

COBRA PREMIUM SUBSIDY



On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA), commonly referred to as the Stimulus Bill.

Within ARRA's 408 pages are 10 pages of provisions that fundamentally alter the world of health benefits. All of us must learn, quickly, to adapt to the new model. Specifically, the administration of continuation benefits for ex-employees and their dependents has changed in four significant ways.

1. Employees who are involuntarily terminated from employment and lose health benefit coverage as a result are entitled to a set of new rights and subsidies.

These employees and their dependents are now entitled to nine months of COBRA coverage at 35% of the price of the normal COBRA premium. The remaining 65% is to be paid by the employer. The employer's expense is recouped as a tax credit through the quarterly filing of IRS Form 941 (Revised), which treats the subsidy payments as paid payroll taxes.

2. ATTENTION: This law has a retroactive application.

This new rule applies to people who were involuntarily terminated anywhere in the period of September 1, 2008 through December 31, 2009. Because of the nearly six month retroactive application, a second set of COBRA notices are to be sent to such individuals who may not have elected COBRA when first offered.

3. The Federal Department of Labor has issued three new model COBRA notices.

These three new models are intended to cover all situations where ARRA may impact COBRA rights. COBRA administrators and Plans have two options as a result; to compare the model notices and re-tool existing practices or adopt and employ the new notices (which may not be in readily adaptable format for existing claims systems).

4. Warning: Severe tax consequences exist for "High Income" individuals who receive the subsidy.

Recipients of the subsidy may have to repay its value if their modified adjusted gross income for a taxable year exceeds \$125,000 (or \$250,000 in the case of a joint return). This "recapture" through federal income taxes cannot be offset by any other applicable credits. Therefore, careful consideration of accepting or waiving the subsidy is strongly advised for such individuals.

Given the immediate application of ARRA, these changes have a phase-in period to facilitate compliance. However, your window is short. All required notices are to be provided by April 17, 2009. Keep in mind, you and your billing systems must be prepared to handle and track the 65% reduction for May 2009 COBRA billing (with the capacity to credit any payments made in March and April beyond the 35% premium).

Your compliance, systems, billing and tax aspects of COBRA all are affected by ARRA. Change can be difficult, painful and costly – but it doesn't have to be. With talented professionals by your side, change can become growth. The team at UHY Advisors stands ready to assist your health plan through this complicated transition.

UHY Employee Benefits Consulting can help.

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