

Benefit Facts Article by Brian Bulger

Taxation of Benefit Plans is a Bad Idea

Currently, it is only the cost of the Life insurance that is a taxable benefit within a group benefit plan. Premiums paid by an employer on behalf of its employees for Long Term Disability (LTD), Extended Health Care and Dental benefits are not included in employee income as taxable benefits. (Note: If a firm pays any portion of an employee's LTD premium the disability income itself will be taxable upon receipt to the employee.)

This issue continues to be brought up by successive governments as a possible additional source of tax revenue. Obviously and to no surprise, the bureaucrats and politicians who bring up this subject do not have an understanding of how these benefits are funded.

Insurance companies take a big portion of the premium dollars as "retention". As the retention is up to 35% of the premium, that means insurance companies will only pay 65 cents back on the dollar, on average, to their insured groups without putting up the rates. In short, the 35% represents the cost for administration, claims, profit and an amount put into a reserve for protection against big claims.

If employer contributions were considered as taxable income to employees, participating in a group plan would make little financial sense to employees. First of all, employees usually pay 50% of the total premium with after tax dollars, so to treat the employer's portion as a taxable benefit, when a plan loses up to 35% to the insurance company in retention costs, there would be no savings or benefits to employees. Employees who don't make regular claims would no doubt reconsider their options and want to opt out of the coverage completely.

The conclusion has to be that taxing employer contributions to premiums, and thereby eliminating their tax effectiveness, would put an end to group benefit plans as they exist today. This would leave thousands of Canadians exposed to the high medical costs related to the treatment of numerous illnesses and injuries. And too, as the majority of people who actually have LTD coverage in Canada, receive it through an employer's benefit plan, the financial consequences would be an additional burden of horrendous proportions to the uninsured families and eventually, who else, but the taxpayers of Canada.