

COBRA: Continuing Health Care Coverage

Health care is expensive. According to the National Coalition on Health Care, health insurance costs are increasing at five times the rate of inflation. For workers today, the average personal contribution for insuring a family has risen from \$52 in 1988 to \$201 in 2003 (National Coalition on Health Care, Facts on Health Insurance Cost, June 28, 2004). Group health insurance through an employer is typically less expensive than individual coverage. In the event your employment ceases, could you cover these costs out-of-pocket, and for how long? By law, you may be guaranteed continued coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA), but you will have to assume the cost of coverage.

COBRA applies to employers with more than 20 employees (except churches, the federal government, and the District of Columbia). This legislation requires an employer who maintains a group health insurance plan to provide employees with an option to remain covered by the employer's plan for a specified period of time, if the employees or their family members lose coverage upon the occurrence of certain events (such as reduced or terminated employment).

However, it's important to note that COBRA provides for continued coverage under the employer's existing plan, not a new form of coverage. Thus, employees who previously did not elect coverage either for themselves, their spouses, or their dependents may not elect continuation coverage that is broader in scope than the coverage they were provided during their employment.

Who is Covered?

To qualify for continuation coverage as a "covered employee," an employee must be a participant in his or her employer's group health insurance plan. An employee's spouse or dependent children will be covered as "qualified beneficiaries" if they were covered by the plan at the time of the employee's termination or reduction in work.

If continuation coverage is elected, the employer may charge the employee or beneficiary up to 102% of the employer's health insurance premium during the continuation period. The extra 2% is intended to reimburse the employer for administrative costs associated with providing continuation coverage.

What is the Coverage Period?

COBRA provides that the period of continuation coverage is based on two classes of qualifying beneficiaries. For widows, divorced spouses, spouses of Medicare-eligible employees, and dependent children who become ineligible for coverage (by virtue of age requirements), continuation coverage must be provided for at least 36 months.

Terminated employees, and employees with reduced hours, are eligible for only 18 months of coverage. If a qualified person wants to receive continuation coverage, he or she must elect to do so within a 60-day election period. Coverage must be provided during the 60-day period beginning on the date coverage would otherwise have lapsed. If a plan participant waives his or her right to elect continuation coverage during the 60-day period, the waiver may be revoked at any time up to the end of the 60-day period. The employer is not required, however, to provide retroactive coverage in this situation.

The continuation coverage under COBRA is a valuable component of an employee benefits package. With health care costs continuing to rise, having the option of continued coverage can be invaluable. As you take steps to build financial security, make sure you plan for the unexpected. Setting aside a cash reserve equal

to three to six months of your income can help you prepare for sudden, significant expenses, such as the responsibility of paying for your own health insurance.

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