

## QUALIFYING LIFE EVENTS MID-YEAR ELECTION CHANGES

The City’s [IRC Section 125 Cafeteria Plan](#) allows employees to withhold a portion of their pre-tax salary to cover certain health and welfare benefits. Cafeteria Plans must follow the general principle that employee elections are irrevocable for the period of coverage (generally for the plan year). However, the IRS has recognized certain Qualifying Life Events to be exceptions to the irrevocability rules. *Qualifying Life Events permit mid-year election changes. Refer to the [Employee Benefits Handbook](#) for the deadline to complete required paperwork to change your benefits due to a Qualifying Life Event.*

This reference table shows the Qualifying Life Events giving rise to possible mid-year election changes. Note that the City’s Cafeteria Plan, more than IRS regulations, determines if the event is a permissible mid-year election change.

### QUICK REFERENCE TABLE

#	Events Permitting Election Change	Applicable Benefit Election	Notes/Examples
1.	Change in Status. <ol style="list-style-type: none"> <li>1. Marriage/Divorce</li> <li>2. Change in # of dependents (by way of birth, adoption, or death)</li> <li>3. Change in employment status if it impacts eligibility</li> <li>4. For employees in an ACA stability period, a change in status resulting in a reduction in hours, even if the change in status doesn’t impact plan eligibility (employee can drop coverage to enroll in Exchange or other MEC plan)</li> <li>5. Change in dependent status (becomes eligible or ceases to satisfy eligibility req.)</li> <li>6. Change in residence that impacts eligibility under the plan</li> <li>7. Commencement or termination of adoption</li> </ol>	Applies to elections for all qualified benefits (e.g., health coverage, health FSA and DCAP benefits) with the exception of changes in status resulting in a reduction in hours even if the change doesn’t impact plan eligibility.	<ul style="list-style-type: none"> <li>• Employee has a baby; can modify pre-tax election to add family coverage</li> <li>• Employee gets divorced; can modify pre-tax election from employee and spouse coverage to employee-only coverage</li> <li>• Dependent child turns 26 and is no longer eligible for coverage; employee can modify pre-tax election to drop dependent’s coverage</li> <li>• Employee changes to part-time position and is no longer eligible for plan; can drop coverage</li> <li>• Note that changes in employment status must affect eligibility for the plan (i.e., dropping from a 40hr/week position to 32 hr/week position would not justify a pre-tax election change if eligibility for the plan isn’t affected.</li> <li>• Financial hardship alone will not justify an election change (i.e., moving from to a lower paid position.)</li> <li>• Legal adoption of dependent already enrolled is not a qualifying life event – must be <u>new</u> dependent.</li> </ul>

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2.	<p>Cost Changes with Automatic Increase/Decreases in Elective Contributions.</p> <p>For example, a change in premium during the plan year.</p>	Applies to elections for all qualified benefits <i>except</i> health FSAs.	<ul style="list-style-type: none"> <li>Allows participants to change their election amount to correspond with cost adjustments due to benefit changes in the plan</li> <li>Permits mid-year election changes on account of a cost change with automatic increases/decreases in election contributions (e.g., employer changes benefits or contribution mid-year).</li> </ul>
3.	<p>Significant Cost Change.</p> <p>Allows participants to make a mid-year corresponding and prospective election change (broader than #2 and may include add/drop due to a significant cost change).</p>	Applies to elections for all qualified benefits <i>except</i> health FSAs.	<ul style="list-style-type: none"> <li>Election may be dropped if there is a significant cost increase and no similar coverage is available. The concept of similar coverage is somewhat complex.</li> <li>Election may be added if there is a significant cost decrease and participant previously did not enroll due to cost (note that the underlying health plan must allow the mid-year enrollment also).</li> </ul>
4.	<p>Significant Coverage Curtailment.            (With or without loss of coverage)</p>	Applies to elections for all qualified benefits <i>except</i> health FSAs.	<p>Employee can make an election change to choose alternative similar coverage or, if unavailable, to drop coverage altogether.</p> <p>Coverage curtailment includes: significant increases in cost-sharing, elimination of a benefit package, HMO ceasing in area of residence, <u>substantial</u> decrease in providers, or a reduction in benefits for specific type of medical condition being received by the employee.</p>

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#	Events Permitting Election Change	Coverage Affected	Notes/Examples
5.	Addition or Significant Improvement of Benefit Package Option.	Applies to elections for all qualified benefits <i>except</i> health FSAs.	If a plan adds a new benefit package option or other coverage option is significantly improved during a period of coverage, then the employee may change their election to add the new coverage.
6.	Change in Coverage Under Another Employer Plan.	Applies to elections for plan's health coverage, <i>except</i> health FSAs.	<ul style="list-style-type: none"> <li>• Open Enrollment Under Another Employer Plan/Different Plan Year. Corresponding changes can be made under employer's plan if employee, spouse, or dependents drop/add during OE of another employer coverage. Avoids the problem with "election lock" where spouses have plans with different plan years.</li> <li>• Other Employer Plan Increases Coverage. Employee may decrease or revoke election for employee, spouse or dependents making election on another employer plan, usually adding other employer coverage.</li> <li>• Other Employer Plan Decreases Coverage. Employee may enroll or increase election (add spouse, dependents) if spouse, dependents currently on other employer coverage experience a decrease in coverage.</li> </ul> <p><i>Note that none of these are HIPAA special enrollment rights so the plan has the option whether or not to allow individuals on to the plan in these circumstances.</i></p>
7.	Loss of Group Health Coverage Sponsored by Governmental or Educational Institution.	Applies to elections for plan's health coverage, <i>except</i> health FSAs.	<p>Can make election change to come on employer plan.</p> <p>Applies only to loss of coverage for:</p> <ul style="list-style-type: none"> <li>• SCHIP-State Children's Health Insurance Program</li> <li>• HIS-Indian Health Service or other government tribal coverage.</li> <li>• State health benefits risk pool;</li> <li>• Foreign government group health plan.</li> </ul>

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8.	<p>HIPAA Special Enrollment Rights.</p> <p>Deadline to complete required paperwork for change in benefits may be 30 days or 60 days depending upon the Qualifying Life Event.</p>	<p>Applies to elections for group plans. A special enrollee is entitled to select any benefit package under the plan, and the plan may not limit the employee's right to change from one benefit package to another upon special enrollment.</p>	<p>HIPAA special enrollment rights include:</p> <ul style="list-style-type: none"> <li>• Loss of coverage under another group health plan or health insurance. Permitted for employees and dependents who are otherwise eligible but had other coverage when previously offered coverage.</li> <li>• Acquisition of <u>new</u> dependent by marriage, birth, or adoption.</li> <li>• Loss of eligibility for Medicaid or CHIP (permitted 60 days after loss of eligibility to notify the plan)</li> <li>• Gain eligibility for premium subsidy under Medicaid or CHIP (permitted 60 days after loss of eligibility to notify the plan)</li> <li>• Allows for retroactive changes when notified within 60 days of event for birth, adoption, or placement for adoption.</li> <li>• For marriage, coverage must be effective the first of the month following the request for enrollment.</li> </ul> <p>Note: HIPAA special enrollment rights in many cases overlap with the change-in-status events.</p>
9.	<p>COBRA Qualifying Events.</p>	<p>Applies to elections for group plans subject to COBRA, including health FSAs.</p>	<p>Employee may increase, decrease, or revoke contributions to corresponding COBRA event.</p>

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10.	Judgments, Decrees, or Orders (such as child support orders, including Qualified Medical Child Support Orders “QMSCOs”)	Applies to elections for plan’s health coverage, including health FSA’s	A judgment, decree, or order resulting from a divorce, legal separation, annulment or change in legal custody that requires accident and health coverage be provided for an employee’s child or foster child permits changes if: <ul style="list-style-type: none"> <li>To cancel: order requires the child to be on another plan.</li> <li>To add: order requires the child to be on employee’s plan.</li> </ul>
11.	Medicaid Entitlement	Applies to elections for plan’s health coverage, including health FSAs	Corresponding election changes for Medicaid entitlement, usually dropping employer plan.
13.	Leaves of Absences including Military Leave and FMLA Also refer to the City’s <a href="#">Leave Administration Policy</a>	Applies to all elections, including health FSAs	An approved leave of absence is a qualifying life event, and employee may enroll or withdraw from benefits coverage within 30 days from the time the leave commences or concludes. Employees should refer to the <a href="#">Leave Administration Policy</a> for more detailed information.
14.	Changes in Pre-tax HSA Contributions.	Applies to HSA contributions under a cafeteria plan.	IRS Notice 2004-50 concluded that employees may change their HSA elections prospectively anytime.

### FAQ

#### STATUS CHANGE EVENTS

1. An employee was enrolled in an HDHP but just had a child and wants more comprehensive coverage. What is the employee allowed to do?
  - a. This event is a status change that is also a HIPAA special enrollment right (birth). The employee can change her election and move from the HDHP plan to another plan and can also add her spouse and new baby. Coverage for the baby would be retroactive to the date of birth. This is the one occasion where retroactive election changes are specifically permitted. Employee may also change to a different carrier because of potential cost difference.

## QUALIFYING LIFE EVENTS MID-YEAR ELECTION CHANGES

### COST AND COVERAGE RULES

2. What if the City increases the premium in the middle of the plan year?
  - a. If the cost change is significant, employees might be permitted to change their elections.
  
3. What is a “significant cost change” that would allow an employee to change plans or drop coverage?
  - a. The IRS provides some examples of significant cost changes but also warns they are not to be used as safe harbors. The City must make decisions based on the facts and circumstances. A percentage increase and/or actual dollar increase can both be considered (a 50% increase to a \$5/month dental premium is not significant, but a 15% increase could be significant to a \$500/month medical premium.) However, if an employee’s pay decreases, *but the employer contribution remains the same*, the employee cannot make an election change under the cost and coverage rules.
  
4. When looking at whether an employee can change an election for a *significant cost change*, the rules allow a change to other “similar coverage” or, if that’s not available, to drop coverage. What is “similar coverage” for these purposes?
  - a. The IRS definition is: “Coverage for the same category of benefits for the same individuals (e.g., family to family or single to single). For example, two plans that provide coverage for major medical are considered to be similar coverage as long as coverage extends to the same people, i.e., employee plus spouse, or family coverage. Note there is no cost component to the definition of similar coverage. If the employer offers “similar coverage”, regardless of the cost, the employee cannot drop coverage altogether. In addition, another employer’s plan can be similar coverage, so an employee for whom the cost of coverage increased significantly could enroll in a spouse’s employer plan if that plan provided similar coverage.
  
5. What if the employee goes from full-time to part-time, *the employer contribution toward the premium remained the same*, but the employee can no longer afford the premium?
  - a. A change in financial circumstance is not itself a permissible mid-year election change event. This is true even in cases of financial hardship.

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### ADMINISTRATION

6. What if the employee makes an election mistake?
  - a. In evaluating mistaken election situations, the City makes determinations on a case-by-case basis, considering the facts, available documentation, and circumstances of each case.
    - i. If an employee elected to enroll in a DCAP even though they have no children, the City would permit the change to remedy the mistaken election, upon the employee completing an affidavit they do not qualify to contribute to the DCAP.
    - ii. If the employee forgot to re-enroll in a health FSA for the new plan year, the City cannot permit this change. An employee forgetting to complete enrollment in eCaps during Open Enrollment or not fully submitting their Open Enrollment elections through eCaps, is not an election mistake.
7. What proof does the City need of a Qualifying Life Event in order to allow a mid-year election change?
  - a. The City requires documentary evidence supporting a Qualifying Life Event, such as proof of gaining or loss of other group coverage, birth certificate, marriage certificate, or divorce decree. Refer to the [Acceptable Documents for Life Events](#) for more information.
8. An employee narrowly missed the City's window to make a mid-year election change, can the change still be allowed?
  - a. No, the City must follow the timelines documented in its Cafeteria Plan to protect the advantage of all employees being able to contribute to health and wellness benefits on a pre-tax basis.

### COVERAGE UNDER ANOTHER EMPLOYER PLAN

9. An employee wants to drop his existing coverage and join a spouse's plan, but the spouse's open enrollment period is a couple months after the City's. Can the employee make an election change to switch to the spouse's plan or should they not enroll and go without coverage for two months?
  - a. A change in coverage under another employer plan is a Qualifying Life Event that permits a mid-year election change. The employee should elect coverage during the City's Open Enrollment period. Then in the future when the employee enrolls in the spouse's coverage, the employee can submit proof of other group health coverage and drop the City coverage up to 30 days from the effective date of the new coverage on the spouse's plan. If the employee waits until after 30 days to drop the City coverage, the request will be denied, and the employee will have to wait for another Qualifying Life Event to make a mid-year election change or wait until the next Open Enrollment period.

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### FLEXIBLE SPENDING ACCOUNTS AND ELECTION CHANGES

10. If I have a Qualifying Life Event that permits a mid-year election change event, can I also change the amount of my FSA election?
- a. In general, FSA election changes are only permitted in the following circumstances:
- Change in status
  - COBRA qualifying event
  - Judgment, decree, or court order
  - Medicare/Medicaid entitlement
  - FMLA or Military Leave

### FMLA AND MILITARY LEAVE

11. How are benefits handled for employees who take FMLA leave or go on Military Leave?
- a. FMLA and Military Leave allows an employee to either revoke or continue health coverage. If an employee elects to continue health coverage, employee contributions are handled according to the [Leave Administration Policy](#). If an employee opts to discontinue coverage, the employee upon returning from leave has a right to be reinstated in the plan at the same terms as when leave began.

### TIMING

12. Qualifying Life Events that permit a mid-year election change, with exception of HIPAA special enrollment rights, must be made on a prospective basis subject to the IRS consistency rule.

### Need more information or have additional questions?

1. Visit the Benefit Services [webpage](#).
2. Call Benefit Services at (916) 808-5665.
3. Email Benefit Services at [benefitservices@cityofsacramento.org](mailto:benefitservices@cityofsacramento.org)