

April 2015

Section 125 Cafeteria Plans **Take Note of Recent IRS Changes**

If you offer employees health care coverage under a Section 125 cafeteria plan, be aware that the IRS has made some recent changes. New rules now expand an employee's ability to revoke coverage during the plan year. The rules are intended to make it easier for them to adjust coverage to better meet their needs.

Why the change?

Until this change, employees in cafeteria plans had to choose their coverage options at the beginning of the plan year. Then, they were allowed to change them only under certain circumstances. For example, one change involved employment status — going from full-time to part-time — and resulted in the employee losing eligibility for coverage under the group health plan.

2 other ways to revoke

In September 2014, the IRS identified two more circumstances under which employees can revoke their group medical coverage during the plan year:

1. The employee's expected hours of service will drop from at least 30 hours per week to less than 30 — even if he or she remains eligible for coverage under the company's group health plan. However, the employee and any relatives who will lose coverage must intend to enroll in another health care plan that provides minimum essential coverage, as required by the Affordable Care Act (ACA).

In administering the change, employers can rely on the employee's statement that he or she has enrolled or will enroll in another plan. The new coverage must be effective by the first day of the second month following the month in which the employee drops employer-sponsored coverage.

2. The employee is eligible and plans to enroll, along with any relatives who also will lose coverage, in a qualified health plan offered through a Health Insurance Marketplace established under the ACA.

Moreover, the employer can rely on the employee's statements that he or she either has or will enroll in such a plan. In this case, coverage must begin no later than the day immediately following the last day of the coverage that's revoked.

Plan amendments

The new rules don't *require* employers to amend their cafeteria plans to allow these changes, but they allow them to do so. Moreover, employers who decide to amend their plans must complete

the process by the end of the plan year in which the elections will be allowed. Employers also need to notify plan participants of the changes.

Work with a trusted advisor

These regulations, as well as others involving health care plans, are complex. Your benefits advisor can provide guidance on the rulings and their implications for your organization's benefit plans.