Life Insurance Premium

- [Processing a Life Insurance Premium Payment Through a Payroll](#)
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According to the Internal Revenue Service, the cost of group-term life insurance an employer provides to an employee for coverage over $50,000 is to be included in the wages reported for the employee. Per the IRS guidelines this amount is subject to withholding for Social Security and Medicare, but not income tax. The cost is generally determined by using the uniform premium rates provided by the IRS. These rates set the cost of each $1000 of group-term life insurance for each month, according to the employee's age. Click here for more information from the IRS regarding Group-Term Life Insurance and related costs.

The following steps will ensure that the proper amounts will be taxed and placed on the W2 forms.

 1. Calculate the taxable amount for each employee involved.

Example:

A 35 year old principal receives $250,000.00 of board paid group term life insurance for an entire calendar year.
The amount of excess coverage over $50,000.00 is used to determine the taxable coverage. In this example the amount of taxable coverage would be $200,000.00.

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$250,000.00 -
$50,000  $200,000.00
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Using this same figure, it must be determined how many thousands of dollars are involved.

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$200,000 / $1,000.00 = 200
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This figure will be used later to determine the annual cost. IRS Publication 15-B gives the cost per $1000.00 of protection for a 1 month period. The cost for this 35 year old is .09 per month. This must be multiplied by the number of months the coverage was in effect.

Table 2-2. Cost Per $1,000 of Protection for 1 Month

Age	Cost
Under 25	$ 0.05
25 through 29	0.06
30 through 34	0.08
35 through 39	0.09
40 through 44	0.10
45 through 49	0.15
50 through 54	0.23
55 through 59	0.43
60 through 64	0.66
65 through 69	1.27
70 and older	2.06

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                                        .09 X 12 = $1.08
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The non-cash earnings amount is calculated by taking the number of thousands and multiplying it by the factor calculated in the previous step.

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                                        $1.08 X 200 = $216.00
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Processing a Life Insurance Premium Payment Through a Payroll

2. Go to Payroll>Payroll Payments - Current or Payroll Payments - Future.

3. Click Create.

4. Enter the following:

- Employee - Select the appropriate employee from the dropdown
- Compensation - Select the appropriate compensation from the dropdown
- Description - Life Insurance Premium
- Pay Type - Life Insurance Premium
- Effective Date - Leave blank if wanting to be processed the next payroll processed. Otherwise enter a date inclusive of the pay period beginning and ending dates of the payroll you want the payment to be included in
- Units - 1
- Rate - Enter the calculated life insurance premium amount
- Applies For Retirement - Uncheck the checkbox
- Retire Hours - Leave blank
- Supplemental - Leave unchecked
- Supplemental Tax Option - None

Payroll Payment - Future

Future Pay Amount				
Description	Pay Type	Effective Date	Units	Rate
Life Insurance Premium	Life Insurance Premium		1.00	216.000
Gross		Retire Hours	Supplemental	Supplemental Tax Option
216.00	Applies For Retirement			None

Payroll Payments - Current

	Pay Type	Compensation	Units	Rate	Gross	Contract Gross	Hours Worked	Description	Applies For Retirement	Supplemental	Supplemental Tax Option
⚙ ✎ Edit	Life Insurance Premium	Position Number 3, Po...	1.00	216.000	0.00	0.00			Applies For Retirement	Supplemental	None

5. Click Save.

This pay type will be treated differently for taxation purposes and according to the Federal rules. The tax amounts for Medicare and Social Security will be calculated during the initialization of the payroll and the Payroll Payments - Current program. No Federal, State, or OSDI tax amounts will be calculated. The software provides the ability to withhold city tax on this life insurance non-cash earnings payment. This can be activated by checking the "Tax Non Cash Earn" field on the city tax record on the Core>Payroll Item Configuration screen.

The life insurance premium non-cash earnings amount will not be included in the Total Gross amount on the Pay Report or Pay Amount Summary Report. However, the life insurance premium non-cash earnings amount will be included in the Adjusted Gross figure on the employee's payment because the amount is considered part of the taxable gross - even though no tax is being withheld on it. Both the Pay Report and Pay Amount Summary Report provide a total of all non-cash earnings in the Totals Section - NC1 total on the Pay Report and Other Pay on the Pay Amount Summary Report . This extra total will help with balancing.

6. Complete the payroll.

Processing a Life Insurance Premium Payment That Was Not Processed Through Payroll

If the Life Insurance Premium Pay Type was not used prior to the last pay for the employee, the Life Insurance Premium (NC1 in Classic) payment amount must be entered manually. This insures the life insurance premium amount will show correctly on the W2 form and that the Quarter balances.

7. Go to Core>Adjustments.

8. Click Create.

9. Enter the Employee, Payroll Item 001, Type of Life Insurance, a Transaction Date, Amount equaling the life insurance calculate in Step 1, and a Description for future reference.

10. Click Save.

The Total Gross and Applicable Gross fields for the Federal, State, City (if the "Tax Non Cash Earn" field is checked on the city tax record found on the Core>Payroll Item Configuration screen), OSDI, and Medicare. This is reflected on the W2 Report. When the employee files their city taxes, they will owe city tax (if applicable) for the life insurance amount not paid through the system.

11. Medicare withholding **must** be paid. Create adjustments for the Medicare payroll item(s). *Board will need to pay for both Employee and Employer portion of Medicare and employee can reimburse the district.*
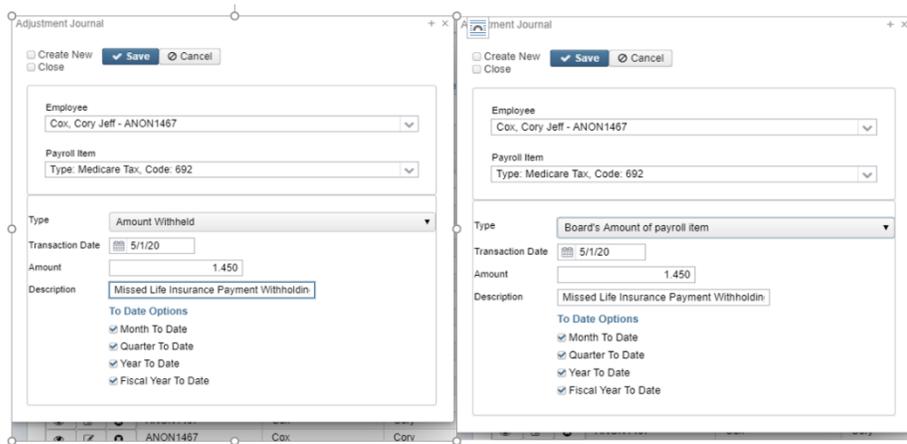
- If the employee is responsible for paying their portion of Medicare, the following adjustments will need to be created:
    - Go to Core>Adjustments.
    - Click Create.
    - Enter the Employee, Payroll Item 692, Type of Amount Withheld, a Transaction Date, Amount equaling the calculated Medicare amount, and a Description for future reference.
    - Click Save.
    - Go to Core>Adjustments.

- o   Click Create.
- o   Enter the Employee, Payroll Item 692, Type of Board's Amount pf payroll item, a Transaction Date, Amount equaling the calculated Medicare amount, and a Description for future reference.
- o   Click Save.

Life Insurance amount of $100.00 x .0145 = $1.45

$1.45 Amount Withheld for 692

$1.45 Board's Amount of payroll item for 692

- • If the Medicare is fully board paid (referred to as Medicare Pickup), then the following adjustment will need to be created:
  - o   Go to Core>Adjustments.
  - o   Click Create.
  - o   Enter the Employee, Payroll Item 692, Type of Board's Pickup Amount of Payroll Item, a Transaction Date, Amount equaling the calculated Medicare amount, and a Description for future reference.
  - o   Click Save.

$100.00 x .029 (.0145 x 2) = $2.90

$2.90 Board's Life Insurance Payment Withholding for 692

Adjustment Journal   + ×

☐ Create New   ✔ Save   ⊘ Cancel
☐ Close

Employee
Cox, Cory Jeff - ANON1467   ⌄

Payroll Item
Type: Medicare Tax, Code: 692   ⌄

Type   Board's Pickup Amount of Payroll Item   ▼

Transaction Date   📅 5/1/20

Amount   2.900

Description   Missed Life Insurance Payment Withholdin

To Date Options
☑ Month To Date
☑ Quarter To Date
☑ Year To Date
☑ Fiscal Year To Date