

# WebMemo



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## The House Stimulus Bill and Health Care Assistance for Unemployed Workers

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If Congress is poised to extend health care assistance for unemployed workers as part of its economic stimulus proposal, it should do so in a way that gives workers more choices and is more cost effective. The bill proposed by House Democrats would do the opposite by limiting the availability of assistance only to those individuals who maintain costly employer coverage or join Medicaid, a welfare program for the poor and disabled.<sup>1</sup>

**Unintended Consequences.** The Democrats' health care assistance proposal recommends spending \$39 billion in new health care subsidies and in additional federal Medicaid spending. Both ideas put forth by the House Democrats ignore serious consequences that would limit coverage choices and expand the substandard Medicaid program.

**COBRA Subsidy.** The bill would allocate \$30.3 billion toward a subsidy worth 65 percent of the premium cost for COBRA coverage. Under current law, COBRA enables a worker who leaves his or her job to maintain existing employer-based coverage for up to 18 months provided the worker pays its full cost—both the employer and employee contribution toward that coverage—plus a 1 percent administrative fee. The bill would provide a subsidy for up to 12 months for those with COBRA coverage, allow retroactive enrollment into COBRA coverage, and extend the eligibility window for COBRA coverage for those 55 or older and for those who had been employed by their previous employer for over 10 years.

Regardless of the subsidy, COBRA would be a costly option for many families who have lost their jobs. The average annual employer-based family policy in 2008 cost \$12,680.<sup>2</sup> Thus, a recently unemployed worker would have to pay over \$1,000 a month to maintain that health policy. At a time when these unemployed workers are struggling to pay their mortgage/rent, get food on the table, and keep their homes heated and lights on, asking that the family spend their scarce resources on such an expensive coverage option may lead them to forgo the subsidy and coverage all together.

**Medicaid Expansion.** The bill would also provide 100 percent of federal funding for states to expand their Medicaid programs to cover unemployed workers and their families whose income did not exceed 200 percent of the Federal Poverty Line and did not receive food stamps. The federal funding would be a state option and would expire in two years.

There are several problems with this proposal. First, workers overwhelmingly prefer private health insurance (employer-based and individual coverage) over public coverage such as Medicaid.<sup>3</sup> Second, these new federal Medicaid dollars are in

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addition to the \$90 billion the House Democrats already included in the stimulus to bail out the state Medicaid programs. Finally, it would likely lead to long-term dependence on Medicaid for this population. Although this offer is “optional” and “temporary,” many states would find it difficult to turn away these new federal dollars. They would find it even more difficult to remove Medicaid coverage from these populations when federal funding expires, leaving states in fiscal crisis and adding to the existing entitlement crisis.

**Practical and Cost Effective Improvements.** If Congress is determined to add health care spending to its stimulus bill, it should do so in a way that offers the most flexibility and is most cost effective for unemployed workers and taxpayers. Policymakers would be wise to amend their proposal accordingly:

- *Expand the Application of the Subsidy.* COBRA coverage with or without a subsidy can be an unaffordable option for many unemployed workers. A better approach would be to give these unemployed workers and their families the ability to apply the credit toward other coverage options. For example, some individuals and families may find a more affordable coverage option on the non-group market.
- *Partner with States.* The House Democrats’ proposal recognizes that the COBRA subsidy may

not work for everyone and therefore proposes a Medicaid expansion. Instead of tempting states to expand Medicaid, the federal government should partner with the states to find affordable private coverage for those who may need additional options beyond COBRA and the non-group market. For example, a state could use the federal funding to help a hard-to-insure unemployed person obtain coverage through a high-risk pool or some other temporary mechanism.

**Fixing a Flawed Proposal.** It is disappointing that the House Democrats are focusing on increasing spending instead of tax policy to help stimulate the economy,<sup>4</sup> but they are making matters even worse with their proposals on health care. If Congress wants to assist unemployed workers with their health care costs, it should minimize unintended consequences and maximize choice, flexibility, and cost effectiveness. At a time when these unemployed workers and their families are struggling financially, it would be unwise to limit their coverage options. Instead, the federal government, working with the states, should give these families assistance and allow them to decide the best coverage option for themselves and their families.

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1. This is not a new debate. The issue of providing health care assistance to workers came up during the economic recovery bill put forth after September 11, 2001. During that debate, the House of Representatives passed a package that provided a tax credit to help unemployed workers with their health care costs. The bill did not limit the credit to COBRA or expand Medicaid, as was suggested by the Senate and is now being proposed by the House Democrats. Unfortunately, the House-passed bill stalled in the Senate under then-majority leader Tom Daschle. See Nina Owcharenko, “The Daschle Stimulus Proposal Ignores Unemployed Workers Who Lack Health Care Coverage,” Heritage Foundation *Web Memo* No. 74, January 31, 2002, at <http://www.heritage.org/Research/HealthCare/WM74.cfm>.
2. Kaiser Family Foundation and the Health Research and Educational Trust, “Employer Health Benefits: 2008 Annual Survey,” September 24, 2008, p. 1, at <http://ehbs.kff.org/pdf/7790.pdf> (January 19, 2009).
3. Jennifer Edwards, Michelle M. Doty, and Cathy Schoen, “The Erosion of Employer-Based Health Coverage and the Threat to Workers’ Health Care,” Commonwealth Fund *Issue Brief* No. 559, August 8, 2002, p. 7, at [http://www.commonwealthfund.org/usr\\_doc/edwards\\_erosion.pdf?section=4039](http://www.commonwealthfund.org/usr_doc/edwards_erosion.pdf?section=4039) (January 19, 2009).
4. J. D. Foster and William W. Beach, “Economic Recovery: How Best to End the Recession,” Heritage Foundation *Web Memo* No. 2191, January 7, 2009, at <http://www.heritage.org/Research/Economy/wm2191.cfm>.