

FOR IMMEDIATE RELEASE: Oct. 14, 2010

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New Research from EBRI:

COBRA Premium Subsidy Helped Fewer Than Expected

WASHINGTON—The federal subsidy to help laid-off American workers pay for continued health care through the COBRA program helped fewer individuals than expected—in part because COBRA premiums remained unaffordable for many families even with the subsidy, according to a new article by the nonpartisan Employee Benefit Research Institute (EBRI).

As part of congressional efforts to blunt the impact of the recent economic recession, the American Recovery and Reinvestment Act of 2009 (ARRA) included a provision for the federal government to pay 65 percent of the premium for individuals who were covered under COBRA and who incurred an involuntary job loss between Sept. 1, 2008, and Dec. 31, 2009.

The subsidy was made available for up to nine months, and was extended by Congress three times, with the last extension occurring in April 2010. This article examines trends in coverage through a former employer to analyze the impact of the COBRA subsidy.

In assessing how the program performed, EBRI notes that there are widely conflicting estimates of how many people benefited from the COBRA subsidy, but generally there has been lower-than-expected take-up of the subsidy. EBRI used the latest data from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP), a nationally representative survey, as the best available benchmark.

“The COBRA subsidies that became available in April 2009 do appear to have had an impact on the percentage of nonworkers with coverage through a former employer,” said Paul Fronstin, director of EBRI's Health Research and Education Program, and author of the article. “But they appear to have assisted far fewer than the originally estimated 7 million individuals.”

Fronstin said these findings have implications for the impact of the subsidies that will become available in 2014 under provisions of the Patient Protection and Affordable Care Act of 2010 (PPACA), and may mean the number of uninsured may not fall as much as predicted.

The full article is published in the October issue of *EBRI Notes*, available online at www.ebri.org

Among the article's findings:

Costs of COBRA Coverage: The lower-than-expected take-up may be due to the fact that, even after the subsidy, COBRA premiums may not be affordable for many families, especially at a time

when they have seen a decline in income. Health insurance premiums averaged \$4,824 a year for employee-only coverage and \$13,375 for family coverage in 2009. After the subsidy, premiums would be \$1,688 for employee-only coverage and \$4,681 for family coverage. Furthermore, whereas premiums for current workers' employment-based coverage are either excluded from taxable income or reduce taxable income, COBRA premiums are generally not tax deductible.

Conflicting Estimates: There is conflicting evidence as to the effect of the subsidies on take-up of COBRA coverage. Hewitt reported in August and December 2009 that COBRA enrollments had doubled, from 19 percent of eligible individuals to nearly 40 percent. In contrast, Ceridian found that COBRA enrollment increased from 12.4 percent to 17.7 percent. And Aon reported that COBRA enrollment increased from 14.1 percent to 15.9 percent, while Deseret Mutual saw enrollment increase from 5.3 percent to 22.5 percent. The Treasury Department reported in May 2010 that between 25 percent and 33 percent of eligible unemployed workers received subsidized COBRA coverage (these estimates are based on a survey conducted in New Jersey).

While these estimates vary as to the impact of the COBRA subsidy, in June 2010, the Treasury Department released its interim report on the program, as required by law. The report concludes that as many as 2 million households benefitted from the COBRA subsidy during 2009 at a cost of over \$2 billion.

But the EBRI article notes that it is highly unlikely that 2 million households benefitted from the subsidy, since the report is based on employer reporting and may include double counting; if \$2 billion was used to subsidize 2 million households it would imply that each household received an average \$1,000 subsidy, which is much lower than the expected annual subsidy; and some of the individuals who benefitted from the premium may have already elected COBRA at the time that ARRA was passed.

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