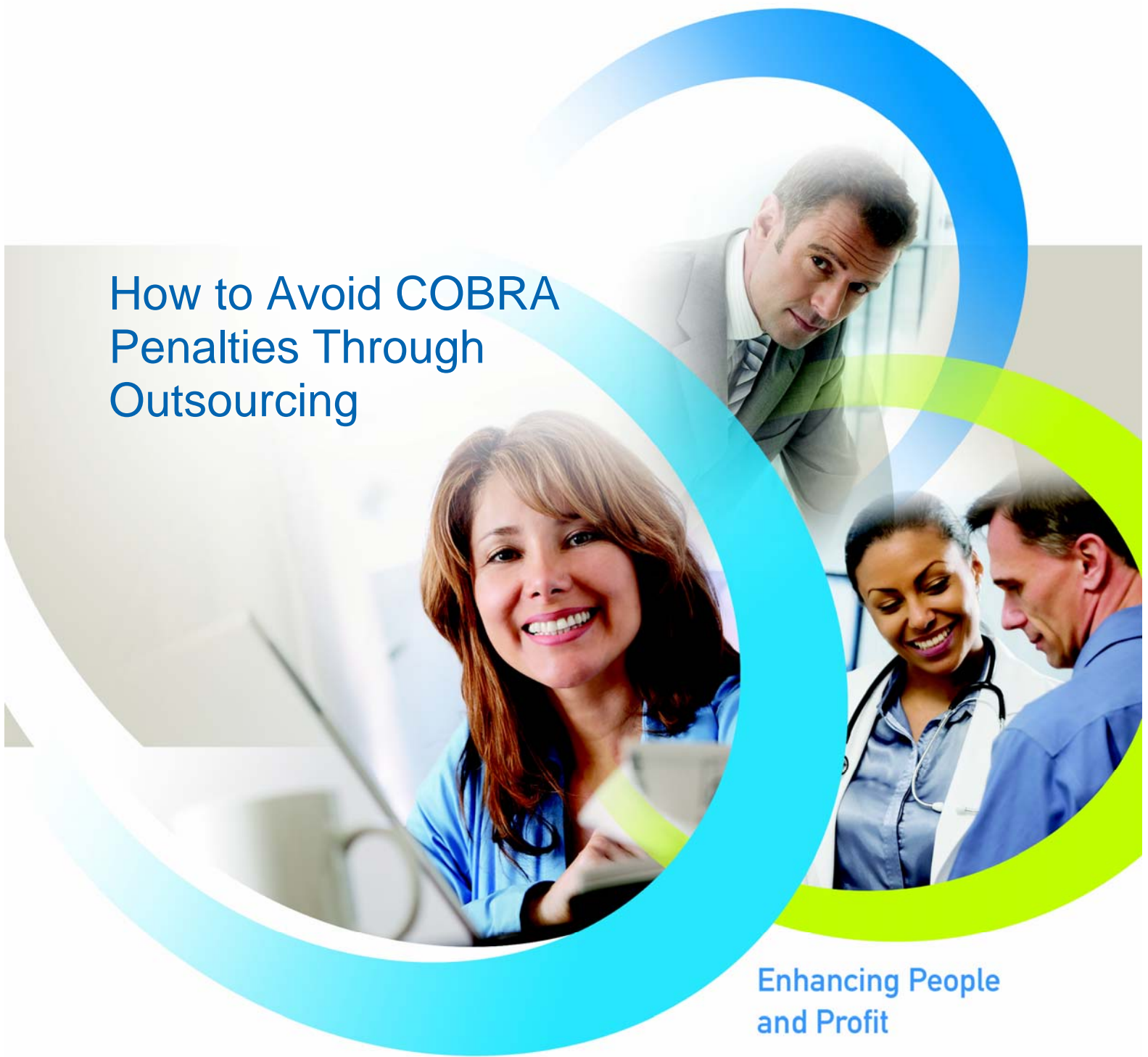


How to Avoid COBRA Penalties Through Outsourcing



Enhancing People
and Profit





Avoiding COBRA Penalties Through Outsourcing

The Changing Benefits Landscape

In the last several decades, the amount of legislative changes to the health and benefits industry has been significant. When modifications occur, companies are liable for maintaining compliance—and there are legislated penalties for noncompliance.

With these concerns to address, Human Resources personnel lack time to keep up with the ever-changing landscape of health and welfare benefits. It is important for employers to have “subject matter experts” upon whom they can rely. Outsourcing certain services often equates to efficiency and overall cost reduction because the penalties associated with noncompliance can often outweigh the administrative cost of outsourcing.

What is COBRA?

The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986 gives employees and their dependents the opportunity to maintain health coverage for limited periods of time after Qualifying Events occur. Qualifying Events are those that cause the individual to lose access to the employer-sponsored plan, including: reduction in hours, voluntary or involuntary job loss, divorce, death of the covered employee, covered employee becoming entitled to Medicare or loss of “dependent child status.”

COBRA is a government mandated benefit for employees in private sector organizations with 20 or more employees. COBRA also applies to plans sponsored by state and local governments, but does not apply to plans sponsored by the federal government or by churches.

What’s involved in COBRA Administration?

The components of COBRA administration include: sending notices to employees, former employees, and their dependents (spouses and/or children); reinstating COBRA eligible individuals to one or more health plans; calculating and collecting premiums; and keeping records of all of these activities.

While these tasks may not appear to be overly complex, the timing and coordination of these activities is a large part of remaining compliant with COBRA legislation. Take for instance the variety of notifications to be sent with varying deadlines:

- COBRA General (Initial) Notification
- Qualifying Event Notification
- Notice of Unavailability
- Notice of Early Termination



Common COBRA Violations

Failure to comply with COBRA regulations can lead to serious penalties, and employers that self-administer COBRA become liable for any repercussions associated with administering these benefits improperly. The most common violations of COBRA include:

- Failure to send notices on time, or at all;
- Neglecting to list Flexible Spending Accounts on notices;
- Inadequate record keeping;
- Not offering COBRA participants the right to add or change health plans at open enrollment.

Penalties for non-compliance include a non-deductible excise tax equal to \$100 per day, per affected individual, per violation for the period of noncompliance. Also, the DOL can file a lawsuit against the employer and employees can sue for statutory penalties of up to \$110 in ERISA fines per day and possibly require the employer to pay claims and impose damage awards against the employer.

Could Outsourcing COBRA Benefit Your Company?

Outsourcing the administration of COBRA benefits can have many advantages. Using a Third Party Administrator (TPA) can offer employers a way to mitigate their risk of noncompliance and penalties. The increased technological capabilities and subject matter expertise of TPAs can provide consistent and efficient administration of COBRA benefits, including:

- relief from regulatory/administrative burdens
- saving time and increased productivity when employees do not have to partake in such tasks as:
 - printing and mailing notifications,
 - researching changes to the law,
 - enrolling eligible participants,
 - declining non-eligible participants, and
 - tracking the status of these activities
- creating a buffer between human resources and former employees
- preventing employers from having to become a “collection agency” by collecting and tracking premium payments from former employees

Selecting a Third Party Administrator

Not all TPAs are created equal. Some administrators have varying specialties including the size of clients they work with—large or small, multiple plans and locations; geographic area; particular industries; and particular plan types—fully insured or self-insured plans. In evaluating providers, an employer should consider these factors as well as the level of responsiveness they hope to receive from their TPA.



Conclusion

Human Resources departments today are pulled in many directions. Companies are asking their HR departments to do more with fewer resources. Outsourcing functions that are administratively burdensome can provide HR departments the opportunity to free their time to work with management on solving important business objectives.

Outsourcing COBRA administration is an easy choice for employers given the recent regulatory changes to COBRA and the cost of outsourcing this service, as compared to the liabilities that are involved with noncompliance. Employers not currently outsourcing this function should evaluate how much they spend today administering this benefit in-house and what their exposure might be if administered improperly.

About CPI-HR

Headquartered in Solon, Ohio, CPI-HR's complete service offering includes employee benefits brokerage and consulting, payroll/HR services, and COBRA, HRA, HSA and FSA Administration. Additionally, CPI-HR provides robust HR Technology that offers clients the ability to bring efficiencies to their human resources department which frees up time to focus on more strategic HR responsibilities. It is services like these that help CPI-HR's clients make their employees more profitable and aware. CPI-HR is the exclusive Ohio Smart Partner[®] member and is a Platform Agency of Benefit Advisors Network. For more information, please visit: cpihr.com

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