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Benefits *Bulletin*

Benefit News to Keep You in the Know and the Now

March 2017

Update Earnings

Many employee benefits such as life, AD&D, short- and long-term disability, and retirement savings plans are tied to an employee's earnings. Therefore it is extremely important to provide your insurance and investment carriers with updated information.

This time of year is a good time to take care of this administrative task as T4s and T4As will have recently been prepared making it easy to report earnings that include irregular income from commission and/or bonus.

What to Report

The definition of earnings is determined by your contract. Most contracts will include a standard definition of regular salary and hourly wages excluding overtime. Other contracts will extend this to include commission, bonus, and regular overtime.

Reporting an Hourly Wage

Earnings-based benefits are calculated by multiplying the hourly wage by the number of hours worked per week. This number is reported on enrollment forms. When updating wages, verify that this number is also current.

Reporting Commission Earnings

Check your contract to determine the calculation for what to report. Some contracts ask you to report the previous year's T4 earnings while others will take an average of the two previous years. The average of two years will help moderate fluctuations over the years.

When you have a new commission-based employee and earnings are yet unknown, estimate annual earnings based on expectations and/or employees in a similar role. Review these earnings periodically to ensure they align with what you reported. Updates to earnings can take place anytime throughout the year.

Reporting Bonuses

Bonus income is sometimes included if it follows a consistent formula and makes up a significant portion of earnings. Report the bonus amount when paid.

Reporting Regular Overtime

The inclusion of regular overtime is rare. If the contract provides for this, report the T4'd earnings.

Timing of Updates

Updates can happen any time throughout the year and should be reported as soon as there is a change. In the case of variable earnings (commission, bonus) updates are often done after T4s are prepared.

Plan Administrator's Role

The company plan administrator has the responsibility to keep accurate and current records. This will help ensure that the company is not being over- or under-billed and that the employee receives the benefits for which they are contractually eligible.

Implications of Over-Reported Earnings

Monthly premium is based on in-force coverage which is based on reported earnings. If earnings are over-reported, the monthly premium will be higher than necessary. In the event of a claim, the insurance company will request payroll records. If those records do not support the higher reported earnings, they will payout the lower amount based on the payroll records and refund the over-payment of premiums.

Implications of Under-Reported Earnings

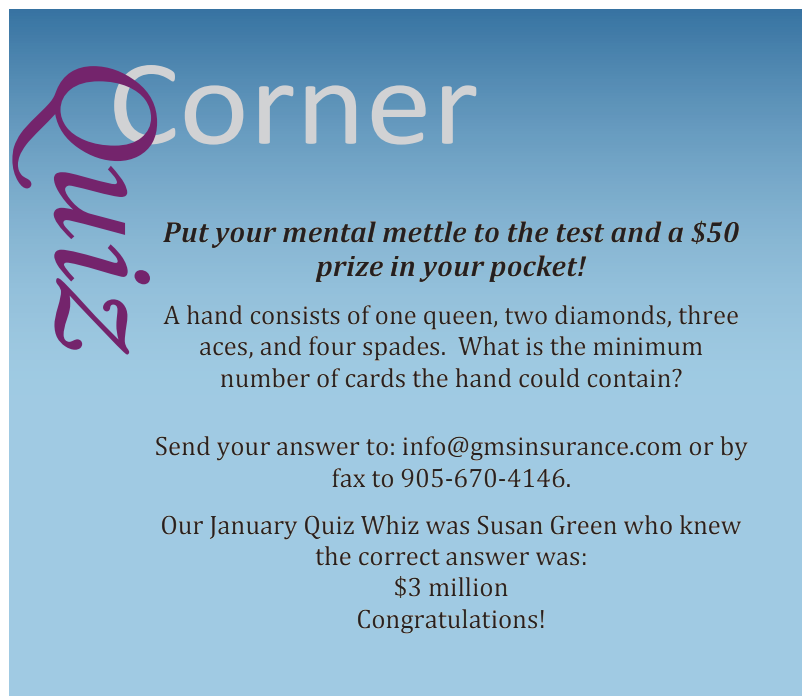
Unlike the above scenario where an over-payment of premiums is refunded, when earnings are under-reported, back-premiums cannot be paid and the full amount of benefit collected. Therefore the implications of misreporting earnings can be quite serious. Take the example of an employee with earnings of \$50,000 and an LTD benefit of 67%. Earnings while on LTD would be \$2,792. If earnings should have been reported at \$55,000 per year, the LTD benefit should be \$3,071 – a difference of \$279 per month. If the employee was 50 at the time of disability and was unable to ever return to work, the lost income over 15 years is \$50,220. This is income to which the employee is entitled under the terms of the contract and to which he has legal recourse to collect from the company. The insurance company is not liable in this instance because they correctly paid out based on the earning reported by the company. The company would bear the responsibility for the discrepancy.

How to Report Earnings

Earnings can be updated online through the plan administrator's portal. If there are mass changes, a spreadsheet including the employee ID number (certificate number), name, earnings, frequency, and effective date can be provided to the insurance company to be processed.

Taxation of Health & Dental Plans

In all provinces other than Quebec, health and dental plans have been non-taxable benefits. However, the Federal government announced an intention to change that. This would have been burdensome to lower and middle income families and reduced the incentive for employers to offer such plans. After considerable opposition and lobbying by industry stakeholders, including GMS, we are pleased to announce that the Federal government has changed their position and will leave health and dental as non-taxable benefits.



Quiz Corner

Put your mental mettle to the test and a \$50 prize in your pocket!

A hand consists of one queen, two diamonds, three aces, and four spades. What is the minimum number of cards the hand could contain?

Send your answer to: info@gmsinsurance.com or by fax to 905-670-4146.

Our January Quiz Whiz was Susan Green who knew the correct answer was:
\$3 million
Congratulations!