

Swarthmore College  
Long-Term Disability Taxation Explanation

As a benefit eligible employee of .75 FTE or greater at Swarthmore College, you are provided with long-term disability (LTD) insurance coverage. LTD benefits are designed to replace part of your income in the event that you become disabled and unable to work for more than 6 months, due to an injury or illness.

LTD claims are subject to approval by the insurance company and upon approval of your claim; you will be eligible for 60% of your pre-disability earnings up to a monthly maximum of \$13,000.

The IRS considers benefits received from an employer-paid LTD plan as reportable income and as such are subject to Federal income tax.

## How Can I Increase My Take Home Pay?

Taxation of LTD benefits can be avoided when the LTD premiums are deducted from your paycheck on after-tax basis. The following represents a comparison example:

100% Employer Paid LTD Benefit				
Annual Earnings	\$ 30,000	\$ 45,000	\$ 60,000	\$ 75,000
Pre-Tax Annual Benefit	\$ 18,000	\$ 27,000	\$ 36,000	\$ 45,000
Estimated Federal Withholding Tax %	15%	25%	25%	28%
Federal Withholding Tax	\$ 2,700	\$ 6,750	\$ 9,000	\$ 12,600
Net Annual Benefit	\$15,300	\$20,250	\$27,000	\$32,400
<b>% of Pre-Disability Pay</b>	<b>51.0%</b>	<b>45.0%</b>	<b>45.0%</b>	<b>43.2%</b>

LTD Benefit With IRS 2004-55 Contribution Method (Employer Gross-up)				
Federal Withholding Tax	\$0	\$0	\$0	\$0
Net Annual Benefit	\$18,000	\$27,000	\$36,000	\$45,000
<b>% of Pre-Disability Pay</b>	<b>60.0%</b>	<b>60.0%</b>	<b>60.0%</b>	<b>60.0%</b>

LTD premiums are based upon your salary and your maximum long-term disability benefits available. If an election is made to pay premiums on an after-tax basis, Swarthmore College will add the value of the premium to your paycheck (subject to taxes), then deduct the cost of coverage. Thus, allowing you to pay the tax on the value of the premium **and collect a tax-free LTD benefit**. The following table shows examples of the annual premiums and estimated annual taxes at various salary levels:

Annual Employee Cost Of Additional LTD Benefit				
Annual Earnings	\$30,000	\$45,000	\$60,000	\$75,000
<b>Annual Volume</b>	<b>\$18,000</b>	<b>\$27,000</b>	<b>\$36,000</b>	<b>\$45,000</b>
Annual LTD Premium	\$45.00	\$67.50	\$90.00	\$112.50
Federal Withholding Tax	\$6.75	\$16.88	\$22.50	\$28.13

For most employees, the additional tax burden on the premium gross-up is nominal and should not be a deterrent. Please contact Human Resources for more information or if you would like to elect not to pay taxes on the LTD premium.