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Crystal Clear COBRA – Part 3

COBRA and Other Coverage

Employee Benefits Corporation

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Crystal Clear COBRA – Part 3

COBRA and Other Coverage

- Medicare's effect on COBRA elections
- Medicare's effect on early COBRA terminations
- COBRA and retiree benefit interactions
- Alternative coverage

COBRA Quick Facts

COBRA continuation period

18 Months - loss of coverage due to:

- Termination of employment
- Reduction in hours

36 Months - loss of family member coverage due to:

- Death of the covered employee
- Divorce or legal separation
- Employee's entitlement to Medicare, if the plan drops the employee
- Loss of dependent status

COBRA Quick Facts

- **COBRA maximum continuation period is normally 18 or 36 months**
- COBRA 18-month period can be extended
- **Medicare entitlement has an impact on the maximum continuation period**
- Alternative coverage can be offered if COBRA is waived
- **Paid retiree benefits can impact the maximum continuation**



Medicare's effect on COBRA elections

Medicare Quick Facts

Employee

- Individuals become eligible for Medicare at age 65 (i.e., are eligible for coverage), or due to disability or kidney failure (ESRD)
- For COBRA purposes, “entitled to Medicare” means the individual is eligible for and enrolled in Medicare
- **The Medicare entitlement of an active employee, spouse or dependent does not cause loss of group health plan coverage (Medicare Secondary Payer (MSP) rules)**
 - ✓ MSP rules do not allow the employer’s health plan to take into account the Medicare entitlement of the individual for providing coverage – can’t drop the employee or family members

Medicare and COBRA

Medicare eligible active employee or spouse age 65 or older

- Employee or spouse can postpone enrollment in Medicare with no late enrollment penalty as long as employer’s plan is creditable coverage
 - ✓ Not entitled to Medicare, group health plan provides coverage
- Employee or spouse can postpone receipt of Social Security benefits but enroll in Medicare
 - ✓ Is entitled to Medicare but group health plan remains primary
- **Employee or spouse who elects to receive Social Security benefits is automatically enrolled in Part A effective 1st of month of 65th birthday or 6 months prior to receipt of Social Security, whichever is later**
 - ✓ Is entitled to Medicare but group health plan remains primary

Medicare After COBRA Enrollment

Medicare entitlement after electing COBRA

- QB becoming entitled to Medicare after COBRA election date is reason to terminate COBRA early for that QB
 - Other QBs on the plan do not lose their coverage
- *Example:* Bill retired at age 64 and had his wife, Mary age 62, on his health plan. Bill and Mary were offered 18-months of COBRA coverage. At age 65, Bill enrolls in Medicare and is entitled to benefits May 1. Bill's COBRA ends April 30. Mary can continue for the remainder of the 18-months
 - ✓ **Note: This is not a 36-month event for Mary**



Medicare's effect on early COBRA terminations

Medicare Before COBRA Enrollment

Covered employee's Medicare entitlement prior to termination (retirement)

- QB is offered 18-months COBRA at termination/retirement
- Spouse and any dependent children are offered:
 - ✓ 18-months COBRA from loss of coverage date, or
 - ✓ 36-months COBRA counted from retiree's Medicare entitlement date; whichever is greater

Medicare Before COBRA Enrollment

Medicare entitlement prior to electing COBRA

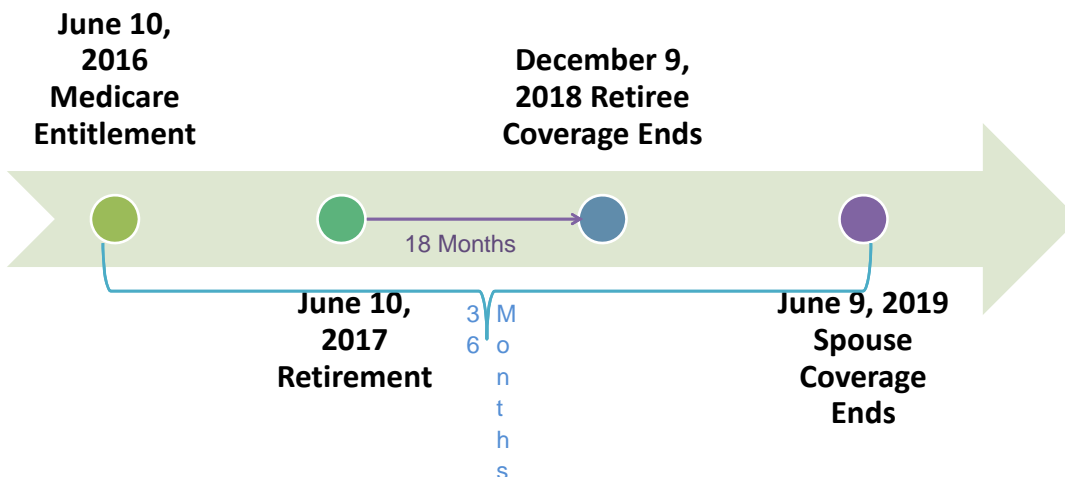
- If a QB becomes entitled to Medicare before electing COBRA, the QB is provided the maximum coverage period arising from the event
 - ✓ *Example:* Bob became entitled to Medicare 6 months before retiring. Bob is offered 18-months of COBRA at retirement.
 - ✓ *Example:* Mary's husband became entitled to Medicare prior to Mary's retirement. Mary and her husband are both offered COBRA for 18-months when Mary retires.
 - ✓ *Example:* Bill retires June 30, elects COBRA on July 1 and will turn age 65 in July. Bill becomes entitled to Medicare July 1. Bill is eligible for 18-months of COBRA coverage, because his Medicare entitlement and COBRA election date are the same day.

Medicare Entitlement Before COBRA

36 Months for Spouse

- Example: Bonnie becomes entitled to Medicare one year before she retires. Bonnie is offered 18 months of COBRA. Her husband George is offered 36-months of COBRA counted from Bonnie's original entitlement date. For George, this will provide an additional 6 months of continuation.

Medicare Before COBRA Enrollment



Medicare Before COBRA

Covered employee's Medicare entitlement prior to retirement

- **18-months is greater period for spouse**
 - ✓ *Example:* Jim became entitled to Medicare 2 years prior to retiring. Jim is offered 18-months COBRA. His wife, Mary is also offered 18-months COBRA from July.
 - ✓ **Going back 2 years and offering 36-months COBRA to Mary from that date would only provide 12 months of COBRA coverage after Jim retires**



- **COBRA and Retiree Benefits**

Paid Retiree Benefits

- **Termination of employment (retirement) is a triggering event**
- Employer can pay for benefits for a period of time
- **Employer has 3 options for how to treat the paid retiree benefit**

Paid Retiree Benefits

Options related to paid retiree benefits & COBRA

- 1. Postpone loss to end of employer payment**
 - ✓ No COBRA if payment ceases more than 18 months after termination
- 2. Offer COBRA at retirement**
 - ✓ Employer payment contingent on electing COBRA and paid benefit is concurrent with COBRA
- 3. Offer COBRA at retirement at retiree expense, if waived - alternative coverage provided**
 - ✓ Employer's payment offered for alternative coverage (can be the same plan at same premium or different benefits or premiums)

Paid Retiree Benefits

Option 1 - Postpone loss of coverage until paid benefit ceases

- **Employer provides payment for specified period**
- **If payment ceases prior to end of 18 months after retirement, COBRA offered when payment ends**
 - ✓ COBRA period is from the payment cessation date
- **If payment ceases more than 18 months after retirement, no COBRA offer when payment ends**

Paid Retiree Benefits

Option 1 - Postpone loss of coverage until paid benefit ceases

- **Family member QBs that lose employer paid coverage during the first 18 months due to death, divorce or dependent status are offered COBRA for 36 months counted from the date of death, divorce or loss of dependency status**
- **Family members that lose employer coverage (not just the payment) within 18-months due to Medicare entitlement of the retiree are offered 18-months of COBRA from the date of loss due to Medicare entitlement.**

Paid Retiree Benefits

Option 1 – Postponed Loss examples

ABC Corp provides 3 years of paid health insurance or to age 65, whichever occurs first, for employees that retire at or after age 57

- Assume Bill retired at age 60. Bill receives 3 years of paid health insurance – no COBRA when payment ceases
- **Assume Bill dies at age 61 (1 year later), his spouse is offered COBRA for 36 months counted from the death date**
- Assume Bill retired at age 64. One year later ABC's payment ceases due to Bill turning age 65 (Medicare entitlement). Bill and his wife lose employer paid coverage and are offered COBRA for 18 months counted from his loss of employer payment date

Paid Retiree Benefits

Option 2 - Offer COBRA to run concurrently with paid benefit

- **COBRA period for retiree is 18 months**
- Employer payment can be for any period of time and is contingent on retiree electing COBRA
- **If employer payment ceases prior to end of 18-month period, retiree and any family member QBs stay on COBRA for remainder of 18-month period at retiree/QB expense**
- If employer payment continues past the 18-month period, COBRA ends but retiree can stay on plan as a paid benefit from employer

Paid Retiree Benefits

Option 2 - Offer COBRA to run concurrently with paid benefit

- Family member QBs that lose coverage during the first 18 months due to death, divorce or dependent status are offered COBRA for 36 months counted from the original loss of coverage date
- Family members that lose employer paid coverage within 18-months due to Medicare entitlement of the retiree can continue COBRA for remainder of original 18 months
- **If employer payment ends after 18-month period, retiree and family members can stay on employer's plan at retiree expense only if the plan allows (have already received the maximum 18-month COBRA period)**

Paid Retiree Benefits

Option 2 - Concurrent COBRA example

ABC Corp provides 3 years of paid health insurance or to age 65, whichever occurs first, for employees that retire at or after age 57 and elect COBRA

- Assume Bill retires at age 60. Bill receives 3 years of paid health insurance – COBRA exhausted after first 18-months, remainder is retiree benefit
- Assume Bill dies at age 61 (1 year later), his spouse is provided extended COBRA for 36 months counted from his original loss of coverage date
- Assume Bill retired at age 64. One year later ABC's payment ceases due to Bill's Medicare. Bill's wife can continue COBRA for remainder of original 18 months at her expense (or employer can continue to pay for her)

Paid Retiree Benefits

Option 3 - Provide alternative paid retiree coverage

- **Retiree is offered choice of COBRA, at retiree expense, or employer paid alternative coverage for the specified period**
- **Employer payment of alternative coverage contingent on retiree waiving COBRA for active employee plan**
- **Employer paid alternative coverage can be same plan that active employees have or separate plan**

Paid Retiree Benefits

Option 3 - Provide alternative paid retiree coverage

- **When employer's payment ceases, retiree is not offered COBRA (rights were waived when choice was made for alternative coverage)**
- **Family member QBs that lose coverage during the alternative coverage period are offered COBRA for 36 months counted from the event date**
 - ✓ Retiree dies during paid benefit period, surviving QBs offered 36 months of COBRA from death date
 - ✓ Retiree and spouse lose alternative coverage due to retiree's Medicare entitlement; spouse is offered 36 months of COBRA from Medicare entitlement date

Paid Retiree Benefits

Option 3 - Alternative coverage example

ABC Corporation provides alternative retiree coverage of 3 years of paid health insurance or to age 65, whichever occurs first, for employees that retire at or after age 57 and waive COBRA

- Assume Beth retires at age 60. Beth waives COBRA and receives 3 years of paid health insurance – no COBRA when payment ceases
- **Assume Beth dies at age 61 (1 year later) and the alternative coverage ceases. Beth's spouse is offered COBRA for 36 months counted from her death date**
- Assume Beth retired at age 64. One year later ABC's alternative coverage ceases due to Beth turning age 65. Beth's spouse is offered 36 months COBRA from Beth's Medicare entitlement date

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Alternative coverage

Alternative Coverage

- **Employer can offer QB alternative coverage to COBRA**
 - ✓ Most common example is with retirees
- Retirees are offered COBRA, at retiree expense, for the active employee health plan or choice of employer paid alternative retiree coverage
 - ✓ Alternative plan can be the same plan as active plan or different plan
- **Alternative plan contingent on retiree waiving COBRA for the active employee health plan**
- If retiree chooses alternative coverage, employer pays for coverage under terms of plan
- **COBRA event due to retiree's Medicare entitlement contingent on terms of employer's alternative coverage**

Alternative Coverage

Option #1 - Employer pays for alternative coverage for maximum period, regardless of Medicare entitlement of retiree or spouse

- **When employer's payment ends, no COBRA offered**
- **Example:** Bill's employer will pay for 3 years of alternative coverage for Bill. If Bill or his wife become entitled to Medicare during the 3 years, the alternative coverage becomes secondary to Medicare. At the end of 3 years, there is no qualifying event – Bill waived COBRA at retirement.

Alternative Coverage

Option #2 - Employer pays for maximum period or until retiree is entitled to Medicare, whichever occurs first

- **Assume retiree becomes entitled to Medicare prior to maximum period – no COBRA for retiree, it was waived at outset**
 - ✓ If spouse also loses coverage when retiree becomes entitled to Medicare, spouse is offered 36-months COBRA for alternative plan from retiree's Medicare entitlement date
 - ✓ If spouse remains eligible for paid alternative coverage when retiree loses coverage, no COBRA offered to spouse when payment is exhausted or spouse becomes entitled to Medicare

Questions?

Thank you for attending!

Any questions can also be addressed by e-mail or phone:

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