

H R SUPPORT & CONSULTING SERVICES, INC. FLEX ADMINISTRATION DEPARTMENT

TO: Employer

SUBJECT: COBRA Requirements for Medical Care Reimbursement Accounts

Termination of Employment

The proposed COBRA regulations provide that medical care through a medical care reimbursement account constitutes a group health plan. Therefore, if an employee participates in such an account under your flexible benefits plan and a qualifying event occurs, the employer has certain obligations under COBRA. Qualifying events generally include termination of employment or a change in hours. Divorces, cessation of dependent status and becoming eligible for Medicare appear to violate the cafeteria plan rules. (A former spouse, a child who no longer has dependent status or a spouse who becomes eligible for Medicare do not qualify for continuation of coverage.)

Please seek the advice of your own legal/tax advisors. H R Support & Consulting Services, Inc.'s Flex department does not provide you with legal advice, however, we would like to offer some assistance should one of your participating employees experience a qualifying event as noted above.

For most employees, termination of employment will be the common occurrence. We believe you should provide such an employee with:

- COBRA Letter of Rights
- COBRA Election Form
- COBRA Notice Digest

You will note that an employee has 60 days from the date of your letter to make such election and 45 days in which to pay the premium.

If an employee terminates you should notify H R Support & Consulting Services, Inc. Flex department at once. Then provide the employee with items similar to the three sample forms enclosed. When an employee responds (returns the election form), please forward a copy of that form to H R Support & Consulting Services, Inc.'s Flex department. At that time, we will either close out the former employee's account (they do not elect to continue coverage) or keep it open (they do elect to continue coverage). H R Support & Consulting Services, Inc.'s Flex department will then expect to receive payment for the former employee's premium equal to the periodic contribution plus 2%. (Example: [weekly contribution x 102%] x 52 = annual contribution; divide annual contribution by 12 = monthly contribution).

Rather than give instructions for other qualifying events, we ask that you contact H R Support & Consulting Services, Inc. at 207-655-5396 OR 1-866-655-5397.

**COBRA
FOR CONTINUATION OF COVERAGE
MEDICAL CARE REIMBURSEMENT PLAN**

For qualifying event other than divorce, cessation of dependent status or Medicare eligibility

I hereby acknowledge that I have read the Notice of Continuation and:

Elect continuation of coverage

Do not elect continuation of coverage

under the Employer's Name Medical Care Reimbursement Plan. My monthly contribution will be 102% of my current monthly contribution.

Your current monthly Contribution:	_____	Example: \$ 25.00
+ 2%	_____	+ \$.50
= Total	_____ (COBRA contribution)	= \$25.50

If you elect continuation coverage, enclose a copy of this form and a check for one month's contribution (as indicated above) made payable to Employer.

(Please Print)

Employee Name: _____ SS# _____

Address: _____

Employer: _____

Reason for Termination: _____

Date of Termination _____

Return to:

Employer
Attn: Human Resource Office
Address
City, State & Zip

Signature: _____ Date: _____

**STANDARD SAMPLE LETTER OF RIGHTS TO ACCOMPANY
COBRA NOTICE FROM PLAN ADMINISTRATOR
OF MEDICAL CARE REIMBURSEMENT PLAN**

Dear [insert name of employee and spouse, if employee is married]:

Due to [insert qualifying event], your coverage under the [company name] Medical Care Reimbursement Plan will terminate effective [insert applicable date].

By completing and returning the enclosed COBRA election form to your Human Resource Department, you may continue coverage under [company name] Medical Care Reimbursement Plan. The enclosed Notice Digest explains an individual's rights and obligations.

If, after reading the enclosed notice, you choose to elect continuation of coverage, you must date, sign and return the election form. The form must be returned within 60 days from the date of this letter or the date you would lose coverage, [insert applicable date], whichever is later.

If you elect continuation of coverage, your coverage will continue for the remainder of the plan year [plan year ending date*].

If continuation of coverage is elected, the required monthly premium must be paid to the [company name] by the 31st of the month the premium is due. These amounts are **not** excludable from income for purposes of state and federal income taxes. **Late payment of your monthly premium will not be accepted. Nonreceipt of your premium payment will be regarded as a discontinuation of coverage.**

**COBRA continuation of coverage is allowed for a maximum of eighteen months. COBRA premiums are not excludable from income for purposes of state and federal income taxes (i.e. you lose the tax benefit of participating in the plan). Therefore, unless you have a positive balance in your account at the time of termination, there is no benefit to continuing coverage (particularly beyond the existing plan year).*

COBRA NOTICE DIGEST

You will not benefit from continuation of coverage unless you have a positive balance (your deposits to date are greater than your claims paid) on the date of termination with no eligible expenses to submit (with a date of service on or prior to the termination date).

The following example is intended to illustrate how to determine the applicable premium and maximum amount of reimbursement to be allowed.

EXAMPLE:

Employee A elects to participate in a medical care reimbursement plan for the plan year January 1st through December 31st with an annual election of \$1200.00.

Employee A terminates employment on April 1st.

As of April 1st Employee A has \$300.00 in deposits in the medical care reimbursement account. Employee A has received \$200.00 as reimbursement for expenses incurred prior to termination (April 1st).

Employee A has a positive balance of \$100.00 (\$300.00 in deposits minus \$200.00 in paid claims equals \$100.00).

Employee A properly elects COBRA continuation of coverage (because Employee A does not have any expenses with a date of service on or prior to April 1st to submit for reimbursement).

Electing COBRA will allow Employee A to remain a participant in the plan for the remainder of the plan year* (through December 31st) and submit expenses rather than losing the \$100.00 balance in the account.

How to determine the monthly premium:

$$\$1200.00 - \$300.00 \text{ (amount already deposited)} = \$900.00$$

$$\$900.00 \times 2\% = \$18.00$$

$$\$18.00 \div 9 \text{ (9 months remaining in plan)} = \$2.00$$

monthly premium = \$102.00

How to determine the maximum amount of reimbursement to be allowed:

$$\$1200.00 \text{ (annual election)} - \$200.00 \text{ (expenses already paid)} = \$1000.00$$

maximum reimbursement allowed = \$1000.00

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