

The following information was taken directly from,
DESCRIPTION OF THE “ECONOMIC RECOVERY AND ASSISTANCE FOR AMERICAN WORKERS ACT OF 2001.” Scheduled for markup by the Senate Committee on Finance on November 8, 2001. Prepared by the Staff of the Joint Committee on Taxation. Part VI, Health Insurance Coverage for Displaced Workers, was prepared by majority staff of the Senate Committee on Finance. Joint Committee on Taxation, *Description of the “Economic Recovery and Assistance for American Workers Act of 2001”* (JCX-75-01), November 6, 2001.

VI. HEALTH INSURANCE COVERAGE FOR DISPLACED WORKERS

A. COBRA Coverage

Present Law

The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), requires an employer with 20 or more employees to offer the option of continued health insurance coverage at group rates to qualified employees and their families who are faced with loss of coverage due to certain events (e.g., termination, reduction of hours, retirement, death of an insured spouse). The coverage generally lasts for 18 months, but can last up to 36 months, depending on the nature of the event. The employer is not required to pay for this coverage; rather, the beneficiary can be required to pay up to 102 percent of the premium. Employers who fail to provide the continued health insurance option are subject to tax and other penalties.

COBRA applies to employers who purchase group health plans for their employees, as well as those who self-insure. An employer must comply with COBRA even if it does not contribute to the health plan, as long as the employer maintains such a plan.

Description of Proposal

The proposal would provide a temporary 75 percent premium subsidy for displaced workers who are eligible for COBRA coverage. Workers who lose their jobs after September 11, 2001 and are eligible for COBRA would be eligible to receive such subsidies for up to 12 months. All benefits would end no later than December 31, 2002, regardless of how long a worker has received such coverage.

The Secretary of Treasury, in consultation with the Secretary of Labor, would administer the program through appropriate direct payment arrangements with group health plans, employers, and/or state unemployment insurance offices. States can choose to administer this program provided that they notify the Secretary and develop a plan for making the subsidies available by January 1, 2002. States would also be given the flexibility to provide “wrap-around” premium assistance for low-income workers who are COBRA eligible but not able to pay their share of the COBRA premium.

Effective Date

The proposal would expire on December 31, 2002.

B. Medicaid Coverage

Present Law

Medicaid is a means-tested health care entitlement program financed by both states and the federal government. The program was created to assist low-income Americans, but coverage is dependent upon several other criteria in addition to income. Eligibility is generally limited to those persons falling into particular “categories,” such as low-income children, pregnant women, the elderly, people with disabilities, and parents meeting specific income thresholds.

By law, the federal government matches at least 50 percent of the cost of Medicaid in each state, and can match as much as 83 percent, depending on a state’s per capita income. On average, the federal government pays 57 percent of the cost of Medicaid in each state, with relatively poor states receiving a higher matching rate than relatively wealthy states.

States receive a higher federal matching rate for expenditures made under the Children's Health Insurance Program (CHIP). Through the CHIP “enhanced matching rate,” the federal government pays a minimum of 65 percent of the cost of state CHIP programs, and a maximum of 85 percent of the cost. The average federal matching rate paid to states is 70 percent.

States have considerable flexibility in structuring their programs within broad federal guidelines governing eligibility, provider payment levels and benefits. As a result, Medicaid programs vary widely from state to state.

Description of Proposal

The proposal would create a temporary state option to provide Medicaid coverage to workers who were laid off after September 11, 2001, and who are not eligible for COBRA. Such workers include those who worked for small businesses, for firms that go bankrupt or drop health coverage for their remaining employees. All benefits would end by December 31, 2002, regardless of how long a displaced worker has been covered.

States electing this option would receive the enhanced CHIP matching rate and are permitted to use the same eligibility criteria allowed through the Workers Incentive Improvement Act of 2000 (i.e., full subsidies up to 250 percent of poverty and sliding-scale assistance up to 450 percent of poverty). States could also choose to subsidize the remainder of the premium for low-income Americans eligible for the 75 percent COBRA premium subsidy.

Effective Date

The proposal would expire on December 31, 2002.

C. Temporary Increase in Federal Medicaid Matching Rate

Present Law

By law, the federal government matches at least 50 percent of the cost of Medicaid in each state, and can match as much as 83 percent, depending on a state's per capita income. On average, the federal government pays 57 percent of the cost of Medicaid in each state, with relatively poor states receiving a higher matching rate than relatively wealthy states.

Federal Medicaid matching rates are based on a state's per capita income relative to the national average and are determined by census data from the most recently available three calendar years. Because the Medicaid matching rates for FY 2002 are based on state per capita income data for the years 1997, 1998 and 1999, changes in states' matching rates for 2002 were triggered by changes in their economies that occurred during those years. More recent economic trends are not reflected in the new matching rates. Because the economy was especially strong from 1997-1999, the FY 2002 federal Medicaid matching rates are reduced for 29 states. Rates in three states are reduced by more than two percentage points.

Description of Proposal

The proposal would provide temporary financial assistance to States to help them meet the temporary rise in Medicaid costs that will result from the recent economic downturn. First, States in which the federal Medicaid matching rate is falling in fiscal year 2002 would be "held harmless" and retain their fiscal year 2001 matching rate. States in which the rates are rising would shift to the fiscal year 2002 rate. Second, all States would receive a federal Medicaid matching rate increase of 1.0 percent. Third, States with higher than average unemployment rates over the previous three months would receive an additional 1.0 percent increase – bringing their total matching rate increase to 2.0 percent. In exchange for these increases, States would maintain current eligibility levels.

Effective Date

The proposal would be effective for fiscal year 2002 only.

This information was compiled for the November 8, 2001 briefing titled, *State Budget and Health Coverage: What Happens if the Money Runs Short?* cosponsored by the Alliance for Health Reform and the Kaiser Commission on Medicaid and the Uninsured. For more information go to the Alliance website at www.allhealth.org.