Ed Gaelick, CLU, ChFC

DONT GET TRAPPED IN COBRA

With the enactment of the Affordable Care Act (commonly called Obamacare), bouncing from medical plan to medical plan any time you want is no longer possible. There are only certain times when you can enroll and/or change policies. This is quite different from the past when you were able to "price shop" and get other coverage whenever you wanted. We all need to know the new rules to avoid getting trapped in a plan we cannot afford, doesn't fit our needs or even worse – without any coverage at all.

One situation that seems to come up repeatedly as a servicing issue with my office is when someone leaves a company and is given the opportunity to continue his/her coverage under State Continuation or federal COBRA. Should someone elect to extend their benefits under their previous employer's plan, the person may be locked into this decision until their next Open Enrollment Period or will need to experience a triggering event to qualify for a Special Enrollment Period.

For those of you that are not familiar with the term COBRA, it is an acronym for the Federal Consolidated Omnibus Budget Reconciliation Act of 1985. Under this provision, an employee and/or their covered dependents are eligible to continue their benefits under the group health plan beyond the date they would normally terminate when a qualifying event occurs. Generally speaking, this applies to businesses that have 20 or more full time equivalent employees. Some States (but not all) have implemented similar regulations for businesses that have less than 20 employees. For the purposes of this article, I will refer to all continuation rights as COBRA.

Let's say your employer downsizes and you get laid off. They offer a generous severance package which includes an offer to pay your COBRA premium for three months. You research other options and see you can enroll in a lower premium plan in the individual market compared to what COBRA will eventually cost you. But how can you pass up on the opportunity to get free coverage, even if it is only for a few months? So you elect COBRA knowing the premium payment amount in the fourth and future months will be higher than what you would have paid in the individual market. Your logic is you'll simply drop COBRA at that point and enroll elsewhere.

Three months pass and now you are responsible for the premium. You try to enroll in that lower premium plan in the individual market you found a few months ago, but are declined by the carrier. Unfortunately you just fell into the trap.

You are still eligible to continue the coverage at your own cost so there was no "involuntary" loss of coverage to generate a triggering event that would create a Special Enrollment Period. So you get creative and think to lapse your coverage … but not paying premiums whereby the carrier cancels your plan is not an "involuntary" loss of coverage either. To make matters worse, your former employer gets a significant increase from their insurance company. Consequently, your premium increases significantly as well. Now what?

Assuming you want to maintain coverage, and I certainly encourage that, you'll need to pay the higher amount and wait until your next Open Enrollment Period. When you lose job-based health coverage, whether there is a severance agreement or not, it's important that you choose carefully between COBRA and other coverage options that may be available to you at that time. Once you've made your choice, it can be difficult or impossible to switch to another coverage option so take this "trap" into consideration before making any decisions.

In 1985, Ed Gaelick, CLU, ChFC, established PSI Consultants, LLC where he specializes in company sponsored employee benefits, business planning and personal insurance. Throughout his career, Ed has received many of the highest professional honors awarded in the insurance industry. His integrity has earned him great respect from his clients, staff and business associates. His knowledge has made him a sought after speaker.

Disclaimer: This article is intended to provide guidance only. PSI Consultants, LLC is located in New Jersey. Regulations may vary by State and/or size of company.

www.psi-consultants.com