



COBRA Premium Reduction Provisions American Recovery and Reinvestment Act (ARRA)

Federal law prior to the ARRA enacted on February 17, 2009 requires that most group health plans give employees and their families the opportunity to continue their health care coverage in circumstances where their group coverage is lost. This is known as COBRA coverage. Typical events causing loss of coverage are termination of employment, reduction in hours of employment, death, divorce and other similar events. The employee and dependents receive the same coverage as covered employees do for periods of 18-36 months depending on the reason for coverage termination. The full premium cost during the extended coverage is paid for by the employee.

The new law gives "Assistance Eligible Individuals" the right to pay reduced premiums for periods of coverage on or after February 17, 2009 and this can continue for as many as nine months. A key component of the definition of "Assistance Eligible Individuals" is the term **"involuntary termination of employment"**. Only those who have suffered an "involuntary" termination are eligible for reduced premiums. The event that causes the loss of coverage can occur as early as September 1, 2008 up to and including December 31, 2009. Even those who lost their coverage during this period and did not elect to continue coverage under COBRA may have the right to an additional election to keep their coverage.

Under the new law, those who qualify will pay 35% of the premium rather than 100%. The remainder of the premium is paid to the health plan provider by the employer. The Act provides a 65% premium subsidy by the Government. The Act also provides the mechanism for reimbursing the employer for the difference between the full premium and the amount payable by the employee. Employers receive a credit on their quarterly employment tax return. Employers use an updated form 941 to report their COBRA premium assistance payments.

The Internal Revenue Service has issued guidance of the COBRA premium subsidy rules which includes 58 questions and answers regarding this topic. There are numerous interpretations of the definitions of "involuntary termination" and "assistance eligible individuals". There is also the possibility of limitations on the amount of the premium reduction depending on the individual's income and there are other administrative rules as well.

This is complex legislation and DHAS is available to answer your questions if this legislation applies to you or to others whom you may know that could qualify for this assistance.