

SUPPLEMENTAL HEALTH

Understanding the taxation of our supplemental health policies

A serious illness or injury could be a life-changing event. Sun Life offers Accident, Cancer, Critical Illness and Hospital Indemnity policies that can provide cash benefits to employees for these events.

It is important for employers and employees to understand the state and federal tax implications of benefit payments from an Accident, Cancer, Critical Illness or Hospital Indemnity Insurance policy.

The following content is provided as information only. Sun Life and its respective representatives cannot provide tax or legal advice. Employers and employees are encouraged to consult their own advisors regarding any tax or legal questions.

Federal taxation

Generally, the federal tax implication of these policies is as follows.

Premium paid using pre-tax dollars:

- If the **employee pays** the premium for this insurance with **pre-tax dollars**, the benefit payments are **taxable** at the federal level.
- If the **employer and the employee both contribute** to the payment of the premiums using **pre-tax dollars**, the proceeds from the benefit payments are **taxable** at the federal level.
- If the **employer pays 100%** of the premium for the employee for this insurance, the proceeds from the benefit payments are **taxable** at the federal level.

Premium paid using post-tax dollars:

- If the **employee pays** the premium for this insurance with **post-tax dollars**, the proceeds from the benefit payments are **not taxable** at the federal level.

Premium paid using a combination of pre- and post-tax dollars:

- If the **employee pays a portion of the premium** for this insurance with **post-tax dollars**, only the **portion attributable to the employer** contribution is **taxable** at the federal level. The three year lookback rule under Federal Treasury Regulation 1.105-1(d)(2) is used to determine the taxable percentage of the benefits payments.

This taxation applies to policies for the employee, the spouse, and the dependent child.

Sun Life uses the prior taxable/nontaxable rules to determine whether it will tax report the benefit payments to the IRS and the employee. The IRS requires insurance companies to issue a 1099 form for any taxable benefits paid of \$600 or more per year. Receiving a 1099 does not always indicate a taxable event has occurred.

State taxation

Tax laws vary by state, and employees should consult a tax advisor for the tax implications for their state of residence.

Health Savings Accounts

Regarding Employees Covered or Considering Coverage under Health Savings Accounts (HSA) Established in Connection with High Deductible Health Plans (HDHP): Based on the limited available IRS regulatory guidance, Sun Life believes its Accident, Cancer, Critical Illness and Hospital Indemnity¹ policies are appropriate for use with an HSA and may be purchased when employees and/or their family members are covered under an HDHP. However, Sun Life cannot provide legal or tax advice. If there are legal or tax questions, we suggest that employees consult their own legal or tax advisor before purchasing this insurance.

To learn more, call your Sun Life Employee Benefits Representative.

1. Subject to HSA compatible Hospital Indemnity plan design.

If an employee's coverage is paid with pre-tax dollars, taxable benefit payments would be considered income and could disqualify the employee for Medicaid. An employee who currently participates or plans to participate in Medicaid should seek advice from a legal or tax advisor before purchasing coverage. Sun Life does not provide tax or Medicaid advice.

This coverage does not constitute comprehensive health insurance (often referred to as "major medical coverage") and does not satisfy the requirement for Minimum Essential Coverage under the Affordable Care Act.

These coverages do not constitute comprehensive health insurance (often referred to as "major medical coverage"). The policies described are limited benefit policy/ies. They do NOT provide basic hospital, basic medical, or major medical insurance. They are not Medicare Supplement policies. The certificates have exclusions, limitations, and may have benefit waiting periods for certain conditions (as detailed in the certificate) that may affect any benefits payable. Benefits payable are subject to all terms and conditions of the certificate. These products are inappropriate for individuals who are eligible for Medicaid coverage.

Group insurance policies are underwritten by Sun Life Assurance Company of Canada (SLOC) (Wellesley Hills, MA) in all states, except New York, under Policy Form Series 12-GP-01, 13-SD-C-01, 12-AC-C-01, 15-GP-01, 16-AC-C-01, 16-SD-C-01, 20-HI-C-01, 12-GPPort-P-01, 20-HIPORT-C-01 and 16-CAN-C-01. Product offerings may not be available in all states and may vary depending on state laws and regulations. This piece is not available for use in New York and its content only applies to insurance policies underwritten by SLOC.

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