



MARCH 2009  
SPECTRA INSIGHT



#### For More Details on ARRA

- Full text of ARRA (COBRA provisions begin on page 396): [http://www.house.gov/billtext/hr1\\_legtext\\_crb.pdf](http://www.house.gov/billtext/hr1_legtext_crb.pdf)



## Economic Stimulus Bill Changes Your COBRA Administration

COBRA coverage changed with the new American Recovery and Reinvestment Act (ARRA) of 2009, which the president signed into law on February 17, 2009.

Title III of the ARRA states that eligible unemployed workers paying for their own health insurance through the federal COBRA program will now benefit from a 65% federal subsidy for their monthly insurance premiums for up to nine months. The employer will initially pay this portion of the premium and then recover the subsidy through their employee tax withholdings.

Under the federal Consolidated Omnibus Budget Reconciliation Act, or COBRA, laid-off workers can continue their former employer's health coverage for up to 18 months. In the past, though, they were required to pay the entire premium, and oftentimes a 2% administrative fee.

The subsidy applies to all levels of coverage (e.g. Single, Two-party, Family, etc.). Employees whose gross adjusted income is greater than \$125,000 (or \$250,000 if married) are not eligible for the subsidy.

Employers are required to notify participants of eligibility within the normally allowed COBRA timelines. Participants who become eligible from September 1, 2008 through December 31, 2008 must be notified no later than 60 days from enactment. However, the delivery of notices as soon as possible is encouraged.

The information below can help employers understand their responsibility regarding their employees' health insurance coverage under the new administration.

### Special Election Period

Individuals who lost coverage due to an employee's involuntary termination of employment between September 1, 2008 and February 17, 2009, and who did not elect COBRA at that time are given additional time (60 days after the special election period notice is provided) to elect the subsidized continuation coverage.

Under the ARRA, an eligible individual may receive up to nine months of subsidized coverage beginning as early as March 2009. The nine-month period may be shortened in the event that:

- (1) the individual becomes eligible for coverage under any other group health plan (with some exceptions) prior to the expiration of the nine-month period;





- (2) the maximum COBRA coverage period ends (including permissible early terminations);
- (3) the end of the maximum COBRA coverage period that would have applied had the individual elected COBRA when first eligible.

**An Alternate Plan**

Under the ARRA and at the sole discretion of the employer, an individual who is eligible for the subsidy may elect a health plan which provides different coverage, so long as the plan is available to all employees at the time of election, and the plan does not cost more than the cost of coverage in which the employee was participating at the time of termination. Plans that provide only dental, vision, counseling, or referral services (or a combination of these services) are not eligible plans under the ARRA.

**Employer Assistance**

Your COBRA administrator will help the employer meet these new ARRA COBRA obligations by sending them a list of individuals who terminated on or after September 1, 2008. The employer will then need to indicate which individuals were terminated on an involuntary basis and return the list to the COBRA administrator so that they can complete delivery of the required notices.

Failure to provide the notices would be a COBRA violation and subject to the standard COBRA penalties of up to \$110 a day under ERISA. Additionally, there could be adverse tax consequences under the Internal Revenue Code, which can impose excise taxes of \$100 per day per notice on the plan administrator.

**Recouping the Premium Subsidy**

Under ARRA, the employer will be eligible to receive reimbursement from the federal government for the COBRA premium subsidy through a reduction in employment tax deposits (i.e., for federal income taxes, Social Security and Medicare). The employer will report these offsets on a revised Form 941. The IRS is currently updating the Form 941 to include two new lines (12a and 12b) for reporting the amount of COBRA premium assistance payments and the number of subsidy recipients. The IRS is also revising Form 944 for reporting ARRA subsidies on employer annual federal tax returns.

**If you have any questions or comments, contact your HR department or your Account Manager at Spectra Management, LLC (801) 327.7205 or [info@askspectra.com](mailto:info@askspectra.com)**



COBRA ADMINISTRATION UPDATES  
SPECTRA INSIGHT

Spectra Management is redefining employee benefits. Originally established in 1986, the company has a track record of providing local businesses with innovative health insurance, savings and retirement plans that make sense today—and for years to come. Unlike other employee benefits companies, Spectra Management does not provide clients with cookie-cutter packages. Rather, Spectra’s highly experienced staff works hand in hand with its clients to develop tailor-made solutions designed to strengthen employee security and well-being. Whether you’re a business owner, a human resource director, or a company employee, Spectra Management can help ensure confidence in the benefit selection and management of your benefits package.