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COVID-19 Premium Credit Rebate

Background

Carriers are beginning to issue premium credits or similar actions because of COVID-19. Although testing and treatment of COVID-19 add to costs, virtually all elective and routine care has been delayed for the past several months, and overall medical claims have dropped. Medical carriers are beginning to announce that they will pass on some of the savings to customers through premium credits, waived copays, and other discounts to help lower the cost of coverage in response to COVID-19. Several dental carriers have made similar announcements.

As a health plan sponsor, you have a responsibility to credit attributable participant contributions back to the participants of the plan when a premium credit is received from a carrier.

Summary

The premium credits have raised several questions. How much (if any) of the credit must be
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distributed to plan participants? What options does an employer have in distributing the employees' share?

COVID-19 premium credits should be treated in the same fashion as Medical Loss Ratio (MLR) rebates. That means that the portion of the credit that is attributable to participant contributions must be treated as plan assets. If an employer pays the entire cost of insurance (such that there are no participant contributions), then none of the rebate would be considered a plan asset. More commonly, however, the employer and employee share the cost of insurance - in that case, the employer must determine the respective portion of total plan cost contributed by both parties so that the credit can be appropriately allocated between participants and the employer.

From there, the employer must determine what group of participants should receive the rebate. The simplest approach is to return the rebate to participants covered by the plan at the time the credit is received. Keep in mind that the distribution allocation method is not required to exactly reflect the premium activity of individual plan participants. As a result, in many situations the best solution will be to divide the rebate evenly across all current participants in the plan, even if those participants made different employee contributions to the plan (for example, because some were enrolled in individual coverage and others in family coverage).

In general, the most advisable distribution method is to apply the credit as a reduction of future participant contributions - a so-called "premium holiday." Credits should be distributed to participants within three months of receipt.

Employer Next Steps

- Employers that receive a premium credit will need to decide how they will administer the distribution of the credit to plan participants.
- Providing a "premium holiday" is the best practice distribution method.
- If you are a full-service client with HRK, contact your Client Account Manager to schedule the "premium holiday" on an upcoming payroll.
- If you are not a full-service client, you should work with your payroll provider to apply the "premium holiday".
- Credits should be distributed within three months of receipt.
- Please contact our [Benefits Team](#) if you have any questions.

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