

Getting Health Insurance When You're Laid Off

The government is giving jobless workers help with COBRA, but other plans may be better. Check carefully to see what's covered

By [Aaron Pressman](#)

In February the government gave people who lost their jobs in 2009 a big helping hand, agreeing to pay a portion of their COBRA health insurance premium. As part of the stimulus package, Washington is paying 65% of the cost for nine months under the program that lets people keep their health insurance when they leave a job. But eligibility for the subsidy expires at yearend, so those laid off in 2010 will be back to paying the entire cost of their COBRA policies unless Congress acts again.

Typically, employees pay about one-third or less of the cost of health-insurance premiums. So the price of COBRA, which covers the entire premium plus a 2% administrative fee, can be a shocker. Before the subsidy, relatively few people opted for it. A survey by benefits consulting firm Hewitt Associates ([HEW](#)) found only 19% of those eligible for COBRA from September 2008 through February 2009 paid for the coverage, vs. 38% opting for it over the four months, after the subsidy took effect. The cost for the average worker fell from \$8,800 to about \$3,000 annually with the subsidy, the survey found. The subsidy applies only to people who lose their jobs involuntarily.

Once the subsidy expires, COBRA may not be the smartest or most affordable option. "The subsidy put the cost of COBRA on par with the cost of employer-provided coverage," says Karen Frost, head of the health and welfare outsourcing business at Hewitt. "Historically, it has been more of a last resort."

There are numerous COBRA alternatives. Health-insurance offerings vary greatly by state, since they are mainly regulated at the state level. Careful shopping is required to determine which options are included in a policy if they are not mandated by state rules. And consumer advocates warn that some options, known as limited or fixed indemnity policies, don't offer good value.

The first step after losing a job is to evaluate the COBRA plan offered by your former employer. You have 60 days to decide whether to take it. Not all health-related benefits are covered under COBRA or the new subsidy program. The U.S. Labor Dept. has set up a Web site explaining in detail how the subsidy program works at dol.gov/ebsa/cobra.html.

Departing employees who had high-deductible plans combined with Health Reimbursement Arrangements face an added layer of complexity. The HRA is a set amount of money that can be used to cover deductibles or other health-care expenses not covered by the high-deductible policy. Unused money is usually rolled over to the next year. Under COBRA, a former employee would pay a premium for the high-deductible plan and another for the HRA, with both reduced by the 65% subsidy.

If, once the subsidy expires, COBRA is too pricey, state-government-run plans or comprehensive individual plans may be better options. Government-run plans are offered by most states; eligibility requirements vary widely. In Massachusetts, for example, a family of four with an income under \$66,156 can opt for the state's Commonwealth Care plan. The premium for the lowest priced of six plan providers is \$116 per adult per month. There are also co-pays.

Dozens of insurance companies sell individual plans, usually through a broker or agent. Although some general insurance agencies sell health plans, specialized health brokers may know more about the complexities of particular policies. Healthy people should be able to find an individual policy with good coverage at substantially lower cost than their former employer's COBRA plan, says Jon Moss, founder of Chattanooga-based Moss Benefits Group, who helps small businesses and individuals buy health insurance.

With varying state laws and without the bargaining power of employers, shopping for individual plans can seem a bit like the Wild West, says Eliza Bangit, senior research associate at the Georgetown University Health Policy Institute. To get started, Bangit suggests statehealthfacts.org, a site run by the nonprofit Henry J. Kaiser Family Foundation. It provides information about consumer protection, plan features required by each state, and links to government-run informational sites.

WHAT TO AVOID

Push insurers for a copy of the "Explanation of Benefits" (EOB), which is more detailed than the standard summary, Bangit says.

"They'll say you can't have it until you sign up, but you need it to do your research, so insist on reviewing it," she says. Bangit recommends avoiding plans with an annual benefit cap. Lifetime benefit maximums of \$1.5 million to \$2 million are more common and less alarming, she says.

Comparing plans can be tricky for those with chronic conditions or in need of special care. Insurers aren't necessarily willing to say how much they'll reimburse for a procedure. Even when plans have a maximum out-of-pocket level, some drugs or procedures may be left out. State laws vary on whether insurers can exclude coverage because of preexisting conditions.

Non-employer-based group plans, known as association plans, may also be available. For example, the New York-based Freelancers Union offers a plan for members. To qualify, an individual must show he has freelanced for at least 20 paid hours in the previous eight weeks or earned \$10,000 over the prior six months.

Scrutinize these kinds of offerings. Problems have arisen from confusion over plans that were really limited-benefit plans, not full-blown insurance coverage. The plans, often pitched on TV, partially mirror typical policies by charging a monthly fee and by having discounted prices for doctor visits, prescriptions, or other services. But they generally don't cover expenses such as surgery and hospital stays.

It's not just late-night TV pitchmen who offer confusing limited-coverage plans: Thousands of people bought what they thought was comprehensive insurance from programs licensed through AARP, which got caught up in the debate over limited plans last year.

Senator Charles Grassley (R-Iowa) accused AARP of licensing limited plans from UnitedHealth Group ([UNH](#)) under the misleading names "Essential Plus Health Insurance Plan" and "Essential Health Insurance Plan." Neither covered the huge expenses of those who became seriously ill. AARP suspended marketing the plans and in April said it was discontinuing them. "Ensuring the protection and keeping the trust of our members...drives all that we do," AARP CEO Barry Rand said then. In the health-insurance market, it's no easy task.

[Pressman](#) is a correspondent in BusinessWeek's Boston bureau.