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Stimulus Makes Cobra Coverage a Better Bet

Subsidy for Laid-Off Workers Eliminates Barrier That Kept Many Out of the Program

By M.P. MCQUEEN

Congress has just given a big assist to millions of jobless Americans facing a tough decision: Do they reach into their wallet to continue health insurance coverage with their old employer or not?

As part of the economic-stimulus package signed into law this week, the federal government will provide a nine-month subsidy covering 65% of the Cobra premium for people who qualify. Eligible workers who originally opted not to take Cobra but who now want the subsidized version have 60 days after they receive notice from their employers to sign up, says Richard G. Schwartz, a benefits lawyer in New York .

Fewer than one in 10 eligible workers recently opted for continuing insurance coverage in 2007 under Cobra, the federal law that allows many workers to continue group health insurance when they leave a job. The big reason: Cobra is expensive. Under the law, workers must pay the entire premium -- plus a 2% administrative fee -- even though employers typically picked up the lion's share of the cost. The average cost of Cobra coverage for a family is $13,000 a year -- big money for someone who is unemployed.

The new legislation might help people like Chuck Fleming, 41 years old, of Aurora , Colo. His job in the legal department of Janus Capital Group Inc., a Denver-based financial-services company, was eliminated in October. He decided not to take Cobra because of the $450 monthly expense.

"My beef with Cobra is that it is the same gold-plated plan that my employer offered, when I would settle for copper or tin," he says. Instead, he bought a catastrophic health plan, which covers only major hospitalizations, for $100 a month.

"I am single with no health issues or anything like that, so for me it just wasn't cost-effective," he says, adding that he expects eventually to get employer-paid coverage when he finds another job.

The new subsidy applies to workers involuntarily terminated between Sept. 1, 2008, and Dec. 31, 2009, and phases out for individuals with an adjusted gross income of $125,000, and $250,000 for married couples filing jointly. It should make it easier for people to protect themselves not only from ruinous medical bills, but also from the inability to get new insurance due to a pre-existing medical condition.

That's because an often-overlooked federal law -- the Health Insurance Portability and Accountability Act of 1996 -- generally limits the ability of group health plans to exclude someone because of a pre-existing medical condition. But it only applies if you have been continuously covered by a health insurer with a break of no more than 63 days.

Portability Rights

That's where Cobra comes in. "People often unknowingly invalidate their federal portability rights by not taking Cobra or inadvertently exceeding the 63 days," says Janet Trautwein, chief executive of the National Association of Health Underwriters, a trade group of health-insurance brokers and agents in Arlington , Va.

As part of the stimulus law, lawmakers also enacted a provision allowing laid-off workers to switch to cheaper health-care plans in Cobra, if their employers offer them, without having to wait for an open-enrollment period. That might also help some people who chose the more-expensive health-care plans offered by their employers when they had their jobs.

The unemployment rate jumped to 7.6% in January, up 2.7 percentage points from a year earlier. Cobra, however, generally doesn't help workers in companies with fewer than 20 workers, or those who have lost their insurance because their companies were liquidated or whose jobs never offered it, according to the U.S. Department of Labor. Many states extend state Cobra benefits to groups of fewer than 20 workers.

Employers may not be happy with the expansion of the Cobra program, as some fear it will raise administrative and other costs. "The new law will impose very large costs on employers," says John Goodman, president of the National Center for Policy Analysis, an independent think tank in Dallas . "It will make it more expensive for employers to provide health insurance. And, for those who do, it will make it more expensive to hire new workers."

For some people, especially the young and healthy, another option is to take out an individual health policy. Insurers such as Aetna Inc. have been promoting individual plans as Cobra alternatives in many states. Health-insurance experts advise people who lose their jobs to apply immediately for individual health insurance, because it can take weeks to have an application approved or denied when medical underwriting is involved. They can then choose whether to use Cobra or opt for individual insurance or a public program within the allowed time limit.

Yet for employees who already have been diagnosed or treated for a serious or chronic illness, or who are pregnant, Cobra may be the only reasonable option. They may find it impossible to get an individual health-insurance policy, unless they live in a handful of states such as New York or New Jersey that require insurers to issue policies regardless of health or risk status, or in the more than 30 states with high-risk pools. Even then, individual policies may be prohibitively expensive.

Phyllis Miller, 61 years old, a resident of Johnstown, Pa., who had been employed as a billing-office manager for a chiropractor, was diagnosed with colon cancer just before losing her employer health coverage in 2007. She said her insurer tried to cancel her coverage, until she reminded them of her legal right to continue under a state program, similar to Cobra, for small employers. The insurer then offered her a so-called conversion plan, though at a much higher cost than she had been paying under her employer-subsidized plan -- and with no prescription drug coverage.

"It's better than nothing," says Ms. Miller, who notes that one full chemotherapy treatment costs more than $13,000.

A Web site that lays out many private and public insurance programs is available at www.coverageforall.org, a project of the Foundation for Health Coverage Education, a nonprofit group funded by health insurers and foundations, and at the industry-funded www.nahu.org. Individual health-plans can be compared at sites like www.ehealthinsurance.com, an online insurance broker licensed in 50 states.

Desperate Measures

Some workers have resorted to desperate measures to keep their Cobra coverage. Clare Tobin, 64, of Chicago , left a stressful job with health benefits to take a less-demanding one at a property manager that didn't offer health insurance. Her husband couldn't obtain individual insurance because of his diabetes, she says. At first, they maintained Cobra under her former employer, a nonprofit community organization, paying $850 per month. But Cobra normally lasts only 18 months, and as expiration approached, the Tobins were stuck.

Ms. Tobin read through the Cobra language and realized if she experienced a life-changing event, such as an adoption, divorce, disability or the death of a spouse, her husband would be eligible to continue Cobra coverage for another 18 months. "So I felt if that is what it takes, we should get divorced," she says. She and her husband obtained a quickie divorce and narrowly made the deadline. She says they felt having health insurance was more important than staying married.

Brian Tobin stayed on Cobra until he was three months shy of his 65th birthday. After that, he went on Medicare.

Ms. Tobin says she has since obtained individual health insurance for herself, under a high-deductible Blue Cross plan with a $2,500 deductible for which she pays $360 monthly.

"Realistically, you have to do what is in your best interest, and your health is basic," she says.