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# Pres White Journal

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## Short Term Thinking for Long Term Benefits

Protecting income from a disability that will keep you out of work is, of course, a concern for many working individuals and families.

The standard DI (Disability Income) policy is there to address those needs. Whether it be group LTD or individual DI, many of us assume that knowing our monthly income and knowing that many standard DI contracts will provide approximately 60% of that income, will give us a financial picture if that unfortunate event occurs.

What you may not consider is the "tax" aspect of your benefits. This represents the largest component of how much of a benefit a claimant actually receives.

The other component is how income is defined. Does the income include bonuses and/or commissions?

And what about the tax factors?

Consider an employee who has pre-disability earnings of \$5000 per month. If the Disability percentage is 60%, that would be a \$3,000 benefit. However, if the benefit is considered taxable at a rate of 20%, the benefit would be reduced to \$2,400 per month. Obviously, if the tax rate is higher, the difference is more acute.



Therefore, it is important to consider what factors determine whether a benefit is taxable or not.

For the benefit to be non-taxable, the following must occur:

The employee paid the premium with after tax dollars or the employer allowed employ-

ees to elect employer premium payments to be taxable (Revenue Ruling 2004-55).

For the benefit to be taxable, the following must occur:

The employer paid the entire premium (no employee taxable election) or the employee paid the premium through a Section 125 plan (pre-tax dollars).

It is therefore important to be aware of your tax situation when planning ahead for a disability event.



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**Employers and claimants should always consult with qualified tax advisors when they have tax questions.**

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