

Connecticut Law Requires Employers to Adopt Cafeteria Plans

Working Together

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In 2007 Connecticut adopted a **law** requiring employers to adopt cafeteria plans if their employees are required to pay a portion of the health insurance premium for employer-sponsored health insurance through payroll deduction. Connecticut wanted to make sure that employees would have the opportunity to pay such premiums on a pre-tax basis. This law did not get much attention. Maybe that is due to the fact that it was buried in the middle of a public act that was intended to expand access to public health insurance by making a number of changes to the HUSKY program.

Utilizing a cafeteria plan to make pre-tax payroll deductions as the method for paying the employee's share of the premium is a common practice, so most companies are likely complying with the law. Many companies, however, still require employees to pay their portion of health insurance premiums with after-tax dollars. If this describes your business practice you should adopt a cafeteria plan and give your employees the opportunity to pay their share of the premium with pre-tax dollars. If you know that your business is not utilizing a cafeteria plan but you are reflecting your employees premium payments as pre-tax, you should adopt a cafeteria plan now. While Connecticut law does not provide for a remedy for an employer's failure to adopt a cafeteria plan, the employee who is affected by the improper payroll deduction may have a direct claim against the employer for the unnecessary income tax liability incurred.

It's interesting that Connecticut requires employers to let employees pay for health care with pre-tax dollars while the federal government has taken a somewhat different view. In September 2013 the Internal Revenue Service issued guidance making it a violation of the Affordable Care Act for employers to reimburse employees for insurance premiums they pay for non-employer sponsored health insurance. From the early 1960's, until this guidance was issued, these types of insurance reimbursements were not taxable to the employee.

The take away: if you are a Connecticut employer that sponsors a health plan with employees bearing the cost of some or all of that plan, make sure you have a cafeteria plan in place.

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