

Anthony P. Curatola, Editor

COBRA Coverage |

BY ANTHONY P. CURATOLA

Congress passed the landmark Consolidated Omnibus Budget Reconciliation Act (COBRA) health benefit provisions in 1986. The law provides certain former employees, retirees, spouses, former spouses, and dependent children the right to temporary continuation of health coverage at group rates. But this coverage is

only available when coverage is lost due to certain specific events. Most tax accountants are already familiar with the general rules associated with COBRA, so this article will look at some of the lesser-known rules, such as a dependent child who graduates from college, a technical school, or simply elects not to return to full-time status.

COBRA Basics

In general, COBRA applies to

employers that offer a group health plan and have 20 or more full-time or part-time employees and those employees who voluntarily or involuntarily lose their employment (other than for gross misconduct) or suffer a reduction in employment hours.

This law provides qualified persons the right to temporary (usually 18 months) continuation of health coverage at group rates through the employer's insurance

plan. Although COBRA is a federal law, many states have passed mini-COBRA laws that are more generous in some situations than the federal law. Hence, an employee may want to check out the applicable rules for his or her state.

COBRA Coverage

One event that can cause an employee to lose health coverage for a dependent child is when the child has celebrated his or her 19th birthday and is no longer a full-time student. In this case the employee is more than likely qualified for COBRA coverage. Although this seems straightforward, there are a host of pitfalls in this area that may cause a parent to lose some sleep. So let's look at some of the issues.

Situation 1. If a dependent child graduates from college in June, he or she still qualifies as a child for claiming the dependency exemption as long as the child was a full-time student for at least five months during the tax year. Unfortunately, the same rule doesn't apply for coverage under an employee's insurance plan. The child generally is dropped from the employee's insurance plan

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beginning the month after graduation or upon dropping out of school. This can cause some problems unless action is taken by the employee.

An employee is responsible for notifying the plan administrator that the child is graduating and that COBRA coverage may be needed. If the child has secured a job but isn't eligible for insurance coverage from his or her new company for a certain period (e.g., six months or a year), then the child may want to take advantage of COBRA coverage. The same situation would apply if the job doesn't begin for six months or so.

Situation 2. A child completes the first or second year of higher education and enjoys the summer. At the

start of the new academic year, the child informs the parent that he or she has decided not to return to class. Now things get dicey. Pursuant to the Department of Labor, a qualified beneficiary must be given at least 60 days for the election. This period is measured from the later of the coverage loss date or the date the COBRA election notice is provided by the employer or plan administrator. In this case, the employee is responsible for notifying the plan administrator of a qualifying event within 60 days after a child's ceasing to be covered as a dependent under plan rules. The question is: When does the notification period begin? Does the 60-day period begin on the last day the child was a full-time student, the first day of the new acade-

mic year, or the day that the child notified the parent of the decision to drop out? Although a definitive answer hasn't been found, the employee can expect to have the claim denied for not being submitted in a timely manner. In such a case, the employee should be prepared to appeal the decision on the basis that the 60 days can't possibly begin prior to knowing the child isn't returning to school.

Although one can't predict the time associated with an appeal, the Department of Labor does provide some rules. If the claim is denied, the employee must be given notice of the denial in writing generally within 90 days after the claim is filed. The notice should state the reasons for the denial, any additional

information needed to support the claim, and procedures for appealing the denial. Finally, the employee has at least 60 days to appeal a denial and must receive a decision on the appeal generally within 60 days after that.

Now, if COBRA coverage is awarded, the starting date for the coverage is generally the month following the last day of full-time status as a student. In the case where classes ended in May, then the starting month for coverage is June. Thus, the first COBRA premium could be for several months.

Cost for COBRA Coverage

In many cases, medical insurance costs are paid by a company or are shared by the company and employ-

ee. This generally isn't the case for the cost of COBRA coverage: The employee usually pays the entire cost of the COBRA coverage. As a result, the monthly cost is likely to be significantly higher. But the predominant view is that COBRA costs less than individual health coverage. This may or may not be true. The only way for a person to know which is more costly is to do some price checking. Hence, give the local insurance providers a call and see what the cost is for coverage. You might be surprised to learn that the cost is less than COBRA coverage. If it isn't, you have the mental comfort in knowing that you got a good deal. ■

For more information on COBRA, see

“An Employee’s Guide to Health Benefits under COBRA” (www.dol.gov/ebsa/pdf/cobraemployee.pdf) or the Department of Labor’s FAQ about COBRA Continuation Health Coverage (www.dol.gov/ebsa/faqs/faq_consumer_cobra.html).

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