



# National Compliance Update

## USI EMPLOYEE BENEFITS

April 8, 2021

## Guidance Issued on the 2021 COBRA Subsidy

On April 7, 2021, the Department of Labor (“DOL”) issued FAQs regarding implementation of the 2021 COBRA premium assistance (or “COBRA subsidy”). The 2021 COBRA subsidy was included as part of the American Rescue Plan Act (“ARP”).

As background,

- *Assistance eligible individuals* (“AEIs”) who are COBRA qualified beneficiaries (“QBs”) because of an involuntary termination of employment or a reduction in hours receive a 100% COBRA subsidy for the period of April 1, 2021 – September 30, 2021.
- The subsidy expires the earlier of:
  - The first date that the AEI is eligible for other group health plan coverage or Medicare;
  - The end of the maximum COBRA period; or
  - September 30, 2021.
- Employers are eligible to recoup the cost of the subsidy as a payroll tax credit (more information on the payroll tax credit is expected in future IRS guidance).
- New notifications are required with the first compliance date of May 31, 2021.

The latest guidance includes a series of FAQs as well as model notices that can be used for compliance with the 2021 COBRA subsidy. While it does not answer all the questions related to the 2021 COBRA subsidy, it does provide some helpful direction. Where relevant, we have highlighted areas where further guidance is needed and noted where prior guidance related to the 2009 COBRA subsidy may be helpful.<sup>1</sup> Note however, that the DOL and IRS may take a different

---

<sup>1</sup> This references the guidance related to the 2009 COBRA subsidy under the American Recovery and Reinvestment Act of 2009. It includes [IRS Notice 2009-27](#) and materials available on the [COBRA Health Insurance Continuation Premium Subsidy website](#) that remain accessible by the public. The 2009 guidance is not binding on the agencies with respect to the 2021 subsidy. While it provides helpful insight, it should not be relied upon as official guidance as it relates to the 2021 subsidy.

interpretation of these issues as it relates to the 2021 subsidy, and any reference to the 2009 guidance is not definitive. We anticipate further guidance will be forthcoming.

## GENERAL INFORMATION

### **Which plans does the COBRA premium assistance apply to?**

---

- All group health plans sponsored by private-sector employers or employee organizations (unions) subject to COBRA under ERISA.<sup>2</sup>
- Group health plans sponsored by state and local governments subject to the continuation of coverage provisions under the Public Health Service Act.
- Group health insurance required under state “mini-COBRA” laws.

COBRA does not apply to plans sponsored by the federal government or by churches and certain church-related organizations (however, an insured group health plan sponsored by a church may be subject to state “mini COBRA” and therefore could be eligible for premium assistance).

**USI Note.** The FAQ does not specifically address the types of group health plan coverage for which a subsidy is available. It simply states, “all group health plans.” Based on the 2009 COBRA subsidy, it would appear the subsidy is available with respect to the following coverage:

- Major medical
- Dental
- Vision
- HRAs

The subsidy likely does not apply to the health flexible spending arrangement (health FSA).

It is unclear whether the subsidy is available to other group health plan benefits subject to COBRA, such as:

- EAPs
- Onsite clinics (that provide more than just first aid)
- Telemedicine

Further guidance is needed.

### **Who is eligible to receive the COBRA premium assistance?**

---

An AEI is eligible for the COBRA premium assistance.

An AEI is a COBRA qualified beneficiary who meets the following requirements during the period from April 1, 2021 through September 30, 2021:

- Is eligible for COBRA continuation coverage by reason of a qualifying event that is a reduction in hours or an involuntary termination of employment (not including a voluntary termination); and
- Elects COBRA continuation coverage.

---

<sup>2</sup> COBRA generally applies to all private-sector group health plans maintained by employers that had at least 20 employees on more than 50 percent of its typical business days in the previous calendar year. Both full- and part-time employees are counted to determine whether a plan is subject to COBRA. Each part-time employee counts as a fraction of a full-time employee, with the fraction equal to the number of hours worked divided by the hours an employee must work to be considered full time.

The FAQ clarifies that a reduction in hours for this purpose includes reduced hours due to change in a business's hours of operations, a change from full-time to part-time status, taking a temporary leave of absence, or an individual's participation in a lawful labor strike, as long as the individual remains an employee at the time that hours are reduced.

**USI Note.** The FAQ does not define "involuntary termination." Further guidance on this would be helpful. Based on 2009 guidance,<sup>3</sup> it would appear an involuntary termination may include:

- The employer's failure to renew a contract at the time the contract expires, if the employee was willing and able to execute a new contract providing terms and conditions similar to those in the expiring contract and to continue providing the services.
- An employee-initiated termination from employment constitutes an involuntary termination from employment for purposes of the premium reduction if the termination from employment constitutes a termination for good reason due to employer action that causes a material negative change in the employment relationship for the employee.
- A layoff period with a right of recall or temporary furlough period.
- An employer's action to end an individual's employment while the individual is absent from work due to illness or disability.
- Termination for cause (except gross misconduct).
- A resignation as the result of a material change in the geographic location of employment for the employee.<sup>4</sup>

An individual will not be eligible for premium assistance if *eligible for*:

- other group health coverage, such as through a new employer's plan or a spouse's plan (not including excepted benefits, a qualified small employer health reimbursement arrangement (QSEHRA), or a health FSA); or
- Medicare.

Note however, an individual may qualify for premium assistance if the individual has coverage through the Marketplace or Medicaid. However, by enrolling in subsidized COBRA continuation coverage, the individual will lose eligibility for premium tax credits with respect to individual coverage in the Marketplace.

#### **How long does the subsidy last?**

The COBRA subsidy can last from April 1, 2021 through September 30, 2021. However, it will end earlier if the AEI:

- becomes *eligible for* another group health plan, such as a plan sponsored by a new employer or a spouse's employer (not including excepted benefits, a QSEHRA, or a health FSA), or Medicare; or
- reaches the end of the maximum COBRA continuation coverage period.

AEIs must notify the plan if they become eligible for coverage under another group health plan or for Medicare. Failure to do so can result in a tax penalty of \$250 (or if the failure is fraudulent, the greater of \$250 or 110% of the premium assistance provided after termination of eligibility). No penalties apply if the failure is due to reasonable cause and not due to willful neglect.

---

<sup>3</sup> IRS Notice 2009-27; Q/A-1 through 9.

<sup>4</sup> See IRS Notice 2009-27; FAQs 2-10.

**USI Note.** While the FAQ does not clarify what is meant by *eligible for other group health plan coverage*, the [Summary of COBRA Premium Assistance Provisions](#) states “eligibility for other coverage is determined regardless of whether you take or decline the other coverage. However, eligibility for coverage does not include any time spent in a waiting period.” Under the 2009 guidance, this generally meant the individual was eligible for and able to enroll in the other group health plan coverage.<sup>5</sup> Further guidance would be helpful including guidance on how this interacts with the Outbreak Period extensions and special enrollment rights.

### **Who is eligible for an additional election opportunity for COBRA continuation of coverage?**

A COBRA QB whose qualifying event was a reduction in hours or an involuntary termination of employment prior to April 1, 2021 may have an additional enrollment opportunity (as a “second chance AEI”) when the individual:

- did not elect COBRA continuation of coverage when it was first offered prior to that date, or
- elected COBRA but is no longer enrolled (for example, an individual dropped COBRA because he or she could not continue to pay premiums).

These “second chance AEIs” must receive a notice of extended COBRA election period informing them of this opportunity. This notice must be provided by May 31, 2021 and individuals have 60 days after the notice is provided to elect COBRA.

The additional election period does not extend the period of COBRA continuation coverage beyond the original maximum period (generally 18 months from the employee’s reduction in hours or involuntary termination, or under the extended election rule, 18 months measured from the date of the loss of coverage associated with the qualifying event).<sup>6</sup>

COBRA continuation coverage with premium assistance elected in this additional election period begins with the first period of coverage beginning on or after April 1, 2021. Individuals can begin their coverage prospectively from the date of their election, or, if an individual has a qualifying event on or before April 1<sup>st</sup>, choose to start their coverage as of April 1<sup>st</sup>, even if the individual receives an election notice and makes such election at a later date. In either case, the subsidy is only available for periods of coverage from April 1, 2021 – September 30, 2021.

**Important note.** The FAQ clarifies that the extended deadline relief related to the Outbreak Period does not apply to the 60-day notice or election periods related to the COBRA subsidy. Briefly, the Outbreak Period began March 1, 2020 and ends 60 days after the announced end of the National Emergency. The relief effectively delays due dates and timeframes associated with certain benefit plan requirements, including the 60-day COBRA initial election period. The relief is measured on a participant-by-participant basis and is the earlier of (1) one-year from the date the relief first applied or (2) the end of the Outbreak Period.

---

<sup>5</sup> IRS Notice 2009-27; Q/A-35.

<sup>6</sup> However, under an extended election rule, the maximum COBRA coverage period may be measured from the date of the loss of coverage associated with the qualifying event. This is a common practice as group health plan coverage typically ends the end of the month and not mid-month. A plan provides for the extended election if it provides:

- The 30-day notice period (where the employer notifies the plan administrator of the occurrence of a qualifying event) begins on the date of the loss of coverage; and
- The end of the maximum coverage period is measured from the date of the loss of coverage (and not the qualifying event).

As this relief does not apply with respect to the COBRA subsidy, the AEI should elect COBRA within the timeframes required under ARP. For example, an AEI who receives the required election notice on May 31, 2021 must elect coverage by July 30, 2021.

---

**How does this work under a state “mini-COBRA” continuation requirement?**

---

ARP does not change any requirement of a state “mini-COBRA” program.

ARP only allows AEIs who elect continuation coverage under state insurance law to receive premium assistance from April 1, 2021 through September 30, 2021. It also allows AEIs to switch to other coverage offered to similarly situated active employees if the plan allows it, provided that the new coverage is no more expensive than the prior coverage.

## PREMIUMS

---

**Do AEIs need to apply for the premium assistance?**

---

The employer should provide AEIs with the required notice of eligibility to elect COBRA continuation of coverage and receive the COBRA subsidy. This notice includes all forms necessary for enrollment, including forms to indicate that the individual(s) qualify as an AEI. These forms should be timely remitted to the employer.

---

**How does the AEI receive the COBRA subsidy?**

---

The AEI does not receive a payment of the premium assistance. Rather, the AEI does not pay any of the COBRA premium for the period of coverage from April 1, 2021 – September 30, 2021.

The employer will receive reimbursement through the COBRA premium assistance tax credit (further guidance expected on this). For premium assistance provided through state “mini COBRA,” the carrier will receive reimbursement.

---

**Can an individual request treatment as an AEI?**

---

Yes. Employers may receive a “Request for Treatment as an Assistance Eligible Individual” from an individual who believes they may be an AEI but have not received a notice from the employer. This form is attached to the [Summary of COBRA Premium Assistance Provisions](#).

If the individual is an AEI, the law provides that the individual is treated, for purposes of COBRA, as having paid in full the amount of such premium from April 1, 2021 through September 30, 2021. If an individual makes such a request, plans should not collect premium payments from AEIs and subsequently ask them to seek reimbursement for periods of coverage beginning on or after April 1, 2021 and preceding the date on which an employer sends an election notice if an individual has made an appropriate request for such treatment.

---

**We have an AEI who has been enrolled in COBRA since December 2020; do I refund the premiums they have paid?**

---

No. The COBRA subsidy only applies to premiums for coverage periods from April 1, 2021 – September 30, 2021. There is no subsidy available for the period from December 2020 – March 2021.

If, however, the AEI paid in full for a period of COBRA beginning on or after April 1, 2021 through September 30, 2021 the employer will need to either provide a credit or refund. Employers should take care not to collect premiums for AEIs during the subsidized period.

### **Can an AEI be charged an “administrative fee”?**

---

No. AEIs cannot be required to pay any part of what they would otherwise pay for their COBRA continuation coverage, including any administration fee that would otherwise be charged.

## **NOTICES**

### **What are the notice requirements for employers?**

---

The following notice requirements apply. The DOL released model notices to meet this requirement.

- **Updated [General Notice for qualifying events from April 1, 2021 – September 30, 2021](#)**. A general notice to all qualified beneficiaries who have a qualifying event that is a reduction in hours or an involuntary termination of employment from April 1, 2021 through September 30, 2021. This notice may be provided separately or with the COBRA election notice following a COBRA qualifying event.
  - To use this notice properly, the plan administrator must fill in the blanks with the appropriate plan information.
  - When distributing the model notice, the plan administrator should include the attachment “[Summary of the COBRA Premium Assistance Provisions under the American Rescue Plan Act of 2021](#).” This contains information on ARP and forms to elect or discontinue the premium assistance in order to satisfy the notice requirements of ARP.
- **[Notice of extended COBRA election period to all AEIs who had a qualifying event before April 1, 2021](#)**. A notice of the extended COBRA election period must be furnished to any AEI (or any individual who would be an AEI if a COBRA continuation coverage election were in effect) who had a qualifying event before April 1, 2021. This requirement does not include those individuals whose maximum COBRA continuation coverage period, if COBRA had been elected or not discontinued, would have ended before April 1, 2021 (generally, those with applicable qualifying events before October 1, 2019). **This notice must be provided by May 31, 2021**.
  - To use this notice properly, the plan administrator must fill in the blanks with the appropriate plan information.
  - When distributing the model notice, the plan administrator should include the attachment “[Summary of the COBRA Premium Assistance Provisions under the American Rescue Plan Act of 2021](#).” This contains information on ARP and forms to elect or discontinue the premium assistance in order to satisfy the notice requirements of ARP.
- **[Notice of expiration of the COBRA subsidy](#)**. AEIs must be provided with a notice of expiration of periods of premium assistance explaining that the premium assistance for the individual will expire soon, the date of the expiration, and that the individual may be eligible for coverage without any premium assistance through COBRA continuation coverage or coverage under a group health plan. Coverage may also be available through Medicaid or the Health Insurance Marketplace. This notice must be provided 15-45 days before the individual’s premium assistance expires.
  - It appears this notice must be provided when the premium subsidy is set to expire due to the end of the maximum COBRA coverage period or the end of the premium assistance period (Sept. 30, 2021).

While employers are not required to use the Model Notices, it is usually a best practice as, when appropriately modified, the DOL considers their use to be in good faith compliance with the content requirements for COBRA and ARP.

Failure to satisfy the COBRA continuation of coverage requirements may result in an excise tax of \$100/qualified beneficiary/day for each day in violation of COBRA (but not more than \$200/family/day).

**Important Note.** The extended deadline relief related to the Outbreak Period does not apply to the notices or the election periods related to COBRA premium assistance available under ARP. Therefore, plans and issuers must provide the notices according to the timeframes specified in ARP.

The DOL issued an [Alternative Model Notice](#) for use by insured coverage subject to state “mini-COBRA” requirements.

### CHANGING COVERAGE

#### **Can an AEI change their COBRA coverage option from the coverage in place at the time of the qualifying event?**

---

In general, COBRA continuation coverage provides the same coverage that the individual had at the time of the qualifying event.

However, under ARP, an employer may (but is not required to) offer AEIs the option of choosing other coverage. Changing coverage will not cause an individual to be ineligible for the COBRA premium assistance, provided that:

- The COBRA premium charged for the different coverage is the same or lower than for the coverage the individual had at the time of the qualifying event;
- The different coverage is also offered to similarly situated active employees; and
- The different coverage is not limited to only excepted benefits, a QSEHRA, or a health FSA.

If the plan permits AEIs to change coverage options, the plan must provide notice of their opportunity to do so (included in the model notices). Individuals have 90 days to elect to change their coverage after the notice is provided.

#### **Can an AEI add additional family members who were originally eligible for COBRA, but declined to enroll?**

---

Each COBRA QB may independently elect COBRA continuation coverage. If a family member did not elect COBRA continuation coverage when first eligible and that individual would be an AEI, that individual has an additional opportunity to enroll and qualify for the premium assistance. However, this extended election period does not extend the maximum period of COBRA continuation coverage.

#### **If an AEI is currently enrolled in Marketplace coverage, can they cancel their individual coverage in order to receive the COBRA subsidy?**

---

Yes. If an AEI wants to end the coverage that they are currently receiving through the Health Insurance Marketplace (such as through Healthcare.gov) to enroll in COBRA continuation coverage with premium assistance, they are able to do so, but only on a prospective basis.

## EMPLOYER NEXT STEPS

- Identify eligible AEs by looking back to individuals who would have been COBRA eligible beginning on or after Nov. 1, 2019 as a result of a reduction in hours or involuntary termination of employment.
- Work with your COBRA vendors, if applicable, to coordinate a plan.
  - The first deadline is **May 31, 2021**. You must issue the Notice of Extended COBRA Election Period to all AEs with a qualifying event prior to April 1, 2021 by this date.
    - Make sure to include the Summary of COBRA Premium Assistance Provisions under ARP.
  - Update COBRA election notices to reflect the subsidy language included in the Model Notice for new COBRA events between April 1, 2021 through September 30, 2021.
    - Make sure to include the Summary of COBRA Premium Assistance Provisions under ARP.
  - Ensure the vendors are prepared to issue subsidy expiration notices.
  - Discuss what to do if COBRA premiums are received from AEs for the months April – September 2021 and whether a refund or credit may be necessary.
  - Prepare how to respond in the event you (or the COBRA vendor) receive a “Request for Treatment as an Assistance Eligible Individual.”
- Discuss tax credits with payroll departments and tax advisors.
- Await further guidance and consider “dusting off” the 2009 guidance for direction.

## RESOURCES

The DOL established a website with all information related to the COBRA subsidy, including the model notices: <https://www.dol.gov/agencies/ebsa/laws-and-regulations/laws/cobra/premium-subsidy>.

### Model Notices

- Model General Notice and COBRA Continuation Coverage Election Notice: [MS Word](#), [PDF](#)
- Model Notice in Connection with Extended Election Period: [MS Word](#), [PDF](#)
- Model Alternative Notice: [MS Word](#), [PDF](#)
- Model Notice of Expiration of Premium Assistance: [MS Word](#), [PDF](#)
- Summary of COBRA Premium Assistance Provisions under the American Rescue Plan Act of 2021: [MS Word](#), [PDF](#)

### Additional Information

- FAQs are available at <https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/faqs/cobra-premium-assistance-under-arp.pdf>

It is expected that the IRS will also issue guidance, including information for employers to claim the payroll tax credit associated with the COBRA subsidy. We anticipate that guidance will be released soon.

**USI** [usi.com/locations](http://usi.com/locations)

This summary is intended to convey general information and is not an exhaustive analysis. This information is subject to change as guidance develops. USI does not provide legal or tax advice. For advice specific to your situation, please consult an attorney or other professional.

These materials are produced by USI Insurance Services for educational purposes only. Certain information contained in these materials is considered proprietary information created by USI. Such information shall not be used in any way, directly or indirectly, detrimental to USI and/or their affiliates.

Neither USI nor any of its respective representatives or advisors has made or makes any representation or warranty, expressed or implied, as to the accuracy or completeness of these materials. Neither USI nor their respective representatives or advisors shall have any liability resulting from the use of these materials or any errors or omission therein. These materials provide general information for the use of our clients, potential clients, or that of our clients' legal and tax advisors.

IRS Circular 230 Disclosure: USI Insurance Services and its affiliates do not provide tax advice. Accordingly, any discussion of U.S. tax matters contained herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone unaffiliated with USI of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

© 2021 USI Insurance Services. All Rights Reserved.