MARYLAND
DEPARTMENT OF
BUDGET & MANAGEMENT

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Deputy Secretary

INITIAL COBRA NOTICE - VERY IMPORTANT NOTICE

<<Employee Name>>, <<Spouse's Name>> & Dependents
<<Address>>
<<City, State, Postal Code>>

<<Date>>

The Employee Benefits Division has processed an enrollment for you as the employee/retiree, spouse, or covered dependent in the State Employee and Retiree Health and Welfare Benefits Program. This notice on possible future group health insurance continuation coverage rights applies individually to the active member (employee or retiree), the member's spouse and all covered dependent child(ren) enrolled under the State's benefits program. It is important that all covered individuals take the time to read this notice carefully and become familiar with its contents. If you are the employee, and if there is a covered dependent whose legal residence is not yours, please provide written notification of that covered dependent's address to the Employee Benefits Division so a notice can be sent to that covered dependent as well.

You are receiving this notice because you have health benefits coverage under the State of Maryland Employee and Retiree Health and Welfare Benefits Program (the Program). The Department of Budget and Management Employee Benefits Division administers the Program. The Program sponsored by the State of Maryland is a governmental group health plan covered by the Public Health Service Act, which includes the COBRA continuation of coverage provisions described in this Notice. This Notice explains continuation coverage rights for only these health benefits offered through the Program: the medical PPO, the medical POS, the medical HMO, the prescription plan, the dental PPO, the dental HMO and the Health Care Flexible Spending Accounts. You may be enrolled in one or more of these benefits. This Notice does not apply to any other benefits offered by the State of Maryland or through the Program, such as the dependent care flexible spending accounts, life insurance benefit, long term care benefit, or accidental death and dismemberment insurance benefit.

Under federal law, group health plans like the Program must offer covered employees and covered family members the opportunity for a temporary extension of health coverage (called COBRA continuation coverage) at group rates when coverage under the health plan would otherwise end due to certain qualifying events. In this Notice, the term "covered employee" also means "covered retiree." This Notice is intended to inform all plan participants of potential future options and obligations related to COBRA continuation coverage. Should an actual qualifying event occur in the future, the State of Maryland would send you additional information and the appropriate election notice at that time. **Please take special note, however, of your notification obligations that are highlighted on page 2 of this Notice.**

Who is Entitled to Elect COBRA continuation coverage?

Qualifying Events For Covered Employee - If you are the covered employee, you may have the right to elect this health plan continuation coverage **if you lose your group health coverage** because of the following qualifying events: termination of your employment (for reasons other than gross misconduct on your part), or a reduction in your hours of employment.

Qualifying Events For Covered Spouse - If you are the covered spouse of an employee, you may have the right to elect this health plan continuation coverage for yourself **if you lose group health coverage** under the Program because of any of the following qualifying events:

1. A termination of your spouse's employment (for reasons other than gross misconduct);
2. A reduction in your spouse's hours of employment;
3. The death of your spouse;
4. Divorce from your spouse. If your spouse (the employee or retiree) reduces or eliminates your group health coverage in anticipation of your divorce and your divorce happens soon after that, then the divorce may be considered a qualifying event for you even though you lost coverage earlier than the date of the divorce. The rules of Program do not require you to lose coverage if you and your spouse are legally separated if you are still legally married to the employee or retiree.

Qualifying Events For Covered Dependent Children - If you are the covered dependent child of an employee, you may have the right to elect continuation coverage for yourself **if you lose group health coverage** under the Program because of any of the following qualifying events:

1. A termination of the employee's employment (for reasons other than gross misconduct);
2. A reduction in the employee's hours of employment;
3. The death of the employee;
4. Parent's divorce or, if applicable, legal separation;
4. You cease to be a "dependent child" under the terms of the Program.

Special Rule for newly born or adopted children: If a covered employee qualified beneficiary has or adopts a child during a period of COBRA continuation coverage, the new child may be eligible for COBRA continuation coverage that runs for the same period as your coverage. The child must meet the eligibility requirements of the Program. In the case of a newborn or adopted child that is added to a covered employee qualified beneficiary's COBRA coverage, then the first 60 days of continuation coverage for the new born or adopted child is measured from the date of the birth or the date of the adoption. Procedures and timelines for adding these individuals can be found in your benefits booklet.

Other important points: The plan administrator reserves the right to verify COBRA eligibility status and to terminate continuation coverage retroactively if a qualified beneficiary is determined to be ineligible or if there has been a material misrepresentation of the facts.

A qualified beneficiary does not have to show they are insurable to elect COBRA continuation coverage. However, they must have been actually covered by the Program health benefits on the day before the event to be eligible for continuation coverage.

When is COBRA continuation coverage available?

COBRA continuation coverage starts from the day you lose coverage due to a qualifying event – usually the end of the payroll deduction period in which the qualifying event occurred. When the qualifying event is the end of employment, reduction of employment hours or death of the employee, the Program will offer COBRA coverage to qualified beneficiaries. Qualified beneficiaries are the employee, the spouse and the dependent children who lost group health coverage as a result of the qualifying event. You will not need to notify the Employee Benefits Division of any of these three qualifying events because your employing agency should notify the Employee Benefits Division of those events. You will need to notify the Employee Benefits Division of any other qualifying event.

Important: Notifications Required By the Employee, Spouse, and Dependent

For the other qualifying events (divorce and a covered dependent ceasing to meet the definition of a "dependent" under the Program's rules), you must notify the Employee Benefits Division **within 60 days** of the later of these two dates: (1) the date of the event or (2) the date on which health plan coverage would be lost under the terms of the Program because of the qualifying event. If you do not notify the Employee Benefits Division of the qualifying event within 60 days, you will lose the right to elect COBRA coverage. Under federal law, this is the responsibility of all employees, spouses and covered dependent children (or the parent of covered dependent children).

To provide the required notification, you must contact the Employee Benefits Division and request that a COBRA worksheet be mailed to you. You then fill out the worksheet, attach documentation of the qualifying event (e.g. copy of divorce decree), and mail everything to: Employee Benefits Division, ATTN: Direct Pay Unit, 301 West Preston Street, Room 510, Baltimore, Maryland 21201.

If this notification is not completed according to these procedures and within the required 60-day notification period, then rights to continuation coverage will be forfeited. Carefully read the dependent eligibility rules contained in the open enrollment health benefits booklet so all covered members are familiar with when a dependent ceases to be a dependent under the terms of the plan. **The booklet is issued during open enrollment every year and is posted on the internet at: www.dbm.maryland.gov. Copies of the COBRA worksheet may also be obtained from the internet site.**

How much does COBRA coverage cost?

A qualified beneficiary will have to pay the **entire** applicable premium plus a 2% administration charge for continuation coverage. The State of Maryland does not subsidize COBRA coverage. These premiums will be adjusted during the continuation period if the applicable premium amount changes. In addition, if continuation coverage is extended from 18 months to 29 months due to a Social Security disability, the State of Maryland can charge up to 150% of the applicable premium during the extended coverage period for the disabled beneficiary.

Qualified beneficiaries will be allowed to pay on a monthly basis. Premiums are due on the first day of every month. There will be a maximum grace period of thirty (30) days for the regularly scheduled monthly premiums.

How Do I Elect COBRA continuation coverage?

Each qualified beneficiary will have an independent right to elect COBRA continuation coverage; parents may elect COBRA coverage on behalf of minor children who were covered dependents. The Employee

Benefits Division will send you an Election Notice outlining your rights to COBRA continuation coverage after it receives notification of a qualifying event from you or the employee's agency.

Each qualified beneficiary has 60 days from the date of the Election Notice (or the date the health plan coverage was lost if later) to elect COBRA continuation coverage. This is the maximum period allowed to elect continuation coverage. If a qualified beneficiary does not elect continuation coverage within this election period, then rights to continue health insurance will end and the individual will cease to be a qualified beneficiary.

Each qualified beneficiary has the right to elect COBRA continuation coverage in the group health benefits the qualified beneficiary had on the last day of coverage in the Program. For example, if the qualified beneficiary is enrolled in a medical POS plan and the prescription plan but not a dental plan on the last day of coverage before the qualifying event, the qualified beneficiary may elect to continue coverage in that medical POS plan and in the prescription plan but may not add coverage under a dental plan during the COBRA Election Period.

COBRA continuation coverage is required to be identical to the coverage provided under the plan to similarly situated non-COBRA participants and/or covered dependents. Should coverage change or be modified for non-COBRA participants, then the change and/or modification will be made to your COBRA coverage as well.

How long does COBRA continuation coverage last?

COBRA coverage is a temporary continuation of coverage. Depending on the nature of the qualifying event that caused the loss of coverage, COBRA coverage may last a **maximum** of 18 months or 36 months, except in the case of COBRA continuation coverage in a health care flexible spending arrangement. ***If you are participating in a health care flexible spending account at the time of the qualifying event, you will only be allowed to continue the health care flexible spending account until the end of the current plan year in which the qualifying event occurs.*** See below for a description of how COBRA continuation coverage may end earlier than these maximum periods.

Length of Continuation Coverage - 18 Months. If the event causing the loss of coverage is a termination of employment (other than for reasons of gross misconduct) or a reduction in work hours, then each qualified beneficiary will have the opportunity to continue coverage for 18 months from the date of the qualifying event. This 18-month coverage may be extended only in limited situations: (1) when the qualified beneficiary receives a Social Security disability determination, (2) when a second qualifying event occurs during COBRA continuation coverage, and (3) when the employee had become eligible for Medicare within 18 months before the termination of employment or reduction in hours (see below for explanation). You must notify the Employee Benefits Division in writing within 60 days of these events in order to be eligible for an extension of the maximum COBRA coverage period. Failure to do so could mean that you cannot extend your COBRA coverage period.

Social Security Disability - The 18 months of continuation coverage can be extended for an additional 11 months of coverage, to a maximum of 29 months, for all qualified beneficiaries if the Social Security Administration determines a qualified beneficiary was disabled according to Title II or XVI of the Social Security Act on the date of the qualifying event or at any time during the first 60 days of COBRA coverage. The disability must last during the entire 18 months of COBRA coverage. It is the qualified beneficiary's responsibility to obtain this disability determination from the Social Security Administration and provide a copy of the determination to the Employee Benefits Division within 60 days after the later of: the date of the determination, the date of the termination of employment of reduction in hours, or the date the original

18-month coverage period expires. This notice must be provided no later than the date the original 18-month coverage period expires. If you do not notify the Employee Benefit Division in writing within the time frame, you may lose the ability to extend COBRA coverage.

This extension applies **separately** to each qualified beneficiary. If the disabled qualified beneficiary chooses not to continue coverage, all other qualified beneficiaries are still eligible for the extension. If coverage is extended, and the disabled qualified beneficiary has elected the extension, then the applicable premium rate is 150% of the premium rate. If only the 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 the Employee Benefits Division within 30 days if a final determination has been made that they are no longer disabled.

Secondary Qualifying Events - Another extension of the 18 or above mentioned 29-month continuation period could occur, if during the 18 or 29 months of COBRA continuation coverage, a second event takes place (divorce, legal separation, death, or a dependent child ceasing to be a dependent) that would have caused the qualifying beneficiary to lose coverage under the Program if the first qualifying event (termination of employment of reduction of hours) had not occurred. If a second event occurs, then the original 18 or 29 months of continuation coverage can be extended to 36 months from the date of the original qualifying event date for eligible dependent qualified beneficiaries. If a second event occurs, it is the qualified beneficiary's responsibility to notify the Employee Benefits Division in writing within 60 days of the second event and within the original 18 or 29 month continuation period. In no event, however, will continuation coverage last beyond 36 months from the date of the first qualifying event that originally made the qualified beneficiary eligible for COBRA continuation coverage. A reduction in hours followed by a termination of employment is not a second qualifying event.

Length of Continuation Coverage - 36 Months. If the original event causing the loss of coverage was the death of the employee or a dependent child ceasing to be a dependent child, then each qualified beneficiary of the employee will have the opportunity to continue coverage for 36 months from the date of the qualifying event. When the employee had become entitled to Medicare benefits less than 18 months before the termination of employment or reduction in work hours, the covered spouse and covered dependent qualifying beneficiaries may be entitled to COBRA coverage for up to 36 months. This extension does not apply to the employee, who will only have a maximum of 18 months of COBRA coverage unless a special extension such as the result of a secondary qualifying event occurs. The 36-month coverage period cannot be extended.

Length of Continuation Coverage – Indefinitely. If the original event causing the loss of group health coverage was a divorce from the employee, the qualified beneficiary will have the opportunity to continue coverage indefinitely under Maryland law. This indefinite period of coverage will **end** when any of the following happens: (1) Program coverage for the employee terminates, (2) the qualified beneficiary obtains coverage elsewhere (including Medicare), or (3) the qualified beneficiary who is the former spouse remarries. This indefinite period of continuation coverage is a result of a Maryland state law that is similar to COBRA and does not apply to health care flexible spending arrangements. However, the dependent child qualified beneficiary will also lose coverage when the child does not meet Program eligibility requirements under standard COBRA rules. Former stepchildren of the covered employee do not gain access to indefinite continuation coverage under these provisions of Maryland law.

Potential Conversion Rights: At the end of the 18, 29, or 36 months of continuation coverage, a qualified beneficiary will be allowed to enroll in an individual conversion health plan if an individual conversion plan is available at that time.

Early Termination of Continuation Coverage - The time frames described above are only potential maximum periods for COBRA continuation coverage. COBRA coverage can end before those periods finish. The law provides that your continuation coverage will end prior to the maximum continuation period for any of the following reasons:

1. State of Maryland 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 first becomes, after the date of COBRA election, covered under another group health Plan that does not enforce any exclusion or limitation with respect to any preexisting condition(s) of the beneficiary;
4. A qualified beneficiary first becomes, after the date of COBRA 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;
6. A qualified beneficiary notifies the State of Maryland, Employee Benefits Division they wish to cancel continuation coverage;
7. For cause, on the same basis that the plan terminates the coverage of similarly situated on-COBRA participants.

Is COBRA continuation coverage for my Health Care Flexible Spending Arrangement (FSA) Different?

Yes. COBRA continuation coverage for the Health Care FSA will be offered only to qualified beneficiaries losing coverage through the end of the plan year in which the qualifying event occurs. This coverage cannot be extended beyond the end of the plan year, regardless of the qualifying event or whether a second qualifying event occurs. The use it or lose it rule will still apply so any unused amounts will be forfeited at the end of the plan year and COBRA coverage will terminate at the end of the plan year. You must pay a premium for continued Health Care FSA coverage that includes a 2% administrative charge for the coverage. Unless otherwise elected, all qualified beneficiaries who were covered under the Health Care FSA will be covered together for Health Care FSA COBRA coverage. However, each qualified beneficiary could elect to exercise Health Care FSA COBRA election rights individually to cover the qualified beneficiary only, with a separate Health Care FSA limit and a separate premium.

Notification of Address Change – To ensure all covered individuals receive information properly and timely, *you are required to* notify the State of Maryland, Employee Benefits Division of any address change as soon as possible. The Employee Benefits Division must have your current address at all times. A Change of Address Notification form is available on-line at www.dbm.maryland.gov, Employee Benefits link. Instructions for completing and filing the form are at the bottom of the form. Failure on your part to follow the instructions will result in delayed notifications or a loss of continuation coverage options.

How do I notify the Employee Benefits Division if this Notice advises I must provide notification to protect my rights?

In every instance that you must provide notice to the Employee Benefits Division in order to protect your rights, whether the notice is of a first or second qualifying event, Social Security disability, or the addition

of a new qualified beneficiary, you must provide written notice to the Employee Benefits Division at the address at the bottom of this Notice. You may be asked to complete a form and provide additional documentation. Failure to provide a required notice to the Employee Benefits Division within the required time period may cause you to lose your COBRA rights.

Any Questions? - Remember, except for notifying you of your responsibilities to notify the Employee Benefits Division of a divorce or a dependent child ceasing to meet Program eligibility requirements, this notice is simply a summary of your potential future options. Should an actual qualifying event occur and it is determined that you are eligible for continuation; you will be notified of all your actual rights at that time as part of the COBRA Election Notice. If any covered individual does not understand any part of this summary notice or has questions regarding the information or your obligations, please contact the State of Maryland, Employee Benefits Division at (410) 767-4775, press Option 2. In addition, you can find more information about COBRA continuation coverage in the open enrollment health benefits booklet and on the internet at www.dbm.maryland.gov.

The Program name and address is:

The State of Maryland Employee and Retiree Health and Welfare Benefits Program
c/o Department of Budget and Management Employee Benefits Division
Direct Pay Unit
301 West Preston Street, Room 510
Baltimore, Maryland 21201.