



## NIS Learning Series: HRAs and COBRA: How to Calculate the Premium

Since Health Reimbursement Arrangements (HRAs) that are integrated are considered a medical plan by the IRS, you will have to calculate the COBRA premium and include it on your COBRA election form. How do you do this? It depends upon the type of HRA plan you have in place.

### Unfunded HRA

An **unfunded HRA** is an HRA where the employer makes funds available to the employee for medical expenses. But, if funds are not used during the plan year, the employer recovers the balance.

### To Calculate the COBRA Cost of an Unfunded HRA...

- A.** Determine the utilization percentage of the HRA plan in the past 12 months. To calculate, divide the total amount of funds that were used in the past 12 months by the total amount available. If your unfunded HRA plan is in its first year, a good rule of thumb is to set the utilization at 75%.
- B.** Next, multiply the utilization percentage by the total HRA funds available to each individual employee. This is the COBRA premium if the employee would like to maintain access to their unfunded HRA.

#### Example:

**A.**

$$\begin{aligned} & \$850,000 \text{ (total funds used, past 12 months)} \\ & \div \text{ (total funds available, past 12} \\ & \underline{\$1,000,000 \text{ months)} } \\ & = \mathbf{85\% \text{ Utilization Percentage}} \end{aligned}$$

**B.**

$$\begin{aligned} & \mathbf{85\%} \text{ (utilization percentage)} \\ & \times \underline{\$1,000 \text{ (total funds available per employee)}} \\ & = \mathbf{\$850 \text{ Employee's COBRA Premium}^*} \\ & \times \underline{12 \text{ (months)}} \\ & = \mathbf{\$70.83 \text{ (monthly breakdown)}} \end{aligned}$$

\*Employee will have access to the full \$1,000 HRA benefit.



**Note: An employee who chooses COBRA continuation for an unfunded HRA must use all of the available HRA funds before the end of their COBRA period or forfeit the remaining funds in the account once COBRA has ended.**

## Funded HRA

A **funded HRA** is an HRA that works similar to a Health Savings Account (HSA) where you deposit funds into an employee-controlled HRA account that rolls over from year to year and gains interest.

### To Calculate the COBRA Cost of a Funded HRA...

The COBRA premium for a fully funded HRA is simply **100% of the employer's contribution**. However, it's important to recognize that if an employee has a balance in their funded HRA account, and they choose COBRA continuation of their HRA, they must use all their funds in the account prior to termination of COBRA.

COBRA Premium =  
**100%**  
of the Employer's  
Contribution



If your funded HRA coverage is with National Insurance Services, you have the opportunity to offer your employees "HRA Coverage in lieu of COBRA" which allows them to keep their HRA balance and use the funds after their COBRA period.



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