

Client Advisory | June 2009**Rhode Island Law Requires Employers to Maintain a Cafeteria Plan**

Joining Massachusetts and Connecticut, Rhode Island will require employers employing more than 25 employees in the state for six consecutive months to establish and maintain a cafeteria plan (also referred to as a Section 125 plan) to enable employees and their dependents to purchase health insurance with pre-tax dollars. This law is set for implementation on July 1, 2009.



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Cafeteria or “Section 125” plans are arrangements created under federal tax law that permit employees to choose between receiving taxable cash compensation or foregoing such cash compensation to “purchase” one or more qualified nontaxable employee benefits. Some cafeteria plans feature a wide range of choices, such as group health benefits, group life insurance coverage, reimbursements for medical care and dependent care expenses not covered by insurance, and adoption assistance. A “premium only” cafeteria plan allows employees to pay their portion of the premiums to the employer’s group health plan with pre-tax contributions.

In 2006, Massachusetts became the first state to require all employers with 11 or more workers in the state to establish a “premium only” cafeteria plan. As part of its broad health care reform, the Massachusetts law applies to employers with insured and self-insured plans, and requires virtually

all employees to be eligible, even if such employees are ineligible for the employer’s health benefit program.

Connecticut enacted legislation mandating cafeteria plans in 2007. The law requires any employer providing health insurance benefits paid partly through payroll deductions to offer a “premium only” cafeteria plan, effective October 1, 2007. No further guidance has been provided, and the scope of this mandate remains unclear.

The Rhode Island law requires an employer with 25 or more employees in the state to adopt a “premium only” cafeteria plan if the employer sponsors an insured group health plan to which employees pay a portion of the premiums. The Rhode Island law does not require the employer to establish or maintain a group health plan, or pay for, or otherwise contribute to, the cost of any health insurance purchased through the cafeteria plan.

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