

## Health Insurance During Transition Periods

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### Introduction

Periods of transition can occur when you least expect them. Your company might go through a period of downsizing that results in your layoff. You could suffer a serious injury and become disabled. Your spouse could suddenly pass away, or your marriage could end in divorce. Fortunately, there are several options for continuing health insurance coverage that may be available to you during these transition periods.

In 1986, the federal government passed COBRA, a law that provides for (among other things) continued access to health insurance for people who lose their coverage due to termination of employment or a reduction in work hours, or certain other triggering events. In addition, state law may contain additional provisions.

In 1996, the Health Insurance Portability and Accountability Act (HIPAA) expanded on COBRA and made it easier to continue health-care coverage during transition periods.

In 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 created the health savings account (HSA), a tax-advantaged vehicle that permits individuals to save money that can be used to pay medical insurance policy premiums and certain uncovered medical expenses. These savings can help you weather transition periods.

### COBRA

This law provides an opportunity for employees and their dependents who have been covered by an [employer-sponsored health insurance](#) plan to continue coverage under circumstances that would otherwise cause them to lose this benefit. The covered employee is entitled to COBRA coverage only in cases of termination or reduction in hours. However, an employee's dependents may be eligible for COBRA benefits in cases of divorce, death, and in certain other situations. Employers with 20 or more employees are required to offer COBRA coverage.

The duration of COBRA coverage is limited and depends on the reason existing coverage is being terminated. If you accept COBRA coverage, you can be required to pay up to 102 percent of what your employer pays for this coverage. In other words, your employer is not

required to pay any part of the premium, and you may be charged up to 2 percent of this cost as an administrative fee. Although this is almost certainly more than you paid for health insurance during your employment, it is likely less than you would pay for individual coverage. For further information, see [COBRA](#).

#### Health Insurance Portability and Accountability Act of 1996

HIPAA has far-reaching consequences for many facets of the health insurance industry and includes provisions that are extremely beneficial for self-employed individuals and other consumers. Two major provisions of HIPAA do the following:

- Allow workers to move from one employer to another without fear of losing group health insurance
- Require health insurance companies that serve small groups (2-50 employees) to accept every small employer that applies for coverage

For further information, see [The Health Insurance Portability and Accountability Act of 1996](#).

#### Archer medical savings accounts

Medical savings accounts, called Archer MSAs, were also authorized by HIPAA. Archer MSAs are tax-advantaged individual savings accounts that can be used to cover qualified medical expenses. The Archer MSA program expired on December 31, 2007. For further information, see [Archer MSA](#).

#### Health savings accounts (HSAs)

You may be able to contribute to a health savings account (HSA) if you are covered by a high-deductible health care plan and otherwise qualify. Created under the [Medicare Prescription Drug, Improvement, and Modernization Act of 2003](#), an HSA is a medical savings account that you own and that stays with you regardless of employment. An HSA will permit you to set aside tax-deductible money for routine medical care or health insurance premiums. Plus, contributions earn interest that is tax deferred while in the account.

For further information, see [Health Savings Accounts](#).

Tip: An individual can roll over funds from an existing [Archer MSA](#) to an HSA.

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