

Taxability of Claim Payments

Accident and Disability Products (Individual and Group)

As a participant in your employer's flexible benefits plan, you can take advantage of an enhanced, more flexible employee benefits program. And by paying premiums with pre-tax dollars, you can make better use of your income.

You can see the tax savings through a flexible benefits plan in your paycheck. But while the Internal Revenue Service (IRS) allows you to receive these tax savings on your premiums, the IRS also requires you to pay taxes on certain insurance claim payments you receive from policies purchased through a flexible benefits plan.

If you receive compensation such as disability or certain indemnity benefits (lump-sum payments made without regard to actual medical expenses), the IRS may require these benefits to be reported. If you receive compensation from coverages for which you are required to have incurred a charge, the benefits are not reportable. These benefits are awarded through certain accident and health coverages and reimbursement accounts. In addition, death, dismemberment and paralysis benefits are not taxable or reportable. (See Internal Revenue Code Sections 101 and 105.)

For example, if you enrolled in a Colonial Life accident or disability plan under your flexible benefits plan, you could receive the following types of benefits. Each benefit has specific tax requirements.

FICA, W-2 and 1099 reporting

- **Benefits for disability income (first six months)** — If you receive disability benefits for the first six months you are disabled, the benefits will be subject to income and FICA taxes. Colonial Life will deduct your FICA before you receive your disability payment. Your employer will report these benefits on your W-2 form at the end of the year.
- **Benefits for disability income (after six months)** — If you receive benefits after six months of disability, the benefits received after the first six months will be subject to income taxes, but not FICA taxes. Your employer will report these benefits on your W-2 form at the end of the year.
- **Benefits for treatment (such as emergency treatment or doctor's office visit benefits)** — Any benefits paid as a reimbursement of actual medical expenses or that require the insured to have incurred a charge for the service or treatment ("indemnity with charges incurred benefits") are not reportable to the IRS by Colonial Life on a Form 1099.
- **Benefits for accidental death and dismemberment** — All benefits for accidental death and dismemberment are indemnity benefits, but are not reportable to the IRS by Colonial Life on a Form 1099 because of special code provisions.
- **Benefits for specific injuries** — Benefits for specific injuries are indemnity benefits and require that an insured incur a charge for the service or treatment; they are not reportable to the IRS by Colonial Life on a Form 1099.
- **Benefits for hospital confinement** — Benefits for hospital confinement are indemnity benefits and require that an insured incur a charge for the service or treatment; they are not reportable to the IRS by Colonial Life on a Form 1099.
- **Benefits for health screenings** — Benefits for health screenings are indemnity benefits and may be considered as taxable income; they are reportable to the IRS by Colonial Life on a Form 1099. If you receive a total of \$600 or more from health screening benefits payable during the calendar year, Colonial Life will file a Form 1099 on those amounts. You will receive the Form 1099 to be used in completing your personal tax return. A Form 1099 is not required for benefit amounts of \$600 or less, although those amounts may still be taxable income to you.

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NOTICE: If, because of other insurance programs, total benefits received exceed actual charges, you may be responsible for reporting this as excess income. The information provided in this document is not intended to be, nor should it be construed to be, tax advice. You should contact your own tax advisor concerning your personal tax situation.

Please keep this flier in your important personal documents. Be sure to refer to these tax specifications when you receive benefits from coverage in your flexible benefits plan.

Applicable to policy forms Accident 1.0-HS, Accident 1.0-NS, GACC1.0-P, DIS 1000, ED-DIS 1.0, GDIS-P, ISTD3000 and associated riders (plus state abbreviations where applicable). Applicable to certificate forms GACC1.0-C, GDIS-C and VSTDC.