



# HOUSE BILL 569: Pretax Supplemental Benefits.

2017-2018 General Assembly

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<b>Committee:</b>		<b>Date:</b>	August 8, 2018
<b>Introduced by:</b>		<b>Prepared by:</b>	Cindy Avrette Staff Attorney
<b>Analysis of:</b>	S.L. 2018-64		

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**OVERVIEW:** *S.L. 2018-64 provides that supplemental insurance plans offered to State employees through the Employee Insurance Committees may be offered on a pre-tax basis if the offering complies with Section 125 of the Internal Revenue Code.*

*The act became effective when it became law on June 25, 2018, and applies to products or services funded by payroll deductions beginning on or after January 1, 2019.*

**CURRENT LAW<sup>1</sup>:** North Carolina offers standard benefits to eligible State employees including health coverage through the State Health Plan and participation in the Teachers' and State Employees' Retirement System. Employees also have the option of participating in voluntary insurance programs that are not provided through the standard benefits, such as dental, critical illness, and life insurance. Employees voluntarily elect to participate in these supplemental offerings and pay the cost of the insurance through payroll deduction. The supplemental insurance products are offered to State employees through two different systems:

- NCFlex program, which is administered statewide by the Office of Human Resources. The same set of benefits is offered to all eligible State employees.
- Employee Insurance Committees, which is administered by the individual agencies. The benefits offered vary by each agency because each agency, through its Employee Insurance Committee, selects its own products and services through whatever providers it may choose.

The NCFlex program is offered under Section 125 of the Internal Revenue Code. Under Section 125, employees can pay for benefits on a pre-tax basis, allowing employees to reduce their tax liability because they do not pay federal or State income taxes, or FICA taxes, on the premium amounts deducted from their pay. The authority for this tax benefit is found in G.S. 126-95, which gives the Budget Director the authority to establish benefits under Section 125 of the Internal Revenue Code.

Premiums for benefits offered under Employee Insurance Committees are paid with post-tax dollars because the Employee Insurance Committees do not have the authority to establish benefits under Section 125. For benefits to be provided under Section 125, the plan must meet specific requirements of, and regulations promulgated under, Section 125 of the Code.

**BILL ANALYSIS:** S.L. 2018-64 adds a sentence to G.S. 58-31-60(c) saying that the products selected by the Employee Insurance Committees may be offered on a pretax basis if the offering complies with Section 125 of the Internal Revenue Code. Since the benefits offered by Employee Insurance Committees are administered at the agency level, it appears the responsibility for ensuring compliance with Section 125 requirements is the responsibility of the individual agency.

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<sup>1</sup> [PED report on State employee supplemental insurance benefits, August 2015.](#)

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