



**Dear Clients and Friends,**

Another year – wasn't it just a bit ago that we were all worried about Y2K?

A lot has changed in the last few years – especially in the employee benefits arena. We've now got Health Savings Accounts (HSAs) and Medicare Part D.

And, change means that it's important to review plans, periodically, to make sure that

they're still accomplishing the objectives they were established to meet. Disability plans may become outdated due to increasing salaries.

"Grossing up" salaries to have plans be more cost effective – and tax-favored – and using wrap-around plans are just a few options to consider. Just give us a call!

*Sincerely yours,  
Jim Lill, President*

## **"Grossing Up" Disability**

Disability income protection is one of the most frequently overlooked – yet important – components of a sound financial plan. After all, if someone is sick or disabled there are still bills that have to be paid (think about rent or mortgage payments).

Therefore, short-term and long-term disability insurance plans are important employee benefits. But, it's important to note that an employee's disability income benefits are taxable when an employer pays the premium. If an employee pays the premium, then the benefits that are paid are not taxed.

This tax treatment presents an opportunity for an employer to provide or enhance disability coverage for employees. An employer can shift the premium payments for the disability plan to the employee and add the amount of the premium to the employee's salary. This "grossing up" of salary is intended to offset the employee's added disability costs.

Here's an example of how this strategy can work. The employer-paid plan has a 60% of

income benefit. An employee who is in the 28% tax bracket who receives disability benefits will see 43% of after-tax income replaced, because the benefit is taxed when the employer pays the premium. The employee could pay for coverage with a 50% of income benefit. The after-tax benefit would be 50%, since the benefit is not subject to tax.

There are savings to this approach, too. The premium for the 50% benefit will also be less than that of a 60% benefit that only nets out to 43% when the employer pays the premium.

Another consideration regarding disability coverage concerns higher-paid employees. Since most disability plans have a cap on how much will be paid each month, highly paid employees may see a significant loss in income on a disability plan. A wrap-around benefit can provide additional income beyond what the standard disability plan would pay. For example, an employee earning \$60,000 with a disability plan that pays 60% of salary to a maximum of \$3,000 would be at the maximum benefit.

***Ask us about free COBRA, FSA and FMLA administration!***

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