



HRA COBRA PREMIUM CALCULATION SUMMARY & INSTRUCTIONS

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NOTE: The HRA Premium Calculation Worksheet (“Calculation Worksheet”) is authorized for use by isolated Benefit Services clients, preferred partners and others bearing a business relationship with isolated Benefit Services. Any other use is strictly prohibited. See VI. Terms and Conditions for Use for additional information.

I. Resources. Click on the following links to review:

- [26 USC §4980B](#)
- [isolved Benefit Services article on COBRA and HRAs](#)

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II. Two Methods. In §4980B(f)(4)(A), the applicable COBRA premium is the “cost to the plan for such period of the coverage for similarly situated beneficiaries.” To determine the cost of a self-funded plan like an HRA, an employer may not assume its annual contribution is the cost of the plan. Few participants use up the entire balance. Thus, §4980B(f)(B) provides two calculation methods for self-funded plans: reasonable actuarial estimate and past cost.

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III. Reasonable Actuarial Estimate Method. According to §4980B(f)(B)(i), this method is a “reasonable estimate of the cost ... determined on an actuarial basis, and...tak[ing] into account such factors as the Secretary [of Treasury] may prescribe in regulations.” Unfortunately, these regulations do not currently exist. **This method is the only one available for first year HRAs and HRAs that have undergone a significant design change.**

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IV. Past Cost Method. According to §4980B(f)(B)(ii), this method is “the cost to the plan ... during the preceding determination period...adjusted by...the percentage increase or decrease in the implicit price deflator of the gross national product.” **This method may not be used for first-year HRAs or HRAs that have undergone a significant design change.**

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V. Instructions for the Worksheet. Click on the icon below to open the HRA Premium Calculation Worksheet. **If your HRA has tiered contributions (e.g., a different contribution for single and family health plan coverage), you must perform the calculation separately for each tier.** The Worksheet requires an employer to populate 5-7 fields indicated in **sky blue**:



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Past Cost Method:

- *Effective date:* This is simply the date that the HRA premium is calculated as a point of reference. Pay attention to formatting. It defaults to today's date.
- *Determination Period Start Date:* This is the first day of the COBRA determination period (which typically coincides with plan year). This information is typically found on the Plan Information page of a Summary Plan Description (SPD).
- *Total Amount of HRA Claims Paid:* This is the total amount of HRA claims paid in the prior determination period. This information is typically available from the HRA administrator.
- *Total Amount of Administrative Fees Paid:* This is the total amount of administrative fees paid in the prior determination period for the HRA. This includes any COBRA, Form 5500 and any other administrative costs related to the HRA. This information is typically found in the service agreements for these services.
- *Number of Participants:* This is the average number of participants in the prior determination period. This information is typically available from the HRA administrator.
- *Value 1:* This is the implicit price deflator value for the middle of the prior determination period*
- *Value 2:* This is the same value for the date 12 months earlier.*

*These fields are often populated automatically. If not, they can be easily populated from a website linked to the Worksheet.

Reasonable Actuarial Estimate Method:

- *Annual HRA Contribution:* This is the annual contribution to each employee's HRA. This information is often found in the HRA Plan Document.
- *Annual Health Plan Deductible Amount:* This is the overall annual deductible for each tier of coverage for the group health plan. For example, a plan design with an HRA that pays the first \$1,000 of expenses with a deductible gap of \$1,500 would have a \$2,500 Annual Health Plan Deductible Amount. This information is often found in the summary of benefits provided by the carrier.
- *Coinsurance Percentage Paid by Employer:* This is the primary percentage share paid by the employer for claims paid once the deductible has been satisfied. This information is often found in the summary of benefits provided by the carrier.
- *Annual Health Plan Out Of Pocket Maximum:* This is the maximum amount an employee can pay towards claims in a year including any portion of the total deductible not covered by the HRA. If there is no OOP Max, enter \$1,000,000. This information is often found in the summary of benefits provided by the carrier.
- *Total Annual Amount of Projected Claims Paid:* You should include what the group health plan paid out last year in claims, including any claims paid by stop-loss coverage and any previous HRA.
- *Total Amount of Projected Administrative Fees Paid:* This is the total amount of projected administrative fees to be paid in the upcoming determination period. Some employers make a rough estimated of five percent of "Total Annual Amount of Projected Claims Paid". This includes any COBRA, Form 5500 and any other administrative costs related to the HRA. This information is typically found in the service agreements for these services.
- *Number of Projected Participants:* This is the anticipated average number of HRA participants for the upcoming determination period.
- **Please note** that the final amount in Step 3 includes the cost of coverage for the HRA and medical plan together.

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VI. Terms and Conditions for Use. The Calculation Worksheet does not constitute legal, actuarial or other professional advice of any kind, nor is it a Prescribed Statement of Actuarial Opinion. isolved Benefit Services does not guarantee that any COBRA premium calculation will be deemed to be reasonable by the IRS or in a court of law. The Past Cost Method is based on Department of Commerce tables, which are subject to comprehensive benchmark revisions from time to time. The Calculation Worksheet will be updated on at least an annual basis to reflect such minor revisions. This Calculation Worksheet is merely provided as a tool to assist employers in calculating the appropriate COBRA premium for a self-funded HRA. Any use of the Calculation Worksheet constitutes acceptance of these Terms and Conditions.

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VII. The HRA COBRA Premium Worksheet: Open the separate Excel spreadsheet – entitled HRA COBRA Premium Calculation Worksheet – to get started. This Worksheet contains macros in order to facilitate navigation so you may see a pop-up warning that asks whether to enable the macros. Click the Enable macros button to enable this feature. Please note: for security reasons, your company's macro settings may prevent use of external macros.

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