

COBRA Subsidies under the American Rescue Plan Act of 2021



On March 11, 2021, President Biden signed into law the American Rescue Plan Act (ARPA) of 2021. This Act includes a 100% federal COBRA subsidy from **April 1, 2021** through **September 30, 2021**, only for employees with a reduction in hours or involuntary termination of employment which triggered an offer of COBRA coverage. The triggered COBRA coverage does not have to be a result of the Pandemic. The premium subsidy is available to the employee, the employee's spouse, and dependents (qualified beneficiaries) who lost coverage as a result.

If an employer receives COBRA premium from a qualified beneficiary for the period between April 1, 2021 and September 30, 2021, they are **required to refund** the premium within 60 days of receipt. The premium subsidy can terminate early if the qualified beneficiary becomes eligible for other group health plan coverage or Medicare or they exhaust their COBRA coverage period.

In addition to those qualified beneficiaries who have already elected and are paying for COBRA, the Act also provides a new **60-day** election period for those assistance-eligible individuals (AEI's) whose previous COBRA coverage was discontinued, and those still within their COBRA coverage period who have not elected COBRA coverage. If a COBRA election is made during this special election period, the COBRA coverage will begin on April 1, 2021, but it will not extend beyond the COBRA coverage period based on their original COBRA qualifying event.

Any assistance-eligible individual with a new reduction in hours or involuntary termination of employment commencing after April 1 but before September 30, should they elect, will have their COBRA subsidized and cost them nothing through September 30.

For those employers who offer multiple plan options, you can choose whether to allow an assistance-eligible individual an option to enroll in **less expensive** coverage they would have typically been eligible for while employed. If the employer chooses to allow this, the employee has 90 days to elect rather than the 60 days previously mentioned.

COBRA subsidies are not taxable income to the assistance-eligible individual. Plan Sponsors can apply uncollected COBRA premiums as a credit against their quarterly Medicare tax liabilities. If the amount the employer needs to claim as credit exceeds the employer's share of Medicare tax liabilities for that quarter, then the balance of the refundable credit may be advanced to the employer by completing Form 7200.

This new Act overlaps with the Outbreak Period extensions contained in the COVID-19 Relief Package which gives the qualified beneficiary up to a year to elect and pay for COBRA; however, that coverage would be retroactive to the original COBRA start date and the employee could owe a lot of back premium. Electing COBRA under this newest relief will result in coverage starting on April 1 so there would be no retroactive coverage and no back premium.

We expect forthcoming DOL and IRS guidance to provide greater detail regarding premium assistance eligibility, newly required notices, and claiming available tax credits. Allied National will continue to monitor regulator guidance, providing you with relevant updates as they are announced.