

TAX TALK
BY JEFFREY D. SKOLNICK, CPA, M.S. TAXATION

COBRA PREMIUM REDUCTION – HOW DOES IT WORK?

One of the provisions of The American Recovery and Reinvestment Act of 2009 created subsidies for individuals that are currently paying health insurance under COBRA.

Who is eligible for the subsidy?

Employees and their covered dependents that lost medical coverage or will lose medical coverage due to their employment being terminated involuntarily between September 1, 2008 and December 31, 2009 are eligible for the COBRA subsidy.

Employers subject to COBRA (generally those with group health plans and 20 or more employees in the prior year) were required to notify eligible participants within 60 days of the law's enactment. The law was enacted on February 17, 2009.

How much is the subsidy?

The subsidy is 65% of the monthly COBRA premium. The employee will be responsible to pay 35% of the premium and the former employer is responsible for 65% of the premium.

Are there any income limitations?

As with most programs run by the government, there are income limits, however they are generous. Individuals with adjusted gross income (AGI) between \$125,000 and \$145,000 (\$250,000 - \$290,000 for married couples filing jointly) will have a reduction in their subsidy. Individuals with an AGI over \$145,000 or married couples filing jointly with AGIs in excess of \$290,000 will receive no subsidy.

Is there a limit to how long the subsidy lasts?

The subsidy will last until the earlier of:

- 1) the individual becoming eligible for health coverage under another group health plan or
- 2) 9 months after the subsidy begins

Individuals that become eligible for another plan are required to notify their former employers. Individuals that fail to notify their former employers and continue to receive

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the subsidy will be subject to a penalty of 110% of the subsidy when they file their returns.

Are individuals that originally declined COBRA coverage still eligible?

Individuals that originally declined COBRA coverage have 60 days from the time that their employer notifies them of their eligibility to elect coverage. This will not extend the period of COBRA eligibility (generally 18 months from the time coverage is lost). For example if an employee lost coverage on September 1, 2008, COBRA coverage under most plans would end on March 1, 2010. The subsidy also will not apply to any period between the original termination and the time the employee makes the election.

What about former employees whose employers were not covered under COBRA?

State law generally takes over in these types of situations. I can't speak to all states; however New Jersey and New York each have laws that require continuation of medical and hospitalization coverage for employers not subject to COBRA. Former employees of these companies would therefore be eligible for the subsidy.

Does the employer receive any reimbursement?

Yes they do. Employers file for a reimbursement of their 65% payments through Form 941, which is filed quarterly.

Conclusion

This article only scratches the surface of the COBRA subsidy provision of the latest Stimulus Act and as always if you're not sure of the rules, then check with a tax professional.