



BRIEF ANALYSIS

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Helping Laid-Off Workers Keep Insurance

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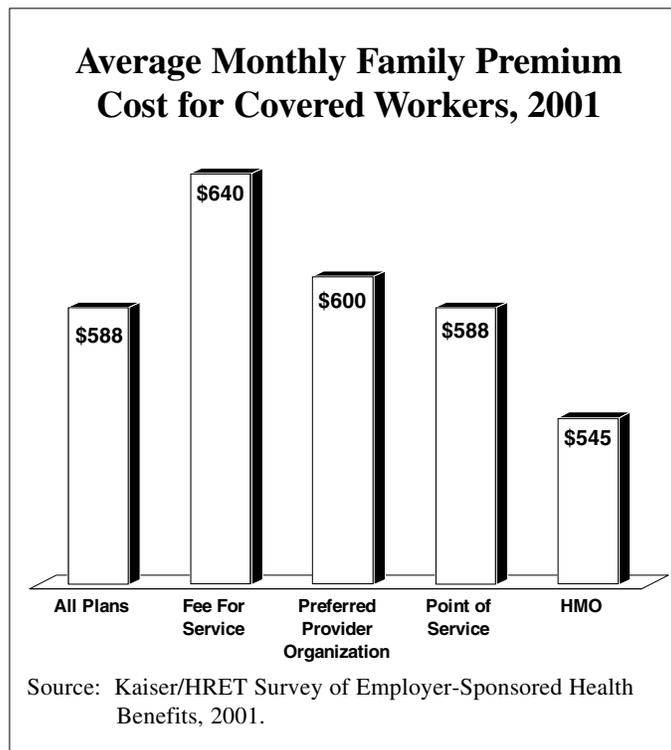
Congress has before it several bills to help newly laid-off workers from the airlines and other industries affected by the terrorist attacks on America. President Bush has proposed — and members of Congress from both parties have offered bills — helping these workers to retain their health insurance coverage and avoid joining the ranks of the uninsured.

These layoffs are only one indication that the numbers of uninsured are likely to surge in the next few months. Other ominous signs include the growing ranks of unemployed generally, shrinking business sales and profits, and the dramatic increases in health care costs in the coming year. Many employers are likely to eliminate more jobs or hire no new workers. Other employers may keep all their workers on the payroll but will be hard-pressed to continue their health care coverage.

The High Cost of COBRA. Newly unemployed workers may choose to continue their health benefits through COBRA (the Consolidated Omnibus Budget Reconciliation Act of 1985), but they are in for sticker shock when they discover what their companies have been paying for health insurance. A recent survey

sponsored by the Kaiser Family Foundation found that employer-sponsored coverage in 2001 cost on the average \$7,056 for a family and \$2,652 for an individual worker. HMO coverage cost somewhat less and traditional “major medical” coverage quite a bit more. The figure shows the average monthly cost of various types of health insurance, according to the survey. Some areas of the country cost less and some cost more.

In addition, premiums are going up faster than at any other time in 10 years.



■ Employers are looking at premium increases averaging 20 percent in 2002, according to the William M. Mercer consulting firm.

■ Even the federal government’s health coverage is facing rate increases of 13.3 percent on the average, with some of the more popular plans going up 20 percent.

To exercise the COBRA continuation privileges, a laid-off worker has to pay the premium plus a 2 percent administrative add-on. Since COBRA continuation premiums are subject to the same hikes as the underlying employer coverage,

the \$7,000 premium today may easily go up to \$8,400 in 2002.

To add to the misery, the value of the coverage the worker was getting on the job was excluded from all taxes — state and federal, payroll and income. But the unemployed worker will get no tax assistance at all with the COBRA premium. Depending on his or her tax bracket, a worker will have to earn anywhere from

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\$11,000 to \$13,000 to pay the \$7,000 family premium, once the taxes are taken out.

The cost to the government of excluding employer-sponsored health insurance from taxes was \$140 billion in 2000 — or about 40 percent of the cost of benefits, according to Lewin and Associates. But for an unemployed worker, or a worker whose employer doesn't provide coverage, there is no assistance at all — no tax exclusion, no tax credit, not even a tax deduction unless the coverage costs more than 7.5 percent of the worker's gross income.

Tax Credits for Everyone. Some of the proposals before Congress would provide refundable tax credits to people who are unemployed or whose employers don't provide coverage. These would provide some of the same tax advantages enjoyed by those who get coverage from their employers. However, most of the proposals would apply only to low-income people, so they would provide no assistance to most newly laid-off workers.

Congress could easily fix this by applying the tax credit to all workers who have to pay for their own coverage. After all, the tax breaks given to employer-based plans have no income limits. Quite the opposite — higher-income workers get a far bigger tax break under current law than low- and moderate-income workers do.

Medical Savings Accounts for Everyone. The other help Congress could offer would be extending Medical Savings Accounts (MSAs) to all Americans. MSAs have been available since 1997, but only to the self-employed and employers with 50 or fewer workers. Airlines were not eligible and laid-off workers are not currently eligible. Yet MSAs have two great advantages that would have helped airline and other laid-off workers, had they been eligible.

- They would have provided workers with a source of funds to pay for coverage while they are unemployed.
- They encourage insurers to offer low-cost, high-deductible insurance plans.

MSAs combine a tax-free savings account with a high-deductible insurance policy. The insurance covers serious medical conditions, and the MSA is there to pay for low-cost routine services. It allows people to conserve resources for times of need because the money in the MSA can collect interest and build-up tax-free year after year. This can be especially important when a worker can't afford to carry a Cadillac plan that covers everything. Rather than having to spend \$600 a month to keep their insurance intact, laid-off workers might prefer a less expensive plan that will cover them in case of emergencies.

Policies for the Future. The terrorist-related layoffs have focused Washington's attention on the health care needs of the unemployed. But people are laid off, fired or "downsized" all the time in the United States. They may have been lower-income or higher-income, but once they lose their jobs they all are no-income workers.

Current federal policy provides health care support for those who are working and making money, but as soon as they lose their jobs, the support evaporates. That is surely the most twisted aspect of our employer-based health insurance system.

Congress can do two things to help — right now.

- Extend the availability of Medical Savings Accounts to all Americans, so they will be able to build up a "rainy day" fund for their health care needs.
- Make refundable tax credits available to all who do not get coverage on the job and must pay for it directly from their own pockets.

President Bush and members of both parties in Congress support both actions. And both would help reduce the numbers of uninsured we are likely to see in the coming year.

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