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COBRA Subsidy Included in Stimulus to Help Laid-Off Workers Keep Health Insurance

Included in the *American Recovery and Reinvestment Act of 2009*, popularly known as the federal stimulus law, is a new historic provision that is designed to make it more affordable for laid-off employees who are involuntarily terminated to continue their health insurance coverage under COBRA. The following are some common questions about COBRA and the new enhancement.

What is COBRA?

COBRA, or the Consolidated Omnibus Budget Reconciliation Act, was signed into federal law in 1986. Under COBRA, if you are terminated for any reason other than “gross misconduct,” you are guaranteed the right to continue your former employer’s group plan for up to 18 months *at your own expense*.

Therefore, if your health insurance coverage is being terminated because you are being laid-off, COBRA allows workers to maintain for up to 18 months the same insurance coverage they had through their employer if they can pay the premiums. However, because those premiums can be very expensive, as much as several hundred dollars per month, continuing health insurance coverage under COBRA is too often an unaffordable option for an unemployed worker.

What is the COBRA subsidy included in the federal stimulus?

The federal stimulus law provides a 65% subsidy for up to 9 months of COBRA for individuals who become eligible for COBRA coverage from September 1, 2008 through December 31, 2009 due to being laid-off. The law permits these COBRA individuals to satisfy their COBRA premium by paying only 35% of the premium—a significant costs saving.

Who pays the remaining 65% of the premium costs for COBRA?

Initially, the former employer is responsible. The law requires that the former employer collecting the 35% premium from the laid-off employee, simply not collect the remaining 65%, and instead the former employer will receive reimbursement from the federal government through reductions in federal payroll taxes.

Who is eligible to participate in the new COBRA enhancement?

In order to qualify for the 65% COBRA subsidy an individual must meet all of the following requirements:

- ▶ Be involuntarily terminated and eligible for COBRA continuation coverage at any time during the period beginning September 1, 2008 and ending December 31, 2009;
- ▶ Elect COBRA coverage when first offered or during the additional election period;
- ▶ Not be eligible for other group health coverage, such as a spouse's plan or Medicare; and
- ▶ Have an annual income less than \$125,000 for a single or \$250,000 for a joint return in any year in which the subsidy is received. The 65% subsidy is reduced for those with incomes up to \$145,000 for a single and \$290,000 for a joint return.

When would the COBRA premium subsidy end?

Eligible individuals are entitled to receive the subsidy for up to nine months. However, premium assistance would end on the first date that an individual is eligible for coverage under any group health plan or Medicare.

Is the COBRA subsidy available on COBRA premiums that were paid prior to February 17, 2009?

No. There is no COBRA subsidy available for COBRA premium payments that were paid prior to February 17, 2009.

Can an employee that was laid-off after September 1, 2008, but did not choose COBRA coverage now participate in COBRA coverage and receive the subsidy?

Yes. The law requires that plan administrators provide a new notice regarding COBRA coverage within 60 days after the law is enacted to all

employees who were laid-off since September 1, 2008. The purpose of the notice is to inform these former employees of their new right to select COBRA coverage and receive a subsidy from the federal government of 65% of the premium. The government has provided a model notice for employers available online at the Department of Labor's website. Employers must notify employees no later than April 18, 2009 regarding this second election period and individuals have 60 days after the notice is provided to elect COBRA coverage.

If an employer offers various insurance options, may the laid-off employee switch to less expensive coverage for COBRA and receive the subsidy?

If an employer offers coverage options to active employees, the employer may (but is not required to) allow individuals to switch the coverage options they had when they became eligible for COBRA. To retain eligibility for the COBRA subsidy, the different coverage:

- ▶ Must have the same or lower premiums as the individual's original coverage;
- ▶ Must be offered to active employees; and
- ▶ Cannot be limited to only dental coverage, vision coverage, counseling coverage, a flexible spending account, or an on-site medical clinic.

Is the COBRA subsidy available to employees that lose health insurance coverage because of a reduction in the number of hours worked?

No. If an employee loses health insurance coverage due to a reduction in the number of hours scheduled to work, they are *not* eligible for the subsidy program, but could still be eligible for COBRA coverage.

More information about the COBRA premium subsidy is available at the United States Department of Labor at www.dol.gov