A Section 125 Cafeteria Plan must provide that participant elections are irrevocable and cannot be changed during the period of coverage, generally the plan year. However, an employer may design the plan to permit certain exceptions to the rule, known as qualifying events, which are governed by the Treasury regulations in Section 1.125. In general, if an employee requests an election change under these events, the request must be consistent with the event, and the request must be made within the time period governed by the Cafeteria Plan Document and ERISA Plan Document, typically 30 days (although a longer time frame may be allowed if the document provides for one).

**Health Care Reform Changes**

On Jan. 2, 2013, the Internal Revenue Service (IRS) issued transition relief with respect to salary reduction elections under a cafeteria plan for non-calendar-year employer-sponsored group health plans that begin in 2013 and continue into 2014. The IRS recognized that employees may wish to enroll in coverage through a health insurance exchange and discontinue their employer’s coverage. Or, an employee may realize that they will be penalized for not having coverage effective Jan. 1, 2014, and wish to enroll in their employer’s coverage. Because employees will have made an irrevocable election, normally these non-calendar-year plans would not be permitted to allow an employee to make this change. As a result, employers may amend their plan documents to be effective retroactively to the first day of the 2013 plan year of the cafeteria plan to incorporate this temporary qualifying event. The amendment must be adopted no later than Dec. 31, 2014. More information about this change is available under the “Change in Status” qualifying event below.

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| HIPAA Special Enrollment Rights  | HIPAA requires group health plans to give special enrollment opportunities to certain employees, dependents and COBRA qualified beneficiaries. A “special enrollee” is allowed to enroll or change his or her existing plan option in the plan after: a loss of eligibility for group health coverage, health insurance coverage, CHIP or Medicaid; becoming eligible for state premium assistance, Medicaid or CHIP subsidies; and the acquisition of a new spouse or dependent by marriage, birth, adoption or placement for adoption. Special enrollment rights typically apply with respect to the employee, dependents of the employee and the spouse of the employee. In other words, existing family members who may have previously declined coverage have another opportunity to enroll (for example, in the case of a birth of a child, a spouse can be enrolled due to the birth even if not previously covered under the plan). Additionally, effective for plan years beginning on or after Sept. 23, 2010, health care reform provisions require that special enrollment be given to enrollees for (1) coverage for certain adult children and (2) reinstating coverage for individuals who previously exhausted a plan’s lifetime dollar limit. | Example 1: An employee’s spouse has recently exhausted her 18 months of available COBRA coverage, and has not yet found other coverage. The employee may enroll the spouse as a “special enrollee” since the COBRA coverage has been exhausted. Special enrollment rights would not be applicable if the spouse simply stopped paying the COBRA premium before exhausting coverage. Example 2: An employee qualifies for premium assistance from the state. The employee notifies the employer and takes advantage of a special enrollment period due to not previously participating in the coverage. Example 3: An employee acquires a dependent by birth. The employee and her spouse are currently enrolled in an HMO. The employee, spouse and newly acquired dependent receive special enrollment rights and are entitled to newly enroll in or change to any benefit package under the plan (e.g., PPO, HDHP), as if they were newly eligible for coverage. Additionally, due to a special provision for birth, adoption or placement for adoption, coverage must be effective retroactively to the date of birth as long as the enrollment request is timely (within 30 days, or longer if plan so provides). | • Major medical  
• Major medical integrated with dental/ vision  
• Non-HIPAA-excepted health FSA  
No pretax change permitted:
• Dependent care  
• HIPAA-excepted health FSA  
• Stand-alone dental  
• Stand-alone vision  
• Group term life  
• AD&D  
• Disability |
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| Change in Status                 | Applies to change in marital status (marriage, divorce or legal separation as defined by the state), number of dependents (includes birth, adoption, placement for adoption and death), employment status, dependent satisfies or ceases to satisfy eligibility requirements, change in residence. | **Example 1:** A part-time employee previously ineligible under the terms of the plan is now full-time and satisfies eligibility. The employee would be given the opportunity to enroll self, spouse or dependents. If a full-time employee is now part-time and this results in a loss of eligibility, the employee is allowed to revoke elections.  
**Example 2:** An employee is terminated and rehired within 30 days. Prior elections at termination are reinstated unless another event has occurred. A termination and rehire after 30 days entitles an employee to make new elections under all benefit options under the plan.  
**Example 3:** A student turns age 26 and is no longer considered a dependent under the terms of the plan. The employee may revoke elections for that dependent only. Employer also has a responsibility to ensure only eligible dependents are kept on the plan.  
**Example 4:** An employee makes an irrevocable election during open enrollment for the plan year beginning Aug. 1, 2013. Just two months later, on Oct. 1, 2013, he sees an advertisement for the health insurance exchange available in his state. Since his employer decided to adopt this one-time optional qualifying event, the employee may make a prospective election to drop his coverage and enroll in the exchange coverage, effective Jan. 1, 2014. The employer processes this drop request effective Dec. 31, 2013. | • Major medical  
• Major medical integrated with dental/vision  
• Health FSA (any)  
• Dependent care  
• Stand-alone dental  
• Stand-alone vision  
• Group term life  
• AD&D  
• Disability |

### Health Care Reform Qualifying Event

For plan years beginning in 2013, and ending in 2014, a one-time optional qualifying event may be included within the plan document. This optional qualifying event is not available to calendar-year plans. Under this event:

- An employee participating in the cafeteria plan beginning in 2013 may prospectively revoke or change his or her election once, during that plan year, regardless of whether an actual change in status has occurred.
- An employee not participating in the cafeteria plan beginning in 2013 may prospectively make an election to participate in the plan, regardless of whether an actual change in status has occurred.

Although the event is designed to allow an employee to enroll or disenroll in an employer’s coverage in order to avoid the individual mandate penalty effective Jan. 1, 2014, an employer adopting this optional qualifying event would need to allow a one-time change for any employee who requests it, regardless of whether they actually enroll in coverage offered through the exchange or not.

26 CFR §1.125-4(c)(1)(i).
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| Change in Cost<sup>2</sup>                  | A change in the cost of coverage that permits the employer to automatically increase or decrease the employee contributions. 26 CFR §1.125-4(f)(2)(i).                                                             | An employer decides mid-year that they wish to adjust the amount of employer contributions provided for major medical coverage. The plan document includes a provision allowing the employer to automatically increase or decrease the employee contribution. The employer must determine if the change is significant or insignificant. Since it is determined the change is insignificant, the employer notifies the employees of the new cost of the plan and implements the adjustment in the next paycheck. | • Major medical  
• Major medical integrated with dental/vision  
• Stand-alone dental  
• Stand-alone vision  
• Group term life  
• AD&D  
• Disability coverage  
No pretax change permitted:  
• Health FSA (any)  
• Dependent care |
| Significant Cost Changes<sup>2</sup>         | A significant change in the cost of coverage that permits an employee to actually change elections (drop coverage, add coverage, switch plans). 26 CFR §1.125-4(f)(2)(ii).                                                 | Example 1: An employer decides mid-year that they wish to adjust the amount of employer contributions provided for major medical coverage. It is determined that the increase to employees is significant. The employees are permitted to make mid-year election changes based on this provision if provided for in the plan document.  
Example 2: A child care provider increases its fee. An employee can increase her salary reduction mid-year to reflect the new fee. | • Major medical  
• Major medical integrated with dental/vision  
• Stand-alone dental  
• Stand-alone vision  
• Dependent care  
• Group term life  
• AD&D  
• Disability  
No pretax change permitted:  
• Health FSA (any) |
| Significant Coverage Curtailment             | A significant coverage curtailment (reduction in benefits) without a loss of coverage or a significant coverage curtailment, with loss of coverage. 26 CFR §1.125-4(f)(3)(i) and 26 CFR §1.125-4(f)(3)(ii). | An entire network of hospitals no longer accepts the health insurance offered through the employer. Many participants lose their primary care physicians and specialists. The employer offers another benefit option that still includes the hospital network. The employees change their elections to avoid the coverage curtailment.                                                            | • Major medical  
• Major medical integrated with dental/visibility  
• Stand-alone dental  
• Stand-alone vision  
• Dependent care  
• Group term life  
• AD&D  
• Disability  
No pretax change permitted:  
• Health FSA (any) |
| Addition or Significant Improvement of Benefit Options | If a plan adds a new benefit package option or other coverage option, or improves an existing option, an employee may drop coverage for existing option, add coverage for new option or switch plans. 26 CFR §1.125-4(f)(3)(iii). | An employer has previously provided the choice of a PPO or HMO under the major medical plans. They decide mid-year to add a High Deductible Health Plan (HDHP) with HSA as a benefit offering. Since this is an employer initiated improvement, this provision allows employees to make an election change to the HDHP and revoke the election to the PPO or HMO. | • Major medical  
• Major medical integrated with dental/visibility  
• Stand-alone dental  
• Stand-alone vision  
• Dependent care  
No pretax change permitted:  
• Health FSA (any) |
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| **Change of Coverage Under Another Employer's Plan** | Allows for a new election or revoking a previous plan election when a change is made under another employer plan (including a plan of the same employer or of another employer) for the employee, spouse or dependent.  
26 CFR §1.125-4(f)(4). | **Example 1:** A son’s employer begins offering coverage for the first time, which provides him with major medical, dental and vision. Even though the son is still a dependent for purposes of the plan, the parent wishes to drop the son from coverage since he has other insurance. This would be permissible if the plan allows for this provision.  
**Example 2:** A husband has open enrollment in December each year. A wife has open enrollment in June. The husband covers the entire family through his employer, but in June the family decides to switch to the wife’s insurance. The husband is permitted to drop all coverage under this provision. | • Major medical  
• Major medical integrated with dental/vision  
• Stand-alone dental  
• Stand-alone vision  
• Dependent care  
• Group term life  
• AD&D  
• Disability  
No pretax change permitted:  
• Health FSA (any) |
| **Loss of Group Coverage Under a Governmental or Educational Institution** | Allows adding coverage under a cafeteria plan for the employee, spouse or dependent if the employee, spouse or dependent loses coverage under any group health coverage sponsored by a governmental or educational institution, which includes: state CHIP, coverage through an Indian tribe and a state risk pool.  
26 CFR §1.125-4(f)(5). | **Example 1:** An employee has employee-only coverage under the employer plan, and her three children are covered under the state’s CHIP plan. Mid-year, the employee is promoted and her new salary makes her children ineligible for the CHIP coverage. Since the plan includes this provision, the employee adds her dependents to her employer-provided coverage. A loss of coverage under a state CHIP plan may also trigger HIPAA special enrollment rights.  
**Example 2:** An employee’s daughter goes to college and is provided insurance through the school as part of her tuition. This does not entitle the employee to remove the daughter from employer-sponsored coverage. This change would be made at open enrollment. However, the daughter struggles in school and moves home, losing her coverage. The employee may now add the daughter back onto her employer sponsored coverage under this provision. | • Major medical  
• Major medical integrated with dental/vision  
• Stand-alone dental  
• Stand-alone vision  
• Dependent care  
• Health FSA (any)  
• Group term life  
• AD&D  
• Disability  
No pretax change permitted:  
• Health FSA (any) |
| **Judgments, Orders or Decrees** | Applies to a judgment, decree or order resulting from a divorce, legal separation, annulment, changes in legal custody or qualified medical child support order (QMCSO). It is important to note that ERISA requires a plan to honor qualified medical child support orders, and including this provision in the plan document allows coverage through a QMCSO to be paid pretax.  
26 CFR §1.125-4(d). | An employer is provided a court order which requires that the employee cover the dependent child on all available medical, dental and vision coverage available. The child does not live with the employee, and the employee is not currently enrolled in any benefit offerings through the employer, although they are eligible for it. The policies all require employees who cover dependents to be enrolled on the plan. The employer should enroll the employee and dependent on all plans, to comply with the court order. | • Major medical  
• Major medical integrated with dental/vision  
• Stand-alone dental  
• Stand-alone vision  
• Health FSA (any)  
No pretax change permitted:  
• Dependent care  
• Group term life  
• AD&D  
• Disability |
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| Medicare or Medicaid Entitlement | If an employee, spouse or dependent becomes enrolled in coverage under Part A or Part B of Medicare, or Medicaid or loses coverage under these, a cafeteria plan may permit the employee to make an election change to increase, change or revoke coverage of that employee, spouse or dependent under the plan. | An employee becomes eligible for Medicare because of End Stage Renal Disease (ESRD), and requests to revoke his group medical plan election since the plan contains this provision. Later, this same employee receives a kidney transplant and exhausts his coverage from Medicare. The employee is now able to request to be re-enrolled on the group plan under this same provision. | • Major medical  
• Major medical integrated with dental/vision  
• Stand-alone dental  
• Stand-alone vision  
• Health FSA (any)  
No pretax change permitted:  
• Dependent care  
• Group term life  
• AD&D  
• Disability  
26 CFR §1.125-4(e). This category does not include state CHIP, VA Benefits or TRICARE. |
| Family Medical Leave Act (FMLA) | An employee taking FMLA may revoke their election for medical, dental and vision and choose another option for the remaining period of leave. | An employee qualifies for unpaid FMLA and does not have enough paid time accrued to earn a full salary during the full 12 weeks of leave. The employee requests to revoke coverage during his leave. This is permitted under this Section 125 provision. Upon return, the employee has the right to be reinstated to the coverage in effect prior to the leave. | • Major medical  
• Major medical integrated with dental/vision  
• Stand-alone dental  
• Stand-alone vision  
• Health FSA (any)  
• Dependent care  
• Group term life  
• AD&D  
• Disability  
26 CFR §1.125-4(g). |

**Footnotes**

1 Effective April 1, 2009, if the loss of eligibility is under a Medicaid plan or the state children’s health insurance program, a period of at least 60 days must be allowed to request special enrollment. 26 USC § 9801(f)(3)(A)(i).

2 A change in cost may be “significant” or “insignificant.” Unfortunately, no real guidance has been issued on what is “insignificant” versus “significant.” The regulations only mention an example of 12.5 percent (26 CFR 1.125-4(f)(6), ex. 7), but the IRS has indicated that this should not be interpreted as a safe harbor guideline. The plan should base its determination on the plan’s unique circumstances such as type of employees (minimum wage employees vs. high incomes), past changes (no previous changes) and type of plan changed (medical vs. vision).