

## **Tax Implications of Coverage – Imputed Income**

Because your monthly premium for group term life insurance coverage is deducted from your pay on a pre-tax basis, the IRS considers it to be “employer provided.” The IRS requires you to be taxed on the value of employer-provided group term life insurance coverage over \$50,000, called “imputed income.” Even though you do not receive cash, you are taxed as if you received cash in the amount equal to this imputed income. Please note if you enroll in the Employee and Spouse and/or Child(ren) coverage you will be payroll deducted on a post-tax basis and therefore not subject to imputed income.

To determine if you are subject to imputed income, all sources of employer-provided group term life insurance coverage – including any term life insurance you elect through NCFlex and death benefits provided under the State Retirement System – must be considered.

For example, the Teachers’ and State Employees’ Retirement System (TSERS) provides a death benefit of one times annual pay with a minimum benefit of \$25,000 and a maximum benefit of \$50,000 for employees with at least one year of service. The TSERS benefit is provided tax-free since the maximum benefit is not greater than \$50,000. However, if you combine the TSERS benefit with the amount of group term life insurance coverage you elect under NCFlex, your total coverage amount be greater than the \$50,000 threshold, in which case you will have imputed income and will be taxed appropriately.

### **How to Estimate Your Group Term Life Insurance Imputed Income**

If you have employer-provided group term life insurance coverage above \$50,000, the amount of your imputed income is automatically calculated for you and added to each paycheck. However, you may estimate your own imputed income by following these steps:

**Step 1:** Calculate your Retirement System death benefit.

**Step 2:** Add the Retirement System death benefit and the NCFlex group term life insurance benefit together.

**Step 3:** Subtract \$50,000.

**Step 4:** Divide the number you get in Step 3 by 1,000.

**Step 5:** Then, multiply the result in Step 4 by your IRS Table I rate (based on your age at the end of the calendar year). This is your monthly amount of imputed income.

#### **Death Benefit under other State Retirement Systems**

The death benefit depends on which Retirement System you participate in:

- Legislative Retirement System: Annual pay as a General Assembly member, not to exceed \$15,000.
- Consolidated Judicial Retirement System: Annual rate of pay at time of death.
- Optional Retirement Plan (certain university employees): No group term life insurance is provided under this plan.

## Monthly Cost per \$1,000 of protection

5-year age bracket	IRS Table I	NCFlex Premium Rates
Under 25	\$ 0.05	\$0.05
25 to 29	\$0.06	\$0.06
30 to 34	\$0.08	\$0.08
35 to 39	\$0.09	\$0.09
40 to 44	\$0.10	\$0.10
45 to 49	\$0.15	\$0.15
50 to 54	\$0.23	\$0.25
55 to 59	\$0.43	\$0.46
60 to 64	\$0.66	\$0.72
65 to 69	\$1.27	\$1.48
70 and above	\$2.06	\$2.20

**Here is an example of how to figure your imputed income using the steps outlined in  
“How to Estimate Your Group Term Life Insurance Imputed Income.”**

Age:	35	
Annual Pay:	\$30,000	
NCFlex Term Life Benefit:	\$40,000	(Employee elects coverage between \$20,000 to \$500,000 of coverage)
Step 1 Retirement System Death Benefit:	\$30,000	
Step 2 Total Term Life Death Benefit:	\$70,000	
Step 3 Excess Amount over \$50,000:	\$20,000	
Step 4 Divide Excess Amount by 1,000:	20	( $\$20,000 / 1,000 = 20$ )
Step 5 Table I Rate Imputed Income:	\$1.80	( $20 \times \$.09 = \$1.80$ )

In this example, \$1.80 will be added to the employee’s monthly pay and is subject to federal, FICA, and North Carolina income tax. In general, because this coverage was paid for on a pre-tax basis, most employees will experience a “tax wash,” meaning that you would pay almost the same amount in taxes had the life insurance coverage been paid on an after-tax basis (i.e., *after* federal, FICA, and North Carolina taxes had been deducted from your pay). However, individual results may vary. For example, where the IRS estimate of the market value of your group term life benefit, as expressed in IRS Table I, exceeds your NCFlex premium rate, you are taxed on the difference as if you received an employer-provided subsidy. All participating employees receive the advantage of the competitive rates.

To estimate your imputed income, please use the following calculator:

<http://www.lifehelp.com/ncflex/imputed-income-calculator>

**Important:** The above example is for illustrative purposes only. This discussion (and the tax calculator) is intended to provide a general overview of how imputed income based on group term life insurance is calculated. The effect of applicable laws can and do vary, depending on the unique situation of each individual. Therefore, this information should not be construed as legal, accounting, tax, or other professional advice. If you need a professional opinion regarding your group term life insurance imputed income, you should consult a qualified tax advisor.