

# BENEFIT

## *Plan Developments*



A report covering plan design and legislative changes

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## COBRA Enrollments Have Doubled Since Enactment Of Subsidy

Since the Federal government began offering a new subsidy designed to help unemployed workers extend their employer-provided health care benefits, the numbers of Americans enrolled in COBRA have doubled, according to a study published by human resources consultancy Hewitt Associates.

Due to rising unemployment, more than 14 million workers have become eligible for the Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) subsidy since it first became available in February under the American Recovery and Reinvestment Act of 2009 (ARRA). Based on an analysis of COBRA enrollment activity for 200 large U.S.

companies representing 8 million workers, the study found that, from March 2009 to June 2009, monthly COBRA enrollment rates for Americans eligible for the subsidy averaged 38%, up from 19% from September 2008 through February 2009.

### *Also In This Issue*

- Workers Expect To Remain On The Job As They Age
- The Cost Of Chronic Illness

COBRA allows individuals to remain enrolled in their company health plan for a period of time after leaving a job. Prior to passage of ARRA, terminated employees were responsible for paying the full cost of the health plan premiums, as well as up to an additional 2% to cover administrative costs. Under ARRA, workers who are involuntarily separated from employment between September 1, 2008 and January 1, 2010 are given the option of paying just 35% of the cost of COBRA coverage for up to nine months. The former employer is required to pay the remaining 65% but will be reimbursed by the government through a payroll tax credit.

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According to the study, the COBRA subsidy provided by ARRA is worth around \$8,800 a year to the average claimant. Researchers noted that an average employee with employer-sponsored health coverage pays 22%, or \$1,900 of the cost per year, and a worker receiving COBRA with the ARRA subsidy would pay 35%, or \$3,000 per year.

“The COBRA subsidy significantly reduces the cost of health care coverage for workers who were laid off. However, the average American may still find it difficult to pay for this benefit when they have less income coming in, which is perhaps why enrollment numbers didn’t jump higher,” said Karen Frost, Hewitt’s health and welfare outsourcing leader. “It’s possible these laid off workers are simply seeking coverage with a new employer or through their spouse’s employer. Unfortunately, it’s also likely that some are just foregoing health insurance altogether.”

The findings also indicated that COBRA enrollments varied across industries. For example, companies in the industrial manufacturing sector have seen an 800% increase in COBRA enrollments since the subsidy was enacted, with enrollments rising from 7% between September 2008 and February 2009 to 59% from March 2009 to June 2009. Over the same period, researchers added, COBRA enrollments for companies in the construction, leisure, and retail industries tripled.

“There are a number of reasons why COBRA enrollments may vary across industries, but clearly there is a heavy correlation between enrollment rates and those industries where companies are making significant layoffs,” Frost said. “If unemployment continues to rise as predicted, employers should expect and prepare for COBRA enrollments to remain at their inflated levels, particularly since the subsidy is available to those workers laid off through the end of 2009.”

## Workers Expect To Remain On The Job As They Age

Even as younger workers appear to be entering the labor market later due to tough economic conditions, a growing percentage of Americans aged 55 and older intend to remain in the workforce, both out of a desire for additional income and because they want to remain active, a study by the Pew Research Center’s Social & Demographic Trends project found.

The findings of the report, “America’s Changing Workforce: Recession Turns a Graying Office Grayer,” are based on an analysis of data from the U.S. Census Bureau and the U.S. Bureau of Labor Statistics, as well as on Pew Research’s recent survey of a national sample of 1,815 people aged 16 and older, including 1,140 workers in full- or part-time employment. A majority of the workers aged 65 and older (54%) said the main reason they are still working is because they want to do so. Another 17% said they need the paycheck, and 27% said they both desire and need to work.

When asked to identify more specific reasons why they choose to work, older workers were most likely to say that they want to feel useful, that they want to give themselves something to do, or that they enjoy being with other people. By contrast, younger and middle-aged respondents were much more likely to cite practical considerations, such as to support themselves and their families, to live independently, or to qualify for employer-provided retirement or health care benefits.

The survey also showed that older workers tend to be more content than other employees, and they are around twice as likely as their younger and middle-aged counterparts to report being very satisfied with their jobs. More than half of workers aged 65 and older (54%) said

they are completely satisfied with their jobs, compared with just 29% of workers aged 16 to 64. Researchers attributed this finding to the fact that, for workers aged 65 and older, the decision to stay on the job is more likely to be discretionary and is less likely to be motivated by the need for a paycheck. These older workers, the study's authors said, "are comparatively more likely to be attracted to work by intangible benefits, such as a desire to connect with other people and to have something to do."

The results further suggested that not all older people now in retirement left their jobs willingly. Only about half of all current retirees (51%) reported that they retired because they wanted to do so. Nearly one-third (32%) said they had to retire for health or other reasons, and 9% claimed their employer forced them to retire.

At the same time, however, nearly 40% of respondents who are working past the median retirement age of 62 indicated they have delayed their retirement because of the current economy. Meanwhile, among respondents aged 50 to 61, 63% said they may have to push back their expected retirement date.

Turning their attention to the other end of the age spectrum, researchers observed that only 57% of Americans aged 16 to 24 are currently employed, compared with two-thirds (66%) in 2000. More than 40% of nonworking survey participants in this age group said they have looked for work but have been unable to get a job, while nearly half (49%) indicated they are not working because they want to focus on school or job training. The study's authors speculated that Americans may now value advanced education more highly than they did in the past. Nearly three-quarters of those surveyed in 2009 (73%) agreed that an individual needs a college education to get ahead in life, compared with just under half of respondents in 1978 (49%).

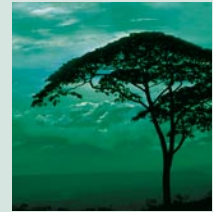
Based on tabulations of the U.S. Census Bureau's Current Population

Survey data, the study found that, among Americans aged 55 to 64, the labor force participation rate rose modestly from 57.2% in 1995 to 59.1% in 2000, but then started rising at a much faster pace, reaching 65.3% in the first half of 2009. Meanwhile, among people aged 65 and older, the employment rate increased from 12.0% in 1995 to 13.0% in 2000, and then to 17.3% in 2009.

Over the same period, labor market activity among young people declined. While around two-thirds of Americans aged 16 to 24 were working in 1995 (66.1%) and in 2000 (65.7%), the rate of labor market participation in this age group has since declined sharply, falling to 56.7% in 2009, with the steepest drop occurring among teens.

In addition, researchers observed that the current economy has had a greater impact on men than on women, with men experiencing around two-thirds of related job losses. Citing data from the U.S. Bureau of Labor Statistics (BLS), the study's authors noted that, from December 2007 to July 2009, the unemployment rate for men rose from 5.0% to 10.5% on a seasonally adjusted basis. Over the same period, the unemployment rate for women showed a smaller increase, from 4.8% to 8.1%. As of June 2009, they added, the percentage of men over age 16 who were either employed or actively looking for work had fallen to 72%, the lowest level since the BLS first started keeping such records in 1948. Among women, the labor force participation rates had remained essentially flat in recent years, falling slightly to 59% in 2009 from the peak of 60% reached in 2000.

According to the study, these higher unemployment rates among men are related to the greater numbers of job losses seen in male-dominated industries, such as construction and manufacturing, as compared to female-dominated sectors, such as health care and education. "Facing more daunting job prospects, men are currently more likely than women to drop out of the labor force and join the



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ranks of marginally attached workers,” researchers said.

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## The Cost Of Chronic Illness

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While chronic illness is typically associated with the elderly or those with disabilities, chronic conditions are widespread among the working population and can present significant challenges for employer-provided health care plans, according to a study published in a recent issue of the *Yale Journal of Health Policy Law & Ethics*.

In “Working Sick: Lessons of Chronic Illness for Health Care Reform,” Elizabeth Pendo of the Saint Louis University School of Law looked at the costs generated by people with chronic conditions, especially among those who continue working despite their illness. Citing a comprehensive study published in 2008, Pendo noted that more than 40% of Americans have one or more chronic conditions, and 60% of them, or about 65 million people, are working-age adults. The majority of people defined by this study to have chronic illness were not classified as disabled, and just 2% had problems with activities of daily living, although many experienced some work limitations.

Significantly, the study found that the number of working-age adults with chronic illness had grown by one-quarter over the last decade, with the percentage rising from 28% in 1997 to 31% in 2006 according to one estimate. Among the factors believed to contribute to the increased prevalence of chronic illness among the working-age population include rising rates of risk factors, such as obesity, and advances in medical

treatment that have turned once-fatal conditions into manageable chronic conditions. At the same time, however, the costs associated with treating these diseases are very high. One chronic condition has been found to increase out-of-pocket health care expenditures for an insured individual by 70%, and two conditions raise costs by 300%.

While chronic illness sometimes forces people to leave their jobs, research shows that people with chronic conditions are more likely to be insured than people without these illnesses, and 71% of working-age adults with chronic conditions are covered by private insurance, including employer-based plans. Indeed, people who are chronically ill may prefer employer-based coverage to other insurance options because these plans cannot deny or discriminate on the basis of health history or exclude pre-existing conditions from coverage. Employers, in turn, are aware of the additional costs generated by chronic conditions. One study reported more than half of employers identify chronic health conditions as a leading reason for rising health care costs.

Although employers often attempt to offset the higher cost of insuring workers with chronic illness by increasing cost-sharing, Pendo warned that there comes a point at which asking employees to pay for more of their care out of pocket becomes counterproductive, as workers avoid necessary medical care because they can no longer afford it. “Pushing additional costs onto the chronically ill might help employers control costs in the short term, but it may also increase costs in the long term and it hinders efforts to spread risk and subsidize losses across the insured population,” Pendo said.




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