

TAXATION OF GROUP BENEFITS

Effectiveness of good plan design and cost sharing strategies

A well-designed group benefits plan offers many advantages to plan sponsors. It is a great strategy for attraction and retention of your staff resources. It can be structured to be financially sustainable for the long-term through cost containment measures including cost-sharing. The benefits plan can also be set up to manage taxation, to optimize tax advantages available through Canada Revenue Agency (CRA) for both employers and employees.

Plan sponsors who have chosen Johnstone's Benefits to be their company's "offsite group benefits department" benefit from our package of comprehensive services. Our third party administration (TPA) system "Bridge" offers the ability to administer the benefits on one system, with one invoice, and the use of potentially multiple insurers (if advantageous for the client). It can also be set up to offer the employer and their employees optimal tax advantages.

Cost Sharing Options

As part of a well-designed plan, our system offers the following cost-sharing options:

- Fixed percentage on the total premium cost: ie. \$200 total premiums - 50% employer-paid / 50% employee-paid
- Fixed dollar amount on the total premium cost: ie. \$200 total premiums - \$60 paid by employee leaving \$140 to be paid by employer
- Fixed percentage by benefit (cost share is set up as a fixed percentage at the benefit level): ie. life insurance and AD&D 100% employer-paid; LTD 100% employee-paid; EHC and dental premiums shared 50/50

Tax Effective Allocation of Premiums

Once the cost sharing option has been defined, our TPA system has the ability to allocate EMPLOYEE-paid premiums based on the cost share option (as shown above) in the most tax effective manner, using the following order for benefits:

- Long Term Disability (LTD)
- Short Term Disability (STD/WI)
- Life Insurance
- Critical Illness (CI)
- Dependent Life Insurance
- Accidental Death & Disablement (AD&D)

THE JOHNSTONE'S ADVANTAGE

Our mission is simple:
Treat each client as if they were our only client.

Our value is clear:
We are completely independent. We work for you and offer total flexibility on insurers and plans.

We offer all your group insurance services including administration, brokerage, consulting, and communications.

We provide dedicated client support, customization and flexibility to meet all of your company's benefits needs. And we make **solid group plans simple.**



Taxation of Group Benefits

Life Insurance, AD&D and Critical Illness Premiums

Premiums paid by the employer for group life insurance (including dependent life insurance), accidental death & disablement (AD&D) and critical illness (CI) are treated as a taxable benefit to employees. Employers will include the taxable benefit in Box 14 “Employment Income” and in the “Other Information” area of the T4 slip as Box 40 “Gifts and Awards”.

Disability Plan Premiums

If an employer is deemed to have contributed any amount to an employee’s disability plan (referred to by CRA as “wage loss replacement plan”), the disability benefit received by a disabled employee will be deemed as taxable income.

If 100% premiums are paid by the employee (ie. deducted from an employee’s gross income and remitted to the insurer), the plan is deemed “employee pays all” according to CRA, and disability benefits received by a disabled employee will be deemed non-taxable income.

CRA will not accept a retroactive change to the tax status of the disability plan; the employer cannot add the equivalent of the employer contributions to a disability plan to the employee’s income at year-end. HOWEVER, the employer can pay the employee’s premiums to the plan by accounting for them in the same manner as wages or salary throughout the year and include the amount in Box 14 “Employment Income”.

Extended Health & Dental Premiums

Premiums paid by the employer for extended health and dental benefits are NOT treated as a taxable

benefit to the employee. Claims paid are also tax-free to the employee.

NOTE: All group benefit premiums paid by employers in Quebec are treated as a taxable benefit for their employees.

FREE PRESCRIPTION CONTRACEPTION APRIL 1, 2023

The latest British Columbia budget was released on February 28th entitled “Stronger B.C. for everyone”, the BC government touted progress “to deliver better healthcare for everyone in BC (and) lays out a plan to build a stronger health care workforce and deliver better services for people and families”.

Approximately \$1.3 billion in new investments over three years will help support reduced costs for BC residents. This includes giving free prescription contraception, BC being the first jurisdiction in Canada with this coverage. This program intends to cover prescription contraception options, including most oral hormone pills, contraceptive injections, copper and hormonal intrauterine devices (IUDs), and subdermal implants and Plan B (morning-after pill).

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