

# Group Term Life Insurance

## Basic Life Insurance

Mercer University provides Basic Life Insurance Coverage equal to your annual salary up to a maximum of \$50,000 at no costs to you. Coverage decreases by 35% at age 70 and every five years thereafter. This benefit is not taxable.

## Supplemental Life Insurance

You may purchase one of three different supplemental life insurance policies through payroll deduction: S1X-*Supplemental Life with coverage equivalent to your annual salary*, SX2-*Supplemental Life equivalent to double your annual salary*, or S10-*Supplemental Life Insurance purchased in increments of \$10,000 up to double your salary*. The rates vary by age and coverage so please call Benefits at extension 2787 for your individual costs. Coverage decreases by 35% at age 70 and every five years thereafter. This benefit may be taxable since a taxable fringe benefit arises when coverage exceeds \$50,000. This often happens when a supplemental group term life policy is purchased through payroll deduction and added to the coverage already provided by the university.

*How is the Imputed Life Insurance Income Benefit Calculated?* The IRS provides a formula for which to use in determining the amount to add back to an employee's taxable gross.

*Do I have Imputed Tax even if I pay my own premiums?* Yes. Your coverage will be applied to the IRS formula even though the result may be \$.00 to be added to taxable gross. Because Mercer is affecting the premium cost through its subsidizing and redistributing role, (payroll deduction, group plan rates, cafeteria plan options, etc) there is a benefit to employees. This benefit is taxable even if the employee is paying the full cost he is charged. Mercer must calculate the taxable portion of the premiums for coverage that exceeds \$50,000.

*Is this taxable "add-on" the same for everyone?* No. It is determined by an employee's individual coverage amount, age, and whether or not their life insurance premiums have been deducted from their taxable gross. We call these pre-tax and after-tax options.

*Is it better to pay premiums pre-tax or after-tax?* It depends on your personal situation. The following worksheet may help you determine how Imputed Life Income affects your taxable gross.

## Figuring The Cost of Group-Term Life Coverage Included in Income

Enter the total amount of insurance coverage provided through Mercer. Include Basic Life, Supplemental, and Grandfathered.

Less the IRS Exclusion Limit for Employer Provided Group Term Life Insurance.  
(\$50,000 for 2005)

### NET TAXABLE COVERAGE

Go to Table 1 and enter an amount using your age on the last day of the tax year.

Enter the total costs of the premiums deducted from your paycheck monthly as PRE TAX deductions.

Enter the total costs of the premiums deducted from your paycheck monthly as AFTER TAX deductions. Enter as a negative number.

This is the amount that is added to your taxable gross on a monthly basis.

If this amount exceeds your PRE TAX premium costs, you may want to contact your tax adviser to determine if pre-taxing your life insurance premium is the right option for you.

Table 1 Taxable Cost of \$1000 for  
One Month of Group Term Life Ins.

| Age          | Cost |
|--------------|------|
| under 25     | .05  |
| 25-29        | .06  |
| 30-34        | .08  |
| 35-39        | .09  |
| 40-44        | .10  |
| 45-49        | .15  |
| 50-54        | .23  |
| 55-59        | .43  |
| 60-64        | .66  |
| 65-69        | 1.27 |
| 70 and older | 2.06 |