Divorce Can Sink Your Health Coverage – What To Do First

When a marriage comes undone, so can an ex-spouse's health insurance safety net. For the spouse facing a loss of coverage, it's a double whammy. First, they're in a rushed position to find coverage. Second, they'll be shocked to find out how much it costs.

Buying individual coverage is a huge wake-up call today, and it's a particularly harsh reality to scramble for coverage in a divorce situation if they're less than 65 years of age (when Medicare kicks in). A February study by the Henry J. Kaiser Family Foundation said that in 2006, annual insurance premiums for individuals averaged a total $4,242. For a family, that average was $11,480. For those in group plans, workers picked up 16 percent of that total for individual coverage and 27 percent for family coverage.

For individuals stuck paying for their own coverage, those numbers can be unaffordable. It's a particularly big problem for women because they are more likely than men to be covered as dependants. Kaiser reported that in 2004, one in six privately insured women reported she postponed or went without needed care because she couldn't afford it.

Here are some important things individuals can do to assure they have affordable health coverage when facing a divorce:

Try to get on your own plan at work: If you are employed but have been on your spouse's plan, make your first phone call to human resources at your employer and ask if and when you can enroll. If you can't enroll immediately, see if you can keep your ex-spouse's plan through COBRA, which we'll discuss next. You and your dependent children may be eligible for a special enrollment period under provisions of the Health Insurance Portability and Accountability Act (HIPAA).

Go COBRA: In 1986, Congress passed the Consolidated Omnibus Budget Reconciliation Act (COBRA), which provides employees, retirees, spouses, former spouses and dependent children the right to temporary continuation of health coverage at group rates. This coverage, however, is only available when coverage is lost due to certain specific events – fortunately, divorce is one of them. Buying coverage under COBRA means you'll be paying the full premium for coverage (sometimes up to 102 percent). You'll have up to 36 months to keep COBRA coverage, which is a good period of time to find a better option. Remember that companies with under 20 workers don't have to comply with COBRA.

See if your spouse can keep the kids on his or her plan: It's traditional -- though far from guaranteed -- that the higher-earning spouse agrees to put the kids on his or her health plan. To force the spouse who's losing coverage to absorb the cost of health insurance for themselves and their dependents can be financially devastating, so if you are in this position, make it a key point in your divorce settlement negotiations.

Seek out coverage at associations: If you are a part-time worker not eligible for work-based coverage, consider coverage through an industry or professional association that markets health coverage to its members. The coverage is typically very basic and you need to scrupulously check out the quality of benefits, but for basic coverage, it's a Band-Aid until you can qualify for something better.

Go for a high-deductible policy if you can afford it: High-deductible policies (policies with a deductible of at least $1,000) are a better deal for healthy individuals who want to keep their monthly premiums lower. Insurance agents who market individual health insurance sell these health policies, which are called “catastrophic” insurance because they cover major medical expenses as long as policyholders pay for routine care out-of-pocket. With many of these plans you have the option to open a health savings account (HSA) to help you offset the amount of that big deductible in a tax-advantaged account.

Get necessary healthcare expenses out of the way: With so many details individuals face during a divorce, it might be easy to forget this, but if you need glasses or if you planned on any elective medical procedures, get them done before you go off your spouse’s coverage or have to switch to COBRA. That goes for spending out your share of the dollars in the medical savings account (MSA) you have under your spouse’s coverage. Don’t be sneaky about it; just make it part of your agreement.

July 2007 — This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Marnie Aznar, MBA, CFP®, a local member of FPA