COBRA: Are Subsidies Needed?

EBRI Webinar
August 4, 2020
Speakers

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Mark Wilson, President, American Health Policy Institute, Vice President, Health and Employment Policy, HRPA Chief Economist, HRPA

Moderator: Paul Fronstin, Director of the Health Research and Education Program, EBRI
POLLING QUESTION

PLEASE SHARE YOUR THOUGHTS
COBRA: Are Subsidies Needed?

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Research Associate, EBRI
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Background on COBRA

- Allows newly-separated workers to continue participating in their employer-sponsored plan
- Participants must pay both their share and the employer’s share of their plan’s premiums
- Prospective beneficiaries have 60 days to elect coverage after being notified by their plan’s administrator, and 45 days to start paying premiums
  - This lag contributes to the adverse selection mechanism
  - Potentially exacerbated by a provision in the CARES Act that allows qualified beneficiaries 60 days to enroll after the end of the national emergency, which is still ongoing
Adverse Selection

• To what extent are workers who enroll in COBRA systematically different from those who do not?

• To answer that question, we used the IBM Health Analytics Marketscan Commercial Claims and Encounters database, which contains data on individuals covered by workplace-sponsored plans, including COBRA beneficiaries
  • The database contained over 800,000 active, full-time workers and their partners and dependents, as well as 46,000 COBRA beneficiaries and their partners and dependents
  • We examined six years’ worth of data ranging from 2013 through 2018

• Our analysis indicates that COBRA beneficiaries are indeed systematically different than people with coverage through a full-time worker
Spending Differences

• Several differences between COBRA beneficiaries and people receiving coverage through a full-time worker immediately jump out:
  • People covered by COBRA spent nearly 3x more on health care on average than people covered through a full-time worker; $18,752 vs $6,724
  • Families covered by COBRA spent more on average as well; $26,638 vs $19,325
Demographic Differences

- People covered through COBRA are older than those covered through a full-time worker, for both individual coverage and family coverage.
- COBRA beneficiaries with individual coverage are also more likely to be female (57% vs 53%), though there is no difference among those with family coverage.

**Average Age, by Coverage Status, 2018**

- Individual Coverage:
  - Full-Time Employed: 42.6
  - COBRA: 50.0

- Family Coverage:
  - Full-Time Employed: 30.5
  - COBRA: 37.3
Health Differences

- COBRA beneficiaries are sicker than those who receive coverage through a full-time worker
  - The Charlson Comorbidity Index (CCI) is an index comprised of 17 conditions that is a useful predictor of short-term mortality
  - We use this as a proxy for health
  - COBRA beneficiaries have a higher CCI than do people who receive coverage through a full-time employee, indicating the presence of more chronic conditions that are associated with higher 10-year mortality rates

![Charlson Comorbidity Index (CCI*), by Coverage Status](image-url)
Health Differences

- In addition to the CCI, we also examined twelve other chronic conditions, like high cholesterol, diabetes, and cancer.

- We find that COBRA beneficiaries have higher incidences of these conditions, too.

<table>
<thead>
<tr>
<th>Presence of Select Health Conditions, by Source of Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>Full-time Employee</td>
</tr>
<tr>
<td>High cholesterol</td>
</tr>
<tr>
<td>High blood pressure</td>
</tr>
<tr>
<td>Mental health disorders</td>
</tr>
<tr>
<td>Spine and back disorders</td>
</tr>
<tr>
<td>Diabetes</td>
</tr>
<tr>
<td>Respiratory disease or infection</td>
</tr>
<tr>
<td>Connective tissue disease</td>
</tr>
<tr>
<td>Non-traumatic joint disorders</td>
</tr>
<tr>
<td>Chronic Obstructive Pulmonary Disease (COPD)</td>
</tr>
<tr>
<td>Cancer</td>
</tr>
<tr>
<td>Nervous system disorders</td>
</tr>
<tr>
<td>Thyroid disorders</td>
</tr>
</tbody>
</table>

*Indicates Statistical Significance at a 5% Level
**Indicates Statistical Significance at a 1% Level
Utilization Differences

- COBRA beneficiaries are less healthy as measured by the CCI, and more frequently have expensive chronic conditions than do people with coverage through a full-time employed worker.
- Unsurprisingly, they also use inpatient and outpatient services more frequently.
- They also spend more while pursuing this care, and significantly so in many cases.

<table>
<thead>
<tr>
<th>Use:</th>
<th>FTE (N=145,052)</th>
<th>COBRA (N=16,437)</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inpatient Hospital Admissions</td>
<td>0.04</td>
<td>0.10</td>
<td>&lt;0.01**</td>
</tr>
<tr>
<td>Inpatient Hospital Days</td>
<td>0.16</td>
<td>0.78</td>
<td>&lt;0.01**</td>
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<tr>
<td>Emergency Department Visits</td>
<td>0.36</td>
<td>0.40</td>
<td>0.23</td>
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<tr>
<td>Office Visits</td>
<td>4.07</td>
<td>6.69</td>
<td>&lt;0.01**</td>
</tr>
<tr>
<td>Primary Care Physician</td>
<td>1.92</td>
<td>2.52</td>
<td>&lt;0.01**</td>
</tr>
<tr>
<td>Specialist Physician</td>
<td>2.15</td>
<td>4.18</td>
<td>&lt;0.01**</td>
</tr>
<tr>
<td>Prescription Drug Fills</td>
<td>17.30</td>
<td>30.02</td>
<td>&lt;0.01**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$6,724</td>
<td>$18,756</td>
<td></td>
</tr>
<tr>
<td>Inpatient Hospital</td>
<td>$1,111</td>
<td>$4,313</td>
<td>&lt;0.01**</td>
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<tr>
<td>Emergency Department</td>
<td>$306</td>
<td>$451</td>
<td>0.05</td>
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<tr>
<td>Office Visits</td>
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<tr>
<td>Primary Care Physician</td>
<td>$223</td>
<td>$310</td>
<td>&lt;0.01**</td>
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<tr>
<td>Specialist Physician</td>
<td>$258</td>
<td>$526</td>
<td>&lt;0.01**</td>
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<tr>
<td>Outpatient Services</td>
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<tr>
<td>Diagnostic</td>
<td>$1,011</td>
<td>$2,067</td>
<td>&lt;0.01**</td>
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<tr>
<td>Surgery</td>
<td>$470</td>
<td>$1,020</td>
<td>&lt;0.01**</td>
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<tr>
<td>Chemotherapy</td>
<td>$155</td>
<td>$710</td>
<td>&lt;0.01**</td>
</tr>
<tr>
<td>Medical Supplies, Devices, and Durable Medical Equipment</td>
<td>$128</td>
<td>$360</td>
<td>&lt;0.01**</td>
</tr>
<tr>
<td>Dialysis</td>
<td>$33</td>
<td>$879</td>
<td>0.13</td>
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<tr>
<td>Radiation Therapy</td>
<td>$62</td>
<td>$218</td>
<td>0.29</td>
</tr>
<tr>
<td>Other Outpatient Services</td>
<td>$894</td>
<td>$2,702</td>
<td>&lt;0.01**</td>
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<tr>
<td>Prescription Drugs</td>
<td></td>
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</tr>
<tr>
<td>Prescription Drug Spending from Pharmacy Claims</td>
<td>$1,707</td>
<td>$4,130</td>
<td>&lt;0.01**</td>
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<tr>
<td>Specialty Drugs Spending from Medical Claims</td>
<td>$207</td>
<td>$723</td>
<td>&lt;0.01**</td>
</tr>
<tr>
<td>Other Non-Specialty Drug Spending from Medical Claims</td>
<td>$127</td>
<td>$360</td>
<td>&lt;0.01**</td>
</tr>
</tbody>
</table>
Adverse Selection Over Time

- COBRA beneficiaries are higher spenders; however, the gap has shrunk in recent years.
- Previously, COBRA was the only way for newly-separated workers to retain health insurance.
- Now, ACA exchanges and the subsidies made available to households earning less than 400% of the FPL give people other options.
- We interpret the shrinking gap as evidence that ACA exchanges have somewhat moderated the adverse selection mechanism.
Implications

• Our analysis suggests that people who take up COBRA benefits spend more, are systematically older and less healthy, and consume more health care goods and services
  • This suggests that there is an adverse selection mechanism at play
  • Those who anticipate (or have already incurred) large medical expenses are disproportionately represented among COBRA beneficiaries, and this seems to be an important part of the calculus behind deciding whether or not to enroll
• To the extent that subsidies nudge marginally healthier workers to enroll in COBRA benefits, employers’ risk pools could improve
• That the spending gap between COBRA beneficiaries and those covered by a full-time worker has shrunk over the past few years suggests that the adverse selection mechanism might be moderated by the ACA exchanges
COBRA: Are subsidies needed?

EBRI
August 4, 2020

Joseph R. Antos, Ph.D.
Wilson H. Taylor Scholar in Health Care and Retirement Policy
American Enterprise Institute
Policy goals

• During the pandemic
  – Minimize disruption to work
  – Maintain continuity of health care
  – Restore a healthy economy
Policy goals

• During the pandemic
  – Minimize disruption to work
  – Maintain continuity of health care
  – Restore a healthy economy

• During the new normal
  – Better plan options
  – Better value
  – Innovation
How well has the “safety net” worked?

>26 million may have lost employer coverage
Modest increase in exchange, Medicaid enrollment

**Exchange Enrollment Due to Loss of Coverage**

<table>
<thead>
<tr>
<th>Month</th>
<th>2019</th>
<th>2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>46</td>
<td>61</td>
<td>15</td>
</tr>
<tr>
<td>Feb</td>
<td>65</td>
<td>66</td>
<td>1</td>
</tr>
<tr>
<td>Mar</td>
<td>71</td>
<td>77</td>
<td>6</td>
</tr>
<tr>
<td>Apr</td>
<td>64</td>
<td>154</td>
<td>90</td>
</tr>
<tr>
<td>May</td>
<td>72</td>
<td>103</td>
<td>31</td>
</tr>
</tbody>
</table>

Change +161,000

**Medicaid Enrollment**

April 2019 71,743,000
April 2020 72,348,000
Change +605,000


Why subsidize COBRA?

• Families keep their doctors, no interruption in treatment
• Families already paid off their annual deductible under ESI, a new policy starts over with higher deductible
• Laid-off workers can’t afford $20K COBRA premium, may not be eligible for ACA subsidy or Medicaid
• Culture of work – culture of health
• Reduce loss of firm’s human capital investments
• Creating a new government program not feasible or advisable
Bipartisanship

FOR
• Conservatives/Republicans
  – Americans for Tax Reform, others: “While not ideal, workplace health insurance at least has the virtue of not being run by the government.”
• Liberals/Democrats
  – $3 T HEROES Act: 100% subsidy
• Employers
  – U.S. Chamber of Commerce supports 90% subsidy

AGAINST
• Conservatives/Republicans
  – Blase (NEC): subsidy makes unemployment more attractive, a bailout for insurers
  – Abortion opponents
• Liberals/Democrats
  – Bernie Sanders: Single payer cheaper, fairer
• Employers
  – Adverse selection increases cost
COBRA Coverage – Large Employer Views

**Pros**
- Continuation of coverage and providers – avoids ACA’s narrow network coverage
- Prevents the deductible clock from starting over
- More people in plans paying commercial rates
- Fewer uninsured

**Cons**
- Adverse selection = significant costs for employers
- Particularly for self-insured, but even for fully-insured
- Even 100% subsidy won’t offset 2.8 times health care spending for individual coverage and 1.4 times spending for family coverage
Are COBRA Subsidies Necessary?

Many of the newly unemployed have other coverage
• 68% Medicaid/CHIP, ESI thru other family member, Medicare/other
• 10% uninsured

Of those that lose employer coverage
• 32% likely to pick up ESI thru another family member
• 28% likely enroll in Medicaid/CHIP
• 6% likely to enroll in subsidized ACA coverage
• 35% unemployed (3.5 million)
Centers function as think tanks within EBRI. Each analyzes the state of play of the current system and the potential impact of proposed policy changes.

- Retirement Security Research Center
- Center for Research on Health Benefits Innovation
- Financial Wellbeing Research Center

**Surveys Available due to Member Sponsorship**

- Retirement Confidence Survey
- Consumer Engagement in Health Care Survey
- Workplace Wellness Survey

*Contact Betsy Jaffe [jaffe@ebri.org](mailto:jaffe@ebri.org) to find out how to leverage these resources*
Upcoming EBRI Programs

• Winter Policy Forum – December 10

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