

COBRA Basics for the Employer and Employee

Center for Insurance Education
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COBRA stands for the Consolidated Omnibus Budget Reconciliation Act. Provisions of this federal law give many employees the right to continue health coverage sponsored by their employer for a limited time (usually up to 18 months) after their employment ends.

COBRA applies to group health insurance plans sponsored by an employer in the private sector or state or local government that employed at least 20 employees on more than 50 percent of its typical business days in the previous calendar year.

An employee may elect COBRA continuation coverage if she loses her health coverage because of termination of employment for any reason other than "gross misconduct," or if she no longer qualifies for coverage because her work hours have been reduced. If the employee's spouse is covered by the employer-sponsored health plan, he also can elect to continue coverage. Both employee and spouse can continue coverage for up to 18 months in these circumstances.

In addition, a spouse covered as a dependent can continue coverage for up to 36 months if the employee loses her health coverage because she becomes entitled to Medicare, if the employee dies, or if the employee and the spouse are divorced or legally separated.

The above are the minimum requirements-any employer-sponsored plan is of course free to offer continued coverage for a longer time.

If an individual chooses to continue her employer-sponsored coverage under COBRA, the employer is not required to continue any premium contribution it has been making, and the individual must pay the full cost of coverage herself. Specifically, she can be charged up to 102 percent of the cost of coverage, and if this cost increases, the amount she is charged may be increased (although this amount must be fixed in advance of each 12-month premium cycle).

Continuation coverage must be identical (in terms of covered services, benefit amounts, cost-sharing payments, rules and restrictions, etc.) to the coverage currently available under the health plan to similarly situated active employees and their dependents.

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An employer-sponsored health plan may terminate an individual's COBRA continuation coverage early if one of the following occurs:

- The individual does not pay premiums in full in a timely manner.
- The individual obtains coverage under another group health plan (provided the new plan does not impose an exclusion or limitation on a preexisting condition of the individual).
- The individual becomes entitled to Medicare benefits.
- The individual engages in conduct (such as fraud) that would justify the plan in terminating coverage of a regular insured.
- The employer ceases to sponsor any group health plan.

If a health plan gives participants whose group coverage terminates the option to convert to an individual insurance policy or a state's high risk pool, the plan must give the same option to COBRA continuants when their continuation coverage ends. The plan must offer this conversion option to the individual no later than 180 days before her continuation coverage ends. The individual is not entitled to the conversion option if continuation coverage is terminated early. The premium for an individual conversion policy may be more expensive than the premium of a group plan, and the conversion policy may provide a lower level of coverage.

To learn more about health insurance, read the AHIP book [The Health Insurance Primer: An Introduction to How Health Insurance Works](#).