

18 Month Qualifying Event Notice

[today's date]

[term'd employee name]

[term'd employee address]

Re: Notice of Right to Elect COBRA Continuation Coverage

Dear [term'd employee name],

It is important that all covered individuals read this notice carefully. In addition, if there is a covered dependent whose legal residence is not yours, please provide us in writing with the appropriate address so that a notice can be sent to them as well.

Loss of Health Coverage and Qualifying Event: Your last day of health insurance coverage under the group health plans maintained by [name of employer] is [end-of-current-month date]. This means a health claim occurring after that date will not be a covered expense. Your loss of health insurance is resulting from Termination of Employment on [term date]. However, under provisions of COBRA, this constitutes a "qualifying event", which allows covered individuals to buy back your group health insurance, and continue the coverage for a period of time. Covered participants' COBRA rights and obligations are covered in this notification.

Individual Election Rights and Eligibility: Each individual who was covered under the plan (on the day before the qualifying event) is a "qualified beneficiary", and has independent election rights to continuation coverage. This means each dependent that was covered can elect independently to continue coverage, even if the covered employee chooses not to. However, continuation coverage is available to qualified beneficiaries subject to their continued eligibility. [Company Name] reserves the right to verify eligibility status and terminate continuation coverage, back to the original COBRA effective date, if it is determined that the beneficiary is ineligible or coverage was obtained through a material misrepresentation of the facts.

Electing Coverage:

Please note that the last day to elect coverage is [60 days past term date?].

Step 1 - Complete, Sign, and Date the election form.

Step 2 - Make a copy of the signed election form for your records.

Step 3 - Mail the signed election form back to [Employer's Name] at the address listed on the form. While not required, it is recommended that you obtain proof from the Post Office that you mailed the form. Your election is deemed made on the date that the election form is sent to the plan administrator. If the election form is not postmarked within 60 days, then rights to continue coverage will end.

Step 4 - Call the plan administrator within 10 days to confirm that the election form has been received.

No Coverage During Election Period: Qualified beneficiaries will not be covered during the election period. However, if a COBRA election is made as described in the preceding paragraphs, and applicable premiums are paid as detailed in the next paragraphs, then the health insurance will be reactivated, back to the loss of coverage date, and pending claims will be released for payment.

Premium Payments

If you elect to continue your health insurance, a qualified beneficiary is responsible for the coverage selected, plus a 2% administration charge. The applicable premium includes both the employer and employee's share of the total premium. COBRA premium payments can be either hand-delivered or mailed. If hand-delivered, it must be delivered to personnel in the health benefits department. If mailed, document the date the premium is sent, and call within ten days to insure the payment has been received. If premiums are not hand-delivered, or not mailed and postmarked, within the required premium periods described below, then COBRA rights and protections will be forfeit. Any person or entity can pay COBRA premiums for a qualified beneficiary; however, it is the qualified beneficiary's responsibility to insure that payment is made on a timely basis. The state may also have a premium payment program that may assist you with the payment of your premium, should you elect COBRA.

Initial Premiums – If payment is sent with the election form, proceed to Monthly Premiums (below). If not, a qualified beneficiary has a maximum of 45 calendar days from the date of election to pay the initial premiums. This initial premium payment is for the retroactive coverage period from loss of coverage to the date that you elect continuation coverage. For example, if you lost health insurance on January 31st, and elected COBRA coverage on March 1st, you would have until April 15th to pay (for the month of February). If you take full advantage of this 45-day premium payment period, additional prospective monthly payments would also be due concurrent with this initial payment. This additional premium would cover any monthly coverage periods that fall after the date of election, but before the 45th

day. For example, if you pay for February on April 15th, but wanted health coverage for the month of March as well, your initial premium payment would have to cover that period also. If you fail to make the premium payment for March, then your COBRA coverage would terminate at the end of February. You are not allowed to pay for March, but not for February. This 45-day period is the maximum period in which to make the initial premium payments. If you make an initial payment prior to the end of this period, then the regular monthly due dates and grace periods will apply as described in the Monthly Premium section (below).

If a medical provider (e.g., hospital, physician, or pharmacy) requests verification of benefits during this period, they will be told that you have elected coverage, but have yet to pay the premium, and that no claims will be paid until the premium is paid.

Monthly Premiums – Once your initial premiums are paid, monthly premiums are due on the first of each month. You will have a 30 day (maximum) grace period following the due date in which to make these premium payments. For example, if you paid the initial premium for February and March on April 15th, and want health coverage for April, the due date is April 1st, but with the 30 day grace period, you will have until May 1st to actually pay for April. May 1st is also the due date for May, and you would now be in the regular monthly cycle. If applicable payment is not made within the grace period, then coverage will be canceled back to the end of the prior month. Once COBRA coverage is canceled, it will not be reinstated. Partial payments will not be accepted. It is the qualified beneficiary's responsibility to make these monthly payments, and there will be no monthly billing statement or warning notices.

Any claims occurring during the month will be held pending receipt of payment. If a medical provider requests verification of benefits during this period, they will be told that you are covered, but that the monthly premium has not been paid, and coverage is subject to retroactive cancellation.

Monthly premium amounts will be adjusted in the future if the applicable premium amount changes. If so, you will be notified as soon as possible prior to the new rates going into effect. If coverage is extended to 29 months due to a Social Security disability (see below), premiums can equal 150% of the applicable premium during the 11-month coverage period.

Health Coverage Available to Elect

Our records indicate that on the day before the qualifying event, each qualified beneficiary was covered by [name(s) of carrier(s)]. If Single Plan – Under the provisions of COBRA, each qualified beneficiary can elect to continue all the coverages as a package; the Single Plan does not allow the plan to be unbundled.

If Separate Plans – Under the provisions of COBRA, each qualified beneficiary can elect to continue all coverages, or any single coverage, or any combination of coverages. The applicable premium(s) will vary depending on the coverage(s) elected. If you are covered by a region-specific HMO, and are moving outside of the HMO service area, additional rights may be available to you at the time of the event. Please call the benefits department for additional information. Once an election of continuation coverage is made, the coverage may change if modifications are made to the coverage provided to active employees, or if an open enrollment occurs.

Length of Continuation Coverage – 18 Months

If elected, each qualified beneficiary has the right to continue coverage for 18 months from the date of the qualifying event. This means coverage will be available through [18 month later date]. However, there are two situations that will extend COBRA coverage:

Social Security Disability – The 18 months will be extended for an additional 11 months of coverage, to a maximum of 29 months total, for all qualified beneficiaries, if the Social Security Administration (SSA) determines that a qualified beneficiary was disabled according to Title 11 or XVI of the Social Security Act, either on the date of the qualifying event, or at any time during the first 60 days of continuation coverage. If a newborn or adopted child is added to a covered employee's COBRA coverage, the 60-day disability window for that child starts on the day of their birth, or the date of adoption. It is the qualified beneficiary's responsibility to obtain the disability determination from the SSA and provide a copy to [Employer's Name] within 60 days of the date of determination, and before the original 18 months of COBRA expire. This notice can be made by any of the qualified beneficiaries.

This extension applies separately to each qualified beneficiary. If the disabled qualified beneficiary chooses not to continue coverage, the other qualified beneficiaries are still eligible for the extension. If coverage is extended, and the disabled qualified beneficiary has elected to extend, then the applicable premium rate is 150% of the pre-extension rate. If only non-disabled qualified beneficiaries extend coverage, the premium rate will remain at the 102% level. It is also the qualified beneficiary's responsibility to notify [Employer's Name] within 30 days of a final determination that they are no longer disabled.

Secondary Events – An extension of the original 18 (or 29) month continuation period can also occur, if a second qualifying event (e.g., divorce, legal separation, death, Medicare entitlement, or change in dependent status) takes place during the 18 (or 29) months of continuation coverage. If a second event occurs, then the original 18 (or 29) months of continuation coverage will be extended to 36

months from the original event date for eligible qualified beneficiaries. If a second event occurs, it is the qualified beneficiary's responsibility to notify [Employer's Name] in writing within 60 days of the second event, and within the original 18-month COBRA timeframe. In no event will continuation coverage last beyond 3 years from the date of the event that originally made the qualified beneficiary eligible for COBRA.

New Dependents and Open Enrollment

If, during the 18 (or 29) months of COBRA coverage, a qualified beneficiary acquires new dependents (e.g., through marriage), the new dependents may be added to the coverage according to the rules of the plan. However, the new dependents do not gain the status of a qualified beneficiary, and will lose coverage if the qualified beneficiary who added them to the plan loses coverage.

An exception to this: if a child is born to, or adopted by, the covered employee beneficiary. If the newborn or adopted child is added to the covered employee's COBRA coverage, then, unlike a new spouse, the new child will gain the rights of all other qualified beneficiaries. Such addition of a child does not extend the 18 (or 29) month coverage period. Plan procedures for adding new dependents can be found in the Summary Plan Description. Premium rates will be adjusted at that time to the applicable rate.

In addition, should an open enrollment occur during your COBRA continuation period, we will notify you of that. If an open enrollment period occurs, each qualified beneficiary will have independent election rights to select any of the options or plans that are available for similarly situated non-COBRA participants.

Cancellation of Continuation Coverage – COBRA continuation coverage will end prior to the expiration of the 18 (or 29, or 36) month period for any of the following reasons:

1. [Employer's Name] ceases to provide any group health plan to any of its employees
2. Any required premium for continuation coverage is not paid in a timely manner
3. A qualified beneficiary becomes, after the date of election, covered under another group health plan that does not contain any exclusion or limitation with respect to pre-existing condition of such beneficiary other than such an exclusion or limitation that does not apply to (or is satisfied by) such beneficiary by reason of the Health Insurance Portability and Accountability Act of 1996 (HIPAA)
4. A qualified beneficiary becomes, after the date of election, entitled to Medicare
5. A qualified beneficiary extended continuation coverage to 29 months due to a Social Security disability, and a final determination has been made that the qualified beneficiary is no longer disabled (coverage ends the first day of the month after 30 days from the final determination)

6. A qualified beneficiary notifies [Employer's Name] in writing that they wish to cancel continuation coverage
7. For cause, on the same basis that the plan terminates for cause the coverage of similarly situated non-COBRA participants

Conversion Policy

If available, at the end of the 18 (or 29, or 36) months of continuation coverage, a qualified beneficiary must be allowed to enroll in the individual conversion health plan provided by [Carrier's Name]. [Employer's Name] will notify you in writing of this right approximately 30 days prior to the continuation coverage expiration date.

Certificate of Health Insurance Portability

Enclosed with this notice is your **Certificate of Health Insurance Portability**. It details the amount of time you have been covered under our group health insurance plans.

Under the HIPAA, the time covered under our group health plan (inc. COBRA coverage, if elected) may be used to reduce a new health plan's pre-existing condition period. For example, if you were covered under our health plan for 10 months (inc. COBRA coverage) and your new plan has a 12-month pre-existing condition clause for new enrollees, the new plan would subtract 10 months from the 12 months, which would leave you with only a 2-month pre-existing condition period. However, for your coverage under our plan to be counted under a new health plan, there must not be a break in coverage for more than 63 days from the time our plan (inc. COBRA coverage) ceases, to the date of enrollment in your new health plan.

Questions regarding a new health plan's pre-existing clause, and the impact the HIPAA will have, should be directed to your new health plan. If you obtain other health insurance, present this **Certificate of Health Insurance Portability** to your new health plan, and they will determine whether any benefits are available to you.

If you elect COBRA coverage, an updated Certificate will be sent to you when your COBRA coverage ceases. If you lose the enclosed Certificate, one can be requested up to 24 months from the date your coverage (inc. COBRA coverage) ceases.

Address Change and Plan Questions

To receive accurate and timely information regarding your continuation rights, please notify [Employer's Name] of any change in address immediately. If you

have any questions as to the contents of this notice or your COBRA rights, please contact [Employer's Name]. This notice is not a description of your actual benefits under the policy. Should a qualified beneficiary need actual plan benefits information to assist in making the election decision, please consult the Summary Plan Description, or call the benefits department and information will be provided for you.

What is the Health Insurance Portability and Accountability Act of 1996?

In 1996, the federal government passed into law the Health Insurance Portability and Accountability Act (HIPAA). This law provides eligible individuals who have recently lost their employer-sponsored group health plan the opportunity to purchase health insurance coverage even if they have a pre-existing health condition. If you meet the definition of an eligible individual, all health insurance companies who sell individual plans must offer you health insurance regardless of your medical history. This requirement is called "guaranteed issue". You may not be declined coverage based on medical reasons. In order to qualify as an eligible individual you must meet the following conditions:

1. Your last health care coverage must have been under an employer-sponsored group health plan, which includes COBRA or Cal-COBRA continuation coverage, for at least 18 months. This prior 18-month coverage is referred to as "creditable coverage".
2. All available COBRA or Cal-COBRA continuation coverage has been elected and exhausted. If you qualify for COBRA or Cal-COBRA, you are required to have accepted and continued the coverage for the maximum time period allowed. Note: when an employer terminates its existing group health plan entirely, COBRA or Cal-COBRA coverage ends, and is considered exhausted.
3. You are not eligible under a group health plan, Medicare, Medi-Cal, and do not have other health insurance coverage.
4. You did not lose your most recent health coverage due to nonpayment of premium or fraud.

Once COBRA or Cal-Cobra has been exhausted, you have 63 days to file an application to purchase a guaranteed issue HIPAA policy with an insurance company or health plan. All carriers that sell individual health care policies must offer their two most-marketed individual plans to HIPAA-eligible individuals regardless of your health status. If you accept a conversion policy or a short-term policy after exhausting COBRA or Cal-COBRA, you give up your HIPAA eligibility. It is important to understand that a conversion policy is not a HIPAA policy.

When applying for an HIPAA policy, you can present a Certificate of Credible Coverage from your insurance company or health plan as part of the application process. The Certificate of Credible Coverage is a written statement from your insurance company or health plan showing the length of time you have been

covered. The Certificate can be used as proof of your 18 months continuous creditable coverage when applying for an HIPAA policy.

Although HIPAA is federal law, as of January 1st, 2001, California state law generally conforms with HIPAA. Depending on the type of coverage you have (indemnity or HMO), you can contact either the California Department of Insurance (CDI) or the Department of Managed Health Care (DMHC) if you are experiencing problems securing an HIPAA policy.

Important Points to Remember about HIPAA:

HIPAA gives eligible individuals who have lost group coverage the opportunity to purchase individual health coverage. HIPAA-eligible individuals are not subject to medical underwriting. HIPAA policies must be issued to eligible individuals on a guaranteed issue basis, regardless of any pre-existing medical condition. You have only 63 days after COBRA or Cal-COBRA runs out to file an application to purchase an HIPAA policy. HIPAA policies are not conversion policies. Accepting a conversion or short-term policy terminates your HIPAA eligibility. You may contact the CDI or the DMHC depending on the type of coverage you have (indemnity or HMO) if you are experiencing problems with HIPAA.