

COBRA Tips®

A Publication of OnQue Technologies, Inc.

COBRA & Health Reimbursement Arrangements

December 1, 2005

By Scott Haines, [OnQue Technologies, Inc.](#)

The following is an excerpt from [Questions and Answers from the COBRA Help Desk – Part I](#):

Client: We have a client who maintains an HRA. They have a participant who recently terminated and has elected to participate in COBRA. We have two basic questions:

1. What notifications must be made for the HRA portion of COBRA?
2. We understand that a qualified beneficiary who has elected continuation coverage under COBRA must pay an “applicable premium” for the period of coverage. How do we determine the applicable premium?

OnQue: Our COBRA Tip of January 3, 2005, provides a good overview of the COBRA issues relating to HRAs: [HRAs: Are They Subject to COBRA?](#).

Regarding your questions:

What notifications must be made for the HRA portion of COBRA?

There are no special notification requirements with respect to HRAs; the general notice, the qualifying event notice and election form should list the HRA as a benefit subject to COBRA.

How do we determine the applicable premium?

This is a tough question, because the IRS guidelines leave much to be desired (that’s an understatement), although the agency has promised to issue more specific guidelines in the future.

As stated in the article referenced above, the premium should be based on the “actuarially determined” cost to provide coverage under the plan. Here’s the problem—HRAs have not been available long enough to provide the utilization data needed to make accurate actuarial calculations. Further, the cost of actuarial determination may be too high for many small employers to bear.

Alternatively, the employer could look to the carrier for assistance in determining the appropriate premium, particularly in the first plan year. After that, premium calculation could be based on claims experience.

Unfortunately, a formula for calculating HRA premiums does not exist and no one has a handle on how to calculate the premiums accurately. Actuarial determination is probably the best bet for ensuring compliance, though its benefits are limited by the factors mentioned earlier.

Related COBRA Tip: [HRAs: Are They Subject to COBRA?](#)

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