State/Local Compliance Update

July 2026

A brief update on what happened the prior month in group health benefits compliance at the state and local level, listed alphabetically.

Arizona

- **Arizona expands military leave protections for national guard and armed forces reserves**. Arizona has amended its military leave law under HB 2663 to expand employment protections for members of the National Guard and United States Armed Forces Reserves. The law clarifies that employees are entitled to leaves of absence from employment to comply with competent military orders for active duty or training and provides that military leave may not adversely impact vacation or seniority rights. The legislation also extends protections afforded under federal military reemployment laws to members serving under competent orders of any state of the United States. The law further revises military leave provisions applicable to state and local government officers and employees by basing military leave on the average number of regularly scheduled work hours in a weekly work period, clarifying that employees may not be charged military leave for days they were not otherwise scheduled to work, and preserving leave, pay, and related employment protections while performing qualifying military service.

Arkansas

- **Court finds Arkansas geographic coverage requirements for PBMs are preempted by ERISA**. On June 29, the Eighth Circuit Court of Appeals ruled that Arkansas regulations imposing geographic coverage requirements for pharmacy benefit managers (PBMs) are preempted by ERISA and therefore unenforceable. The geographic coverage requirements mandated that PBMs servicing a health plan ensure that a high percentage of covered individuals (90% for urban or suburban plans, 70% for rural) live within a relatively short distance from a network pharmacy (two miles for urban, five miles for suburban, and fifteen miles for rural). The court, citing the general rule that ERISA preempts state laws that have an impermissible "reference to" or "connection with" an ERISA plan, concluded that the geographic coverage requirements had an impermissible connection with ERISA plans because they forced a particular scheme of substantive coverage and interfered with nationally uniform plan administration. The court distinguished the geographic coverage requirements from requirements that create only a "modest" disuniformity in plan administration and are thus not preempted in other court rulings—reasoning that PBMs would need to tailor and "retailor" their pharmacy networks to state-specific access standards as plan participants moved, areas were reclassified, or pharmacies closed. According to the court, this is precisely the kind of burden Congress enacted ERISA to prevent. The court left open the question of whether a broader statutory provision regarding pharmacy network adequacy and accessibility, standing on its own or implemented through different regulations, would be preempted.

Hawaii

- **Hawaii expands family leave protections for military families.** Hawaii has expanded its Family Leave Law to permit eligible employees to take family leave for a qualifying military exigency related to the active-duty service of the employee's child, spouse, reciprocal beneficiary, sibling, grandchild, or parent in the U.S. Armed Forces. Enacted through SB 3082, the amendment incorporates a new definition of "qualifying military exigency" based on the federal FMLA regulations in 29 C.F.R. § 825.126 and adds such exigencies as a covered reason for leave. Prior to the amendment, Hawaii's Family Leave Law provided eligible employees of employers with 100 or more employees up to four weeks of unpaid, job-protected leave during a calendar year for the birth or adoption of a child, or to care for a child, spouse, reciprocal beneficiary, sibling, grandchild, or parent with a serious health condition. The law did not recognize military-related family needs as an independent basis for leave. Legislators noted that military families often face urgent obligations arising from deployments and active-duty service, including arranging childcare, attending military briefings, and handling legal or financial matters, and concluded that Hawaii law should be aligned more closely with the federal FMLA's military-family leave protections.

Kansas

- **Kansas issues guidance on income tax subtraction for portable benefit plan contributions**. On July 1, Kansas issued Notice 26-08 discussing legislation that established an income tax subtraction modification for contributions during the tax year to voluntary portable benefit plans for independent contractors. The subtraction applies to the amount contributed to a plan by private or public businesses, including internet or application-based companies, and individuals that hire or contract with independent contractors. Independent contractors can also claim a subtraction modification for amounts contributed to a portable benefit plan

Louisiana

- **IRS grants tax relief to victims of Tropical Storm Arthur in Louisiana**. The IRS has announced tax relief for taxpayers who reside or have a business in the federal disaster areas of Avoyelles, Lafourche, Pointe Coupee, St. Landry, St. Tammany, and Terrebonne parishes in Louisiana—which were impacted by Tropical Storm Arthur that began June 17, 2026. The relief extends until November 2, 2026, deadlines for filing various returns, including the filing of Form 5500s, and paying taxes otherwise due during the period of June 17, 2026, and before November 2, 2026.

Massachusetts

- **Massachusetts 2027 PFML contribution structure change.** Massachusetts has announced that, beginning January 1, 2027, there will be changes to the structure of the Massachusetts PFML contribution rates. In particular, the employer-required share of PFML contributions will shift from medical leave to family leave. The change is intended to mitigate the impact of recent IRS guidance regarding the tax treatment of state PFML benefits. While the change does not alter employers' obligation to remit PFML contributions, it will impact how contributions are allocated between employers and employees for employers with 25 or more covered individuals. Note that contribution rates are established annually and that the actual 2027 total contribution rate has not yet been determined—rates are expected to be set by October 1, 2026.
    - Employers with fewer than 25 employees. Employers with fewer than 25 covered individuals are responsible for sending the funds withheld from covered individuals'

wages but are under no obligation to contribute themselves. However, they may elect to cover some or all of the covered individuals' share.

- Current PFML contribution structure for employers with 25 or more employees. For 2025 and 2026, employers with 25 or more covered individuals contribute to PFML through a combination of employee payroll withholdings and employer-paid contributions. Under the current structure:
  - Employees may be charged up to 100% of the family leave contribution.
  - Employees may be charged up to 40% of the medical leave contribution.
  - Employers are responsible for the remaining 60% of the medical leave contribution.
- New 2027 contribution structure for employers with 25 or more employees. Beginning January 1, 2027, Massachusetts will effectively reverse that allocation. In other words, the employer's required contribution will move from the medical leave side of PFML to the family leave side. The overall contribution framework remains in place, but the allocation between family and medical leave changes significantly. So, starting in 2027, for employers with 25 or more covered individuals:
  - Employers will be required to pay 60% of the family leave contribution.
  - Employees may be charged up to 40% of the family leave contribution.
  - Employees may be charged up to 100% of the medical leave contribution.

Minnesota

- **Minnesota adopts paid sick and safe time rules.** Minnesota has issued final regulations (and associated FAQs) implementing the Minnesota Earned Sick and Safe Time Law. Of note, employers can continue to offer attendance-based incentives but cannot require employees to use leave. The rules also address exceptions to when employers can request documentation, when leave is deemed "accrued," and how the law impacts employers that offer generous paid leave benefits. Employers should determine whether the rules impact their current paid sick and safe time (or other paid leave) policies, procedures, and practices—and modify accordingly.

Mississippi

- **IRS grants tax relief to victims of severe storms, straight-line winds, tornadoes, and flooding in Mississippi**. The IRS has announced tax relief for taxpayers who reside or have a business in the federal disaster areas of Franklin, Lamar, Lawrence, Lincoln, and Wilkinson counties in Mississippi—which were impacted by severe storms, straight-line winds, tornadoes, and flooding that began May 6, 2026. The relief extends until November 2, 2026, deadlines for filing various returns, including the filing of Form 5500s, and paying taxes otherwise due during the period of May 6, 2026, and before November 2, 2026.

New Jersey

- **New Jersey enacts employer NJ FamilyCare assessment**. On June 30, New Jersey enacted A5324 that establishes a new annual assessment on certain employers whose employees (and, in some cases, their dependents) receive health coverage through NJ FamilyCare/Medicaid. NJ FamilyCare includes Medicaid, CHIP, and Medicaid expansion populations. The law is intended to raise revenue to defray State Medicaid costs. The assessment generally applies to employers that, during the preceding calendar year, employed 50 or more employees who received health benefits coverage through NJ FamilyCare/Medicaid. Once an employer is subject to the assessment, the annual fee is calculated with respect to each covered employee and each covered dependent attributable to the employer, subject to statutory exclusions. The law directs state agencies to administer the assessment program and establish procedures for notification, collection, and appeals. On or before March 1 of each year, employers subject to the assessment should receive notices from the Division of Revenue and Enterprise Services regarding the number of NJ FamilyCare beneficiaries attributed to the employer for whom a fee will be due on or before April 15. An employer who fails to pay the fee for each impacted employee or dependent as required under the law shall be subject to a penalty not to exceed $500 per day for each day the fee remains unpaid. The annual fee is determined using a tiered structure based on the number of NJ FamilyCare beneficiaries attributable to the employer. The statute provides the following assessment levels:

  - 50 – 249 covered beneficiaries attributable to the employer = $325 annual fee per beneficiary.
  - 250 – 499 covered beneficiaries attributable to the employer = $525 annual fee per beneficiary.
  - 500 or more covered beneficiaries attributable to the employer = $725 annual fee per beneficiary.

- **FAQ guidance issued for the New Jersey Family Leave Act (NJFLA) and Temporary Disability Insurance Law (TDI)**. New Jersey issued FAQs related to recent amendments to the NJFLA and TDI law, which are effective July 17, 2026. The FAQs explain new and extensive job protections under the amendments, which impact every employer in the State.
  - As a reminder, the NJFLA allows employees to take 12 weeks of job protected leave in a 24-month period to care for a family member with a serious health condition or to bond with a newly born or adopted child. Effective July 17, 2026, the amendments reduce the threshold for employer coverage under the NJFLA, from 30 to 15 employees (on July 17, 2027, the threshold drops to 10 employees, and on July 17, 2028, the threshold drops to 5 employees).
  - To be eligible for NJFLA, under the amendments, employees must only work 250 hours (formerly 1,000 hours) in the 12 months preceding their need for leave. And employees with three months of employment (formerly 12 months) are now eligible for job-protected NJFLA leave.
  - The amendments also require job protection for employees taking Family Leave Insurance (FLI) or Temporary Disability Insurance (TDI) benefits. The FAQs clarify the scope of this job protection, and unlike job protection coverage under the NJFLA or federal FMLA, there are no minimum employer size requirements or work history requirements to be eligible for job protection while on leave during which the employee is receiving TDI or FLI benefits. Specifically, effective July 17, 2026, eligible New Jersey employees may receive up to 26 weeks of job-protection while receiving TDI benefits and up to 12 weeks while receiving FLI benefits, with reinstatement rights to their job or an equivalent position when the benefits end.

New York

- **New York City issues final regulations on amended Earned Safe and Sick Time Act**. As a reminder, last year New York City (NYC) amended the NYC Earned Safe and Sick Time Act (ESSTA) to expand the covered uses for safe and sick time and to require employers to provide an additional 32 hours of unpaid safe and sick time immediately available upon hire in addition to paid safe and sick time already required by the statute, and to frontload such time at the start of each year. NYC has now issued final regulations implementing those amendments. The final regulations took effect on July 23, 2026, and adds new leave entitlements, clarifies employer obligations regarding unpaid leave, addresses post-employment record access obligations, and provides guidance on the use of unpaid leave by exempt employees.

South Carolina

- **New South Carolina Civil Air Patrol leave.** Governor McMaster has signed the Civil Air Patrol Act that will require employers to provide leave for eligible employees who serve as members of the Civil Air Patrol. Employees who are members of the Civil Air Patrol, the official civilian auxiliary of the U.S. Air Force, are eligible for leave for qualifying reasons. Effective October 1, 2026, employers must provide: (a) emergency response leave of up to 30 days per calendar year for participation in Civil Air Patrol emergency service operations, including mutual aid missions for other jurisdictions; and (b) training leave of up to 10 days per calendar year for Civil Air Patrol training and proficiency activities, including qualifying training conducted by the Civil Air Patrol, the U.S. Air Force, the Federal Emergency Management Agency, or other emergency management organizations. Unlike other military leave statutes that apply only to public employers, the Civil Air Patrol Leave Act applies to both public and private employers operating in South Carolina. But the law distinguishes between public and private employers regarding whether the leave is paid or unpaid. For public employers, the leave is paid. For private employers, the leave can be paid or unpaid, at the employer's option. Unused leave does not carry over from year to year and is not payable upon separation from employment.