

Taking some sting out of COBRA's bite

Government throws lifeline to laid-off workers, but businesses fret cash crunch from temporarily paying premiums.

By Lisa Rosetta

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Dan Draney tests his blood sugar level. He went on COBRA after his wife retired. The couple had to tap into their savings to pay Draney's health insurance premiums. He has almost used up his 18 months of COBRA coverage. (Trent Nelson/The Salt Lake Tribune)

Dan Draney and his wife burned through their retirement savings in 18 months -- making steep payments under COBRA, the federal safety net that allows workers to temporarily stay on a former employer's health insurance.

A diabetic cancer survivor who has a genetic blood clotting disorder, Draney's poor health meant he couldn't find an insurer willing to sell him an individual policy. And, at 60, he's too young for Medicare. So the couple paid \$1,014 a month through COBRA for his wife's former workplace coverage.

But for out-of-work Utahns considering this high-priced option now, there's good news: The federal government is subsidizing a hefty discount in COBRA premiums, under the American Recovery and Reinvestment Act of 2009.

Here's the catch: Companies have to temporarily cover the cost of the subsidy. For Utah businesses already struggling to survive, that may mean scaling back health insurance and other benefits -- or dropping them altogether.

"For many, it's a choice of do we keep the doors open and eliminate health care," said Holly Engar, a staff consultant at Salt Lake City-based Employers Council, a nonprofit association of about 500 companies sprinkled throughout the Intermountain West. "That is a big problem."

Here's how the subsidy works: Workers who "involuntarily" lose their jobs will pay only 35 percent of the usual COBRA premium for nine months. That's a significant savings, because a Utah family's average COBRA premium rings up at \$1,030 a month, and for individuals, at \$363, according to a recent Families USA report.

Large companies will pay the remaining 65 percent up front. They will make up those costs when they deduct the same amount from their payroll taxes. But because most Utah companies make that tax filing quarterly, they must float the cash for COBRA premiums for months at a time.

It's a Catch-22, industry experts say: Employers may have to reduce their work forces to stay viable. But the more people they lay off, the bigger their potential financial burden for COBRA payments.

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Bracing for pain » In a survey of 101 Intermountain companies last week, the Employers Council found 40 percent expect the subsidy program to cause them financial strain.

Their plans to deal with it vary. One company said covering the federal subsidy up front has meant moving to a Health Savings Account plan with a higher deductible. A few companies anticipate pushing a greater portion of health insurance costs onto their employees. Trimming bonuses and overhead, reducing work hours and other benefits -- even additional layoffs -- were also offered as possibilities.

Automotive air-bag manufacturer Autoliv, which laid off 250 full-time employees, or about 7 percent of its work force, in February, files its payroll taxes every two weeks and doesn't anticipate a cash crunch. But the company is reviewing its severance packages.

Scott Baxter, director of compensation and benefits for Autoliv North America, said he expects about 90 percent of Autoliv's laid-off employees to take advantage of COBRA, at least for the duration of their severance period. During that time, the former workers were expected to pay their employee premiums, which is 10 to 20 percent of the actual cost of the plan.

With the subsidy, though, employees are now paying only 35 percent of their original share.

Baxter said the company may retool its severance package so that laid-off workers' coverage is equal to what it was before the federal subsidy.

"That's under review for a lot of employers," Baxter said. "It makes it a difficult situation."

Employers who laid off workers last fall didn't know they would potentially be returning for COBRA coverage -- with a subsidy -- under extended enrollment deadlines.

And thousands of Utahns are eligible to claim the subsidy. Last year alone, 20,400 jobs evaporated from the state. In January, the state Department of Workforce Services reported unemployment claims took a "stunning leap" as hard-hat industries such as construction and manufacturing continued to get pummeled.

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Benefits threatened » Diane Malin, an account executive and human resource specialist at the Diversified Insurance Group, said the federal subsidy penalizes companies for going "above and beyond."

If the government is offering to pay more than half of a laid-off worker's COBRA premium, it no longer makes sense for a company to chip in as part of a severance package, she said.

"There's no incentive for them to do that any longer," Malin said, "and there's actually a disincentive if they do."

Worse yet, about 11 percent of companies surveyed by the Employers Council said they may not be able to continue offering health insurance to their workers at all. A company that doesn't offer benefits to begin with isn't obligated to extend enrollment in a group plan via COBRA.

That avenue may become increasingly appealing to the 22.8 percent of companies that indicated in the survey that they're planning to reduce their work forces in the "near future."

But, said Engar, "I think most employers want to do the right thing, and for so many of them, having to lay people off has been very, very difficult for them. They want to take care of their people as much as possible."

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'It's no fun' » Small companies -- those with two to 19 employees -- offer a mini-COBRA plan that extends coverage for a shorter period. But these small businesses will be spared from having to temporarily cover premiums, said Cheryl Alexander, a consumer service health analyst for the Utah Insurance Department.

Instead, the health insurance companies used by the businesses will have to pick up the cost and wait for reimbursement from the federal government.

"They [small businesses] are hurting enough trying to get through this tough time without having to wait for the feds' money," Alexander said.

Insurers have indicated "it's going to be burdensome until they get reimbursed, but we're hoping the federal government will do that as quickly as possible," said Kelly Atkinson, executive director of the

Utah Health Insurance Association. But he added, "We're willing to do our fair share during these really critical times to make sure people have the coverage they need."

But COBRA has its limits: A worker can hold onto a former employer's health insurance for only 18 months. That leaves people like Draney, who will max out his COBRA this month, looking for coverage -- and a way to pay for it.

Draney, 60, became diabetic after doctors mistakenly took out half of his pancreas during a surgery to remove his diseased kidney. His blood clotting disorder, Factor V Leiden, requires frequent testing. He's self-employed, and his wife has retired from her job in the health care industry.

Draney will likely have to pick up a plan through the Health Insurance Pool of Utah (HIP) and draw down the settlement money he received from his botched kidney surgery to foot the \$834 monthly premium.

"It's no fun when you just go along your whole life with necessary, affordable [health] expenses," he said. "And all of a sudden, it becomes higher than any bill you have."

lrosetta@sltrib.com

How to qualify for the COBRA subsidy

How will the American Recovery and Reinvestment Act of 2009 help? » Workers involuntarily terminated between Sept. 1, 2008, and Dec. 31, 2009, may be eligible to have 65 percent of their COBRA cost paid for by the federal government, for up to nine months. People have 60 days after being laid off to enroll in COBRA. However, for those who missed the deadline, a new 60-day period starts after receiving notification from a former employer about eligibility for the subsidy.

What about Utah mini-COBRA, the option offered by small businesses? » Laid-off workers using Utah mini-COBRA are also eligible for the federal subsidy. But deadlines are approaching. By April 18, people involuntarily terminated between Sept. 1, 2008, and Feb. 16 must contact their employer or former insurer to take advantage of the new extended enrollment period. By May 1, all enrollment forms must be submitted to the insurer.

What is COBRA?

The Consolidated Omnibus Budget Reconciliation Act lets employees opt to keep their workplace health insurance for up to 18 months after leaving a job. But they usually pay the full cost of the premium -- because their employer no longer pays a portion -- plus a 2 percent fee. Now, the federal government is offering laidoff workers help with that cost.

Find out about COBRA

The Employers Council is hosting an informative session about the COBRA subsidy for employers from 8 a.m. to 10:30 a.m., April 2 at the Red Lion Hotel in Salt Lake City. The cost is \$109 for members and \$185 for nonmembers. To register, call 801-364-8479 or visit the organization's Web site, ecutah.org