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WHAT THE COBRA SUBSIDY EXTENSION MEANS TO YOU

BRENTWOOD, Tenn. – Those who have been laid off in the troubled economic climate clearly face many challenges, such as paying their bills and finding new employment. If you are out of work, maintaining your health insurance may be a little easier, however, because of a new law signed late last year. The Tennessee Society of CPAs explains what you need to know.

COBRA CONSIDERATIONS

Under the Consolidated Omnibus Budget Reconciliation Act, known as COBRA, it’s possible for former employees to continue receiving health care coverage under their old employer’s plan. The former employee must pay for his/her continuing coverage, which can last up to 18 months, and must pay the entire premium, which makes COBRA out of reach for most unemployed individuals.

RESPONDING TO THE RECESSION

In the midst tough economic times, the government last year offered a special subsidy to those who were out of work and struggling to keep up payments on their COBRA coverage. Those who are eligible were subsidized for 65 percent of their COBRA premiums for up to nine months, starting in March 2009, allowing them to pay as little as 35 percent of their insurance bill for continuing group health insurance coverage. Note that although COBRA coverage is available to those who choose to leave a job, this special subsidy is intended only for those who face involuntary termination, such as a layoff. The subsidy was scheduled to expire on Dec. 31, 2009, but with unemployment still high, Congress decided to extend and expand the benefit.

A SUBSIDY EXTENSION

To qualify under the new rules, you must have been fired or laid off between Sep. 1, 2008, and Feb. 28, 2010, rather than by December 31, 2009, meaning that more people who lost their jobs in recent months are eligible. In addition, the period of time you can receive the subsidy has been lengthened, from nine months to as long as 15 months.

WHAT IT MEANS TO YOU

If you qualify, the premium reduction applies to coverage beginning on or after Feb. 17, 2009. So, let's say you lost your job in June 2009 and your employer-paid health coverage ended at the same time. Assuming you are otherwise eligible, you can elect to continue being covered on your employer's plan for as long as 18 months. For 15 of those months, you pay only 35 percent of the health care premiums, and a premium reduction (65 percent of the full premium) is reimbursable to the employer, insurer or health plan as a credit against certain employment taxes.

LIMITS ON ELIGBILITY

There are some rules governing who can receive the subsidy. You no longer qualify if you become eligible for health care coverage under another group plan - by taking another job that offers health care benefits, for example - or for Medicare. In addition, you are only eligible for the full benefit if your adjusted gross income is below $125,000 during the tax year in which you receive the subsidy (or $250,000 for married couples filing jointly). The subsidy amount declines on a sliding scale for those with adjusted gross incomes between $125,000 and $145,000 (between $250,000 and $290,000 for joint filers). Those with adjusted gross incomes above those figures must repay the premium subsidy if they receive it.

About Money Management

Money Management is a weekly column on personal finance prepared and distributed by the Tennessee Society of Certified Public Accountants (TSCPA) as a part of its financial literacy initiative.

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