

Intelligent Money



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Special Notes of Interest:

- 27,000 employees were laid off by Austin businesses during the 18 months ended June-30-2002
- A 1996 survey conducted by Charles D. Spencer & Associates, covering 1.42 million workers at about 200 firms, concluded that just 28% of eligible people opted for COBRA.

Current thinking from Haven Financial Advisors

Your Rights under COBRA

Over the past two years, the nation's unemployment rate has climbed from 4.0% to 6.0%. Initial unemployment claims nationwide are averaging nearly 400,000 per week. For most families, a job not only provides needed income but is also a source of critical group medical benefits. 65% of working age adults enjoy employer - provided medical coverage. In an uncertain economic climate, it is important to understand one's rights and options when employment is interrupted.

The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) affords considerable rights to employees and qualified beneficiaries to extend their group health coverage. Group health plans, for this purpose, are defined broadly to include dental plans, vision care, and prescription drug plans. However, long term care benefits are specifically excluded.

It's important to note that COBRA protections extend only to employees of larger firms. Federal employees and employers with fewer than 20 employees are exempt from the act. Failure to comply with the act will

result in an excise tax to the employer of \$110 daily for each person denied coverage.

Persons eligible for the extension of group coverage under COBRA include the employee and his immediate family members. Additionally, protection applies to any child born or placed for adoption during the period of COBRA benefits extension.

The COBRA protection period is triggered most commonly when an employee is terminated or upon his death. Formerly dependent children of covered employees who pass to adulthood may elect group coverage through COBRA. Another key trigger event that is often overlooked is the divorce or legal separation of the covered employee and his spouse.

In cases where the employer is unaware of the qualifying event, the employee or family member must notify the employer within 60 days or the right to COBRA coverage is lost. The cases of divorce and a child's passage from dependency require prompt

notification as the employer will not ordinarily be aware of the life status change.

COBRA specifies that qualified beneficiaries are entitled to extend their group health benefits without proof of insurability. The health insurance must be identical to that provided to active employees and their dependents. However, employers may provide the option of dropping such "noncore" benefits as dental and vision care.

The cost of continued coverage under COBRA may be passed onto the qualified beneficiary but it may not exceed 102% of the cost to provide group care to a similarly situated active employee. Many families that are used to an employer health care subsidy will suffer "sticker shock". COBRA coverage is going to be \$400 or \$500 a month instead of \$40 or \$50 a month. Failure to pay health insurance premiums in a timely fashion will terminate COBRA protection.

Younger and healthier workers might find that individual health policies may be cheaper than COBRA rates. As a practical



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Your Rights under COBRA (continued)

matter, many large employers will pay all or a portion of the cost of continued medical insurance for a year or so.

The coverage period varies with the triggering event. Terminated employees and their families enjoy 18 months of coverage under COBRA. Separated and divorced spouses have 36 months of group benefits. Disabled employees may extend coverage to 29 months. It is important to note that COBRA only provides a buffer period in the aftermath of a disruptive life event. It is best not to wait until that buffer period lapses before making other arrangements.

The key financial planning concern here is continued insurability. The qualified beneficiary runs the risk of becoming uninsurable during the COBRA coverage period. In the

event that one or more qualifying beneficiaries suffers a deterioration in health, their health care options are very limited. State health insurance pools are very expensive and Texas is no exception. It is important to find group coverage through a new employer or private insurance promptly. 18 to 36 months should be enough time to shop for a major medical insurance plan. You might want to consider a plan with high deductibles in order to reduce premiums.

If you change jobs, the new employer's group health plan may have a preexisting condition clause. This means that you will not receive any benefits for the treatment of any medical conditions you had at the time you were employed. Preexisting condition clauses usually expire after one year after which you

will receive full coverage.

COBRA may be helpful in this scenario. You can use COBRA benefits from your prior employer to cover preexisting conditions until your new employer's exclusion for preexisting conditions expires. Small and large employer group policies started or renewed on or after September 1, 1999, must provide annual open enrollment periods of at least 31 days for employees who are qualified to apply for coverage.

Another concern is mobility after loss of a job. If you relocate beyond your COBRA health plan's coverage area, you will forfeit its benefits; the employer is not required to offer you a plan in your new area. If a move is in order, make sure that your employer's health plan extends to the new area or that a new job awaits.

Texas Health Care Extensions

Many states have effectively enhanced COBRA's coverage period or its qualification definitions through legislation. Texas is one of those states.

If you meet certain requirements, state law requires that when your job or COBRA coverage ends, group plans must offer you the chance to continue your group coverage for six

months. Before the continuation period ends, they must provide information on how to enroll in the Health Insurance Risk Pool.

The six-month continuation period begins after any federal COBRA extension period ends or immediately if COBRA does not apply. If you are eligible and opt for COBRA coverage, you may

have a total of 24 months to find a new job and health coverage before having to apply to the Texas Health Insurance Risk Pool.

The risk pool is no bargain. As of January 2002, its rates were 180% of a standard commercial rate benchmark. That rate has escalated rapidly over the past several years.