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PayDay

Included in the "economic stimulus" legislation signed by President Obama on February 17, 2009 is a provision in which the Federal government will subsidize up to 65% of Cobra insurance premiums for employees who have been involuntarily terminated from employment. This PayDay will discuss the basic concepts of the Cobra subsidy, and in particular its impact on affected employers.

COBRA - SOME BACKGROUND

Cobra was enacted into law in 1986 for the purpose of maintaining health insurance coverage for employees who were "in between" group health coverage -- generally due to changes in employment.

Cobra health insurance coverage rules apply to private sector and government agency employers with 20 or more employees. Cobra does not apply to churches and certain religious organizations.

COBRA - 2009 FEDERAL SUBSIDY

Effective for Cobra insurance coverage after February 17, 2009, certain "qualifying" individuals are eligible for a 65% subsidy from the Federal government of their cost of Cobra premiums for up to 9 months. A qualifying individual is an employee who has been involuntarily terminated from their job after August 31, 2008 and before January 1, 2010. If an otherwise qualifying individual has income above \$125,000, or \$250,000 on a jointly-filed personal tax return, the subsidy is reduced or eliminated. A qualifying individual receives a 65% government subsidy for the cost of Cobra insurance until such employee is eligible for another group health insurance program, including through a spouse's employer, or is Medicare eligible, with the subsidy lasting no longer than 9 months.

EMPLOYER PAYROLL TAX CREDIT

If an employer pays a \$1,000 Cobra premium to the Cobra administrator, and receives 35% or \$350 from a former employee, the employer is entitled to the 65% reimbursement or \$650, as a tax credit on their quarterly Form 941 payroll tax form. The employer can reduce future Form 941 tax deposits by the tax credit instead of waiting until the end of the quarter to obtain the "reimbursement". In effect, the employer "fronts" 65% of the Cobra premium and recovers their money by reducing Form 941 tax deposits.

IMPORTANT - Contact AccuPay every pay day to inform us of any Cobra premium payments you have recently made and are entitled to the Cobra tax credit.

FOR FURTHER INFORMATION

You can receive continually updated information about the Cobra premium assistance program by logging onto www.dol.gov/COBRA. The DOL also has "Benefit Advisors" available toll free at 1-866-444-3272 to answer both employer and employee questions.

The DOL website is frequently updated as interpretations of the law evolve. The website has an excellent "FAQ" feature.

Employers with 20 or more employees who provide group health insurance and have terminated employees since August 31, 2008 need to identify potential former employees who can benefit from this Cobra subsidy. Also contact AccuPay at 885-7600 to discuss an efficient method in which we can integrate your Cobra payments with tax reductions/credits to your Form 941 payroll tax payments.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.