# State/Local Compliance Update

## May 2026

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

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**Colorado**

- **Colorado AI Act repealed and replaced.** Back in June 2024, we discussed the passage of Senate Bill 24-205 (the "AI Act") that made Colorado the first state to enact a broad regulatory framework for the development and use of artificial intelligence (AI) systems. Now, on May 14, Governor Polis signed SB 26-189 to repeal and replace the AI Act.
    - The original AI Act was intended to prevent algorithmic discrimination by mandating broad-based notice, disclosure, risk mitigation, and opt-out requirements for developers and deployers of "high-risk" AI systems. Following its passage, the law was criticized for being overly complex and burdensome and faced litigation challenges. So, Governor Polis formed a working group to propose revisions to reduce the regulatory burdens, which led to the passage of SB 26-189.
    - The new law replaces the original regulation of "high-risk" AI systems with a new framework governing the use of "automated decision-making technology" (ADMT) to make "consequential decisions" about consumers, while excluding routine technologies and low-stakes use cases from its scope.
    - The new law abandons the prior extensive risk-management and impact-assessment requirements and replaces those with new obligations to notify consumers when ADMT is used to make consequential decisions and to provide explanations following adverse outcomes.
    - Individuals may also now request correction of inaccurate data and request meaningful human review and reconsideration of certain automated decisions.
    - There are some exemptions from the new law specific to group health plans. For example, insurers subject to Colorado's insurance law governing the use of algorithms and external consumer data are generally deemed compliant with SB 189 in the practice of insurance. And HIPAA-covered entities and their business associates are largely exempt from the statute's requirements, except for limited disclosure obligations in certain financial-assistance eligibility determinations, and healthcare providers must provide general notice regarding their use of advanced technologies.

**Illinois**

- **Chicago issues updated paid leave rules.** On May 18, updated rules were released that (effective June 1, 2026) clarify the Chicago Paid Leave and Paid Sick Leave Ordinance. As background, in November 2023, Chicago enacted the ordinance requiring employers to provide at least 40 hours of paid leave and 40 hours of paid sick leave annually to employees. The ordinance took effect July 1, 2024, and set forth accrual, usage, and eligibility requirements. The updated rules provide important clarifications regarding employer obligations and employee use of paid leave. Here are the highlights:

- Employers are required to post notices in accessible locations. The updated rules give examples of possible locations—including bulletin boards with other required postings, breakrooms/lunchrooms, display monitors, and employee swipe-in areas.
- The rules now expressly confirm that employers may take disciplinary action for misuse of paid sick leave, including where employees exhibit patterns of suspicious usage. Examples include: requesting unscheduled paid sick leave on or adjacent to weekends, regularly scheduled days off, holidays, vacation or pay day; taking scheduled paid sick leave on days when other leave has been denied; and taking paid sick leave on days when the employee is scheduled to work a shift or perform duties perceived as undesirable.
- The ordinance allows use of paid leave when an employee needs to care for a family member whose school, class, or "place of care" has been "closed." The rules clarify that a "place of care" can include informal childcare arrangements—such as babysitters, family members, or friends who provide care while the employee is working. And a "closure" can include situations in which the childcare provider is unexpectedly unavailable.
- The rules confirm that employers may utilize a single, combined PTO policy to satisfy their obligations under the ordinance in lieu of separate paid leave and paid sick leave banks—provided the policy meets all statutory requirements, including accrual, carryover, and permissible use.

**Massachusetts**

- **Massachusetts PFML Act retaliation verdict puts employers on notice.** On April 27, a jury handed down the first verdict in Massachusetts, validating a retaliation claim under the Massachusetts Paid Family and Medical Leave (PFML) Act. The jury found that the employer retaliated against the employee plaintiff for taking PFML leave, despite the employee's poor, and well-documented, performance reviews that predated her leave. The verdict resulted in a $4.7 million award, including $4 million in punitive damages, $600,000 for emotional distress, and more than $75,000 in back pay. This verdict emphasizes the significant risk employers face when terminating employees within six months of their return from PFML leave. The Massachusetts PFML Act imposes a higher evidentiary standard on employers defending against retaliation claims than the federal FMLA. Under the federal FMLA, an employer needs only to articulate a legitimate, nondiscriminatory reason for the adverse action. By contrast, under the Massachusetts PFML Act, the employer must justify its decision by clear and convincing evidence.

**Minnesota**

- **Bloomington repeals their paid sick and safe time ordinance due to implementation of statewide standards.** On April 27, Bloomington repealed its Earned Sick and Safe Time (ESST) Ordinance explaining that "the primary purpose of Bloomington's ESST ordinance, to guarantee paid sick and safe time, has been fulfilled by the statewide law." Bloomington is the second Minnesota city to repeal its paid sick and safe leave ordinance due to the application of statewide standards. (Duluth previously repealed its ordinance effective January 18, 2024, shortly after the state law took effect, rather than continuing to maintain a parallel framework.) Since Bloomington last amended its ordinance to align with state law, the state statute has been amended twice, and forthcoming state rules could further impact how the state law is interpreted. Accordingly, Bloomington's ordinance did not fully align with state law and the city acknowledged that "significant staff time is needed to track, review, and update the ordinance

to align it with state law." Bloomington also observed that "the positives of a dual system do not outweigh the negatives of requiring employers to navigate overlapping rules that are substantially similar in purpose and effect." It is possible that Minneapolis and Saint Paul (both of which have also been playing catch up, based on changes to state law) will follow suit and reduce multi-jurisdiction compliance challenges for employers with Minnesota operations.

**Tennessee**

- **Tennessee enacts the FAIR Rx Act restricting vertical integration of PBMs.** On May 22, Governor Lee signed SB 2040 / HB 1959, the Freedom, Access, and Integrity in Registered Pharmacy (FAIR Rx) Act. The FAIR Rx Act takes effect on July 1, 2028, and targets vertical integration in the pharmacy market by prohibiting certain entities from owning or controlling a pharmacy while also owning or controlling a PBM or insurance company. Specifically, the FAIR Act states that no person or entity may, directly or indirectly, own, operate, control, or direct the operation of both a pharmacy and a health insurance issuer or PBM, when the ownership interest exceeds 5% (subject to limited exceptions). As expected, impacted entities and PBMs are pushing back, and CVS has already filed a lawsuit challenging the law based on constitutional grounds and based on ERISA preemption.

**Virginia**

- **Virginia enacts state paid sick leave law.** On May 20, Governor Spanberger signed HB 5 / SB 199 that expands paid sick leave obligations to virtually all employers in the state. The timing of when the new paid sick leave requirements go into effect depends on the employer size—it goes into effect for employers with at least 50 employees on July 1, 2027, for employers with at least 25 employees on January 1, 2028, and for employers with at least one employee on January 1, 2029. Highlights of the law include accrual at a rate of one hour of paid sick leave for every 30 hours worked, 40-hour annual caps on accrual and usage, no apparent cap on year-end carryover, a permissible frontloading alternative, a broad "family member" definition, and a requirement that paid sick leave be compensated at the regular rate.