Compliance Alert

Federal Government Shutdown Impact on Contractors

PROVANT

Government Shutdown Raises Benefits Eligibility Questions for Federal Contractors

OCTOBER 15TH, 2025

With the government shutdown not coming to a resolution over the weekend, U.S. House Speaker Mike Johnson designated October 7 through 13 as a "district work period" for representatives to visit with their local districts. With no shutdown resolution in sight, federal contractors may have questions about whether certain employees unable to work full-time can remain enrolled in benefits.

Applies To: Employers with federal contract workers unable to work full-time hours during the government shutdown or furloughed due to the lapse in appropriations.

Go Deeper:

Since October 1, 2025, the federal government has remained shut down as Congress is stalled on appropriating more funds for the new fiscal year. While some federal contracts may have funding to potentially allow full-time work to continue, many federal contractors may find themselves unable to keep some of their employees working full-time hours.

Since it is unclear how long the shut down will last, some federal contracting employers are even considering furloughs. The administration is also contemplating more budget cuts if the shutdown lingers and has called attention to federal layoffs also being a distinct possibility. This environment leads some affected employers to consider the implications of this situation on the benefits provided to employees on federal contracts.

WHAT'S NEW

Ongoing Shutdown: Federal government remains closed since **October 1, 2025**, with no funding resolution in sight.

Furlough & Coverage: Employees furloughed or working reduced hours may face loss of benefit eligibility without clear plan language.

Plan Amendments: Employers may need to **amend plans** quickly if they want to keep employees covered during furlough.

TAKEAWAY

Federal contractors should **review their plan documents immediately** to determine how long furloughed or part-time employees can remain on benefits and consider adopting plan amendments to avoid costly coverage gaps or compliance issues.

Generally speaking, employers should have clear plan language to address how long employees can remain on benefits when not working full-time, including during a furlough or layoff.

- Without clear furlough or layoff language, the default is typically to end coverage at the end of the month when an employee stops working full-time hours (and offer COBRA, if applicable). The employer will want to check their policies and plan documents for default language.
- For employers subject to the ACA employer mandate who have adopted the lookback method, employees in a full-time stability period should remain eligible for the full-time medical plan at full-time rates for the duration of any full-time stability period(s) that apply to them. It is just a matter of identifying how they can pay their share of the premium when they are not receiving a paycheck.

Practical Impact to Employers:
Employers with employees on federal contracts may need to consult with employment law counsel about their options given the shut down and any obligations imposed by their specific government contract.

If the employer prefers that employees in these situations remain enrolled in benefits during a furlough, but does not have language allowing the eligibility to remain, they will need to quickly adopt a plan amendment and run it by their insurance or stop loss carrier for approval. Allowing someone not working full-time to stay on benefits when they are not otherwise eligible is risky for an employer and may result in self-funding high dollar claims, including medical, life, and/or disability claims.

For applicable large employers (ALE), an employee who loses coverage and is unable to work must be allowed to rejoin the plan without a waiting period if they return to full-time work within 13 weeks. If the shutdown lasts longer than 13 weeks, then the employer may want to consider adopting a plan amendment to waive the waiting period for this (and future) government shutdown situation.

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