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Internal Revenue Service Releases Information on COBRA Premium Subsidy

The American Recovery and Reinvestment Act of 2009 includes \$20 billion to provide up to nine-months of COBRA coverage for certain employees involuntarily terminated between September 1, 2008 and December 31, 2009. Under the Act, Assistance-Eligible Individuals may only pay 35% of the applicable premium; the employer, plan or insurer pays the balance.

The Act requires that the relevant entity collecting the 35% premium simply not collect the remaining 65%. Instead the relevant entity will obtain reimbursement from the federal government. If the entity is a group plan subject to federal COBRA and/or a self-funded employer, the plan or the employer collecting the premium will recover the subsidy amounts through reductions in payroll taxes.

For insured plans that are not subject to federal COBRA where the insurer is collecting the premium, the insurance company will be entitled to the reimbursement through a corresponding credit to its own payroll taxes. Filings for the subsidy must be made with the Secretary of the Treasury.

Guidance from the Department of Labor, Treasury, and the Department of Health and Human Services is expected March 17, 2009.

Today, the IRS released information on how to claim credit for the COBRA subsidy as well as an updated Form 941 and Instructions. The following link to the IRS website will offer greater information and instruction.

<http://www.irs.gov/newsroom/article/0,,id=204708,00.html>