Better benefits at work.

Group Life Insurance:

What's the real cost?

This is positioning many employers for lower premium costs on their base coverage and better regulatory compliance, while shielding their employees from imputed income.

The Real Cost Checklist

Take these steps when considering the full cost of your company's group life insurance:

- Figure out the financial impact of imputed income on the cost of your program, both to employees by way of increased W-2 wages and to your company by way of increased payroll taxes such as FICA, FUTA.
- Choose a carrier that can take a full cost view of your plan, suggest design alternatives and deliver the best value.
- Consider alternative plan designs that yield the "best" tax result.

Here are the Table I rates (per $1,000 of protection) to help you get started:

AGE	COST
Under 25	$.05
25 through 29	.06
30 through 34	.08
35 through 39	.09
40 through 44	.10
45 through 49	.15
50 through 54	.23
55 through 59	.43
60 through 64	.66
65 through 69	1.27
70 and older	2.06

For voluntary plans, consider allowing employees to purchase $50k of coverage inside a Section 125 Plan on a pre-tax basis, thereby lowering W-2 wages. The remaining coverage is purchased in an employee-paid policy that neither straddles nor experiences cost shifting. This design usually results in lower cost programs for employees when the average employee salary is near $50k.

For 100% participation of base plans, give employees flex credits to purchase base coverage and structure the supplemental coverage as discussed above.

Where flex credits are not an option for 100% participation plans, cap or give an option to cap employer-paid base coverage at $50k. The remaining coverage is purchased in an employee-paid policy that neither straddles nor experiences cost shifting.

Many employers offer group term life insurance coverage to their employees through a program that has employer-paid base, employee-paid supplemental coverage or a combination of the two. Often such coverage is offered through a Section 125 plan. When assessing the cost of the program, employers often review only the carrier's premium rates and/or any impact a participating arrangement may have on those rates. The cost analysis should not end there.

While life insurance benefits paid out of group term life insurance contracts are non-taxable, the value of any life insurance in excess of $50k, when it is either directly or indirectly provided by an employer, is taxable to employees pursuant to Internal Revenue Code ("IRC") Section 79 and should be reported as taxable wages on each employee's W-2. Because of this, certain plan designs and funding mechanisms can result in large amounts of reportable imputed income for employees which adds to the cost of the program.

Three Ways into Section 79 and Life Insurance Cost

There are basically three ways an employer-paid life insurance plan can cause employees to receive imputed income and a corresponding tax burden.

① When an employer pays for base group term life insurance coverage in excess of $50k, an employee incurs imputed income equal to the amount of the coverage in excess of $50k multiplied by the IRS Table I rate for their age group.

② When an employer offers a term life program with both employer-paid base and employee-paid buy up, the employee-paid portion is subject to imputed income when there is cost-shifting of premium between the base and buy up portions of the coverage issued through a policy or policies offered by the same carrier. Though a legal and appropriate approach, this practice of cost-shifting is not well known and not well understood.

Moreover, most commercial carriers cost-shift, often to reduce the cost of the employer-paid base.

The imputed income due to cost-shifting is calculated by multiplying the entire employee-paid coverage amount by the Table I rate for all of those employees who paid below Table I (mostly older age folks) and subtracting out what the employees paid for the coverage.

③ Employers are most familiar with the third way a group term life plan can become subject to Section 79. Where the employee-paid rates straddle Table I (meaning some are above and below the Table I rates) and the plan design does not offer enough individual selection (because, for example, it offers only a times salary design), the employees who pay below Table I rates must pay imputed income, which is calculated just as with cost-shifting discussed above.

Many carriers, as a way to help the plan avoid straddling Table I, will reshape rates or recommend an incremental choice plan design. Unfortunately, these carriers have already cost-shifted some premium between the base and buy up coverage, brining the employee-paid portion into Section 79 regardless of the straddling.

Where To Go From Here

Given the increasing regulatory scrutiny facing employers, corporations of all sizes are taking Section 79's imputed income compliance more seriously. Companies are factoring the additional cost of imputed income into the cost of their group term life programs to obtain a better understanding of the full cost of their inforce benefit plans, as well as alternative plan designs. *See* **Box**

SD-1100 (1-17) **FOR BROKERS AND EMPLOYERS**