GMS INSURANCE

Employee Benefits
Group Retirement Plans
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Leading the Way

Taxable Benefits

The Federal budget released earlier this year brought about some changes to the tax treatment of some sickness and Accidental Death & Dismemberment (AD&D) plans for 2013. As we approach the end of the year, we would like to remind you of those changes.

Currently, AD&D and Critical Illness (CI) insurance premiums paid for by employers on behalf of their employees are not considered taxable income for employees. However, with the new budget rules, any employer-paid premium paid after March 29, 2012 for coverage in 2013 is considered a taxable benefit and must be included on the T4 slip.

Most employers who pay for this coverage do so on a monthly basis so they will not have any premium paid in 2012 for coverage in 2013. This means that they will start calculating the taxable benefit from January 1st. Note that "employer-paid premium" includes any flex credits that employees may have used to pay for the coverage.

Employers have two options: They may continue to make the premium payments on behalf of the employee and therefore include the premium in the taxable income calculation; or they may change the benefit to an employee-paid benefit thereby making it a non taxable benefit. Remember that regardless of which way this arranged, the benefit payout upon claim is always tax free.

Employers will want to communicate these changes to their employees. If you would like assistance in drafting communication, please contact your GMS advisor.

What Benefits are Taxable?

Employee-paid premiums are not taxable.

Employer-paid premiums for certain benefits are taxable. They include:

Life Insurance
AD&D Insurance
Dependent Life Insurance
Critical Illness Insurance

Short- and Long-Term Disability premiums that are employer-paid are not taxable. However, if the employer pays the premium, the benefit payment upon claim is taxable. If the employee pays the premium, the benefit upon claim is not taxable.

Health and dental premiums are not taxable except for residents of Quebec. Premium for these benefits for Quebecers should be included as taxable income.

Flex credits used by employees should be treated as employer-paid expenses.

There are a number of other

benefits that employers may confer on their employees such as car allowances, cell phones, laptop use, and other fringe benefits. Many of these are taxable. A complete list is available on the CRA website. (http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/menu-eng.html)

The New Drug Plan in Town

There are many different drug plans available. However, the two most common are: Brand Name Prescription and Generic Substitution plans.

Brand name plans pay for prescriptions filled for both brand name and generic drugs up to a reasonable & customary amount subject to plan deductibles and co-insurance levels.

Generic substitution plans pay up to cost of the lowest cost (usually generic) equivalent. If a brand name drug is dispensed, the cost of the lower cost equivalent is reimbursed. The patient is out of pocket for the difference. However, if the doctor indicates on the prescription that no substitutions are allowed, the brand name drug will be dispensed and the full cost will be covered by the plan (subject to the plan deductibles, coinsurance, annual maximum etc.)

The new kid on the block is the Mandatory Generic Substitution plan. This plan is similar to the generic substitution plan outlined above with one key difference: The plan will only pay to the cost of the lowest cost equivalent regardless of what the doctor indicates on the prescription.

There are people who legitimately need the brand name drug due to allergic reactions and other side effects. Coverage will be granted for those people after a form has been submitted and approved by the insurance company.

The mandatory generic plan aims to reduce the number of people who simply ask their doctor for the "no substitution" note with no medical reason for doing so. This type of prescription filling is contributing to excessive drug expense waste. Consider this: The average cost in Canada for a brand name drug is $72. The average generic drug cost is $27* - that's a $45 per prescription difference to have the same medical outcome.

Educating plan members about drug costs and how they can help manage those costs has been a goal of insurers and HR personnel alike for a some time but with a generic fill rate of just over 50% (50.8%**), the uptake is still lower than optimal. Perhaps a mandatory generic drug plan is the incentive plan members need to actually make the change.

Coming Soon…

GMS associates strive to meet and exceed your expectations on a daily basis. However, on occasion, we like to check in with you to see how we're really doing. Keep an eye out in early 2013 for a short survey. Your participation would be greatly appreciated and we promise to make it worth your while.

Sources: *Sun Life Financial, Focus Update Sept. 10, 2012

** Changing Behaviour Critical To Eliminating Waste, Michael Biskey, Benefits and Pensions Monitor, September 2012, p.30.

Quiz Corner

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

Here are the names of four colours with the vowels removed. What are the four colours?

NDG CRS MRN MGNT

Answers can be sent to: info@gmsinsurance.com or by fax to 905-670-4146. We will draw a winner from the correct answers and announce the winner in the next newsletter.

Our September Quiz Whiz was *Michael Dienst* who knew that "100 mph" was the correct answer. Congratulations!