



Employer *Bulletin*

Employer Communication Center (608) 264-7900 Toll free: 1-888-681-3952 <http://etf.wi.gov>

The Cost of Group Life Insurance Over \$50,000 (Imputed Income)

The following is a clarification of the information published in *Employer Bulletin*, Vol. 27, Local F, dated September 10, 2010, regarding calculating imputed income on the value of life insurance over \$50,000.

As stated in the prior bulletin, Internal Revenue Code Section 79 provides an income tax exclusion for the first \$50,000 of group-term life insurance coverage provided by an employer. If coverage exceeds \$50,000 and the policy is considered carried directly or indirectly by the employer, the value of the life insurance coverage that exceeds \$50,000 must be included as income and is subject to State and Federal taxes, as well as Social Security and Medicare taxes.

A policy is considered carried directly or indirectly by the employer if:

1. The employer pays any cost of the life insurance, or
2. The employer arranges for the premium payments and the premiums paid by at least one employee subsidize those paid by at least one other employee (the "straddle" rule).

Whether the premium rates meet the "straddle" rule is based on how the Wisconsin Public Employee (WPE) Group Life Insurance premiums compare to the Internal Revenue Service (IRS) Premium Table I. If at least one employee pays less than their Table I rate and at least one other employee pays more than their Table I rate (i.e., if the plan's premium rate table "straddles" the IRS Premium Table I), then the employer is considered to be affecting the premium cost through its subsidizing and/or redistributing role, and the IRS considers the value of coverage over \$50,000 to be a taxable benefit for all employees. Employers must then calculate the taxable portion of the premiums for coverage that exceeds \$50,000 and add it to an employee's taxable income.

As a result of the Additional plan rate reductions for employees ages 77 and older, effective January 1, 2011, the premium rates for local government employees insured under the WPE Group Life Insurance plan will no longer straddle IRS Premium Table I. This is significant because it may impact whether an employer must calculate imputed income under IRC Section 79.

Note: The employer contribution that is required for Basic coverage is allocated to the post-retirement benefit and is not regarded as an employer contribution for current coverage. If an employer does not contribute to the cost of insurance for the employee Basic, Supplemental or Additional plans, (other than the required employer share) then imputed income calculations may not be required starting in 2011. However, if an employer pays any amount of employee premium (other than the required employer share for Basic coverage) for any employee, the imputed income rules may apply for all employees of that employer insured under the WPE plan.

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The information contained in this revised Bulletin is for informational purposes only and is not to be considered a legal opinion or advice related to imputed income. As the administrator for your group term life insurance, Employee Trust Funds wants to give you the best service possible. However, should you need advice regarding imputed income, we urge you to seek assistance from a qualified tax professional.

Information is available online from the IRS. IRS Bulletin 15-B, Employer's Tax Guide to Fringe Benefits, can be found at:

- <http://www.irs.gov/pub/irs-pdf/p15b.pdf>

The IRS also provides a commentary on Section 79, which can be found at:

- <http://www.irs.gov/govt/fslg/article/0,,id=110345,00.html>

For more information on the rate structure of the WPE Group Life Insurance program, contact Marcia Blumer at (608) 266-2640 or e-mail at marcia.blumer@etf.state.wi.us.

Employers with billing questions should call the plan administrator, Minnesota Life Insurance Company, toll free at (866) 295-8690 or locally at (608) 277-8690.

Aviation Accidental Death and Dismemberment Benefit for Local Government Employees

The Group Insurance Board has approved a revision of the Accidental Death and Dismemberment (AD&D) provisions of the WPE Group Life Insurance policy to no longer exclude an accidental death or dismemberment benefit for victims of plane crashes when the employee was a pilot, crew member or passenger on an employer owned, operated, or leased plane and the purpose of the flight was work-related. Effective immediately, the AD&D limitation in the policy has been revised to the following:

“Travel in or descent from any aircraft, except as a fare-paying passenger on a regularly scheduled commercial flight on a licensed passenger aircraft carrier, or except for an employee who is a pilot, crew member or passenger on an aircraft owned, operated or leased by a state or local government employer and being used for business of that employer.”

New Online Video: Employee Orientation—Retirement Benefits

The Department's newest online video is an especially helpful resource for new members of the Wisconsin Retirement System. ***New Employee Orientation—Retirement Benefits*** covers the basics that new employees need to know as they begin WRS-covered employment with either the State of Wisconsin or any local government employer. Topics of this 28-minute program include: eligibility criteria; employee, employer and additional contributions; the Core and Variable Trust Funds; the four types of WRS benefits; beneficiary designations; and the annual Statement of Benefits. Find this and all of ETF's outstanding videos — for employers as well as employees — in the video library at <http://etf.wi.gov/webcasts.htm>.