

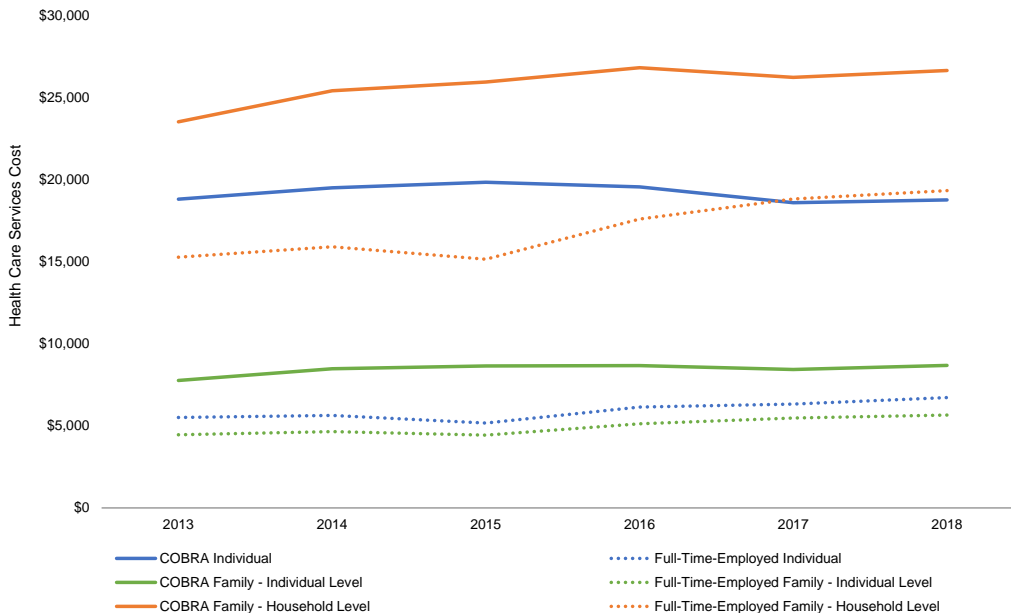
COBRA: Adverse Selection Is Large but Has Fallen With ACA Insurance Market Reforms

When it comes to enrollment for Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits, there exists a significant potential for adverse selection. COBRA benefits are relatively expensive — beneficiaries must pay the full cost of the employee and employer contributions toward health insurance. Also, those eligible normally have 60 days to formally elect benefits. As such, it stands to reason that only individuals who face large medical expenditures will choose to take up COBRA benefits.

In a recent study, the Employee Benefit Research Institute (EBRI) found that COBRA beneficiaries are systematically different from active workers and their dependents. COBRA beneficiaries are more likely than active workers and their dependents to have certain health conditions, such as chronic obstructive pulmonary disease (COPD), diabetes, cancer, high blood pressure, high cholesterol, mental health disorders, and musculoskeletal disorders, and they are more likely to have spent more days in a hospital.

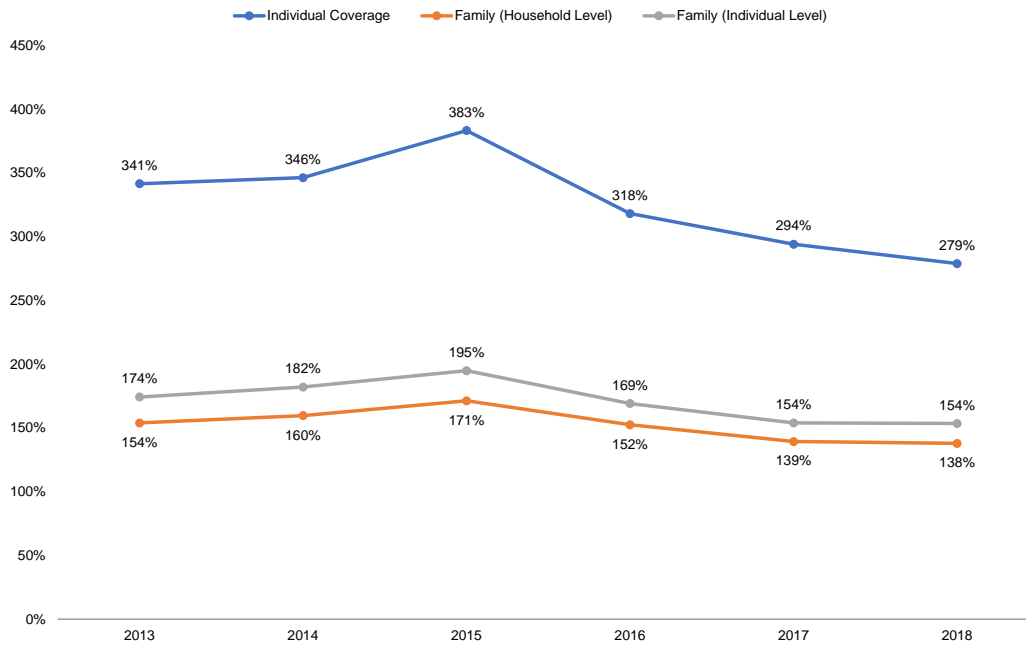
Because average COBRA beneficiaries use more health care services than average active workers and their dependents, their total spending on health care services is significantly higher. In 2018, among those with individual coverage, full-time employees used an average of \$6,724 in health care services. COBRA beneficiaries used an average of \$18,752, a nearly 300 percent difference. While the difference in total spending is quite large, it has actually fallen in recent years. For example, in 2015, among those with individual coverage, COBRA beneficiaries used an average of \$19,826 in health care services, while active workers used an average of \$5,174, a difference of 383 percent.

Figure 1
Total Health Care Spending by Coverage Type:
COBRA vs. Full-Time Employee Benefits



Source: Employee Benefit Research Institute estimates based on administrative enrollment and claims data.

Figure 2
Ratio of Spending by COBRA Enrollees Relative to Full-Time Enrollees



Source: Employee Benefit Research Institute estimates based on administrative enrollment and claims data.

While adverse selection is still a major issue, it is worth understanding the decline in the degree to which COBRA beneficiaries outspend active workers and their dependents. There are manifold variables and interactions that influence the decision to take up COBRA benefits. However, the implementation of Patient Protection and Affordable Care Act (ACA) exchanges may have fundamentally altered the makeup of who chooses to take up COBRA benefits. In particular, high spenders who have recently separated from their employers may no longer view taking up COBRA benefits as the only way for them to meet their health care needs. Furthermore, the cost-sharing subsidies available to those individuals in families with incomes less than 250 percent of the federal poverty level (FPL) may have driven some of the highest-use COBRA beneficiaries to ACA exchanges soon after they became available.

The EBRI report, “COBRA: A Closer Look at Who Enrolls and the Case for Subsidies,” is published as the July 2020 *EBRI Issue Brief* and is available online [here](#).

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