

TO: City of Milwaukee Employees and Retirees
FROM: Mike Brady, Employee Benefits Director
RE: State of Wisconsin Extended Dependent Coverage for Non-Tax Dependent Adult Children Who Do Not Currently Meet the City of Milwaukee's Eligibility Guidelines

This communication contains important information about your non-tax dependent adult child's eligibility for health and dental benefits for 2010. This is also a notice of the taxes that will be deducted from your paycheck if you begin covering a non-tax dependent adult child under your health and dental plans.

If you have an eligible dependent that is 19 to 25 years old who currently meets the City's benefits eligibility guidelines--this is not applicable to you. If however, you have a 19 to 27 year old non-tax dependent adult child this is applicable to you. Please read further.

The 2009-2011 State of Wisconsin Budget provides extended dependent coverage for non-tax dependent adult children who do not currently meet eligibility guidelines for health plans, self-insured health plans and health plans of government employers.

Why is this important to you? **It's important because non-tax dependent adult children that are not on your plan may be eligible for health and dental coverage until age 27. It also means dependents that are on your plan but reaching the end of their eligibility may be eligible for benefits until age 27 as well.**

Generally dependents of employees and retirees are eligible for coverage through age 19 if not a full-time student, or age 25 if a full-time student or an IRS dependent. The City's current eligibility guideline defining dependent coverage states:

"Dependent coverage includes employee's spouse; eligible children, stepchildren, foster children, grand children (if the parent is an eligible dependent child under the age of 18,) adopted children and children placed for adoption as mandated by the State or Federal government. Coverage for dependent children is through the end of the calendar year in which the dependent child turns 19, or through the end of the calendar year the dependent child turns 25 if the dependent is a full time student or IRS dependent. (You must provide more than 51% of the support and maintenance to the dependent child.) If a dependent marries or loses eligibility, coverage is through the end of the month."

Under the new State "Extended Dependent Coverage" mandate your non-tax dependent adult children may continue to be eligible until the end of the month the child turns 27, so long as:

- The child is under 27, and
- The child is not married, and
- The child is unemployed with no coverage, or on Cobra coverage, or
- The child is eligible for health coverage through the child's employer and the child's premium contribution for that coverage is the same or more than the additional premium that the parent must pay to add the child to the parent's insurance plan.

Employees who wish to enroll a non-tax dependent adult child will be required to complete an *Affidavit for "Non-Tax" Defined Dependents* form.

There are important tax implications for covering a non-tax dependent adult child on your insurance. For a non-tax dependent adult child, the fair market value (know as imputed income) of the health and/or dental benefit will be taxed like income.

Why is this important to you? **It's important because your taxable income will increase dramatically when the imputed income is added to your taxable wages.** Normally the IRS does not consider the value of your health and dental benefits as income. In the instance of a non-tax dependent adult child, the value of benefits is considered imputed income. Imputed income equals the cost the City pays for a single policy for health and/or dental. The cost of a single policy may vary based on each employee's/retiree's applicable rate sheet. The example below represents an active DC 48 employee.

| | | |
|---------------------------|-------------------------------|------------------------|
| Single coverage for 2010: | \$668.34 - United Health Care | \$24.95 - Delta Dental |
| | \$852.00 - Basic Plan | \$39.15 - Care-Plus |
| | | \$47.25 - Dentalblue |

Example: Employee with UHC:

668.34 x 12 months = **\$8020.08 Imputed Income**

Example: Employee with Basic and Dentalblue:

852.00 x 12 months = **\$10224.00**
47.25 x 12 months = \$ **567.00** **Total Imputed Income: \$10791.00**

To recap, non-tax dependent adult children may be eligible for coverage until the month they turn 27. Imputed income will be added to your taxable wages for your non-tax dependent adult children. If you enroll 2 children, the numbers in the examples above will double.

If you are unsure if your adult child meets the definition of a qualifying non-tax dependent adult child, seek advice from a tax advisor.

What should you do?

- For eligible dependents currently on your plan who are 19 to 25 and full-time students: Nothing.
- For eligible dependents currently on your plan who are 19 to 25 and are not full-time students but are IRS dependents: Nothing.
- For non-tax dependent adult children age 19 to 27:
Complete health and or/dental enrollment forms, and
Complete an *Affidavit for Non-Tax Defined Dependent(s)* form

Note:

--A social security number and a copy of a birth certificate, adoption paper, or guardianship paper are required for enrollment and must accompany the enrollment form.

--The Affidavit form requires notarization.

Submit forms and documentation to Employee Benefits to add a non-tax dependent adult child within 30 days of a qualifying event. Coverage will begin on the 1st of the following month.

Should you need additional clarification, please call Employee Benefits at 286-3184.

Thank you.