

Notes

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EXECUTIVE SUMMARY

Retirement Savings Shortfalls for Today's Workers

2010 RETIREMENT SAVINGS SHORTFALLS (RSS): Using its unique Retirement Security Projection Model,[®] EBRI can estimate the total national aggregate and individual retirement deficits at age 65 for Early Boomers (born between 1948–1954, now ages 56–62), Late Boomers (born between 1955–1964, now ages 46–55), and Generation Xers (born between 1965–1974, now ages 36–45). This article reports these 2010 Retirement Savings Shortfalls (RSS).

NATIONAL RETIREMENT SHORTFALL: \$4.55 TRILLION: The aggregate RSS for these age cohorts expressed in 2010 dollars is \$4.55 trillion, for an overall average of \$47,732 per individual. The average RSS varies by age cohort as well as gender and marital status. The RSS per individual is always lowest for households, somewhat higher for single males, and more than twice as large for single females. The estimated retirement shortfall for any gender/marital status combination increases for younger cohorts, largely due to the impact of health care-related costs rising faster than the general inflation rate.

NURSING HOME AND HOME HEALTH CARE: Adding nursing home and home health care expense increases the average individual RSS for married households by \$25,317. Single males experience an average increase of \$32,433, while single females have an increase of \$46,425.

The Impact of the COBRA Premium Subsidy on Coverage

ARRA AND THE COBRA SUBSIDY: The American Recovery and Reinvestment Act of 2009 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.

LOWER TAKE-UP THAN EXPECTED: 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. This 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 and since health insurance is expensive even with the subsidy.

CENSUS BUREAU DATA: Using data from the Survey of Income and Program Participation (SIPP), a nationally representative survey conducted by the Census Bureau, this analysis finds that 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—but they appear to have assisted far fewer than the estimated 7 million individuals. This has 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.

Retirement Savings Shortfalls for Today's Workers

By Jack VanDerhei, Employee Benefit Research Institute

Introduction

Earlier this year, EBRI updated its Retirement Security Projection Model¹ and determined that the overall retirement income adequacy for households currently ages 36–62 had substantially improved since 2003 (VanDerhei and Copeland, 2010). Almost one-half of Baby Boomers² and Gen Xers³ were determined to be at risk of not having sufficient retirement income to cover even basic expenses and uninsured health care costs. The results, not surprisingly, were even worse for low-income households, as 70 percent of households in the lowest one-third when ranked by preretirement income were classified as “at risk.” Moreover, 41 percent of those in the lowest preretirement income quartile are predicted to run short of money within 10 years of retirement.

The study was also able to document the degree to which eligibility for participation in qualified retirement plans (especially defined contribution plans) matters with respect to “at-risk” status. For example, the at-risk probability for Gen Xers varies from 60 percent for those with no future years of eligibility in a defined contribution plan to 20 percent for those with 20 or more years.

EBRI has received several requests since the publication of the updated RSPM results to focus on what the average present values of retirement income deficits would be for various cohorts of future retirees, and what the aggregate value of those deficits are likely to be in current dollars. This article attempts to answer both questions and also provide a first approximation of the importance of nursing home costs and home health care expenses in the deficit numbers, as well as the value of current Social Security retirement benefits.

Results for the 2010 Retirement Savings Shortfalls

The Retirement Savings Shortfalls (RSS) are determined as a present value of retirement deficits at age 65 for the same three age cohorts analyzed in VanDerhei and Copeland (2010) and VanDerhei (September 2010):

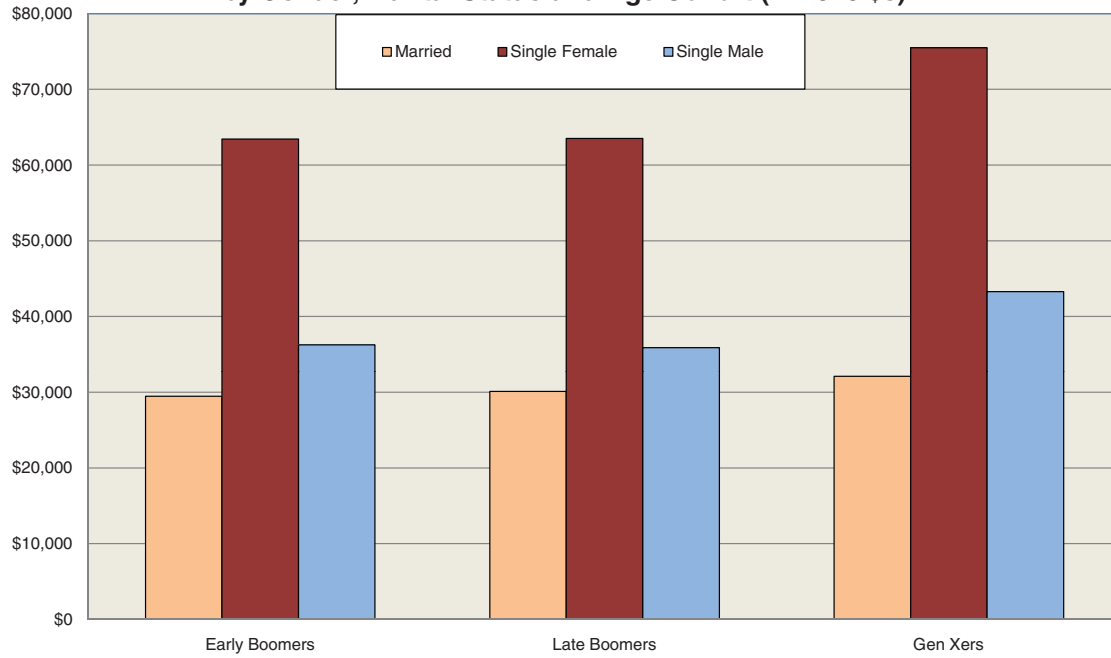
- Early Boomers (born between 1948–1954, now ages 56–62).
- Late Boomers (born between 1955–1964, now ages 46–55).
- Generation Xers (born between 1965–1974, now ages 36–45).

The aggregate RSS for these age cohorts expressed in 2010 dollars is \$4.55 trillion, for an overall average of \$47,732 per individual⁴ still assumed to be alive at age 65.⁵ Figure 1 shows that the average RSS varies by age cohort as well as gender and marital status. The RSS per individual is always lowest for households (varying from \$29,467 for Early Boomers to \$32,098 for Gen Xers), somewhat higher for single males (19–34 percent depending on age cohort), and more than twice as large for single females (110–135 percent depending on age cohort). Even though the present values are defined in constant dollars, the RSS for any gender/marital status combination increases for younger cohorts. This is largely due to the impact of assuming health care-related costs will increase faster than the general inflation rate.

While the RSS values in Figure 1 may appear to be relatively small considering they represent the sum of the present values that may include decades of deficits, it is important to remember that less than half of the households modeled in VanDerhei and Copeland (2010) were considered to be “at risk.” In other words, the average RSS values represented in Figure 1 are reduced by households assumed to have zero deficits. Figure 2 portrays the average RSS values for those households where a non-zero deficit was simulated. Obviously, the RSS values in Figure 2 would be expected to be larger than the corresponding RSS values in Figure 1, sometimes considerably so.⁶

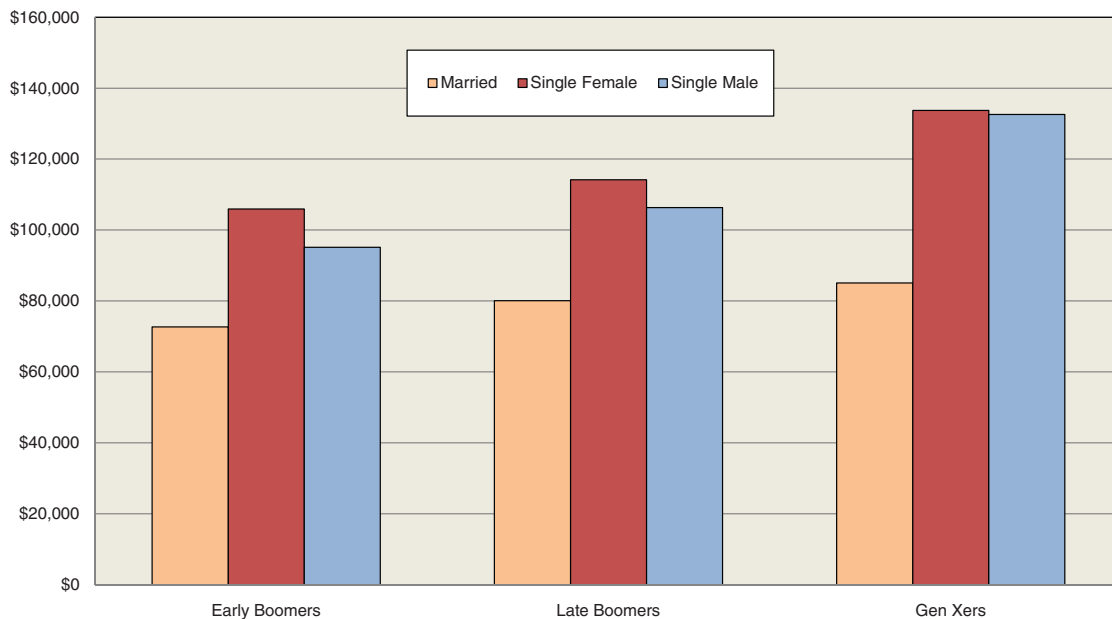
Comparing RSS values in Figure 1 and Figure 2 illustrates that the within-age cohort differences (especially between single males and single females) are largely explained by their relative probability of running short of money, not the

Figure 1
Average Retirement Savings Shortfalls,
by Gender, Marital Status and Age Cohort (in 2010 \$s)



Source: EBRI Retirement Security Projection Model™ version 100920f1.

Figure 2
Average Conditional Individual Retirement Income Deficit, by Gender,
Marital Status and Age Cohort (in 2010 \$s): Families With Deficits



Source: EBRI Retirement Security Projection Model™ version 100929f1.

present value of deficits if they do run short. Moreover, the differences become less noticeable with time: the gender difference in Figure 2 decreases from \$10,774 for Early Boomers to \$1,104 for Gen Xers.⁷

Figure 3 combines the three age cohorts together to show the impact of the relative preretirement income⁸ on RSS. The lowest quartile has an average RSS of \$86,905, while the highest quartile has an RSS of only \$18,860.⁹

Figure 4 shows the impact of age and relative preretirement income simultaneously. It is clear that the increase in RSS going from the Early Boomers to the Gen Xers is significantly greater for the highest-income quartile (75 percent) than the lowest-income quartile (17 percent). This is due at least in part to the lower-income individuals qualifying for Medicaid with a higher probability (and sooner) than their higher-paid counterparts and thus being immunized to a greater extent from the increase in projected health care costs.

One of the advantages of a national retirement income adequacy model based on micro-simulation data such as RSPM is the ability to correlate statistics such as the RSS values with other outcomes for the simulated households. Figure 5 provides an example of the large extent to which RSS values are associated with the years of future eligibility in defined contribution plans. The RSS values are categorized for each of the three age cohorts into one of the following levels, based on years of future years of eligibility (whether or not the employee actually chose to participate in a voluntary enrollment plan or opted out of an automatic enrollment plan):

- Zero years.
- 1–9 years.
- 10–19 years.
- 20 or more years.

Given their current ages and the assumption under the baseline runs that everyone retires at age 65, Early Boomers obviously can be in only one of the first two levels. When the results for this age cohort are divided by future eligibility in a defined contribution plan, the difference in the RSS values is quite large (44 percent), even after at most nine years of future eligibility. Late Boomers and Gen Xers are able to have significantly larger future periods of time during which they will be eligible to participate in a defined contribution plan and therefore the differences are much larger. Late Boomers with no future eligibility are simulated to have an RSS level 96 percent larger than those with 10–19 future years of eligibility. Gen Xers obviously have the largest differential (210 percent): Those with no future years of eligibility have an RSS level of \$77,418, compared with only \$24,948 for those with 20 or more years of eligibility.

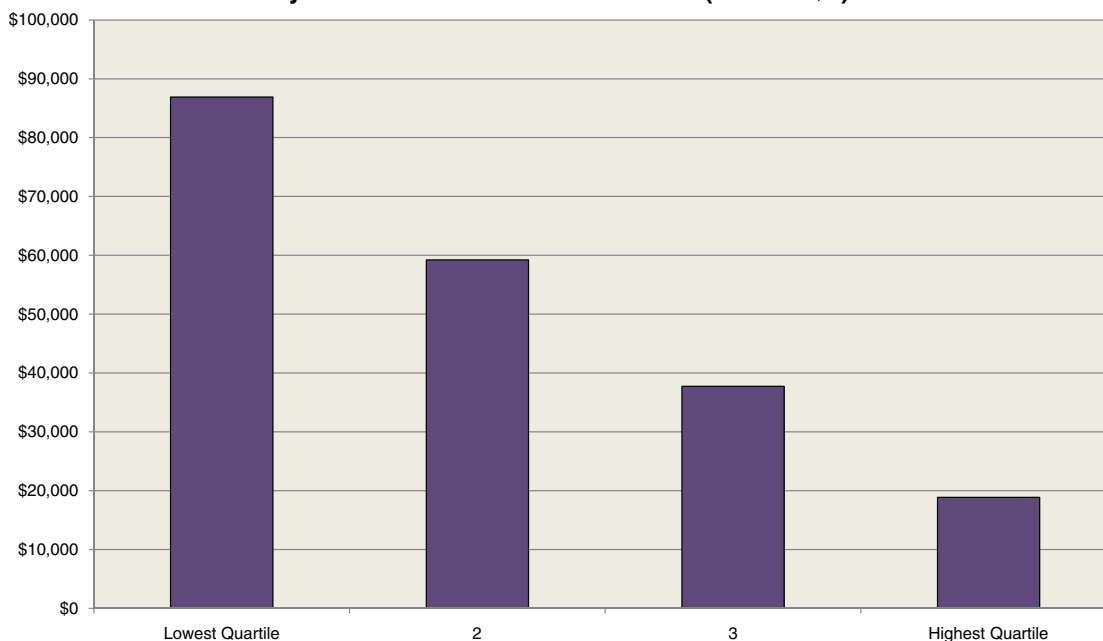
The Impact of Nursing Home and Home Health Care Expenses

Figure 6 provides a first-order approximation of the impact of the stochastic nature of the nursing home and home health care expenses on the RSS values by age cohort, gender and marital status.¹⁰ Adding the nursing home and home health care expense increases the average individual RSS for married households by \$25,317. Single males experience an average increase of \$32,433 while single females have an increase of \$46,425.¹¹

In contrast to the tendency for RSS values to increase for younger cohorts when the stochastic health expenses are added (see Figure 1), when these costs are removed the RSS values actually decrease for younger cohorts. There are several reasons for this trend; however, the most likely difference is the treatment of defined contribution account balances with respect to future time periods.¹²

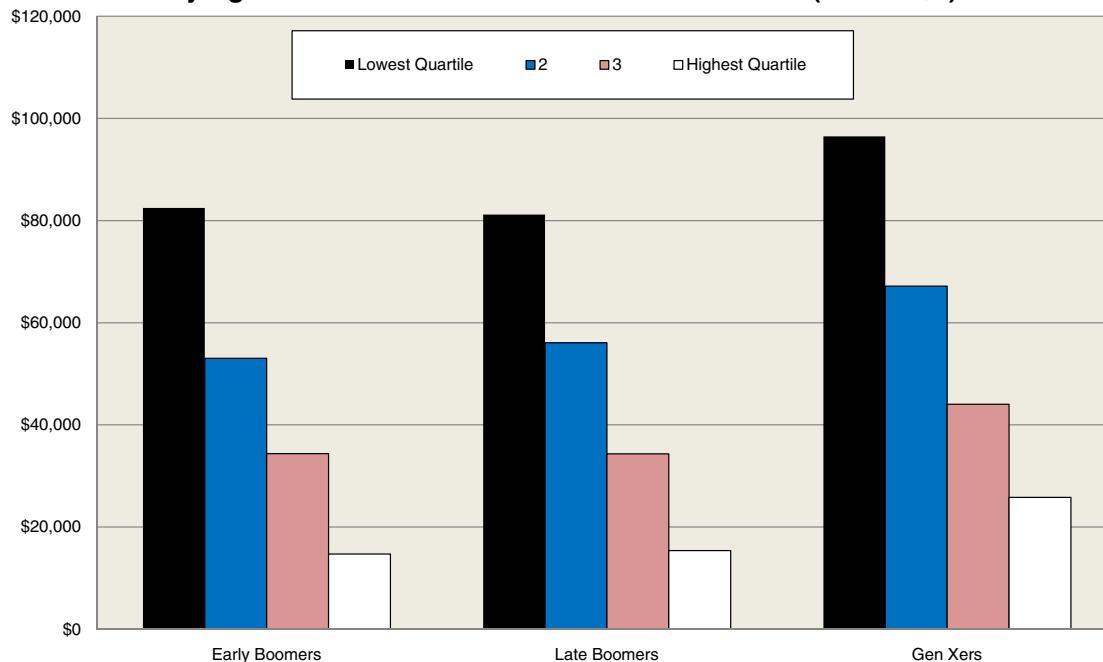
Figure 6 also show that if Social Security benefits were to be eliminated, the aggregate deficit would jump to \$8.5 trillion and the individual average would increase to approximately \$88,942.

Figure 3
Average Individual Retirement Income Deficit,
by Preretirement Income Quartile (in 2010 \$s)



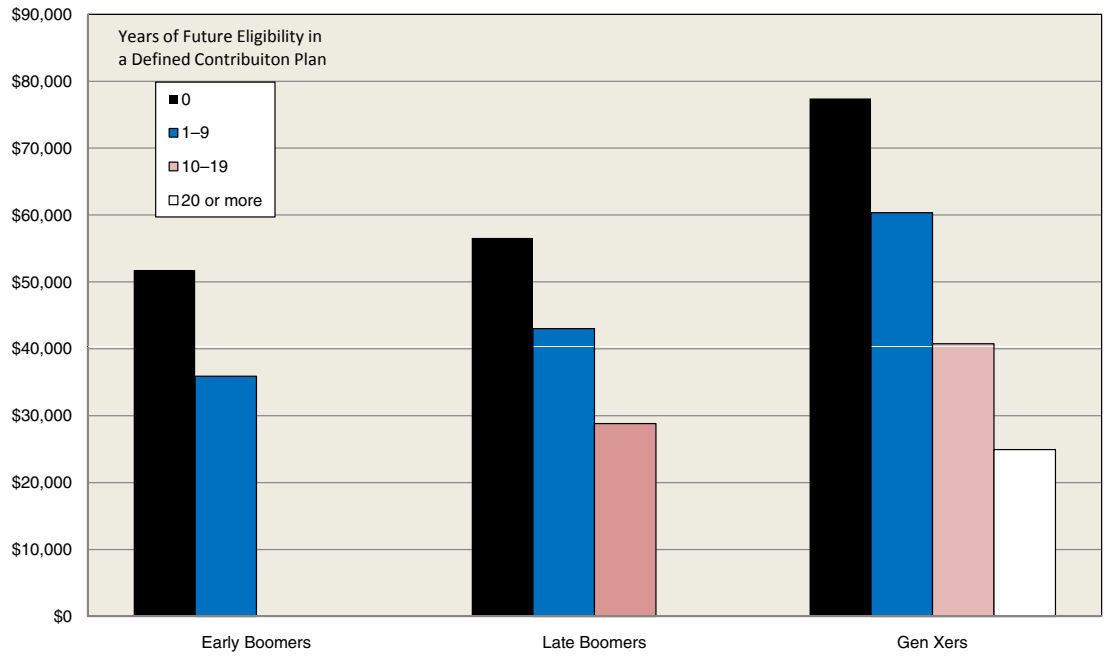
Source: EBRI Retirement Security Projection Model™ version 100920f1.

Figure 4
Average Individual Retirement Income Deficit,
by Age Cohort and Preretirement Income Quartile (in 2010 \$s)



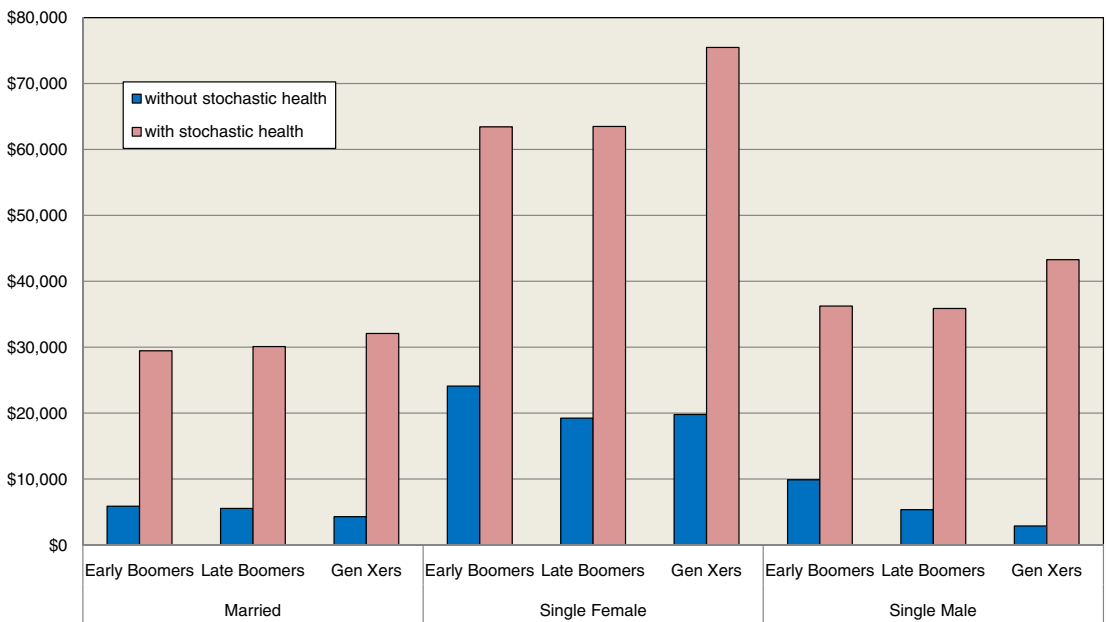
Source: EBRI Retirement Security Projection Model™ version 100920f1.

Figure 5
Average Individual Retirement Income Deficit, by Age Cohort and
Number of Years of Future Eligibility in a Defined Contribution Plan (in 2010 \$s)



Source: EBRI Retirement Security Projection Model™ version 100920f1.

Figure 6
Average Individual Retirement Income Deficit, by Gender, Marital Status,
and Age Cohort (in 2010 \$s): With and Without Stochastic Health



Source: EBRI Retirement Security Projection Model™ versions 100920f1 and 100922f1.

Conclusion

This study shows that the aggregate RSS for Baby Boomers and Gen Xers expressed in 2010 dollars is \$4.55 trillion, for an overall average of \$47,732 per individual still assumed to be alive at age 65. The averages vary considerably by gender and marital status, and increase (in constant dollars) for younger age cohorts. When the average RSS values are recomputed for only households with deficits, the average values increase significantly and the gender differences decrease, especially for the Gen Xers.

This study also quantifies the extent to which stochastic health care costs account for a substantial portion of the individual deficits and the value of current Social Security retirement benefits. Future EBRI publications will explore this in additional detail, including a cost/benefit analysis of insuring this risk through products available in the private insurance market.

Appendix: Brief Description of RSPM

EBRI originally developed the Retirement Security Projection Model (RSPM[®]) in 2003 to provide detailed micro-simulation projections of the percentage of preretirement households "at risk" of having inadequate retirement income to finance basic retirement expenditures, as well as uninsured retiree health care expenses (including nursing home care). This model benefits greatly from having access to administrative records on tens of millions of 401(k) participants,¹³ dating back in some cases to 1996, to permit simulating the accumulations under the most important component (but also the most complicated in terms of modeling) of future wealth generated by the employer-sponsored retirement system. These household projections are combined with the other components of retirement income/wealth (such as Social Security, defined benefit annuities and lump-sum distributions, IRA rollovers, non-rollover IRAs, and net housing equity) at retirement age, and run through 1,000 alternative retirement paths to see what percentage of the time the households "run short of money" in retirement. The present value of the deficits generated in retirement is also computed to provide Retirement Savings Shortfalls (RSS).

The appendix to VanDerhei and Copeland (2010) describes how households (whose heads are currently ages 36–62) are tracked through retirement age, and how their retirement income/wealth is simulated for the following components:

- Social Security.
- Defined contribution balances.
- IRA balances.
- Defined benefit annuities and/or lump-sum distributions.
- Net housing equity.¹⁴

A household is considered to run short of money in this model if aggregate resources in retirement are not sufficient to meet aggregate minimum retirement expenditures, which are defined as a combination of deterministic expenses from the Consumer Expenditure Survey (as a function of income), and some health insurance and out-of-pocket health-related expenses, plus stochastic expenses from nursing home and home health care expenses (at least until the point they are picked up by Medicaid). This version of the model is constructed to simulate "basic" retirement income adequacy; however, alternative versions of the model allow similar analysis for replacement rates, standard-of-living calculations, and other ad hoc thresholds.

The version of the model used in this *article* assumes that all workers retire at age 65 and immediately begin to withdraw money from their individual accounts (defined contribution and cash balance plans, as well as IRAs) whenever the sum of their basic expenses and uninsured medical expenses exceed the after-tax¹⁵ annual income from Social Security and defined benefit plans (if any). If there is sufficient money to pay expenses without tapping into the tax-qualified individual accounts,¹⁶ the excess is assumed to be invested in a non-tax-advantaged account where the investment income is taxed as ordinary income.¹⁷ The individual accounts are tracked until the point at which they are depleted; if the Social Security and defined benefit payments are not sufficient to pay basic expenses, the entity is designated as having “run short of money” at that time.

One of the basic objectives of RSPM is to simulate the percentage of the population that will be “at risk” of having retirement income that is inadequate to cover basic expenses and pay for uninsured health care costs for the remainder of their lives once they retire.¹⁸ However, RSPM also provides information on the present value of the deficits that each household is simulated to generate in retirement. These deficits can be aggregated for various age cohorts and reported as a function of several characteristics, including, inter alia:

- Gender.
- Marital status (at retirement).
- Pre-retirement income quartile.
- Future years of eligibility in a defined contribution plan.

References

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Endnotes

¹ A brief description of RSPM is included in the appendix.

² The post-World War II demographic wave of children born between 1948–1964.

³ Americans born between 1965–1974 and currently between the ages of 36–45.

⁴ Household deficits for married couples are divided equally between the two spouses.

⁵ Boston College's Center for Retirement Research has recently estimated a figure of \$6.6 trillion in retirement income deficits or "about \$90,000 per household if you count all 72 million households ages 32 to 64" (Coombes, 2010). The proper interpretation of this number is somewhat problematic in that it appears that they are assuming virtually none of the 72.6 million households in that age range in the 2007 Survey of Consumer Finances die prior to age 65.

⁶ For example, if a specific cohort of households had an "at risk" of 50 percent, the average RSS value reported in Figure 2 would be twice as large as the value reported in Figure 1 for that cohort.

⁷ Even though single females are still projected to have lower retirement income than single males for the Gen Xers cohort, the fact that they are assumed to have lower retirement expenses explains why the differences in conditional RSS values are very small.

⁸ Preretirement income in RSPM is determined in a manner similar to the average indexed monthly earnings computation for Social Security with the following modifications:

- All earned income is included up to the age of retirement (i.e., there is no maximum taxable wage base constraint and the calculation terminates at retirement age).
- Instead of indexing for changes in average national wages, the model indexes are based on assumed after-tax rate of return based on asset allocations that are a function of the individual's age in each year.
- Percentile distributions are then established based on population statistics for each five-year age cohort.

⁹ It should be noted that the minimum deficits generated in this calculation are zero. This explains why certain cohorts of future retirees with a very low "at risk" percentage from VanDerhei and Copeland (2010) may still have a significant RSS value.

¹⁰ A precise evaluation of the impact would involve a comparison of the values in Figure 1 with the new values in Figure 5 although supplemented with the premia required to fully insure the financial consequence of nursing home and home health care expenses. For an example of this comparison with a different output metric, see VanDerhei (2005).

¹¹ Even though single females are more likely to become eligible for Medicaid, they have a longer life expectancy than single males and they are more likely to run "short" of money and to do so at an earlier age.

¹² RSPM has been completely revamped since the original 2003 model to account for the trends toward automatic enrollment in 401(k) plans, automatic escalation of contributions, and the increased utilization of target-date funds (TDFs) whether through qualified default investment accounts (QDIAs) or through participant-directed investments. Holden and VanDerhei (2005) demonstrated the large impact automatic enrollment (AE) would likely have on employees eligible to participate in 401(k) plans, especially at the lower-income quartiles. VanDerhei (September 2007) used the Pension Protection Act (PPA) safe harbors to show how much larger balances in auto-enrolled 401(k) plans would likely be for eligible employees as a result of automatic escalation of employee contributions. VanDerhei and Copeland (2008) used a version of RSPM to model the impact of automatic enrollment and automatic escalation of employee contributions for all workers (whether or not they are currently 401(k) participants or eligible nonparticipants).

¹³ For a description of the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, see the October 2009 *EBRI Issue Brief* and *ICI Perspective*, at www.ebri.org/publications/ib and www.ici.org/research/perspective

¹⁴ Net housing equity is introduced into RSPM in three different mechanisms but assumed not to be utilized in financing retirement expenses in this Notes article. This assumption will be relaxed in a future EBRI publication.

¹⁵ IRS tax tables from 2009 are used to compute the tax owed on the amounts received from defined benefit plans and Social Security (with the percentage of Social Security benefits subject to Federal Income Tax proxied as a function of the various retirement income components) as well as the individual account withdrawals.

¹⁶ Roth IRA and 401(k) accounts are not used in this version of the model but will be incorporated into a forthcoming EBRI publication.

¹⁷ Capital gains treatment is not used in this version of the model.

¹⁸ The nominal cost of these expenditures increases with component-specific inflation assumptions.

The Impact of the COBRA Premium Subsidy on Coverage

by Paul Fronstin, Employee Benefit Research Institute

Introduction

On Feb. 13, 2009, Congress passed the American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5), which included a provision for the federal government to pay 65 percent of the premium for individuals who were covered under COBRA¹ 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. There is conflicting evidence as to the effect of the subsidies on the take-up of COBRA coverage. This article examines that evidence and also reports the findings from recently released government data that can be used to track health insurance coverage from a former employer. It was found that by August 2009, the COBRA subsidies had had an impact on the percentage of nonworking adults with coverage through a former employer, but it was not as large as the initial estimate that ARRA would assist 7 million people with COBRA subsidies during 2009.

Background on COBRA

The continuation-of-coverage provision included in COBRA requires employers with 20 or more employees to make available continued health care coverage for a specified period to employees (and/or their qualified dependents) who terminate employment for reasons other than gross misconduct. COBRA ensures that workers who lose their health coverage when they lose their job or become ineligible for coverage because they move from full-time to part-time work can continue it for 18 months. The law does not require employers or unions to continue paying for this coverage: The entire premium for health coverage is usually paid by the individuals electing COBRA. Those who utilize their right to COBRA coverage often find it to be surprisingly unaffordable, especially during periods of unemployment that are often combined with loss of income and a movement from paying premiums on a pre-tax basis to an after-tax basis.

The original COBRA provision in ARRA subsidized 65 percent of the COBRA premium for individuals incurring an involuntary job loss between Sept. 1, 2008, and Dec. 31, 2009. The subsidy was made available for up to nine months.

The subsidy for COBRA coverage was extended by Congress three times. In December 2009, Congress extended the eligibility period for the subsidy through Feb. 28, 2010, and increased to 15 months the length of time the subsidy was available. Another extension was enacted on March 2, 2010, extending the eligibility period to March 31, 2010, and expanding eligibility for the subsidy to certain individuals who first became eligible for COBRA due to a reduction in work hours and then experienced an involuntary employment termination. Involuntary termination had to have occurred between March 2, 2010, and March 31, 2010. And on April 15, 2010, Congress extended the subsidy through May 2010. Individuals qualifying for COBRA after May 2010 currently are not eligible for a subsidy.

Effect of COBRA Subsidy

When ARRA was passed in 2009, the Congressional Budget Office (CBO) estimated \$25 billion in subsidies would be provided to COBRA beneficiaries between 2009 and 2012, with \$14 billion in subsidies provided in 2009.² ARRA was also expected to assist 7 million people with COBRA subsidies during 2009.³ However, CBO recently reported smaller-than-anticipated revenue losses due to COBRA subsidies.⁴

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 2009.⁵ 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.

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.⁶ In contrast, Ceridian found that COBRA enrollment increased from 12.4 percent to 17.7 percent.⁷ 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.⁸ 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 the estimates reported above 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.⁹

However, it is highly unlikely that 2 million households benefitted from the subsidy:

- First, the report is based on employer reporting and recognizes that from quarter to quarter there may be double counting.
- Second, 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. With premiums averaging \$4,824 for employee-only coverage and \$13,375 for family coverage in 2009, the 65 percent subsidy would average \$3,136 for employee-only coverage and \$8,694 for family coverage.
- Third, some of the individuals who benefitted from the premium may have already elected COBRA at the time that ARRA was passed. While these individuals clearly benefitted from the subsidy, they did not initially elect COBRA because of the subsidy. However, they may have continued COBRA longer than they otherwise would have because of the subsidy.

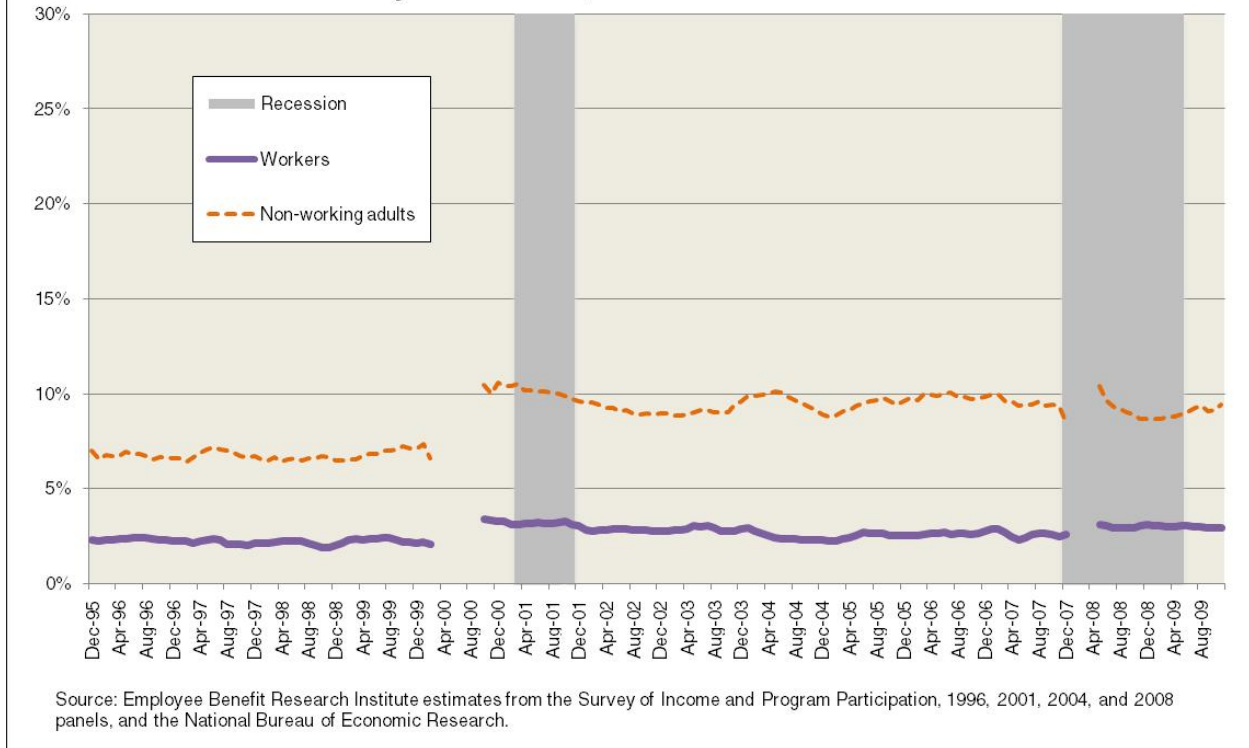
Recent Trends in COBRA Coverage

In large part, nationally representative surveys with micro-level data on individuals do not allow COBRA beneficiaries to be identified. However, the Survey of Income and Program Participation (SIPP), conducted by the U.S. Census Bureau, is the exception. SIPP is a nationally representative longitudinal survey of the civilian noninstitutionalized U.S. population. It provides comprehensive information about the income of individuals and households in the United States. It also provides information on participation in public programs. Individuals selected into the SIPP sample are interviewed once every four months over the life of the panel. In addition to a core set of questions asked participants each four months, a rotating set of topical questions supplements the core questions. The 2008 SIPP panel started out with about 52,000 eligible households and contains data on about 100,000 individuals.

The core set of questions allows identification of individuals with private health coverage through a former employer. In some cases, that coverage will be provided through COBRA, but in other cases, it will be retiree health coverage. One of the topical modules conducted in each panel allows direct identification of COBRA beneficiaries.

Figure 1 shows the percentage of adults ages 18–64 with coverage through a former employer from December 1995 through November 2009. Separate trends are shown for working and non-working adults, and the recession years are highlighted. Historically, the percentage of workers and nonworkers with coverage through a former employer has been low. During the late 1990s, the percentage of workers with coverage through a former employer was about 2 percent, while among nonworkers it was between 6 percent and 7 percent. During 2000–2009, the percentage of workers with coverage through a former employer continued to be between 2–3 percent, while the percentage of nonworkers with such coverage was generally between 8–9 percent.

Figure 1
**Percentage of Individuals, Ages 18–64,
 With Coverage Through a Former Employer,
 by Work Status, Dec. 1995–Nov. 2009**



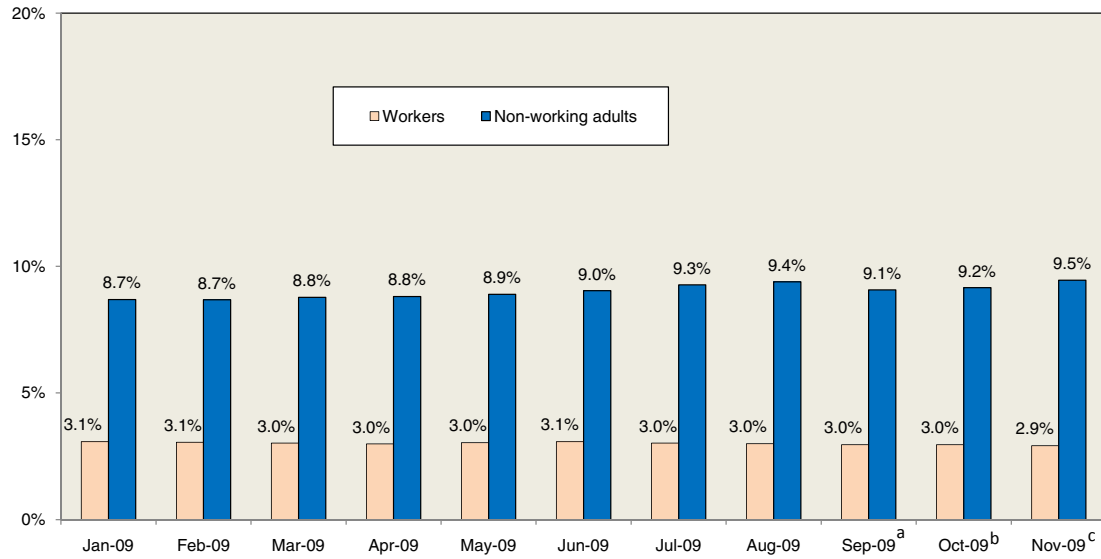
The COBRA subsidies that became available in April 2009 do not appear to have had an impact on the percentage of *workers* with coverage through a former employer, but they do appear to have had an effect on the percentage of *nonworking adults* with coverage. Figure 2 presents the data from Figure 1 limited to the January–November 2009 period. It shows no change in the percentage of *workers* with coverage through a former employer. However among *nonworkers*, the percentage with coverage through a former employer, while steady at 8.7–8.8 percent through April 2009, started to increase thereafter. By August 2009, nonworking adults with coverage through a former employer had reached 9.4 percent. The number with coverage through a former employer increased from 5 million in December 2008 to 5.7 million in August 2009. While it appears that there may have been a drop-off in September and October, these data are not based on the full sample, and may be revised when the data for the full sample become available (they are expected to be released by January 2011).

Impact by Age

As mentioned above, the SIPP data can identify individuals with coverage through a former employer. Some of these individuals are covered by COBRA and the rest are covered by retiree health benefits. COBRA beneficiaries can be isolated by controlling for age. Very few individuals under age 55 will have retiree health coverage; thus, estimates of former employer coverage for the population under age 55 should be mainly COBRA coverage.

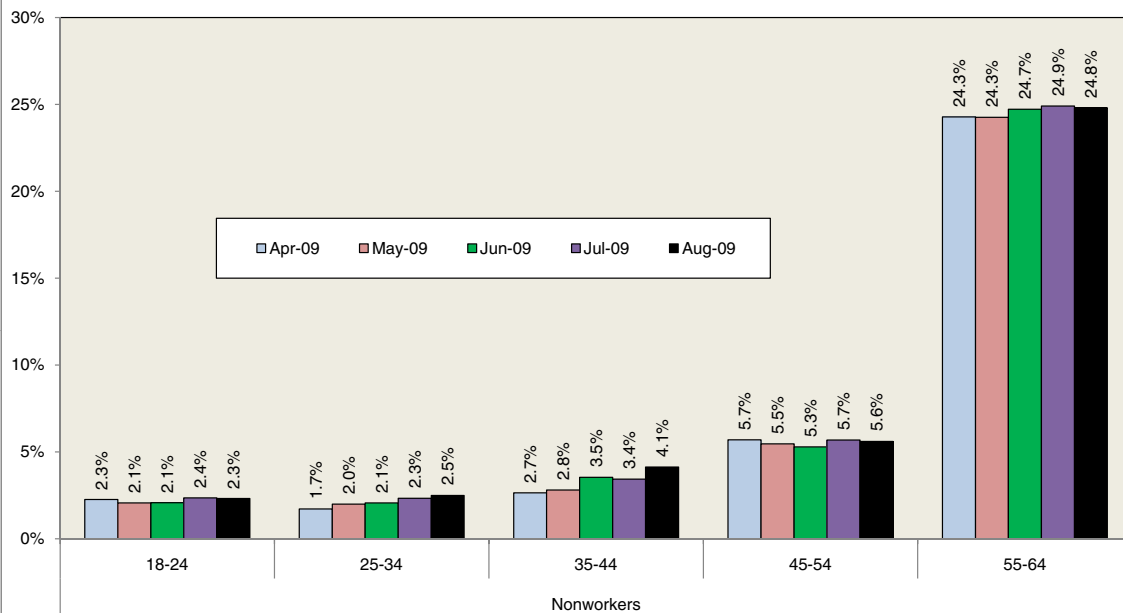
Figure 3 contains data on the percentage of nonworking adults ages 18–64 with coverage through a former employer by age for the April–August 2009 period. Individuals ages 18–24 had the lowest likelihood of having coverage through a former employer, and the percentage with such coverage did not increase after April 2009, remaining at just above 2 percent. Both those ages 25–34 and 35–44 experienced an increase in the percentage with coverage through a former employer. The share of individuals ages 25–34 with coverage through a former employer increased from 1.7 percent in April 2009 to 2.5 percent in August 2009, while the share of individuals ages 35–44 with coverage through a

Figure 2
Percentage of Individuals, Ages 18–64,
With Coverage Through a Former Employer,
by Work Status, Jan. 2009–Nov. 2009



Source: Employee Benefit Research Institute estimates from the Survey of Income and Program Participation, 2008 panel.
a - based on 75% of sample.
b - based on 50% of sample.
c - based on 25% of sample.

Figure 3
Percentage of Nonworking Adults, Ages 18–64,
With Coverage Through a Former Employer,
by Age, April 2009–Aug. 2009



Source: Employee Benefit Research Institute estimates from the Survey of Income and Program Participation, 2008 panel.

former employer increased from 2.7 percent to 4.1 percent between April and August 2009. Individuals ages 45–54 did not experience an increase in coverage through a former employer, while those ages 55–64 experienced a slight increase.

Conclusion

On Feb. 13, 2009, Congress passed ARRA, which included a provision for the federal government to pay 65 percent of COBRA premiums for individuals incurring an involuntary job loss between Sept. 1, 2008, and Dec. 31, 2009. The subsidy was made available for up to nine months. The subsidy for COBRA coverage has been extended by Congress three times. The last extension occurred in April 2010.

There are widely conflicting estimates of how many people benefited from the COBRA subsidy. Using data from SIPP, a nationally representative survey conducted by the Census Bureau, this analysis finds that the COBRA subsidies that became available in April 2009 do appear to have had a major impact on the percentage of nonworkers with coverage through a former employer. Between April and August 2009, the percentage of nonworking adults with coverage through a former employer increased from 8.8 percent to 9.4 percent. The number with coverage through a former employer increased from 5 million in December 2008 to 5.7 million in August 2009, suggesting about 700,000 nonworking adults received the subsidy (this does not measure the family dependants who likely would also have benefited from the subsidy).

ARRA was expected to assist 7 million people with COBRA subsidies during 2009. It appears to have assisted far fewer than 7 million. This finding has 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 (P.L. 111-148), the health reform law known as PPACA. Those subsidies may not have as large an effect as predicted when PPACA was passed. As a result, the number of uninsured may not fall as much as predicted.

Data through December 2009 are expected to be available by January 2011. At that point, it will be possible to examine the impact that the premium subsidy has had on take-up of COBRA for the entire 2009 calendar year.

Endnotes

¹ The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) included a provision that requires employers with 20 or more employees to make available continued health coverage to employees (and/or their qualified dependents) who terminate employment for reasons other than gross misconduct.

² See www.cbo.gov/ftpdocs/100xx/doc10008/03-02-Macro_Effects_of_ARRA.pdf (last reviewed August 2010).

³ Some of the 7 million would have taken COBRA even in the absence of the new subsidy. See www.jct.gov/x-19-09.pdf (last reviewed August 2010).

⁴ See www.cbo.gov/ftpdocs/110xx/doc11044/02-23-ARRA.pdf (last reviewed August 2010).

⁵ See Exhibits 6.3 and 6.4 in <http://ehbs.kff.org/pdf/2009/7936.pdf> (last reviewed August 2010).

⁶ See www.hewittassociates.com/Intl/NA/en-US/AboutHewitt/Newsroom/PressReleaseDetail.aspx?cid=7133 and www.hewittassociates.com/Intl/NA/en-US/AboutHewitt/Newsroom/PressReleaseDetail.aspx?cid=7916 (last reviewed August 2010).

⁷ See <http://hr.cch.com/news/benefits/102909.asp> (last reviewed August 2010).

⁸ See www.urban.org/UploadedPDF/412172-laid-off-workers.pdf (last reviewed August 2010).

⁹ See www.ustreas.gov/offices/tax-policy/library/COBRAInterimReport.pdf (last reviewed August 2010).

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