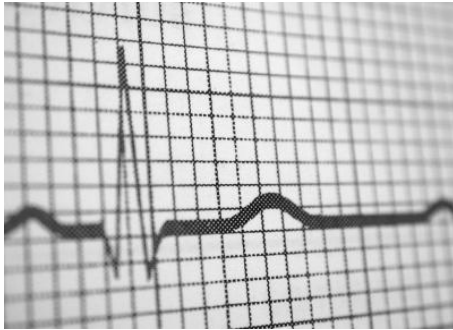


COBRA Subsidy Extended Beyond 2009



Under the Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA), employers have been required to offer terminated employees the option of receiving continued health insurance benefits from their employer. Historically, employees would pay the entire amount of their premium for the extended coverage. A provision in the American Recovery and Reinvestment Act of 2009 (the “Stimulus Bill”) passed in February 2009 introduced a government subsidy to reduce the amount of the premiums paid by terminated employees who opted to exercise their COBRA rights.

Under the Stimulus Bill, the terminated employee paid 35% of the premium and the employer paid the remaining premium. Employers would then receive a credit on their quarterly payroll tax returns to recoup the 65% that they had paid. The bill offered the subsidy to anyone terminated from September 1, 2008 until December 31, 2009 and allowed terminated employees to receive the premium subsidy for up to 9 months.

On December 19, 2009, as the subsidy was set to expire, President Obama signed legislation that extended the cutoff for eligibility from December 31, 2009 to February 28, 2010. Furthermore, the subsidy was extended from 9 to 15 months.

Summary of COBRA Extension

- Eligibility extended to employees who lose their jobs through February 28, 2010
- Subsidy period extended from 9 to 15 months

Although there had been some discussion about extending the maximum period of COBRA eligibility from 18 to 24 months, there was no change to the current rule that employers do not need to offer COBRA benefits for longer than 18 months. Employers need to be sure they are providing proper notice to terminated employees about COBRA benefits and premium payments that contain the updated eligibility periods.