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NEWS RELEASE

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Stimulus Act Provides for COBRA Premium Subsidy

Thomson Reuters Tax Expert Explains this Important Benefit

New York, NY, April 29, 2009 –The American Recovery and Reinvestment Act of 2009 (Stimulus Act) provides a unique benefit for recently released workers wanting to maintain their health insurance coverage. “As many people face unexpected layoffs in this difficult economic environment, health coverage becomes a huge concern for unemployed individuals and their families,” says Jim Van Grevenhof, Senior Tax Analyst for the Tax & Accounting business of Thomson Reuters. “The government subsidy for COBRA continuation payments included in the Stimulus Act helps to ease that worry.”

As background, group health plans maintained by employers that have at least twenty employees are required to offer certain employees and their dependents the opportunity to continue to participate in the group health plan for up to eighteen months after leaving the company. “COBRA continuation coverage has traditionally been a very helpful benefit for terminated employees,” says Van Grevenhof. “In today’s climate, however, many unemployed workers find themselves in the unfortunate position of not being able to afford the continuation payments.”

The Stimulus Act provides for a 65% government subsidy for COBRA continuation payments for up to nine months to Assistance Eligible Individuals (AEIs) for periods of coverage beginning on or after February 17, 2009. The remaining 35% is paid by the AEI. An AEI is an employee (and COBRA-eligible family members) whose employment has been involuntarily terminated between September 1, 2008 and December 31, 2009, and who elects COBRA coverage. AEIs who were involuntarily terminated after August 31, 2008 and before February 17, 2009, and did not enroll for COBRA benefits at the time of their termination, had a special extended 60-day period in which to elect COBRA benefits.

During this period of economic uncertainty, the COBRA premium subsidy represents a timely tax-free benefit for many taxpayers. However, this subsidy can be taxable to high-income individual and joint filers. “For these taxpayers, the tax-free aspect begins to phase out for individuals with a modified



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adjusted gross income (AGI) of \$125,000 (\$250,000 for joint filers) and is completely phased out when their modified AGI reaches \$145,000 (\$290,000 for joint filers)," advises Van Grevenhof.

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