



COBRA ADMINISTRATION

A guide for small to mid-sized businesses



COBRA Administration: A guide for small to mid-sized businesses (SMBs)

Prior to 1985, many employees and their dependents experienced loss of health care coverage following due to events such as termination of employment. This coverage loss often created a period of time in which affected individuals could not re-enroll in coverage, making those uninsured individuals more vulnerable to health care expenses. In order to relieve some of this vulnerability, the Consolidated Omnibus Budget Reconciliation Act (COBRA) was passed.

While COBRA laws help employees manage the pressure of changing circumstances, they also add another layer of complexity to benefits administration. We understand that this additional layer can be confusing and even stressful to administer—specifically for small to mid-sized businesses.

Learn more about COBRA administration, the pain points plan administrators face and how to select the best COBRA partner for your organization.

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COBRA Q&A



What is COBRA?

The Consolidated Omnibus Budget Reconciliation Act (COBRA) is a set of laws put into place by the Department of Labor (DOL) in order to protect employees from the possibility of losing health insurance coverage. Under COBRA, group health plan administrators must offer a continuation of group health insurance coverage to qualified beneficiaries for a limited period of time following departure from that particular organization.



Who qualifies for COBRA continuation?

Qualified beneficiaries are individuals entitled to extended group health insurance coverage under COBRA laws. COBRA qualified beneficiaries include employees and dependents covered by COBRA eligible plans at the time of the following qualifying events:

- 1. Resigned Employees*
- 2. Fired Employees*
- 3. Employees with reduced work hours causing them to no longer be eligible for benefits*
- 4. Covered employee becoming eligible for Medicare.*
- 5. Divorce or legal separation of the spouse from the covered employee*
- 6. Death of the covered employee*
- 7. Loss of dependent child status under the plan rules*

COBRA Q&A contd.

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What exceptions are there for COBRA coverage?

1. *Employees terminated for gross misconduct are not eligible for COBRA benefits.*
2. *Companies with fewer than 20 employees are not required to provide COBRA, but may be required to offer state continuation extended coverage unless mandated by a state-specific COBRA laws.*

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How much does COBRA cost?

The individual enrolled in an extended coverage plan will be required to pay the the entire premium amount plus 2% service charge.

Example: *Sam resigned from his job but wants to receive continued coverage. Before he was terminated, he was enrolled in a health plan with a \$400 premium with \$250 of employer contribution. Because of his employer's contribution, Sam only had to pay \$150 per month rather than the full \$400.*

Now that Sam no longer works for the company, he will be responsible for the full premium of \$400 plus a 2% service fee. Sam can now expect to pay a total of \$408 ($\$400 \times 1.02 = \408.00) each month if he wishes to continue his group health insurance coverage.

What Makes COBRA Administration So Painful?

1. Complex:

Because COBRA laws have evolved over time, they have become nuanced. First enacted during the Reagan administration, these laws have grown in response to the needs of the workforce in the United States over a significant period of time. This growth creates an increasingly more complex set of expectations for employers when it comes to COBRA compliance.

Yes, these laws are increasingly complex, but why does this complexity impact small to mid-sized businesses specifically? Small to mid-sized employers are greatly impacted by the complexity of COBRA administration because they lack the time and resources that are available to larger businesses.

Furthermore, sometimes small to mid-sized businesses do not have a dedicated HR leader to address concerns such as interpreting and complying with COBRA regulations. With no HR administrator, the business lacks the specialized knowledge of an HR leader and must rely on other employees to compensate for the duties of that missing expert.



Complex



Time-consuming



Penalties

What Makes COBRA Administration So Painful? contd.

2. Time-consuming

Not only are COBRA laws difficult to understand, they are also time consuming to administer. Once the COBRA administrator has taken the time to understand COBRA compliance, they then must execute the COBRA process for every qualified beneficiary.

This means administrators must:

- 1 *Monitor adds and terms*
- 2 *Notify insurer of coverage cancellation*
- 3 *Distribute at least 7 notices per employees*
- 4 *Receive and document election forms and premiums*
- 5 *Reactivate coverage and continue to make payments*
- 6 *Keep track of payment deadlines for each employee to ensure their coverage should remain active*
- 7 *Terminate coverage*

What Makes COBRA Administration So Painful? contd.

3. Penalties

Of course, laws wouldn't be laws if some sort of penalty wasn't in place. If the plan administrator, likely the employer, does not comply with COBRA standards, that plan administrator may be subject to steep fines.

These fines include:

1 Tax penalties:

Typically, COBRA fines occur in the form of excise tax penalties. The standard measure for these fines is \$100/per employee (or family member) for each day of non-compliance. These fines are capped at \$200/family for unintentional offenses.

2 Statutory penalties:

Statutory penalties: These penalties occur as a result of ERISA (Employee Retirement Income Security Act) violations. The COBRA fines associated with ERISA can reach up to \$110/day.

3 Other fines:

Of course there are always going to be hidden costs of non-compliance. These can come in the form of civil lawsuits and attorneys' fees.

What to Look for in a COBRA Partner

1. Specialized COBRA team

COBRA is a full-time job - or should be if done correctly. That's why you should engage a COBRA administration professional, and not rely on an internal administrator.

2. Commitment to customer service

When it comes to COBRA, customer service should be focused on the employee experience as well as dedicated support for administrators.records.

3. A good track record

It's important to review each COBRA administrator's credibility, including vendor transparency and compliance.



Specialized COBRA team



Commitment to customer service



A good track record



Interested in learning
more about Alpine
COBRA Administration?

Contact us today!

www.AlpineTPA.com



Alpine's Solution

Alpine is a third-party administrator with more than a decade of experience administering and advising employers and employees on COBRA. Our COBRA team is specifically trained to acclimate your COBRA needs and to comply with federal and state regulations.

