

GROUP HEALTH CONTINUATION COVERAGE UNDER COBRA

On April 7, 1986, a federal law was enacted (Public Law 99-272, Title X) requiring that most employers sponsoring group health plans offer employees and their families the opportunity for a temporary extension of health coverage (called "continuation coverage") at group rates in certain instances where coverage under the plan would otherwise end. This notice is intended to inform you, in a summary fashion, of your rights and obligations under the continuation coverage provisions of the law. **(Both you and your spouse should take the time to read this notice carefully.)**

If you are an employee covered by a Group Health Plan, you have a right to choose this continuation coverage, if you lose your group health coverage because of a reduction in your hours of employment or the termination of your employment (for reasons other than gross misconduct on your part). If you are the spouse of an employee covered by a Group Health Plan, you have the right to choose continuation coverage for yourself, if you lose group health coverage under a Group Health Plan for **any** of the following four reasons:

- (1) The death of your spouse;
- (2) A termination of your spouse's employment (for reasons other than gross misconduct) or reduction in your spouse's hours of employment;
- (3) Divorce or legal separation from your spouse; or
- (4) Your spouse becomes entitled to Medicare.

In the case of a dependent child of an employee covered by a Group Health Plan, he or she has the right to continuation, if group health coverage is lost for **any** of the following five reasons:

- (1) The death of the employee;
- (2) A termination of the employee's employment (for reasons other than gross misconduct) or reduction in the employee's hours of employment;
- (3) The employee's divorce or legal separation;
- (4) The employee becomes entitled to Medicare; or
- (5) The dependent child ceases to be a "dependent child" under the Group Health Plan.

If an employee cancels coverage for his or her spouse in anticipation of a divorce (wherever used, *divorce* also includes legal separation, if applicable under the Plan) and a divorce later occurs, then the divorce will be considered a qualifying event even though the ex-spouse lost coverage earlier. If the ex-spouse notifies the Plan Administrator within 60 days in writing after the divorce and can establish that the employee cancelled the coverage earlier in anticipation of the divorce, then COBRA coverage may be available for the period after the divorce.

Under the law, the employee or a family member has the responsibility to inform the Group Health Plan, Plan Administrator in writing of a divorce, legal separation, or a child losing dependent status under the Group Health Plan within 60 days of the date of the event. The employer has the responsibility to notify the Plan Administrator of the employee's death, termination, reduction in hours of employment, or Medicare entitlement. For the most recent information regarding the Plan Administrator's mailing address, refer to the Plan's most recent Summary Plan Description (if you do not have a copy, you may request one from the Plan Administrator).

If a proceeding in bankruptcy is filed with respect to the employer and that bankruptcy results in the loss of coverage of any retired employee covered under the Plan, the retired employee will become a qualified beneficiary with respect to the bankruptcy. The retired employee's spouse, surviving spouse, and dependent children will also become qualified beneficiaries if bankruptcy results in the loss of their coverage under the Plan.

When the Plan Administrator is notified that one of these events has happened, the Plan Administrator will in turn notify you that you have the right to choose continuation coverage. Under the law, you have at least 60 days from the date you would lose coverage because of one of the events described above to inform the Plan Administrator that you want continuation coverage. **If you do not choose continuation coverage on a timely basis, your group health insurance coverage will end.**

If you choose continuation coverage, the employer is required to give you coverage which, as of the time coverage is being provided, is identical to the coverage provided under the plan to similarly situated employees or family members. The law requires that you be afforded the opportunity to maintain continuation for 36 months unless you lost group health coverage because of a termination of employment or reduction in hours. In that case, the required continuation coverage period is 18 months. These 18 months may be extended for affected individuals to 36 months from termination of employment if other events (such as a death, divorce, legal separation, or Medicare entitlement) occur during that 18-month period. However, the Plan Administrator must be notified in writing of the second qualifying event within 60 days of the event.

In no event will continuation coverage last beyond 36 months from the date of the event that originally made a qualified beneficiary eligible to elect coverage. The 18 months may be extended to 29 months if a qualified beneficiary is determined by the Social Security Administration to be disabled (for Social Security disability purposes) at any time during the first 60 days of COBRA coverage. This 11-month extension is available to all individuals who are qualified beneficiaries due to a termination or reduction in hours of employment. To benefit from this extension, a qualified beneficiary must notify the Plan Administrator in writing of that determination within 60 days of qualification and before the end of the original 18-month period. The affected individual must also notify the Plan Administrator in writing within 30 days of any final determination that the individual is no longer disabled.

A child who is born to or placed for adoption with the covered employee during a period of COBRA coverage will be eligible to become a qualified beneficiary. In accordance with the terms of the Group Health Plan and the requirements of federal law, these qualified beneficiaries can be added to COBRA coverage upon proper notification to the Plan Administrator in writing within 30 days of the birth or adoption (special enrollment) or at open enrollment, if open enrollment is provided for under the Plan. The child must satisfy the otherwise applicable Plan eligibility requirements (for example, regarding age). A child of the covered employee who is receiving benefits under the Plan pursuant to a Qualified Medical Child Support Order (QMSCO) received by the Plan Administrator during the covered employee's period of enrollment with the employer is entitled to the same rights under COBRA as a dependent child of the covered employee, regardless of whether that child would otherwise be considered a dependent.

However, the law also provides that continuation coverage may be cut short for **any** of the following five reasons:

- (1) The employer no longer provides group health coverage to any of its employees;
- (2) The premium for continuation coverage is not paid **on time**;
- (3) The qualified beneficiary becomes covered—after the date he or she elects COBRA coverage—under another group health plan that does not contain any exclusion or limitation with respect to any pre-existing condition he or she may have;
- (4) The qualified beneficiary becomes entitled to Medicare after the date he or she elects COBRA coverage;
- (5) The qualified beneficiary extends coverage for up to 29 months due to disability and there has been a final determination that the individual is no longer disabled.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) restricts the extent to which group health plans may impose pre-existing condition limitations. These rules are generally effective for plan years beginning after June 30, 1997. HIPAA coordinates COBRA's other coverage cut-off rule with these new limits as follows:

If you become covered by another group health plan and that plan contains a pre-existing condition limitation that affects you, your COBRA coverage cannot be terminated. However, if the other plan's pre-existing condition rule does not apply to you by reason of HIPAA's restrictions on pre-existing condition clauses, the Group Health Plan may terminate your COBRA coverage.

You do not have to show that you are insurable to choose continuation coverage. However, continuation coverage under COBRA is provided subject to your eligibility for coverage. The Group Health Plan, Plan Administrator reserves the right to terminate your COBRA coverage retroactively if you are determined to be ineligible.

Under the law, you are required to pay the premium for your continuation coverage. This premium will not exceed 102% of the cost of your coverage (150% for the eleven-month disability extension.) There is a grace period of at least 30 days for payment of the regularly scheduled premium.

The monthly COBRA amount for coverage under a health FSA maintained by the employer is 102% of the monthly amount that the employee was paying via salary reductions before the date of the qualifying event. The health FSA COBRA amount must be paid by check with after-tax dollars. COBRA coverage will consist of the health FSA coverage in force at the time of the qualifying event (i.e., the elected annual limit reduced by expenses reimbursed up to the time of the qualifying event). The use-it-or-lose-it rule explained in the health FSA summary will continue to apply, so any unused amounts will be forfeited at the end of the Group Flex Plan year, and COBRA coverage will terminate at the end of the Group Health Plan year. Unless otherwise elected, the spouse and dependents of the person electing COBRA will be covered too. Each beneficiary has separate election rights and could alternatively elect separate COBRA coverage to cover that beneficiary only, with a separate health FSA annual limit and a separate COBRA amount. See the Group Health Plan Administrator for more information.

If you have any questions about COBRA, please contact Teresa Dingee, North America Administrators, P. O. Box 1984, Nashville, TN 37202, 615-256-3561, or 800-411-3650, tdingee@naa-lp.com. Also, if you have changed marital status, or you or your spouse has changed address, please notify North America Administrators at the above address.