For Immediate Release

Contact:

Betsy Jaffe
Director, Marketing and Public Relations
Employee Benefit Research Institute
press-media@ebri.org
202.775.6347

EBRI Finds Total Health Care Costs Incurred by Individuals Covered by COBRA Nearly 300% Higher Compared With Those Receiving Coverage as a Full-Time Employee

Affordable Care Act insurance exchanges slightly mitigate adverse selection; Subsidies can further improve employers' risk pools

Washington, D.C. – July 9, 2020 – A new EBRI study finds people who receive health insurance coverage through the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) use more health care services than active workers or their dependents.

In a first study of its kind, the Issue Brief, "COBRA: A Closer Look at Who Enrolls and the Case for Subsidies", finds that COBRA beneficiaries are systematically different from active workers or their dependents. The average COBRA beneficiary is older and less healthy than their counterparts. COBRA beneficiaries are on average 50 years old, while full-time employees are 42.6 years old. In addition, COBRA beneficiaries were more likely than active workers or their dependents to have certain health conditions, such as COPD, diabetes, cancer, high blood pressure, high cholesterol, mental health disorders, and musculoskeletal disorders, and spent more days in a hospital.

The study also finds that the average COBRA beneficiary uses more health care services and spends significantly more than active workers or their dependents.. In 2018, among those with individual coverage, active, full-time employees used an average of $6,724 in health care services. COBRA beneficiaries used an average of $18,752, a nearly 300 percent difference.

Subsidies can help reduce adverse selection against COBRA plans. By making COBRA plans more attractive relative to alternatives, healthier people will choose to enroll in COBRA, which can help improve an employer's risk pool. However, the ratio of spending by COBRA beneficiaries to spending by those covered by insurance via a full-time worker has decreased since the implementation of the Affordable Care Act (ACA) health insurance exchanges. Additionally, there is a subsidy mechanism already in place for households earning under 400 percent of the federal poverty limit for purchasing insurance on ACA exchanges, which calls into question the necessity of COBRA subsidies.

“The implementation of ACA exchanges appears to have somewhat mitigated adverse selection against employer plans. Most newly-separated workers no longer have COBRA as their only choice for health insurance,” said Paul Fronstin, Ph.D., Director of the Health Research and Education Program at EBRI and co-author of the study. “ACA exchanges serve as a viable alternative to maintain health insurance coverage. As a result, the ratio of spending by COBRA enrollees to spending by those covered by a full-time worker with an employer-sponsored plan has decreased steadily over time, and this trend holds for both individual coverage and family coverage.”

Because EBRI finds, on average, people who receive coverage through COBRA are systematically higher spenders, extending subsidies for newly-separated workers to enroll in COBRA could be beneficial from a public policy perspective by improving the risk pool for COBRA claimants. “The systematically higher spenders who have historically claimed COBRA benefits might instead be balanced out by marginally healthier former workers that choose to enroll on account of receiving a subsidy,” explained Fronstin. “The ratio of spending by those covered by COBRA to those covered by a full-time employee has dropped over time, however, indicating that the adverse selection mechanism has already been slightly moderated.”

“COBRA: A Closer Look at Who Enrolls and the Case for Subsidies”, can be found at ebri.org.

About EBRI:

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