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Special:

# **Circular Letter**

TO: **Health Benefits Officers and Assistants of the State, California State University (CSU), and Contracting Agencies**

SUBJECT: **New Regulations Affecting Cancellations or Discontinuance of Health Coverage due to a Reduction in Time Base**

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## **New Federal Law Prohibits Rescissions**

Effective January 1, 2011, The Patient Protection and Affordable Care Act (Act), as amended by the Health Care and Education Affordability Reconciliation Act of 2010 prohibits a rescission of health coverage due to a reduction in time base. Under the Act, a rescission is generally defined as a cancellation or discontinuance of health coverage that has a retroactive effect. A cancellation or discontinuance of health coverage with a prospective effective date is not considered a rescission.

**To ensure compliance with this new federal requirement, effective January 1, 2011, a cancellation or discontinuance of health coverage due to a reduction in time base must have a prospective effective date.**

A rescission of coverage due to a reduction in time base is only permissible in the case of fraud or intentional misrepresentation. In these cases, a 30 day notice will be required to be sent to the member prior to the rescission. Contact CalPERS at **888 CalPERS** (or **888-225-7377**) to process these transactions.

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## **Appropriate Processing of Time Base Changes in ACES**

The Automated Communications Exchange System (ACES) is in the process of being modified to prohibit retroactive cancellations to discontinue health coverage due to a reduction in time base. A Circular Letter will be released once ACES has been modified.

Effective January 1, 2011, employers must use the following procedures to cancel or discontinue health coverage due to a reduction in time base:

- **Reason Code 500 Insufficient Hours** (State Permanent Intermittent)
  - o The effective date to cancel or discontinue health coverage **must** be keyed into ACES with a prospective effective date.
- **Reason Code 502 Time base/tenure change**
  - o The effective date to cancel or discontinue health coverage **must** be a prospective date and is derived from the event date.

**Appropriate  
Processing of  
Time Base  
Changes in  
ACES  
(contd.)**

- o The event date of the transaction **must** be within 2 months of the 1<sup>st</sup> of the month following the date the transaction is keyed into ACES. This will result in health coverage being canceled or discontinued on a prospective basis.

For example:

- The transaction is keyed into ACES on February 15
- The 1<sup>st</sup> of the following month is March 1
- Event date must be within two months of March 1 (January/February)

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**Other  
Retroactive  
Cancellations**

Other retroactive mandatory cancellations for changes that take place in an employee's life - such as death of a family member, change in marital status, separation from employment or other circumstances can continue to be processed.

**California Code of Regulations limits the amount of a premium refund for retroactive mandatory cancellations to a period not to exceed six months from the date the cancellation is processed.**

Refer to Circular Letter no. 600-215-05, Limiting Retroactive Reimbursement Liability for Health Premiums, for additional information.

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**Enrollment  
Reminder**

Timely reporting of eligibility and enrollment changes is imperative and a collaborative effort among members, employers, and CalPERS. Employees must report changes to you promptly, and as the employer you are responsible for exercising due diligence in reporting these changes to CalPERS in a timely manner.

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**Questions**

For up-to-date information about CalPERS and Health Care Reform please refer to the Health Care Reform page on CalPERS On-Line at [www.calpers.ca.gov](http://www.calpers.ca.gov). If you need further assistance, please contact the CalPERS at **888 CalPERS** (or 888-225-7377).

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Sincerely,

HOLLY A. FONG, Chief  
Office of Employer and Member Health Services