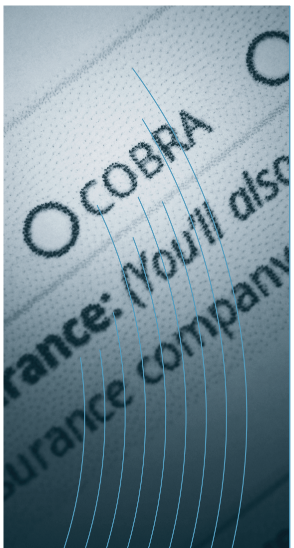
Health Insurance and COBRA

Sometimes You Can Take It with You



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IF YOU'RE LIKE MOST AMERICANS, you count on your employer for health insurance coverage. But what would happen to your health insurance if you suddenly stopped working or no longer qualified for benefits? No one can predict the future. It's possible that your company could lay you off or reduce your hours to part-time, your spouse could die, or your marriage could end in divorce. If something unexpected happened, you could be left without health benefits. And remember, buying private health insurance on your own can be pretty costly, especially if you're out of work.

Fortunately, there's the Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA). COBRA can prove to be a real lifesaver for you and your family when your health coverage is jeopardized. You may also benefit from the Health Insurance Portability and Accountability Act of 1996 (HIPAA), which took some further steps toward health-care reform.

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THE CONSOLIDATED OMNIBUS BUDGET RECONCILIATION ACT OF 1986 (COBRA) MAY HELP YOU CONTINUE YOUR HEALTH INSURANCE COVERAGE FOR A TIME

COBRA is a federal law designed to protect employees and their dependents from losing health insurance coverage as a result of job loss or divorce. If you and your dependents are covered by an employer-sponsored health insurance plan, a provision of COBRA entitles you to continue coverage when you'd normally lose it. Most larger employers (20+ employees) are required to offer COBRA coverage.

As an employee, you're entitled to COBRA coverage only if your employment has been terminated for any reason other than gross misconduct or if your hours have been reduced. However, your spouse and dependent children may be eligible for COBRA benefits if they're no longer entitled to employer-sponsored benefits because of divorce, death, or certain other events.

Unfortunately, you can't continue your health insurance coverage forever. You can continue your health insurance for 18 months under COBRA if your employment has been terminated or if your work hours have been reduced. If you're entitled to COBRA coverage for qualifying reasons, you can continue your coverage for 36 months.

- Divorce: If your former spouse maintained family health coverage through work (and works for a company with at least 20 employees), you may continue this group coverage for up to 36 months after the divorce or legal separation. You'll have to pay for this coverage, though. Your cost of continuing coverage cannot exceed 102 percent of the employer's cost for the insurance. COBRA coverage will terminate sooner than 36 months if you remarry or obtain coverage under another group health plan.
- Company goes out of business: Unfortunately, you may be out of luck here. If your company goes out of business and no longer has a group health insurance policy in force, then COBRA coverage will not be available. (A possible exception involves union employees covered by a collective bargaining agreement.)

If you're eligible for COBRA coverage and don't have any other health insurance, you should probably accept it.

Keep in mind that, whatever your circumstances, your employer may require individuals who elect continuation coverage to pay the full cost of the coverage, plus a two percent administrative fee. However, if you're eligible for COBRA coverage and don't have any other health insurance, you should probably accept it. Even though you'll pay a lot more for coverage than you did as an employee, it's probably less than you'll pay for individual coverage. You won't be subject to any health screenings, tests, or other pre-existing medical condition requirements when converting to a COBRA contract. Your COBRA benefits and coverage will be identical to those provided to similarly enrolled individuals.

THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996 EXPANDED COBRA

In 1996, HIPAA expanded certain COBRA provisions and created other health-care rights. In many ways, HIPAA took a significant step toward health-care reform in the United States. Some of its provisions may affect you. The major provisions of HIPAA:

- Allow workers to move from one employer to another without fear of losing group health insurance
- Require health insurance companies that serve small groups (two to 50 employees) to accept every small employer that applies for coverage
- Increase the tax deductibility of medical insurance premiums for the self-employed
- Require health insurance plans to provide inpatient coverage for a mother and newborn infant for at least 48 hours after a normal birth or 96 hours after a cesarean section

For example, assume you're pregnant and covered by a group health insurance plan at work. You decide to take a job at another firm. Under HIPAA, pregnancy cannot be considered a pre-existing condition for a woman who's changing jobs if she was previously covered by a group health insurance plan. So if you had insurance at your

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old job, you can't be denied health insurance coverage at your new job simply because you're pregnant.

However, many companies require you to be employed for 30 days or more before you become eligible for coverage. If you are nearing the end of your pregnancy, and that requirement poses a problem for you, you may be eligible for coverage under COBRA through your former employer.

For more information, or to schedule an estate planning meeting, call us at (716) 672-7800, or email me at JArcoraci@hbkswealth.com.

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As principal and senior financial advisor in the HBKS® office in Fredonia, New York, Jim Arcoraci specializes in providing personal financial planning, including investments, retirement, estate planning, education funding, tax management and wealth preservation strategies. He began his financial services career in 1995.