



IRS ALLOWS NEW STATUS CHANGE FOR HEALTH COVERAGE UNDER CAFETERIA PLANS

The IRS has expanded the permitted election change rules for cafeteria plans, to allow midyear changes in the following two situations where an employee may want to drop their employer-sponsored health coverage. One situation involves an employee whose hours are reduced below 30 hours per week, without a corresponding loss of eligibility from their employer's group health plan. The other situation, is if an employee would like to change from their employer's group health plan to Exchange coverage without a period of duplicate coverage or no coverage. Beginning September 18, 2014, cafeteria plans may allow employees in these situations to prospectively revoke an election for coverage under their group health plan, but not their health FSA, (that provides minimum essential coverage), when conditions are met.

- *Reduction of hours.* An employee, who averages at least 30 hours or more per week, may drop their group health plan coverage midyear, if the employee status change is such the employee is expected to average less than 30 hours of service, even if the reduction of hours does not result in a loss of eligibility for the plan. However, the change must correspond to the employees intended enrollment in other minimum essential coverage. The new coverage must be effective not later than the first day of the second month following the month in which the employer's group health plan coverage is dropped. Employers may rely on an employee's reasonable representation about the intended enrollment. This would accommodate an employee who wishes to enroll in a spouse's employer plan, after a reduction of hours.
- *Exchange Coverage.* An employee, who is eligible to enroll in Exchange coverage during an Exchange special enrollment or open enrollment periods, may drop group health coverage midyear, only if the employee intends to enroll in the Exchange coverage for himself or any related individual whose coverage is being dropped, and no later than the day after the last day of the employer's coverage. This would allow employees participating in non-calendar year cafeteria plans to elect Exchange coverage during the Exchange open enrollment period and drop the employer-provided coverage, when the Exchange takes effect.

Allowing the additional election changes is optional and will require your plan to be amended. The amendment must be adopted, on or before, the last day of the plan year, in which the changes are to be allowed. Changes to the plan are allowed and can be effective retroactively to the first date of the plan year, but election changes to revoke coverage retroactively are not permitted. Employers that allow changes during the 2014 plan year have until the last day of the 2015 year to adopt this amendment. If you wish to amend your plan to include these changes, please contact Valerie Givens by email at vgivens@sabcflex.com.