December 19, 1985

P A Y R O L L   B U L L E T I N
(9-85)

TO: All State Agencies, Departments, Boards, Commissions
           and Universities

SUBJECT: Tax Exempt Employer-Provided Life Insurance Program

Beginning with any pay period ending after December 15, 1985, or any payrolls
which will be considered as 1986 wages, certain portions of employee optional
life insurance appearing in the dedicated State Sponsored life insurance field
on the payroll voucher can be treated as tax exempt. The only life insurance
in this field is the premium paid to Fort Dearborn Life Insurance (Code C7)
which appears in deduction field 54 of the payroll voucher. The attached
example provided by the Department of Central Management Services Central
Payroll System can be used to compute the amount of the member's (employee's)
optional non-taxable life insurance premium. Remember, only basic and
optional insurance on the member can be considered. Optional insurance on
a non-member (non-employee) does not qualify for the non-taxable treatment.

The procedures for reporting the non-taxable State sponsored employee life
insurance amounts are similar to the procedures for reporting State sponsored
health insurance. The entire deducted life premium will remain in column 54
of the payroll voucher and the non-taxable portion will be placed in column
67 of the voucher. If health insurance already appears in column 67, the
non-taxable life insurance amount must be added to it.

As additional State sponsored plans which may be treated as non-taxable and
which appear in the miscellaneous fields on the payroll voucher are approved
by the Department of Central Management Services, you will be notified.

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
CENTRAL PAYROLL SYSTEM
PREMIUM PAYMENT PLAN
OPTIONAL LIFE EXEMPTION - MEMBER ONLY
Effective 1986 Payrolls

The following example illustrates the method used to determine the
non-taxable portion of the member's optional life premium. The exemption
can begin with the first payroll of the 1986 tax year.

EXAMPLE:

A semi-monthly employee, age 35, with an annual salary of $27,240, has
selected optional life in a multiple of four times (4x) the basic
amount. The member's number of $100 basic life units is 137. The
member's number of optional life units is 548 (137 x 4). The member's
optional life premium is $2.47 ($.617 x 4 = $2.468 which rounds up to
$2.47).

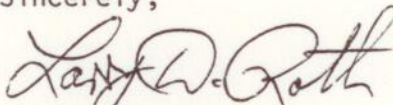The maximum tax exempt optional life insurance allowed is $50,000.
Converted to $100 life units, this becomes 500 ceiling units ($50,000 ÷
100 = 500) to form the test. The member's basic and optional units (137
+ 548 = 685) are more than the ceiling units (500) and must be pro-rated
to determine the non-taxable portion of the premium. (If the combined
basic units and employee optional units were less than the ceiling units,
the entire optional life premium would be non-taxable.)

To determine the non-taxable portion of the optional life premium,
subtract the basic (State paid) units from the ceiling units giving the
reduced ceiling (500 - 137 = 363). Divide the employee optional units by
the reduced ceiling units giving the percentage of the premium which can
be non-taxable (363 ÷ 548 = .66). Multiply the employee optional life
premium by the percentage ($2.47 x .66 = $1.63) giving the amount to be
subtracted from gross amount earned before calculating the federal and
state withholding tax.

ceiling units	500
less basic units	137
reduced ceiling	363
optional units	548
optional units >	reduced ceiling

363 ÷ 548 = 66% (compute rounded)
$2.47 x 66% = $1.63 which can be tax exempt

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If you have any questions regarding vouchering procedures, please contact Dan Steven or Nancy Smith. They can be reached at 782-4758. Questions regarding the instructions for computing the non-taxable portion of the member's State sponsored life insurance premium should be directed to the Department of Central Management Services, Central Payroll office (217) 782-9736.

Sincerely,

Larry D. Roth
Director, State Accounting