Laid off? Paying for health insurance gets easier

By L.M. SIXEL Copyright 2009 Houston Chronicle

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When Cheryl McClendon was laid off in 2005, it would have cost her more than $1,000 a month to stay in her company's health insurance plan.

"I couldn't afford it," McClendon said. She ended up going more than a year without coverage and said she was fortunate not to have any major medical problems.

So McClendon was relieved to hear that as part of the new stimulus bill, the federal government is temporarily picking up 65 percent of the cost of private health insurance for laid-off employees. The subsidy lasts nine months for those laid off between Sept. 1, 2008, and Dec. 31, 2009. It's available in full to individuals whose annual adjusted gross income doesn't exceed $125,000, or $250,000 for joint filers. The subsidy diminishes after that.

McClendon was laid off last week from her job as a cost administrator for a Houston energy company. This time, it will only cost her $134 a month to keep her insurance.

It's affordable, she said as she looked through the job postings at the Workforce Solutions office near the Astrodome. And she figures it will last long enough for her to find another accounting job.

The insurance, commonly known as COBRA for the acronym of a big budget bill in 1986, is expensive for employees because they're responsible for paying the entire premium plus 2 percent for administrative expenses. While former employees can opt to continue their coverage for up to 18 months after leaving their old jobs, many like McClendon haven't in the past because it's too expensive.

Who takes COBRA

Historically, those with existing health problems are the ones who take COBRA, said Kelly Traw, a lawyer with Mercer who focuses on health care issues in Washington, D.C. For a typical company, only 9 percent of the workers who leave for one reason or another sign up.

But with the new subsidy, many more terminated workers are likely to keep their coverage. That could raise the overall cost to a company, said Peter Sullivan, president of Encompass Benefits & Wellness Management, which designs benefit plans for employers in Houston.

Families will benefit

Many companies already pay 80 percent of their employees' health insurance premium but may only pay 10 percent to cover dependents. However, if the whole family is on the plan, the government subsidy will pick up 65 percent of the entire tab.

It's likely that former employees will end up paying less for their health insurance than current employees, Sullivan said.

“It throws things out of whack,” he said.

Employers who have been terminated because of gross misconduct are not eligible for the new subsidy, nor are those who quit voluntarily.

But is someone who accepts a buyout eligible?

“That’s an excellent question. We’d like some more guidance,” said Traw, adding that it may come down to state unemployment benefit laws to determine who is eligible.

Complicated issue

One thing we might not see as much in the next nine months is companies offering to pick up the part of the tab for their ex-employees’ insurance benefits.

The rules are complicated, but it appears that when an employer pays even a modest portion, that will reduce the government’s subsidy in a significant way, said John L. Collins, an employment lawyer with Seyfarth Shaw in Houston.

“If that is the ultimate interpretation, employers will shy away from subsidizing COBRA premiums,” he predicted.

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