The “FICA Match” Rule

Disability income insurance taxation

In the case of disability benefits, FICA withholdings are required through the end of the sixth calendar month following the last month in which the employee worked.

Short- and long-term disability income insurance provides valued benefits to employees when they need it most. However, group policyholders (employers) and insured employees should be aware of the tax implications that disability insurance presents when benefits are paid.

Disability income insurance benefits may be considered taxable income, subject to federal and state (where applicable) income tax as well as Social Security and Medicare taxes—generally known as FICA taxes. Under FICA guidelines, employers must report and match any Social Security and Medicare taxes paid by employees when disability benefits are paid. Understanding the rules and regulations regarding the “FICA match” is essential if you are considering, or currently sponsor, a group disability insurance plan.

What is FICA?

FICA, an acronym for the Federal Insurance Contributions Act, is the taxing mechanism that funds Social Security and Medicare. FICA regulations require employers to withhold Social Security and Medicare taxes from their employees’ wages, and to match the amounts withheld. Thus, employers must remit both the amount withheld from the employee as well as the matching employer portion (FICA match) to the IRS.

For group disability plans, FICA withholdings are required through the end of the sixth calendar month following the last month in which the employee worked. After six months, benefits are no longer subject to FICA, but they may still be subject to income tax.

How are FICA withholdings determined?

Whether or not disability benefits are subject to FICA withholding is determined by who pays the insurance premiums (the employer, the employee or both) and when premiums are paid (pre-tax or post-tax).

If the employer pays 100% of the premium	100% of the benefit is taxable income to the employee.
If the employee pays 100% of the premium	**with pre-tax dollars,** 100% of the benefit is taxable income to the employee.
	with post-tax dollars, none of the benefit is taxable income to the employee.
If the employer pays a portion of the premium	**and the employee pays the balance with pre-tax dollars,** 100% of the benefit is taxable income to the employee.
	and the employee pays the balance with post-tax dollars, a portion of the benefit is taxable income to the employee.*

* If an employer transitions from a partial contributory plan to one where employees pay 100% of the premium with post-tax dollars, a new set of rules may apply.

continued >

inside track
EDUCATIONAL SERIES

General tax questions should be directed to your accountant, tax professional, attorney, the Social Security Administration or the IRS (refer to Publication 15-A).

For specific questions concerning FICA amounts withheld from employee disability benefit payments, contact your group insurance carrier.

In the last case—when taxes are owed on only a portion of disability benefits—the percentage of benefits to be taxed is calculated using a formula established by the IRS known as the “Three-Year Look-Back Rule.” The Three-Year Look-Back Rule compares the total amount of premium paid by the employer over the three years prior to the disability claim with the total amount of premium paid by the employer and ALL employees over the same period. (See The Inside Track: The Three-Year Look-Back Rule for details.) The amount of disability income benefit that is included in an employee’s taxable wages is subject to FICA withholding and the FICA match for the first six months.

How are FICA taxes paid?

Insurance carriers generally withhold the employee’s share of FICA taxes from any taxable benefit payments through the end of the sixth month following the last calendar month in which the employee worked for the employer. Carriers report and pay the amount withheld directly to the IRS under their own Federal Tax ID number. They may also provide regular reports to employers showing which paid benefit amounts are subject to FICA and how much employers must report and match. The employer is responsible for depositing the matching FICA taxes. Carriers may be able to remit the employer FICA match on an employer's behalf for an additional cost.

W-2 reporting

If disability benefits are taxable income, the amount of disability benefits and amounts withheld for FICA taxes must be reported to the employee and the IRS on Form W-2. Carriers will provide year-end reports of all payments made to employees during the year.

To assist with this reporting, many carriers offer W-2 preparation services. Carriers providing this service will prepare W-2 forms under their own Federal Tax ID number reflecting disability benefits paid to employees for the calendar year as well as amounts withheld from the disability benefits. The W-2 forms are then provided to employees for their personal tax filing.

Working in partnership

The taxation and reporting of disability benefits is complex, requiring coordination and trust between the carrier, the employer and employees. Errors in recording and paying FICA and other taxes can have long-lasting consequences. Accountants, tax professionals and/or attorneys should also be consulted when benefits are taxable. A close partnership with all involved parties will help ensure that disability benefits are truly beneficial to all.

For more information on FICA matching, talk with your group benefits representative or consult a tax professional.

Symetra Life Insurance Company, 777 108th Avenue NE, Suite 1200, Bellevue, WA 98004.

First Symetra National Life Insurance Company of New York, New York, NY. Mailing address: P.O. Box 34690, Seattle, WA 98124.

SYMETRA®
RETIREMENT | BENEFITS | LIFE

www.symetra.com
www.symetra.com/ny