



Frequently Asked Questions about Employees' Reduction in Hours

The Section 125 cafeteria plan regulations and the Patient Protection and Affordable Care Act (ACA) require employers to take certain actions when an employee reduces hours. Below are answers to some common questions.

Coverage During a Stability Period

Q1: An employer has an employee who is reducing hours below 30 hours per week. The employee is performing the same job and duties. The employee was determined to be full-time during the most recent measurement period. The employee is currently in a stability period. What happens when the employee reduces hours during a stability period?

A1: The employee must be offered coverage through the entire stability period. The employee must remain classified as full-time for the rest of the stability period. An employee's full-time status determined in the measurement period determines the employee's status during the subsequent stability period. This is true regardless of why the individual's hours were reduced, or who chose to reduce the hours.

Dropping Coverage During a Stability Period

Q2: An employee who has full-time status based on the prior measurement period is reducing hours below 30 hours per week. The employee is in a stability period and has group health plan coverage through the employer's cafeteria plan. May the employee drop the employer-based coverage?

A2: Yes, if the plan document allows the permitted election change event of reduction of hours and if certain conditions are met.

A plan may allow a participant whose hours are reduced below 30 hours a week because of a change in employment status to drop employer-sponsored health coverage mid-year, regardless of whether the hour reduction caused a change in the employee's eligibility status.

Per the IRS, two conditions must be met:

1. The employee has been in an employment status under which the employee was reasonably expected to average at least 30 hours of service per week and there is a change in that employee's status so that the employee will reasonably be expected to average less than 30

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2. hours of service per week after the change, even if that reduction does not result in the employee ceasing to be eligible under the group health plan; and
3. The revocation of the election of coverage under the group health plan corresponds to the intended enrollment of the employee, and any related individuals who cease coverage due to the revocation, in another plan that provides minimum essential coverage with the new coverage effective no later than the first day of the second month following the month that includes the date the original coverage is revoked.

This would allow an employee, otherwise locked into coverage due to his or her employer's use of the ACA's measurement and stability period, to drop coverage during a stability period.

Employee Transfers to New Part-Time Job

Q3: An employee who has full-time status based on the prior measurement period is reducing hours below 30 hours per week. The employee is transferring to a new position that is classified as part-time and includes different job duties than the employee's prior position. What happens when the employee moves to a part-time position?

A3: The general rule is that an employee's status as full-time (30 hours per week) or not full-time (fewer than 30 hours per week) during the measurement period determines the employee's status during the subsequent stability period.

There is an exception that applies in very few cases. If an employee who is considered full-time transfers into a part-time position, then the employer may treat the employee as other than full-time if:

- the employee was offered minimum value coverage while full-time from at least the first day of the month following the employee's initial three full calendar months of employment through the month that the change in status occurs,
- the new position is classified as part-time; and
- the employee is not simply reducing hours at the employee's existing job.

If the criteria above are met, then the employer may treat the employee as other than full-time, and move the employee to the monthly measurement period, as of the first day of the fourth month after the employee transfers to the part-time position.

This rule only applies if for three months following the change to part-time the employee averages less than 30 hours a week. The employer applies the monthly measurement period to this employee through the end of the first full measurement period and administrative period that would have applied had the employee remained under the applicable look-back measurement period.

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