HRAs and COBRA Administration

A Healthcare Reimbursement Arrangement (HRA) is a group health plan subject to COBRA's continuation requirements. COBRA requires that health coverage be continued for qualified beneficiaries upon the occurrence of certain specified qualifying events such as death, divorce, or termination of employment.

How do Employers determine the premium for the HRA plan under COBRA? The employer has two options for determining the premium for the HRA plan. Technically an employer can charge up to 102% of the “Applicable Premium”. The Applicable Premium is determined by either the “Past-Cost” method (utilization plus administrative fees) or the “Actuarial” method. The actuarial method is for first time plans which require the actuary or administrator to make a reasonable estimate of the cost of providing HRA coverage (reasonable estimate of the Employer’s exposure or HRA utilization plus administrative fees).

Please Note: The COBRA statute does not provide that one must hire an actuary to use the Actuarial method, but if a Qualified Beneficiary (QB) were to challenge the COBRA premium as being too high, the employer likely would need to retain an actuary to defend the premium structure.

Example: HRA reimbursing the first half of a $1,000 Single/$2,000 Family deductible. The HRA would stand to reimburse an employee with single coverage up to $500 per year and an employee with two person or family coverage up to $1,000 per year. When determining the Employer’s cost of having an HRA for the year on an Employee level one must take into account the HRA utilization and administrative fees associated with the plan, as stated above. Many employers use a estimate of 40% of HRA contribution as an appropriate starting point when determining their exposure plus administrative fees.

- In this example, the single coverage would be $500*40% = $200 yearly premium rate for single coverage.
    - When determining the amount for a COBRA participant the employer could charge up to 102% of that yearly premium rate for single coverage. In this case it would be $204 yearly or $17 per month.

- In this example, the two-person or family coverage would be $1,000*40% = $400 yearly premium rate for two-person or family coverage.
    - When determining the amount for a COBRA participant the employer could charge up to 102% of that yearly premium rate for single coverage. In this case it would be $408 yearly or $34 per month.

Please Note: This brochure is meant to be used as a reference only, Benefit Strategies is not an actuary and ultimately the client is responsible for determining COBRA rates.