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Know the facts

about Section 125 and mid-year plan changes

Some voluntary carriers may go to drastic measures to retain their business if they think they're at risk of losing an account to a competitor. Some may even overlook important details like an account's right to make mid-year benefit or carrier changes.

Take Section 125, sometimes referred to as a cafeteria plan. While it's true that cafeteria plans follow a defined plan year, there are certain circumstances where eligible employees can change their benefit elections mid-year if their employer makes significant changes to the benefits package.* According to Internal Revenue Service guidelines, eligible employees may change their benefit elections if they experience valid status changes, such as the examples below. Encourage your clients to consult plan documents and talk with their tax advisors about Section 125 guidelines.

*This rule does not apply to elections for health flexible spending arrangements (FSAs).

Permissible mid-year plan changes under Section 125

Example	IRS guidelines
An employer opts to add a new voluntary benefit to the existing benefits package or significantly improves a coverage that is currently in the package. The employee can discontinue the existing coverage and elect the new or improved option.	If a new benefit package option is added, or if coverage under an existing benefit package option is significantly improved, an employee can be allowed to revoke his or her election under the benefit package option and, instead, make an election for coverage under the new or improved benefit package option. Treasury Regulation Section 1.125-4(f)(3)
An employer stops offering one voluntary benefit and opts to replace it with another, which results in a significant reduction of the employee's coverage. The employee can opt to discontinue his or her election for the coverage no longer offered and elect coverage under another benefit option that provides similar coverage.	If there is a significant reduction of an employee's coverage under a benefit package option that is a loss of coverage, the cafeteria plan may permit the employee to revoke his or her election under the benefit package option and, instead, elect coverage under another benefit package option providing similar coverage or to drop coverage if no similar benefit package option is available. Treasury Regulation Section 1.125-4(f)(3)