



# SPECIAL ALERT

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## TAX TREATMENT OF BENEFITS PAID BY FIXED-INDEMNITY PLANS

The Chief Counsel of the Internal Revenue Service (IRS) recently published a memorandum addressing the tax treatment of benefits paid by fixed-indemnity health plans.

A fixed-indemnity health plan pays covered individuals a specific amount of cash for the occurrence of certain health-related events. Those events may include an office visit or days in the hospital. The amount paid is not related to the actual amount of the expense incurred or coordinated with any other health insurance.

These plans can be paid for with pre-tax or post-tax dollars. However this will affect the tax status of any benefits received. If the fixed-indemnity plan is paid for with **pre-tax dollars** (or funded by the employer), then the benefits paid under the plan are taxable income to the employee. However, if the fixed-indemnity plan is paid for with **post-tax dollars** by the employee, then the benefits paid under the plan are not treated as taxable income.

Fixed-indemnity plans are typically provided on a voluntary basis to employees, usually with other worksite benefit programs. Some worksite vendors encourage employees to buy these benefits with pre-tax dollars to lessen the impact of the premiums on take-home pay. However, based on the clarifications included in this memorandum, any benefits received under a plan paid with pre-tax dollars will be considered taxable income to the employee.

Your organization may want to require employees to pay for such benefits with post-tax dollars, to eliminate the tax impact on benefits received.

Please contact your Marsh & McLennan Agency | Michigan Account Manager with any questions. ■



*We welcome your comments and suggestions regarding this issue of our Special Alert. For more information, please contact your Account Manager or visit our website at [www.mma-mi.com](http://www.mma-mi.com).*

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