

Mar 12, 2021, 11:55am EST

# Free Health Insurance! 100% COBRA Subsidy In Covid Stimulus Package: Questions & Answers



**Ashlea Ebeling** Senior Contributor  

Personal Finance



The American Rescue Act gives laid off workers a 100% premium subsidy to choose their employer ...

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The 100% COBRA subsidy in the \$1.9 trillion American Rescue Act means that more than 2 million laid off Americans will have the option to extend their workplace healthcare insurance for free—temporarily. The U.S. government will pay the full cost of workplace healthcare premiums for laid off workers from April 1 through the end of September under a controversial provision in the stimulus package President Joe Biden signed into law yesterday. For many, the COBRA subsidy could eclipse the \$1,400 per person stimulus payments that are starting to reach taxpayers this weekend.

When you leave an employer, you get the option of keeping your health insurance coverage under COBRA for 18 months. Say you were paying \$400 a month for family coverage under a high deductible health plan, and you were laid off. The COBRA premium, which includes what your employer was paying for your health plan, could run \$2,400 a month. Under the new law, for six months, the government will pick up the tab for the full \$2,400 a month—both the employee and the employer share. That would be a \$14,400 savings for this family, thanks to the American Rescue Act—just in health insurance premium savings! (That's on top of the [\\$5,600 in stimulus payments](#) a family of four with income of up to \$150,000 would get in 2021). Deductibles, co-insurance and co-pays still apply, which means the COBRA option still might not be affordable for many.

“This seems like solution in search of a problem,” says Judith Wethall, an employee benefits lawyer with McDermott Will & Emery in Chicago. With the government health plan exchanges aka marketplace, there are cheaper options out there. The virus relief package also put in higher subsidies for the marketplace plans retroactive to January 1, 2021 through 2022; it even made silver plans free, with lower deductibles and copayments, for those who are collecting unemployment benefits. But with the 100% COBRA subsidy, Wethall predicts more former employees will choose COBRA, increasing costs for the many (mostly larger) employers with self-funded health insurance plans. “You’ve incentivized people who wouldn’t have elected COBRA and would have gone on the marketplace.”

The Joint Committee on Taxation estimates the cost of the COBRA subsidies at \$35 billion. The Congressional Budget Office estimated that 2.2 million former workers would benefit from this provision (that was using the House version of the plan which would have subsidized 85% of premiums; presumably even more former workers will choose COBRA since the Senate upped the subsidy to 100%).

In April when House Democrats first raised the idea of subsidizing COBRA premiums, Sen. Bernie Sander wrote an op-ed in Politico criticizing the plan: "Subsidizing COBRA ... would be both expensive and ineffective: Not only would health insurance corporations make massive profits off the plan—profits that come at the cost of the American taxpayer—but it would still leave tens of millions uninsured or underinsured. And during this pandemic, a lack of insurance means more Covid-19 transmissions and more deaths."

How will the COBRA subsidies work? Former employees should expect to get detailed notices from their employer, says Alight Solutions, a benefits administrator. Which notice you get will depend whether you're newly qualified for the subsidy because you became eligible on or after April 1, or if you became entitled to a subsidy prior to April 1.

Who is eligible for the 100% subsidy? You qualify if you were laid off or your hours were reduced so you lost health coverage, not if you quit. You don't qualify if you are otherwise eligible for Medicare or other health coverage (if you get a new job that offers health coverage—or you can be added to your spouse's plan).

The subsidy is not retroactive. The subsidy period applies to COBRA coverage for a six-month period from April 1, 2021 through the end of September.

What about vision and dental premiums? The government will provide the same temporary premium subsidies for vision and dental plans, as well as medical plans under the new law.

What about healthcare FSAs? The government will not subsidize premiums for healthcare FSAs. Former workers can sometimes choose to continue making healthcare FSA contributions. Typically you have to spend down these tax-advantaged accounts within 60 days of being laid off.

What if you were laid off but didn't elect COBRA because it's so expensive? A new election period will run from April 1 for 60 days after the new notice of extended election period is provided, according to Alight. The law includes detailed notice provisions for new and existing eligible individuals to assure they get the opportunity to elect or renew coverage. It appears that coverage during this subsidy period must be offered even to those who are behind in current COBRA payments.

Who pays? A former worker who is eligible for the 100% subsidy should not be charged premiums for this time period. If they are, the employer or insurer must refund the premium payment back to the individual within 60 days.

What happens after September? You can elect to stay on COBRA (during the 18 month period) but you'll have to pay the full premium price, or you can shop the marketplace at [healthcare.gov](https://www.healthcare.gov) for coverage.



**Ashlea Ebeling**

I cover personal finance, with a focus on retirement planning, trusts and estates strategies, and taxwise charitable giving. I've written for Forbes since 1997. Follow me...

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