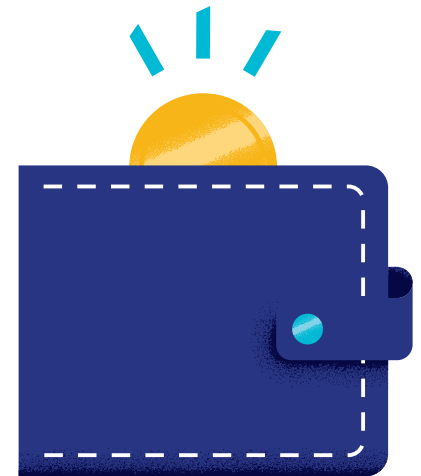




# Taxation guide

This guide provides a high-level overview concerning the tax effects of the UnitedHealthcare Group Term Life, Disability, Accident, Critical Illness and Hospital Indemnity products.



## Disability

### Taxation

The taxability of disability insurance is explained in the Internal Revenue Code (IRC), with additional detailed information provided in IRS Publication 15-A. Disability insurance is categorized by the IRS as “sick pay” benefits, and the taxation determination relates to how the premiums for the insurance are paid.

The IRS taxes money used to pay premiums or benefits. How the premium is paid determines if the benefit is taxed or not taxed.

Plan type	Premium funding	Premium taxation	Benefit taxation
<b>Noncontributory</b>	Employer 100%	Pretax	100%
<b>Employer gross-up</b>	Employer 100%	Posttax	0% (tax-free)
<b>Voluntary</b>	Employee 100%	Posttax	0% (tax-free)
<b>Contributory</b>	Employer and employee	Combination of pretax and posttax	Partially taxable
<b>Tax choice</b>	Employer, employee or both	Depends on the employee election	Taxable or tax-free depending on elections

Consult with your tax advisor before administering your company's offered Disability benefit options.

## Gross-up

“Gross-up” means the employer includes the cost of the premium in the employee’s salary, and this satisfies the tax requirement. At the time of a claim, the benefit would be tax-free, as taxes have already been paid on the premium. Shown below is an illustration of 2 different plan designs and how gross-up could alter the benefit dollars the claimant receives. In the example, at claim time, a claimant receives more income replacement in the gross-up plan.

Benefit amount	Monthly covered salary (\$60,000/12)	Disability benefit	Tax	Final benefit amount	Percentage of pre-disability earnings
60% (with gross-up)	\$5,000	\$3,000	None	\$3,000	60%
60% (fully taxable)	\$5,000	\$3,000	20%	\$2,400	48%

## Tax choice plans

Tax choice plans provide employees the option of deciding to buy disability coverage without paying taxes on the premium and, consequently, determining the benefit taxability they prefer. As we demonstrated in the gross-up example, paying the tax on the premium typically results in more take-home money at claim time. Elections in a tax choice plan are typically made at initial enrollment or determined by the employer plan documents. Tax choice plans provide options for employees but do have a greater administrative responsibility on the employer to manage employee elections.

## Tax services

We offer several services to employers to help them reduce the burden of time spent on disability tax-related issues. The value of these services is that they may help reduce or minimize errors and avoid penalties paid to the IRS.

We provide 1099 tax documents to employees who have utilized UnitedHealthcare paid family and medical leave benefits.

### Standard services

These services are offered across the board for our employer groups:

- Federal income tax (FIT) withholding
- Social Security and Medicare tax withholding (EE FICA)

Employers are still responsible for the employer portion of FICA match when UnitedHealthcare is withholding FICA at claim time. These deductions are withheld from taxable benefits and remitted directly to the IRS in Form 941 quarterly submission. Summary reporting is available to the employer.

## Optional services

These include our standard services plus 1 of the following (subject to underwriting approval) and require a limited agency agreement.

### W-2 tax reporting services (small group, 2–99 Lives and Key Accounts)

- Includes standard services
- Print or mail W-2 forms to employee
- Maintain copies of the W-2
- File forms with federal/state government
  - W-2
  - W-3 (summary of W-2s sent to employees)

### Employer FICA match (only available to groups 100+)

- Includes the above optional services
- We offer 2 methods of FICA match:
  - **With reimbursement:** UnitedHealthcare will calculate FICA amounts from benefit payments, obtain the FICA match amount from the employer and deposit that amount under our employer identification number. To elect this service, please contact your sales representative.
  - **Without reimbursement:** UnitedHealthcare will calculate FICA amounts from benefit payments and deposit the employer-matching FICA amount with no reimbursement from the employer. To elect this service, please contact your sales representative.

# Accident, Critical Illness and Hospital Indemnity taxation benefit and premium

Accident, Critical Illness and Hospital Indemnity insurance are generally sold as voluntary products that are elected and paid for by the employee with posttax dollars. As such, the benefits from these policies are received tax-free. Should the benefits elected be paid by the employee using pretax dollars, or if there were contributions from the employer, the benefit amount would generally be taxable to the extent the benefit payments exceed out-of-pocket medical expenses. UnitedHealthcare will issue a 1099 to the member when applicable.

## Corporation structure and disability taxation

### C corporations

Owners of C corporations can be considered employees, so the premium would not be taxable, thus resulting in a table benefit.

### Partnerships and S corporations

Disability benefits for business owners are typically tax-free, as the premium is taxable:

- Sole proprietors may treat premiums for employee disability as tax-deductible expenses. The cost of the owner's insurance can be included in the owner's income.
- Partners of LLCs, LLPs and S corporations are not considered employees. The business may treat the premiums for disability insurance as tax deductible, so benefits paid to the partner or shareholder would be tax-free.

## Group Term Life taxation

### Benefit

The life insurance benefit the beneficiary receives (generally speaking) is a tax-free benefit. Amounts received due to an accelerated death benefit provision may be taxable. Whether interest is payable on Life insurance proceeds is determined by state law. Any interest received is taxable and should be reported.

### Premium

Group Term Life insurance is mentioned specifically in IRC Sections 61 and 79. The policy itself must meet certain conditions in order to receive favorable tax treatment:

- Provided to a group of employees in a manner that prevents individual selection; factors include employee age, years of service, pay or position
- Minimum of 10 employees (some exceptions could apply)

The premiums paid by the employer for \$50,000 or less of Group Term Life insurance may be excluded from taxable income to the employee. Any amount over the \$50,000 will be treated as an economic benefit (imputed income) to the employee, and a percentage of premiums must be included as taxable to the employee. IRS Publication 15-B has a table to calculate the taxable amount of premium that must be included.

### Nondiscrimination testing

As with most insurance programs, Group Term Life insurance receives favorable tax treatment only if the plan is nondiscriminatory, meaning the plan does not favor highly compensated or key employees. For further definitions, see IRS Publication 15-B. If the plan is found to be discriminatory, the entire cost of the premiums must be included as a taxable benefit to the employees.

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#### NOT FOR USE IN NEW YORK

UnitedHealthcare Life and Disability products are provided by UnitedHealthcare Insurance Company and certain products in California by Unimerica Life Insurance Company. Life and Disability products are provided on policy forms LASD-POL (05/03) et al. and UHCLD-POL 2/2008 et al., in Texas on forms LASD-POL-TX (05/03) and UHCLD-POL 2/2008-TX, and in Virginia on LASD-POL (05/03) and UHCLD-POL 2/2008. The policies have exclusions, limitations, reductions of benefits and terms under which the policy may be continued in force or discontinued. For costs and complete details of the coverage, call or write your insurance agent or the company. Some products are not available in all states. UnitedHealthcare Insurance Company is located in Hartford, CT and Unimerica Life Insurance Company is located in Milwaukee, WI.

UnitedHealthcare Accident Protection product is provided by UnitedHealthcare Insurance Company. The policies have exclusions, limitations, reductions of benefits and terms under which the policy may be continued in force or discontinued. For costs and complete details of the coverage, call or write your insurance agent or the company. Some products are not available in all states. UnitedHealthcare Insurance Company is located in Hartford, CT.

UnitedHealthcare Critical Illness product is provided by UnitedHealthcare Insurance Company. Critical Illness coverage is NOT considered "minimum essential coverage" under the Affordable Care Act and therefore does NOT satisfy the mandate to have health insurance coverage. Failure to have other health insurance coverage may be subject to a tax penalty. Please consult a tax advisor. The policies have exclusions, limitations, reductions of benefits and terms under which the policy may be continued in force or discontinued. For costs and complete details of the coverage, call or write your insurance agent or the company. Some products are not available in all states. UnitedHealthcare Insurance Company is located in Hartford, CT.

UnitedHealthcare Hospital Indemnity product is provided by UnitedHealthcare Insurance Company. The product provides a limited benefit for certain hospital indemnity plan benefits. Please note: HOSPITAL INDEMNITY coverage is NOT considered "minimum essential coverage" under the Affordable Care Act and therefore does NOT satisfy the mandate to have health insurance coverage. Failure to have other health insurance coverage may be subject to a tax penalty. Please consult a tax advisor. The policy has exclusions, limitations, reductions of benefits and terms under which the policy may be continued in force or discontinued. For costs and complete details of the coverage, call or write your insurance agent or the company. This product is not available in all states. UnitedHealthcare Insurance Company is located in Hartford, CT.

UnitedHealthcare Paid Family and Medical Leave products are provided by UnitedHealthcare Insurance Company in limited states. The policies have exclusions, limitations, reductions of benefits, and terms under which the policy may be continued in force or discontinued. For costs and complete details of the coverage, call or write your insurance agent or the company. UnitedHealthcare Insurance Company is located in Hartford, CT. Insurance coverage provided by or through UnitedHealthcare Insurance Company or its affiliates. Administrative services provided by UnitedHealthcare Services, Inc. or their affiliates.