



Group LTD Gross-up versus Voluntary Supplemental IDI

	Group Long-Term Disability (LTD) Gross-Up	Supplemental Individual Disability Income (IDI) Insurance
Employee Choice	No Option — 100% participation All employees must participate	Very Flexible — Can offer to defined employee populations if desired 100% Employee Choice Voluntary Offering with multiple benefit options
Employee education	None or Minimal — Usually this offer is selected by the employer and employees are often provided with limited or ineffective communication regarding the offering or plan	100% Customized — Employees receive personalized enrollment packets articulating their current Group LTD benefits as well as the new Voluntary Supplemental DI buy-up
Portability	Not usually	Coverage is 100% portable so employees can take their policy with them should they leave their employer Should they leave their employer they are offered a one-time opportunity to increase coverage up to the unused Guaranteed Standard Issue amount with no medical underwriting — a feature built into the base policy
Other benefit enhancements	Not usually	Catastrophic Disability Rider or Retirement Protection Plus Rider
Administration	One time payroll set up Changes occur with payroll changes (annually) and new employee add-ons	One time payroll set up Changes occur with payroll changes (annually) and new employee add-ons
Costs	Approximate 5-10% load to Group rate Group rates, which vary by age band, increase as individuals age Rates may also increase with poor claims experience	Can be designed so there is no cost to the employer Rates are locked in and fully portable for employees Claims on DI policies not charged to group claims experience
Hidden costs (see back of flyer for further information)	Additional payroll taxes incurred to both employer and employee State, Federal, Social Security and Medicare	None

Hidden costs taxes of group Long-Term Disability LTD gross-up

By having the employer include LTD premiums in employees' wages, the employer and employees have additional taxes. Benefits from the LTD would be income tax-free to the employees because of the gross-up.

Example	
Annual Premium	\$2,000
Employee's Federal Income Taxes (24%) ¹	\$480
Employee's Social Security and Medicare Taxes (7.65%) ²	\$153
Employee's State Income Taxes (5%) ³	\$100
Total Employee Taxes	\$733
Employer's Social Security and Medicare Taxes⁴	\$153
Total Taxes (Hidden Costs) from LTD Gross-Up	\$886

With Voluntary Supplemental IDI, eligible employees pay for IDI premiums using after-tax reductions from the employees' paychecks. The IDI premiums are paid with wages that are already subjected to the applicable taxes. IDI benefits would be income tax-free to the employees.

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¹ An employee's federal income withholding would depend on the employee's federal withholding elections. An employee's annual federal income tax liability would depend on the employee's annual federal taxable income. Using the 24% marginal federal income tax rate for illustration.

² An employee's wages are subject to Social Security taxes at a rate of 6.2%, however, only wages up to \$137,700 are subject to Social Security taxes (2020 wage base, which is indexed for inflation annually). All of an employee's wages are subject to Medicare taxes at a rate of 1.45%, but an employee's wages above \$200,000 (single filer) and \$250,000 (joint filer) are subject to an additional 0.9% Medicare surtax (i.e., 2.35% on wages above the applicable thresholds). Note that employers are required to start withholding the additional 0.9% Medicare surtax on wages above \$200,000 regardless of the employee's actual filing status.

³ An employee's state income withholding would depend on the employee's state withholding elections. An employee's annual state income tax liability would depend on the employee's annual state taxable income. Using a 5% marginal state income tax rate for illustration.

⁴ Employers must pay their share of Social Security and Medicare taxes as well. Employers pay 7.65% for Social Security and Medicare taxes on employees' wages. The employer can deduct the Social Security and Medicare taxes. Employers may also have to pay Federal Unemployment (FUTA) Tax, which is 6% on the first \$7,000 of an employee's annual wages. State unemployment tax may also apply.

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