"Grossing Up" Disability Plans
What it Means for Wisconsin School Districts

It's traditional for Wisconsin school districts to offer teachers a 90% Long-Term Disability (LTD) plan. The 90% plan is not very common in the insurance world. Some agents are recommending that Wisconsin districts move to a 66.66% plan, then use something called "Grossing Up" in order to make the disability benefit not taxable, thereby simulating a 90% benefit.

Is "Grossing Up" a good idea for your plan? Are there drawbacks to this approach? This handout will go into detail so that you can answer these questions and make an informed decision.

Taxability of Disability Benefits

- When a district pays the LTD premium, the disability benefit is taxable.
- When an employee pays the LTD premium, the disability benefit is not taxable.

What is "Grossing Up"?

- In a "Gross-Up" scenario, the district changes their LTD benefit to a 66.66% plan.
- The premium for the plan is deducted post-tax from the employee's paycheck.
- Since LTD is generally a district-paid benefit in Wisconsin, the district will "Gross-Up" the employee's pay by the premium amount.

In theory, the situation would be something like this:

Salary:
$50,000

90% taxable LTD benefit (assuming 24% tax bracket):
$34,200

66.66% tax-free LTD benefit:
$33,330

Advantages:

- Switching to 66.66% plan **may lower the overall cost for *some* districts** because insurance rates may be lower.
- Disabled employees receive their disability benefit - 100% **tax-free**.

Disadvantages:

- Switching to 66.66% plan **may increase the overall cost for *some* districts**. Yes, you read that right. Even though premiums may be lower, the district still has to add the "Gross-Up" amount and sometimes this totals more than simply staying with the 90% plan.
- The district **must calculate premium for each employee** based on salary. **Annually, these calculations must be adjusted** based upon salary increases.
- **Employees are taxed** on the "Gross-Up" amount in their pay.
- An employee **may be bumped up to a higher tax bracket** when the "Gross-Up" amount is applied to their salary.
- **Possible discriminatory distribution** of benefit amount for employees. Employees with salaries under $67,000 will receive less benefit than they would on their current 90% plan, and those over $67,000 will receive more.

Ready to Evaluate if "Grossing-Up" is Beneficial for Your District?

For more information or for a free spreadsheet with the estimated tax formulas built in, contact your NIS Representative at 800.627.3660, or click here.