

The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) requires that your group plan allow qualified persons to continue group health coverage after it would otherwise end. The term, "group health coverage," includes any medical, dental, vision care, and prescription drug coverages that are included in your group health plan. Options of medical benefits for those on COBRA continuation are identical to those of an active Member and covered under your group health plan.

Does COBRA Apply to You?

If you offer a group health plan and employed 20 or more employees (full-time and full-time equivalent for part-time employees) on a typical business day during the last calendar year, you must comply with COBRA. "On a typical business day" means on more than 50% of the working days in a calendar year. The Federal government and some religious organizations are excluded from COBRA regulations. We recommend that you consult with your attorney to determine if COBRA applies to your group health plan.

Please Note: ERISA law states that all responsibility for complying with COBRA is the planholder's (employer's).

Who Qualifies for COBRA?

(A) A covered Member (and his/her covered Dependents) who became ineligible for group health coverage due to:

- (1) reduction in scheduled work hours; or
- (2) termination of employment (for reasons other than gross misconduct).

(Note: Taking a family or medical leave under the federal Family and Medical Leave Act (FMLA) is not a qualifying event under COBRA. A Member qualifies for COBRA when the Member: (a) does not return to work after completion of FMLA leave; or (b) notifies the planholder (employer) of the intent not to return to work during a FMLA leave.)

(B) A Member's child who is born to or placed for adoption with the Member who is on COBRA continuation due to termination of employment or reduction in work hours.

(C) A covered Dependent who became ineligible for group health coverage due to:

- (1) legal separation or divorce of the Member and spouse; or
- (2) the end of a Dependent child's eligibility under the terms of your group health plan (i.e. attainment of maximum plan age, marriage, etc.); or
- (3) death of the covered Member; or
- (4) covered Member's enrollment under Medicare and decision to (a) terminate employment; (b) reduce work hours; or (c) drop group health coverage.

Second Qualifying Event: If a qualified Dependent loses his/her Dependent status due to a qualifying event described in C(1) through C(4) during the 18-month continuation period (or 29 months for qualified persons on the disabled extension), his/her continuation may extend to 36 months starting with the beginning of the original 18-month continuation period. A Member's child who is born to or placed for adoption with the Member who is on COBRA continuation may also be eligible for a second qualifying event that occurred prior to birth or placement for adoption.

Exception: COBRA continuation is not available to any Member or Dependent who after the date of election becomes enrolled under Medicare or covered under another group health plan and has satisfied the preexisting exclusion provision.

Each qualified person (Member or Dependent) has independent COBRA election rights.

Period of Continuation

(A) The maximum COBRA continuation period is as follows:

- (1) 18 months following a termination of employment or reduction in work hours for all qualified persons (Members and their covered Dependents).

Exception: A qualified person may request an 11-month disabled extension. The maximum COBRA continuation period will be 29 months. (See Disabled Extension, for more details.)

- (2) 36 months for Dependents following the death of the Member, a loss of Dependent status under the plan, or a divorce or legal separation.

- (3) When a Member becomes enrolled under Medicare before employment terminates, work hours are reduced, or a decision to drop group coverage, the maximum continuation period for the Dependents will be the longer of:

- (a) 36 months dating back to the Member's enrollment under Medicare; or
- (b) 18 months from the date of the qualifying event (termination of employment, reduction in work hours, or decision to drop group coverage).

Period of Continuation (continued)

(4) For a Member's child that is born to or placed for adoption with the Member while on COBRA continuation, the maximum continuation period for that child will be the Member's maximum continuation period.

(B) COBRA continuation will end the earliest of the following:

- (1) the date the maximum COBRA continuation period ends; or
- (2) the end of the coverage period for which payment was made, if the qualified person does not make payment on time; or
- (3) the date your group health plan terminates and is not replaced; or
- (4) the date the qualified person becomes enrolled under Medicare; or
- (5) the date the qualified person becomes covered by and has satisfied the preexisting exclusion provision of another group health plan.

(C) Disabled Extension

A qualified person (Member or Dependent) who has been determined disabled by the Social Security Administration either before or within 60 days after a qualifying event (termination or a reduction in work hours) may request an extension of COBRA continuation from 18 months to 29 months. A Member's child who is born to or placed for adoption with the Member who is on COBRA continuation may also qualify for the disabled extension if the Social Security Administration has determined the child disabled within 60 days after the date of birth or placement for adoption. The disabled extension applies to each qualified person (the disabled person or any family member), who is entitled to COBRA continuation as a result of termination of employment or reduction in work hours. To be eligible for the extension, the qualified person must:

- submit a written request for the extension to you within 60 days after receiving the Social Security Notice of Determination; and
- request the extension before the 18-month continuation period ends.

You will then need to send to our company a copy of the qualified person's written request for the extension, any letters from the Social Security Administration and the Notice of Determination. Principal Life Insurance Company (The Principal®) reserves the right to review all extension requests to determine any liability that we may have.

Monthly Payment

You may charge up to 102% of the total cost of continued coverage (the entire cost of coverage under the group health plan plus a 2% COBRA administrative fee). The group health payment (or accrual rate) must reflect the charge for whom you provide continued coverage (i.e. Dependent only, Member only, etc.). Exception: For the disabled extension you may charge as follows:

- Persons who qualify for the disabled extension and are not part of the family unit that includes the disabled person may be charged 102% of the total cost of continued coverage during the disability extension.
- Persons who qualify for the disabled extension and are part of the family unit that includes the disabled person may be charged 150% of the total cost (148% of the cost of coverage plus the 2% COBRA administrative fee) for the 19th through the 29th month of coverage (or through the 36th month if a second qualifying event occurs during the disabled extension).

You are not required to pay any part of the cost of coverage. The 2% COBRA administrative fee (if charged) is retained by you.

You may terminate continued coverage if the qualified person does not make timely payment. Timely payment is defined as payment made within the later of:

- 30 days following the first day of each month of coverage; or
- the expiration of the grace period under your group health plan.

Exception: Qualified persons have 45 days after the initial election of COBRA continuation to make the first payment.

If the payment is received timely but it is short by an insignificant amount, you must:

- consider the short payment as payment in full; or
- notify the qualified person of the amount of the deficiency and allow 30 days to make payment.

Notification Responsibilities

It is very important that you follow the notification requirements listed below. **There are severe penalties for noncompliance.**

Note: for the General and Specific Notice, you must provide a notice to each covered person (Member, spouse, and/or children). You may send one notice/election form per address that clearly identifies who qualifies for COBRA continuation and that each qualified person may elect COBRA independently.

General Notice: You must provide a description of COBRA continuation to each covered Member and spouse on the date COBRA applies to your group health plan. You must also provide a notice to future Members and Dependents on the date they become covered under your group health plan.

Specific Notice: The Member or Dependent has 60 days to notify you of a legal separation or divorce, or of a child's loss of Dependent coverage. You then have 14 days (after the receipt of the notice from the Member or Dependent, or upon knowledge of any other qualifying event) to notify the Member or Dependent of his/her rights under COBRA. The COBRA Continuation of Group Health Coverage Notification/Election Form serves this purpose. Please note: If coverage is terminated in anticipation of a qualifying event, COBRA must be afforded at that time.

Individual Purchase: If available under the group health plan, persons on COBRA continuation must be given a second opportunity for Individual Purchase once the continuation period ends. You must notify a qualified person within 180 days before the maximum COBRA continuation period ends of his/her rights to Individual Purchase.

Benefit and/or Rate Changes: You must notify a qualified person of any benefit and/or rate change at the same time active Members are informed. If the booklet certificate is revised, you will need to provide the qualified person with the revision and/or a new booklet certificate.

Plan Termination: If your group health plan terminates, for any reason, you must notify qualified persons at the same time active Members are informed of the termination.

Noncompliance: A nondeductible tax of \$100 per day will be assessed for each Member or Dependent with respect to whom there is a failure to satisfy the continuation requirements. If a single failure affects more than one member of a family, the tax with respect to that family will be limited to not more than \$200 per day. The tax will be applied for the period beginning on the date the failure first occurred and ending on the earlier of the date the failure is corrected or six months after the last day continuation coverage should have been provided. The Internal Revenue Service (IRS) may impose these penalties against the group health plan. Exception: Excise tax will generally not apply if failure is due to reasonable cause and corrected within the first 30 days. It may also be waived if failure is inadvertent.

COBRA Election

- (1) Complete the portion of the Election Form labeled, "Planholder (employer) to complete this section before giving to qualified person."
- (2) The remaining portion of the Election Form must be completed by the Member and/or Dependent. The Election Form should be handed to the person during a personal interview, if possible. Otherwise, the Election Form should be mailed to the home address of record.
- (3) Instruct the Member and/or Dependent that the Election Form must be returned to you within 60 days of the later of: (a) the date his/her coverage would otherwise end; or (b) the date the Member and/or Dependent were notified by you of COBRA rights. Also instruct the Member and/or Dependent to retain the COBRA guidelines at the beginning of the Election Form.
- (4) The original Election Form should not be returned to us.

Qualified persons who initially reject COBRA continuation must be permitted to withdraw that rejection at any time within the 60-day election period.

Note: The law states the Member can elect COBRA on behalf of his/her family. However, the Member cannot reject COBRA on behalf of his/her spouse. Therefore, if the Member does not wish to elect COBRA continuation, we advise that the spouse also sign the Election Form rejecting COBRA continuation.

If your state has a continuation law, it appears you must offer the choice of COBRA, state continuation, or Individual Purchase (if available) to qualified Members and/or Dependents.

Information Supplied to The Principal

- We need you to supply us with the date of termination and changes in Dependent status as they occur, as you would normally do, whether or not the qualified person has elected COBRA. Reporting changes up front protects your account from claim overpayment.

Once the qualified person elects COBRA and you receive the Election Form and payment, report the person to us as electing COBRA continuation and the effective date. We will reinstate coverage without a lapse.

- **Please contact The Principal prior to any sale or purchase of a business, subsidiary, etc., in order to determine your COBRA liability.**