18.8	17.1

Notes: Sample size is 4,241 person-week observations.

Table 2: COBRA use among ARRA-eligible unemployed workers in NJ

	Excl. public insurance	Excl. public ins., adj. for ESI (Princeton)	Excl. public ins., adj. for ESI (MEPS)
<i>All</i>	17.1	28.6	32.2
<i>Education</i>			
HS of less	12.8	22.2	24.1
Some College	13.9	25.4	26.1
College Degree	24.6	39.0	46.2
Beyond College	23.2	37.2	43.6
<i>Income</i>			
Under \$50,000	10.7	16.8	20.1
\$50,000 - \$100,000	21.2	36.3	39.9
Above \$100,000	23.2	37.2	43.6

Notes: Figures based on workers in Princeton survey data. Sample size is 3,984 person-week observations. In the second column, each group's take-up rate is adjusted by the inverse of the share of workers in that group who were on employer-sponsored insurance at the time they lost their jobs (based on the PSRC survey). In the third column, we scale the first row by a constant adjustment factor based on MEPS data for New Jersey. The MEPS data indicate that in 2008, 52.3 percent of New Jersey workers were on their employer's health plan.