COBRA HRAs Roadmap: Determining Premiums

Under COBRA law, when a covered individual loses coverage under an employer's group health plan because of a triggering event (such as termination of employment or divorce), they must be given an opportunity to elect to continue the *same health coverage* they had on the date of the triggering event. If the coverage consisted of an insured health plan combined with an employer-funded Health Reimbursement Account (HRA) plan, then the same combination must be made available under COBRA. Offering the insured coverage alone is not an option – the HRA is a "group health plan" under COBRA definition and must also be offered.

The amount the employer should charge for the insured coverage is obvious – it is whatever the insurance carrier charges for that plan. But what about the premium for the HRA component of the benefit? That is less clear.

Step 1: Determine the COBRA rate for the HRA portion of the benefit

As the plan sponsor, an employer is entitled to charge a separate premium for the HRA COBRA benefit in addition to the premium for the medical COBRA benefit. ***The HRA claims administrator or COBRA administrator cannot establish the HRA COBRA premium –*** the employer/plan sponsor must determine the rate.

Defining the HRA COBRA premium is not as simple as dividing the annual HRA contribution by 12 and adding 2% to cover administrative costs. What little guidance exists on the subject says you must use one of two methods to determine the HRA COBRA premium.

1. Past Cost Method

Calculate HRA COBRA premiums based on past HRA utilization. For example, if you have had an HRA plan for the past two years, and over that time period only 60% of the total benefits have been claimed and paid, then you might calculate your HRA COBRA premium as follows:

Example: Maximum single annual HRA reimbursement is $1,000. At 60% utilization the premium should be based on $600 ($1,000 x 60%). The monthly premium for the HRA component would be $50 ($600 ÷ 12 = 50). You (or your COBRA TPA) may add 2% to the premium for COBRA administration fees.

2. Actuarial Determination Method

Obviously, the Past Cost Method described above is only available if you *have* past costs. It won't work for a brand new HRA. You can engage a licensed actuary to use their data and resources to determine the rate, or make a reasonable estimate of the cost of providing HRA coverage and use a formula to figure monthly premium. ***Again, your COBRA administrator cannot establish this rate for you.*** If you use a third party HRA claims administrator, they *may* be able to provide some general utilization trends based on similar plan designs as a benchmark to help your make your estimate.

Example: You estimate that on average employees who participate in the HRA will spend 50% of available HRA dollars. You provide an annual $2,000 HRA contribution. Calculate your premium like this:

1. $2,000 x 50% (.5) = $1,000
2. $1,000 ÷12 (months) = $83.33
3. You (or your COBRA TPA) may add 2% to the premium for COBRA admin fees.

Keep in mind with either method:

- You must calculate the HRA COBRA premiums each year, prior to the 12-month determination period (usually at the beginning of the Plan Year for the HRA or when rates change for the underlying insured plan).
- You cannot charge different HRA COBRA premiums to different beneficiaries. The premium must be the same for everyone, except for differences in reimbursement maximums (e.g. single vs. family coverage)

Step 2: Require HRA and insured coverage to be elected together, or offer the HRA and insurance separately?

If all employees enrolled in the group health plan are automatically given the HRA benefit, then the two benefits are “bundled” while they are active covered employees. But once they terminate employment, the plan sponsor has a choice in how the benefits will be offered under COBRA. For sure you have to offer the HRA. Again, that is not a choice. But how you offer it is.

1. **Bundled:** The COBRA offer is the same bundled arrangement as the former employee had when employed. So in order to get the insurance coverage, they have to get the HRA coverage too – the cost to elect COBRA is a combination of the insurance plan premium plus the HRA premium.
2. **Unbundled**: The former employee (Qualified Beneficiary) is given the option to elect the insurance coverage by itself and pay a premium only for that coverage. They are given a separate option to add the HRA, and they pay a separate premium for that. That way if they really only want the insured plan, they can pay the lower premium for that coverage.

It is up to the employer to decide to offer the benefits bundled or unbundled, then use the same approach with all Qualified Beneficiaries for that year. They may certainly change their method in later years, as long as the same choice is consistently offered for that year.