

**A Consumer's Guide:
Everything You Need
To Know About COBRA
in 2009**



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COBRA ANSWERS

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Dear Readers,

This is a difficult time to be an American. With the past year featuring everything from corruption on Wall Street to rising unemployment numbers, it seems there is no shortage of things to worry about. COBRA-Answers.com has created this report to help ease the stress of learning about COBRA and the recent legislation affecting it. The report will educate you about the recent passing of the American Recovery and Reinvestment Act, its effect on how COBRA will be offered to consumers and the recently unemployed, and the costs of a COBRA premium versus that of a privately purchased health plan. In difficult times such as these, we seek to give some clarity and guidance on an important topic.

Health insurance is a hot topic on the news these days. When visiting a site like CNN or Yahoo and regularly seeing articles about the country's health care crisis and the new legislature, you are reminded just how important health insurance is right now. People are sick and tired of being sick and tired, and with the unemployment rate jumping 0.4 percent in January 2009 alone, concern over health insurance disappearing along with a job is a valid worry.

Americans are more concerned than ever about going without insurance in an uncertain job market. Unemployment is expected to be as high as 12 percent by 2010, according to a recent article in Slate, and the health insurance options available to the unemployed are often prohibitively expensive. COBRA was created in the 1980's that was designed to offer people a way to maintain the health insurance they had been receiving through their employer by paying the entire premium. A 2009 study by Families USA showed that in many states, the cost of COBRA premiums can be as high as 84% of a family's unemployment check. Clearly, the coverage as it currently stands is not an ideal solution.

Throughout his Presidential campaign, now-President Barack Obama made continuous promises to the American public that he planned to completely overhaul the United States health care system, making health care accessible and affordable for all. Beginning in 2009, he and Congress have passed legislature specifically designed at giving the consumer more options to keep their existing employer-provided health care in the event they should lose their job.

Understanding this new legislature, whether you are currently unemployed or not, is crucial, and having a clear understanding of all health insurance options available to you can empower you in making the right decision for your health as well as your pocketbook. Read through our special consumer report on COBRA to learn more, so you can make an informed decision about the right type of health coverage for you.

For further up-to-date information on COBRA, please visit www.cobra-answers.com. For republishing information, please contact info@cobra-answers.com.

COBRA's Purpose

COBRA, or Consolidated Omnibus Budget Reconciliation Act, was first created in 1986 and was designed to help employees who were terminated from their jobs to keep the health coverage that had been provided by their previous employer. COBRA allows a recently unemployed individual to keep the health insurance they had been given by their previous employer (if their employer had opted to participate in the COBRA program). The individual would have to pay out-of-pocket the entire cost that their employer had been shouldering for their insurance. Depending on how comprehensive the health insurance was, the costs could range anywhere from \$250 to upwards of \$1,200 a month.

COBRA has changed over the years, and with the new Obama administration taking office, significant legislation has been passed that is altering the costs that the recently unemployed will have to pay to keep their health insurance through COBRA. In 2006, a study found that only 9% of laid-off American workers were choosing to participate in continuation of their health coverage through COBRA.¹ The high cost of the policies can be prohibitive for many, so they choose to go without health insurance rather than pay the COBRA costs.

This report seeks to educate consumers on the most recent news around COBRA and the ARRA (American Recovery and Reinvestment Act) subsidy, as well as provide accurate information about COBRA's current costs and COBRA alternatives like privately purchased health insurance plans. With unemployment numbers reaching 8.1% in February 2009, keeping bills manageable is the top priority of many Americans, and for the recently unemployed, worries about financial security are likely at the top of their list. For those who have recently lost their jobs or even those who simply want to educate themselves on COBRA and its benefits and disadvantages, this report will help consumers make the best decision for their health and well-being.

¹ <http://ts-si.org/workplace/3881-only-10-percent-of-unemployed-obtain-cobra-coverage.html>

COBRA's History and Basic Information

Congress passed COBRA as a health benefit provisions plan in 1986, according to the United States Department of Labor. The law was put into place to amend the Employee Retirement Income Security Act to give a continuation of group health coverage to the recently unemployed that might otherwise be terminated.

If you are unsure if your company should be offering COBRA continuation for your current or previous employer-provided health insurance plan, take a look at the groups who are eligible and subject to COBRA

regulations:

- Group health plans maintained by employers with 20 or more employees
- Group plans maintained by private sector employees (privately owned corporations, small businesses, farms, professional firms and non-commercial organizations)
- State and local governments.

Cobra Eligibility

Qualifying Event	Qualified Beneficiary	Max Period of Continuation
Termination (for reasons other than gross misconduct) or reduction in hours of employment	Employee, Spouse, Dependent, Child	18 months
Employee enrollment in Medicare	Spouse, Dependent, Child	36 months
Divorce or legal separation	Spouse, Dependent, Child	36 months
Death of employee	Spouse, Dependent, Child	36 months
Loss of "dependent child" status under the plan	Dependent, Child	36 months

Dependents of those who fall under the categories can be covered by an individual's COBRA premium. The rationale behind COBRA is to provide transitional health care coverage until the terminated employee or their spouse secures health insurance coverage or employment elsewhere; thus, an employer is only required to make continuation coverage available temporarily.

The maximum period of coverage continuation for termination of employment or a reduction in employment hours is 18 months. This maximum coverage period changes under the new legislation passed.

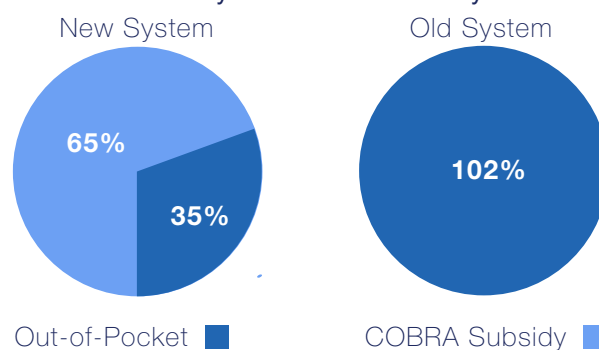
The ARRA Subsidy

The ARRA was signed on February 17, 2009 and some \$53 billion of the overall Act's budget has been designated to health care, namely at making over the way COBRA's continuation of health insurance is paid for. The stimulus bill is designed to do more than just boost the current state of health care. The bill commits some \$787 billion in the following categories: tax relief (\$288 billion), state and local fiscal relief (\$144 billion), infrastructure (\$111 billion), protecting the vulnerable (\$81 billion), health care (\$59 billion), education and training (\$53 billion), energy (\$43 billion), and other (\$8 billion).

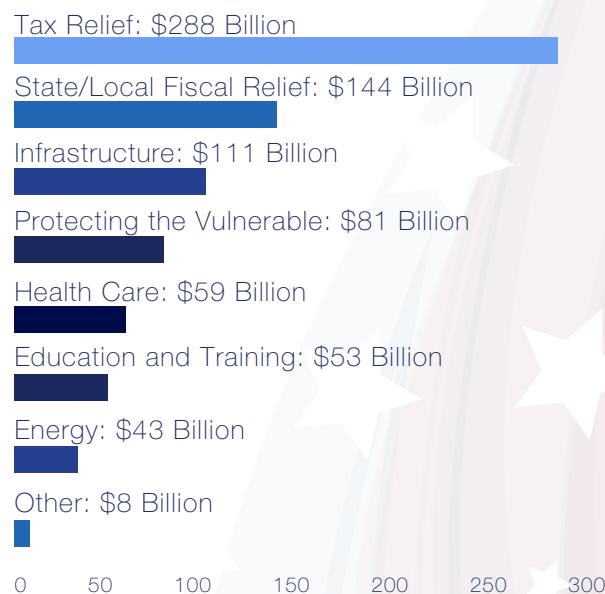
The ARRA was designed to give the unemployed a temporary reprieve from these high costs. The new COBRA subsidy will pay for 65% of an individual's COBRA premium, leaving only 35% to come out-of-pocket. The government does not directly pay this 65% - it is first paid by the former employer and then reimbursed by the government. The individual will have 9 months of paying 35% of what their COBRA premium would cost otherwise, and after the 9-month period, the cost will go back up to what the premium would normally cost.

This subsidy is retroactive, so anyone who lost their job after September 1, 2008 is eligible to take advantage of it, even if you previous declined participating in COBRA. One important thing to notes is that COBRA is not available to individuals who terminated their employment voluntarily. You can only participate in COBRA's continuation of health insurance if you were terminated involuntarily.

COBRA Subsidy Out-of-Pocket Payments



Breakdown of ARRA Spending:



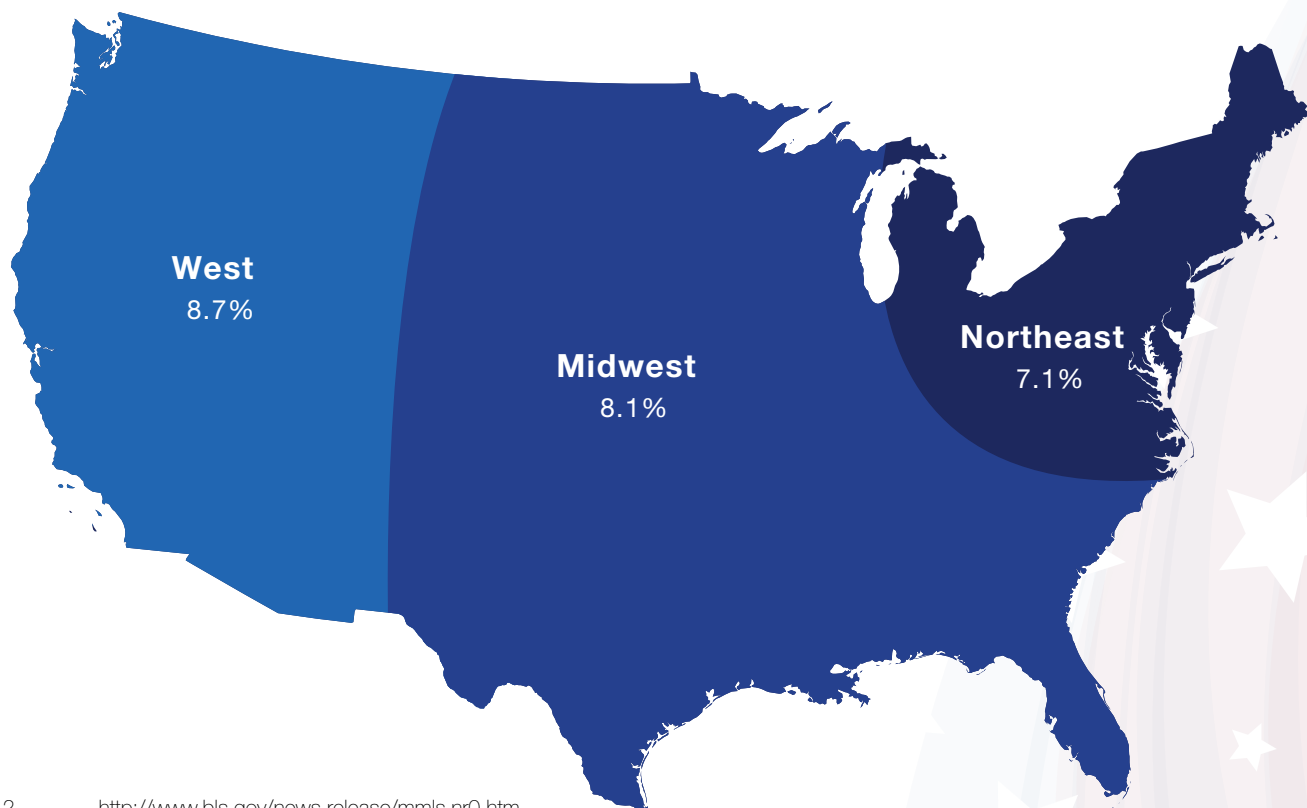
The Current Unemployment Crisis

The unemployment situation in the United States has looked grim for some time now, and the downward slide only seems to be continuing. According to the United States Bureau of Labor Statistics, during the 14 months from December 2007 through January 2009, the total number of mass layoff events was 25,712. The national unemployment rate was 7.6 percent in January 2009, seasonally adjusted, up from 7.2 percent the prior month and from 4.9 percent a year earlier.²

There is nowhere to hide from the tidal wave of

unemployment: Forty-nine states and the District of Columbia recorded over the month unemployment rate increases, while all states and the District of Columbia had higher rates than a year earlier, the Bureau of Labor Statistics of the U.S. Department of Labor reported in January 2009. In January, the West and Midwest again posted the highest regional jobless rates, 8.7 and 8.1%, respectively. The Northeast recorded the lowest rate, 7.1%. All four regions registered statistically significant unemployment rate increases from December, led by the West (+1.3 percentage points).³

Unemployment by Region



2 <http://www.bls.gov/news.release/mmls.nr0.htm>

3 <http://www.bls.gov/news.release/laus.nr0.htm>

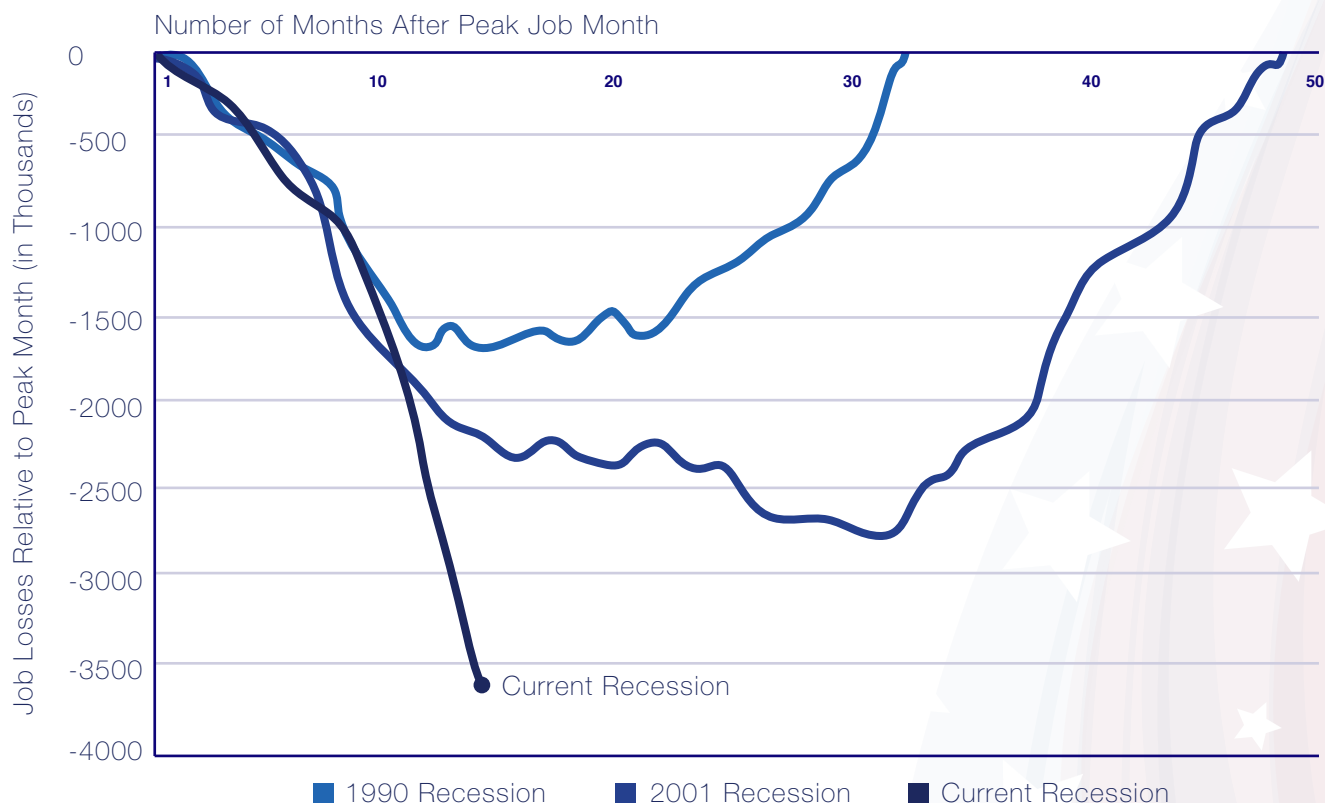
4 <http://www.bls.gov/news.release/laus.nr0.htm>

The True Cost of COBRA

Weighing rational choices when looking at substantial new legislature can be difficult, especially considering that often times the legislature is difficult to understand. The new COBRA subsidy may seem appealing in its money-saving assertions, but careful consideration and research should be done by consumers who are deciding between keeping their previous health insurance with a COBRA premium or choosing one of the COBRA alternatives through privately purchased insurance.

Many Americans have opted not to use the COBRA insurance continuation that was available to them after losing their jobs simply because the monthly premium was too high to afford on an unemployment salary. According to Families USA, the average monthly unemployment payment for a family is \$1,278, and an average COBRA premium costs \$1,069, or 83.6% of the unemployment income. With this figure in mind, the following is an examination of benefits and disadvantages to COBRA, both prior to the ARRA and with current legislature.

Job Losses in Recent Recessions



COBRA's Advantages

- **Approval:** For individuals with preexisting health conditions, finding a health insurance carrier who will ensure you can be difficult. Continuing your employer provided health insurance plan through COBRA can temporarily eliminate worrying about getting turned away by an insurance company for a preexisting health condition.
- **Continued benefits:** An employee who has lost their job is able to keep the benefits that they have grown accustomed to through their former employer.
- **Peace of mind:** An individual has the peace of mind knowing that they and their family still have access to health insurance and care.
- **Protection:** If a couple divorces, becomes legally separated or one partner should die, the spouse and any dependents have access to the same health insurance through COBRA for 36 months.
- **Newly reduced COBRA costs:** With the new COBRA subsidy, costs are substantially reduced. Prior to February 2009, the unemployed would have to pay the entire premium that their employer had been paying to keep their health insurance. With the passing of the ARRA, individuals can have 65% of their COBRA premium covered for 9 months, bringing the out-of-pocket costs for the premium down considerably.
- **Security:** COBRA can help individuals feel more secure because their health insurance is still in place, knowing they are protected while they look for a new job.
- **Good short term choice:** COBRA may be a good choice if some recently unemployed feels confident they will be able to secure a new job within the 9-month time frame.

COBRA's Disadvantages

- High cost: Prior to the passing of the ARRA, consumers were paying 100% of their health insurance premiums in addition to a 2% administrative fee. Anyone laid off before September 2008 or planning to be unemployed for longer than 9 months will still need to shoulder the entire cost of their premiums.
- Consumes unemployment benefit payments: According to Families USA, in 41 of the 50 states COBRA premiums eat up more than ¾ of a family's monthly unemployment benefits. In 9 of those 41 states, the premium equals or exceeds the average unemployment benefits.
- Singles are hit hard: For single individuals in 17 states, COBRA premiums consume, on average, nearly 1/3 of that person's unemployment benefits.
- Takes away from other bills: The new COBRA subsidy will reduce the eligible individuals' COBRA premiums down to 35% of what they were, but this monetary relief might not be enough for many Americans. Coupled with the struggling economy, many are facing home foreclosure, credit crises and other bills on top of losing their jobs, and having to spend \$374 a month on health insurance (versus the \$1,069 before the subsidy) may not be feasible. Regardless of the relief, the cost of maintaining health insurance through COBRA could prove to be too expensive.
- Small time frame: The recently unemployed have a 9-month window in which to take advantage of the COBRA subsidy, and after that point, the premiums will return to their full 100%. The time period is less than a year, and in the current U.S. Economy, many individuals may find that it takes more than 9 months to find new employment. The unemployment numbers are only continuing to rise, reaching a high of 8.1% in February 2009.⁵

5 <http://ts-si.org/workplace/3881-only-10-percent-of-unemployed-obtain-cobra-coverage.html>

Affordable COBRA Alternatives

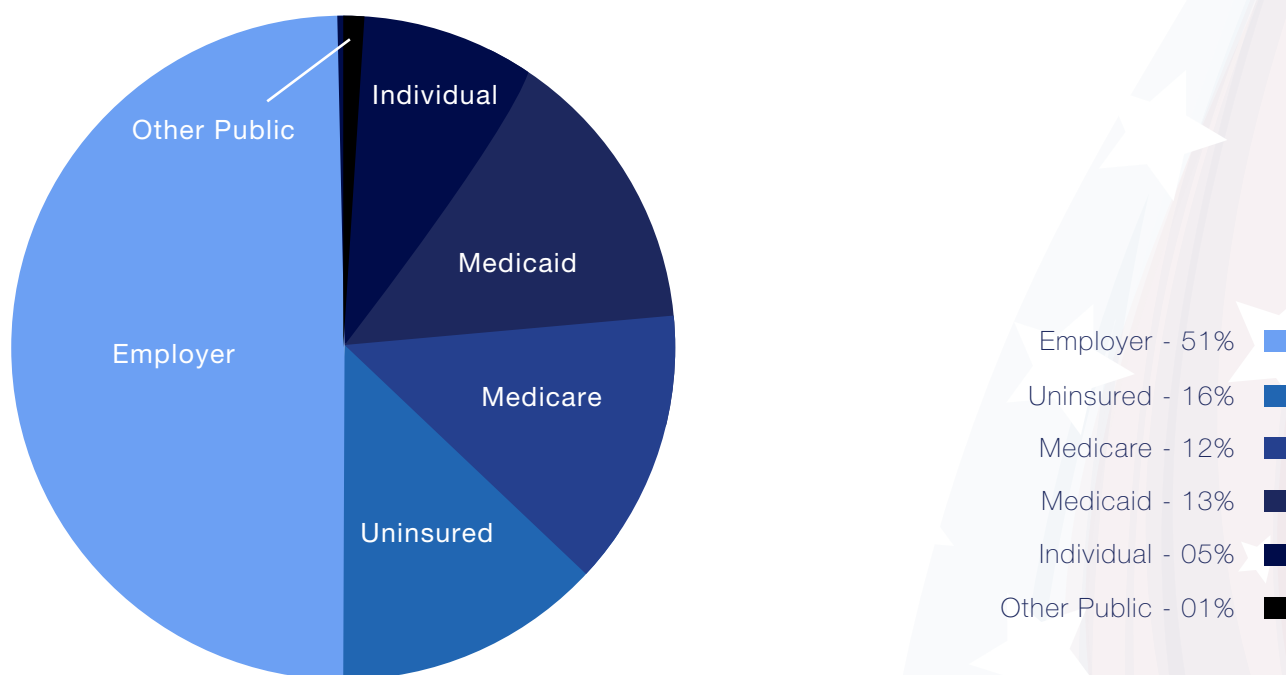
Because of the recent press around the ARRA and the COBRA subsidy, it is easy for consumers to assume that the changes made to COBRA will make it the best choice for themselves and their family. This may not be the case, and there are other health insurance options that may be more affordable for consumers than the subsidized COBRA premiums.

Privately purchased health insurance is a smart alternative to a COBRA premium, and can offer in-

dividuals a savings of up to \$300 a month less than they would pay to keep their old insurance through COBRA. A disadvantage to purchasing a private health insurance plan is that the individual would lose the health insurance that they had been used to, and they may not be able to purchase an insurance plan that would allow them to see the doctor that they were familiar with. As detailed above, COBRA premiums (after the subsidy) consume an individual or family's unemployment benefits.

Demographic	Avg. Monthly Unemployment Income	Avg. Monthly COBRA Premium	Premium as Share of Unemployment Income
Family	\$1,278	\$1,069	83.6%
Individual	\$1,278	\$388	30.4%

Breakdown of Sources of Insurance in America



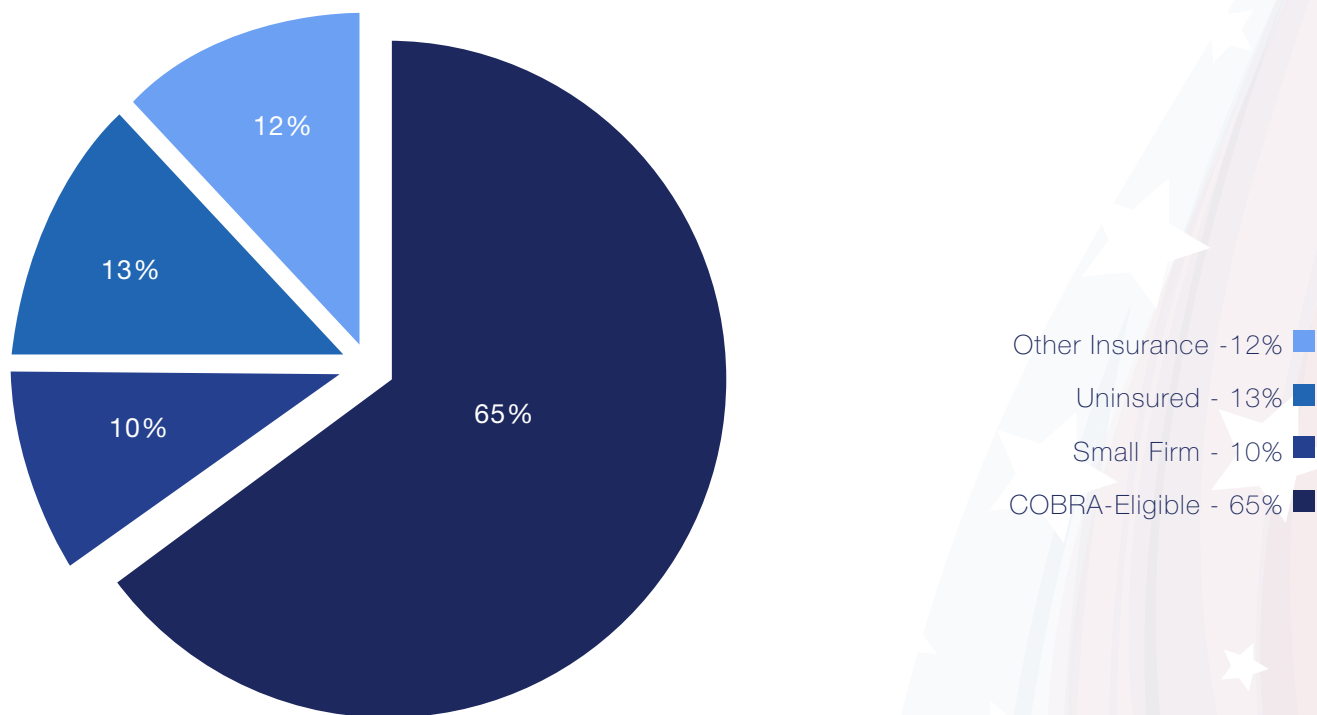
Private insurance costs may seem less appealing in the beginning when compared to that of COBRA under the new subsidy, depending on how thorough an individual's health insurance was through their employer. However, this seemingly cost-effective insurance option will be over within 9 months if COBRA is used as the COBRA premium costs return to the full 102%, and after another 9 months the coverage will completely cease to be available. The average out-of-pocket costs for consumers who use privately purchased health insurance is 19%, and combined with the lower cost of private health insurance premiums, the total costs still come out to less than those of a COBRA premium.

Through privately purchased health insurance, consumers have more freedom of choice. When using a COBRA continuation of coverage plan, an individual has to continue using the insurance plan their employer was providing. When choosing a private health insurance plan, the details are tailored to the

individual, taking into consideration health history, location, age and how much the consumer is willing to spend. A look at how Americans are insured (or uninsured, as so many are) makes it apparent that losing one's health insurance due to unemployment can send someone into a panic.⁶

Because of the state of the economy, saving money is taking precedent over many other concerns. Consumers may have comprehensive and thorough insurance coverage through their employer, but when facing large COBRA premiums after termination, the smart and affordable choice is often to purchase private insurance. It is often incorrectly assumed that private health insurance policies are expensive and unpractical. In a survey of 227,000 private health insurance policy holders, half of those individuals paid less than \$130 a month for their health insurance premiums and over half of the family policy holders paid less than \$300 a month. Many of these plans included things like lab x-rays, emergency, prescription and chiropractic coverage.

COBRA Eligibility of Workers Age 19-64



6 <http://health.usnews.com/articles/health/2008/01/24/health-insurance-options-that-squeeze-individuals.html?PageNr=2>

Private Health Insurance Options

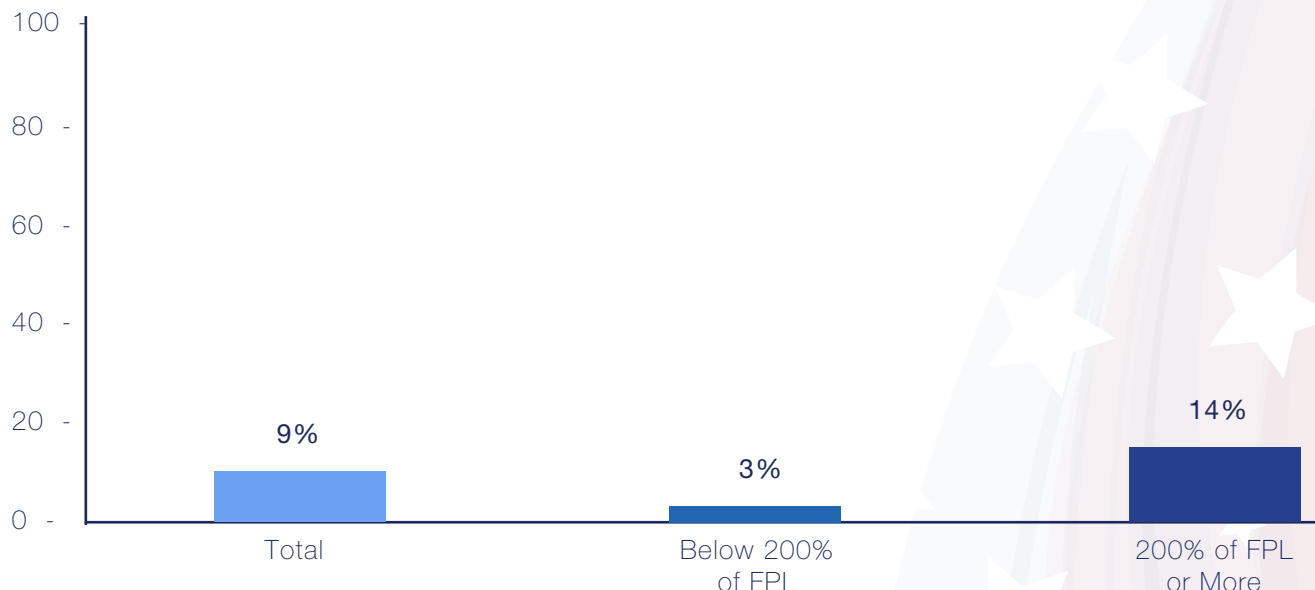
For consumers to easily compare COBRA to seeking out a private health insurance option, it helps to know what options are available.

Fee-for-service or indemnity plans give you freedom of choice to pick any medical provider for health care treatment. After treatment, you pay the bill and then send a claim to your insurer for reimbursement. Managed care plans provide both insurance and health-care services. Instead of paying every time a medical service is delivered, members pay a fixed monthly fee (also known as a premium) for health care, regardless of the amount of care needed. Managed care programs also offer coverage for a variety of preventive services. Co-pays may apply.

Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs) are among the most common managed care plans. HMOs usually require members to use their contracted physicians and facilities. Some HMOs have Point of Service (POS) options allowing members to use medical providers outside the plan's network and still qualify for partial reimbursement. It is important to make sure that fees will be reimbursed before seeing an out-of-network physician. A HMO is designed to focus on preventative and all-around health care for its members. PPOs typically encourage members to use the medical providers within the plan's network. Members are allowed to consult with providers outside the network, but will have higher out-of-pocket costs.

COBRA Participation Among Unemployed Adults by Federal Poverty Level (2006)

Percent of unemployed adults ages 19-64 who bought health insurance under COBRA



Concluding Remarks

COBRA might very well be a viable option for some unemployed Americans. For those who don't have many other bills and see themselves as able to find employment with health benefits in the coming 9 months, keeping health coverage through COBRA seems like an ideal fit. Unfortunately, this model doesn't fit with the much of the unemployed population in the United States.

The economic crisis is not just affecting the health insurance sector – the impact is felt everywhere from finance to the auto industry. Because of this, people are struggling to stay in their homes and to make ends meet. Not having health insurance is a risky gamble to take. Should anything happen to you or your family while you are without coverage, you could find yourself with thousands of dollars in medical bills. 86.7 million people under the age of 65 went without health insurance for some or all of the two-year period from 2007 to 2008. Four out of five individuals (79.2%) who went without health insurance during 2007-2008 were from working families: 69.7% were in families with a worker who was employed full-time, and 9.5% were in families with a worker who was employed part-time.⁹

Fortunately for consumers, there is a great wealth of resources available to help making an informed decision around your health insurance. Before committing to any health insurance plan, whether it's COBRA continuation of coverage or a private health insurance plan, utilize the tools available online at www.COBRA-Answers.com to request rate quotes quickly based on your individual needs, health history and budget. These will give you a clear idea of what you would be spending for an insurance plan versus using COBRA. Whether you are current unemployed or could possibly face unemployment in the near future, it is also important to know what your state's unemployment benefits would be for you and your family. This will aid in developing a budget based on monthly unemployment income, and you can then decide what portion of that income can afford to go to health insurance.

In times of economic hardship such as these, having a clear view of your options is vital. Financial and health stability are things many consumers are focused on right now, and they are not out of reach. With the proper attention and research, all Americans can find a health insurance plan that fits for their individual needs.

For further up-to-date information on COBRA, please visit www.cobra-answers.com. For republishing information, please contact info@cobra-answers.com.

⁷ <http://www.familiesusa.org/resources/publications/reports/americans-at-risk-findings.html>