

FAQ's: Basic Group Term Life Insurance and "Other Imputed Income"

Q. How much Basic Life/ADD Insurance coverage does an eligible employee receive with the City and who pays the premiums for this coverage?

A. Basic Life/ADD insurance coverage is paid 100% by the City and is automatically enrolled when an eligible employee is first eligible. Coverage equals one times annual base salary rounded up to the next nearest \$1,000 e.g. if base salary is \$61,299, basic life/ADD coverage amount is \$62,000 each. Higher amounts of coverage are provided to Executive Pay plan employees and fixed amounts of coverage are provided to Elected Officials.

Q. Is basic life/ADD insurance a taxable benefit?

A. This is a tax-free benefit for eligible employees, **except** for City paid basic life coverage (not ADD coverage) amounts above \$50,000 per individual. The IRS calls this "excess coverage" or "taxable fringe benefit coverage".

Q. What is basic life insurance imputed income?

A. Imputed income refers to certain employer paid benefits that are not part of salary or wages, but under IRS regulations are a taxable value received from the employer and part of individual income as imputed income. Here is a link to the IRS website for more details:

<https://www.irs.gov/government-entities/federal-state-local-governments/group-term-life-insurance>. An example of benefits-related imputed income includes group-term life insurance exceeding \$50,000.

Q. How is the taxable benefit part of basic life insurance processed in our Payroll system?

A. Taxable life insurance coverage is processed as a taxable Imputed Income amount in the first two pay checks of each month. The per \$1,000 "excess coverage" amount is multiplied by the employee's age-band placement for the standard IRS cost of each \$1,000 of this "excess coverage". Imputed income is recorded on a pay stub in the "Employer Paid Benefits" section and is called "Other Imputed Tax" with both current and year-to-date entries.

Q. What are the age-bands for Basic Life Insurance imputed income calculations?

A. Age bands are 5-year increments from 25 and under, 25 to 29 and so on, up to the last age band which is age 70+. Each age band has a different cost per \$1,000 and that cost sharply increases as age and amount of excess coverage increases – see chart below.

Table 2-2. Cost Per \$1,000 of Protection for 1 Month

Age Cost Under 25 ... \$ 0.05; 25 through 29 ... \$0.06; 30 through 34 ... \$0.08; 35 through 39 ... \$0.09; 40 through 44 ... \$0.10; 45 through 49 ... \$0.15; 50 through 54 ... \$0.23; 55 through 59... \$0.43; 60 through 64 ... \$0.66; 65 through 69 ... \$1.27; 70 and older ... \$2.06

Q. When is age-band placement for Basic Life Insurance imputed income evaluated each year?

A. Age-band placement is evaluated annually at the beginning of each calendar year for any needed changes to imputed income amounts for the upcoming year and to spread the effect on net pay over as many pay periods as possible throughout the year.