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New COBRA Subsidy Will Impact Employers

As part of the Economic Recovery and Reinvestment Act of 2009, a.k.a. the Stimulus Bill, a COBRA subsidy has been made available to workers that have been involuntarily terminated between September 1, 2008 and December 31, 2009. The subsidy covers 65% of the cost of COBRA for up to nine months for both the employee and his / her dependents.

The subsidy impacts employers as they will only be able to charge the employee the reduced COBRA rates of 35% of the premium. The employer will be required to pay for the remaining 65% of the health insurance premium. The employer will then receive a federal payroll tax credit for its out of pocket cost. The IRS will administer this process; however guidance has not yet been issued.

For those employees involuntarily terminated since August 31, 2008, employers will be required to send notification no later than April 18, 2009 explaining the new subsidy and offering a second opportunity to elect COBRA. The COBRA subsidy is not available retroactively as the subsidy starts subsequent to the enactment of the law. Thus an employee that was terminated in September 2008 and elected COBRA at that time will not receive a subsidy for the cost of COBRA between September 2008 and present. Instead, he / she will receive a subsidy going forward for the next nine months.

The DOL will be issuing model notices by March 19, 2009 for employers to use to notify current or past employees that have been laid off. Make sure you obtain these notices and send them to any past employees that were involuntarily terminated.

For more information, please send an email to James Downey at jdowney@downeycocpa.com.

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