

ARRA COBRA SUBSIDY ENDING AUGUST 31, 2011 UPDATED

Please note the Update to the *Briefing* at the bottom of this page.

In 2009, Congress enacted the American Recovery and Reinvestment Act (ARRA), a fiscal stimulus bill which included what was meant to be a short-term federal subsidy of COBRA (the Consolidated Omnibus Budget Reconciliation Act of 1985) premiums for employees laid off during the initial phase of the economic downturn.

The ARRA COBRA subsidy initially affected employees laid off between September 1, 2008 and December 31, 2009 and subsidized COBRA premium payments for a maximum of nine months. As the economic recession deepened, the subsidy was renewed twice and expanded to cover employees who were not terminated but lost health care coverage due to a reduction in work hours. Additionally, the subsidy coverage period was extended from nine months to 15 months from the qualifying event. The last extension of the COBRA subsidy, passed in April of 2010, extended the subsidy to employees terminated on or before May 31, 2010. For those employees terminated in May of 2010, the 15 months of COBRA subsidy will expire at the end of August 2011.

As the subsidy ends, employers may see a dip in the numbers of former employees electing COBRA. Although the exact number of individuals who benefited from the subsidy is unknown, studies have found that the COBRA “take-up rate” for terminated employees working for large employers doubled during the time the subsidy was in effect.

For this last group of employees receiving the subsidy, employers and third party administrators should continue the practices they have had in place since 2009, transitioning those who have been receiving the subsidy to billing and payment of the full COBRA premium when the subsidy ends on August 31, 2011.

UPDATE: The U.S. Department of Labor has clarified that some individuals will still be eligible to receive the subsidy beyond August 31, 2011. Individuals who qualified on or before May 31, 2010 but who did not start COBRA coverage until a later date as a result of their COBRA coverage not starting until a later date due to the terms of a severance arrangement, or the use of banked hours or other similar provision that delayed the start of their COBRA coverage, may still continue to pay reduced premiums for up to 15 months. For example, if an individual was involuntarily terminated on May 31, 2010 and due to the terms of a severance agreement their COBRA coverage did not start until December 1, 2010, they would still be eligible for the full 15 months of subsidy through February 29, 2012 as long as they are not eligible for another group health plan or Medicare.

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