

Blog by Sue Andersen

COBRA and the Economic Stimulus Act

The American Recovery and Reinvestment Act of 2009 provides a subsidy to help pay for COBRA benefits for individuals who lose their jobs. This law pays 65% of the COBRA premium for individuals and families who lose their jobs between September 1, 2008 and January 1, 2010.

What does this mean to you? If you or your spouse lost your job (that is, “involuntarily terminated” without cause) and were offered COBRA benefits to keep your health insurance, you may have to pay only 35% of the COBRA premium for a 9-month period.

How does it work? Beginning on March 1, 2009, your employer must give you notice that you are eligible for the COBRA subsidy payment. If you are currently paying COBRA premiums, your former employer must reduce your premium (or tell its “third-party administrator” to reduce your premium) to 35% of the total COBRA premium. The employer pays the rest (and is paid back by the federal government when it files payroll taxes). You are entitled to this subsidy for 9 months. So if you were first eligible for COBRA on March 1, 2009, your COBRA subsidy will continue until December, 2009.

The subsidy is calculated based on the cost of your COBRA benefits. If you pay for COBRA benefits for family benefits, the subsidy is 65% of the cost of your family coverage.

What if my COBRA benefits started in October, 2008. Can I still get the subsidy?

Yes. If your COBRA benefits began after September 1, 2008, you are entitled to the COBRA subsidy. It means that your former employer will have to calculate how much you have paid in COBRA premiums during this time and pay you back for 65% of the cost. The 9-month period will begin to run in October 1, 2008 and will run out on June 31, 2009.

What if I didn't sign up for COBRA because I couldn't afford it—can I sign up now? If you didn't sign up for COBRA benefits when you could have last fall, you have a new 60-day period to sign up after your former employer sends you notice that you can sign up for them. Sometime after March 1, 2009 your former employer is required to send you a new notice about this COBRA subsidy. You can sign up for COBRA after you receive this notice and receive the subsidy.

Is everyone with COBRA eligible? No. Here are the restrictions on the subsidy program:

- If you are eligible for other group health coverage (such as a spouse's plan) or Medicare, you are not eligible for the premium reduction.

- If you were eligible for COBRA last fall but your benefit period ended before February 17, 2009, you are not eligible for the subsidy.
- If you have “modified adjusted gross income” of more than \$145,000 for a single person (or \$290,000 for joint filers), you may be eligible for the COBRA subsidy but you will have to repay the subsidy on your 2009 tax return. (If your adjusted gross income is between \$125,000 and \$145,000 (or \$250,000 and \$290,000 for joint filers), the amount of the premium subsidy for the taxable year that must be paid back is reduced proportionately.)

What if I can only get my state’s continuation coverage because I work for a small employer—can I still get the COBRA subsidy? Yes, this subsidy is not limited only to those individuals and families who qualify for the federal COBRA benefits because their employer employs more than 20 employees. If you worked for a smaller employer and qualify for a state “continuation benefit,” were a federal employee or in the military, you may qualify for continuation coverage for these groups. As before, you qualify for the COBRA subsidy too.

What if my employer went out of business or declared bankruptcy—can I get the COBRA subsidy? No, because you are not entitled to COBRA benefits if your former employer went out of business or declared bankruptcy and terminated health benefits for all employees.

What if my job ended because my work was outsourced overseas or because foreign competition cost me my job? A different law, the Trade Adjustment Act may help you pay COBRA benefits. Under the new Economic Recovery Act, if your employer is certified by the U.S. Department of Labor under the Trade Adjustment Act, you may be eligible for a subsidy of 80% of the cost of COBRA benefits. To learn more about this benefit, go to: <http://www.doleta.gov/programs/factsht/taa.htm>.