

**“NEW” Change in Status Events under Section 125**

The Internal Revenue Service (IRS) issued Notice 2014-55 last fall allowing employers to incorporate new changes in status events into their Section 125 plan. The new notice expands IRS regulations to include open enrollment in the Marketplace and a reduction in an employee’s work hours to be considered a change in status event.

These rules only apply to medical coverage and do not allow for employee changes in dental coverage, vision or health flexible spending accounts. An employer may choose to add one, all, or none of these changes in status events. Employers who choose to incorporate these changes in their plan must amend their Section 125 plan document by the end of the 2015 plan year.

**Open Enrollment and Special Enrollment in Affordable Care Act (ACA) Marketplace**

The first new change in status event allows employers to treat open enrollment and special enrollment for Marketplace coverage under the ACA as a change in status event. This amendment to the Section 125 plan gives employees and other covered dependents the ability to drop group medical coverage mid-year to enroll in Marketplace coverage.

If an employee chooses to drop group medical coverage in favor of Marketplace coverage, the employer may rely upon the employee’s statement or intention to enroll in coverage once the employee is dropped from group coverage. The employer will not need to certify that the employee acquired Marketplace coverage. The employee will be responsible for obtaining Marketplace coverage the day after the employer’s plan has ended.

**Change in Full-Time Status**

The second change in status event an employer may include in their Section 125 plan is when an employee qualifies for group medical insurance but later experiences a reduction in work hours over an extended period of time. This situation occurs when an employee has gained medical coverage from working full-time and is in a stability (coverage) period but the employee’s hours are consistently reduced below an average of 30 hours per week making group coverage less affordable (considering the reduction in work hours). Under the new rules, in the event an employee previously considered full-time experiences a reduction in hours, the reduction in hours now qualifies as a change in status event allowing an employee to drop the group medical coverage mid-year. The intent is to allow employees the opportunity to drop employer medical coverage so they may go to the Marketplace to seek more affordable health care coverage.

**What is a Section 125 change in status event?**

As a reminder, when an employee is participating in a Section 125 plan, the general rule is that changes in elections must be made on a prospective basis. This means once an election is made for the upcoming plan year, it cannot be changed until the beginning of the next plan year unless there is a qualifying

change in status. Employees should be given the opportunity once per year prior to the start of the plan year to make or change their plan elections.

Examples of some scenarios that may trigger change in status events include: divorce, birth, adoption, death, change in residence and many others. There are certain changes an employer must include in their Section 125 plan and others employers may choose to include. If an employee experiences a recognized plan event, the employee may make changes to their elections. The facts and circumstances of each situation should be applied to determine whether the employee’s proposed election change is consistent with the change in status.

**A change in status refers to an individual’s change in:**

<u>(Must include in Section 125 plans)</u>	<u>(May choose to include)</u>
<ul style="list-style-type: none"> <li>• HIPAA Special Enrollment Rights</li> <li>• Marriage</li> <li>• Birth</li> <li>• Adoption</li> <li>• Placement for adoption</li> <li>• Certain changes in eligibility for Medicaid or CHIP</li> <li>• The loss of other insurance covering the employee, his/ her spouse or dependent if employee was previously eligible and declined coverage in favor of other coverage</li> </ul>	<ul style="list-style-type: none"> <li>• Significant curtailment of coverage or cost</li> <li>• FMLA leaves of absence</li> <li>• Addition or elimination of benefit package option</li> <li>• Change in employment status</li> <li>• Medicare or Medicaid entitlement</li> <li>• COBRA qualifying events</li> <li>• Significant cost increase</li> <li>• Change in coverage under other employer’s plan</li> <li>• Change of residence (outside coverage network)</li> </ul>

If you have questions regarding these new changes or general questions related to your Section 125 plan, please contact your HORAN representative.

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