

FICA WITHHOLDING & TAXATION OF DISABILITY BENEFITS

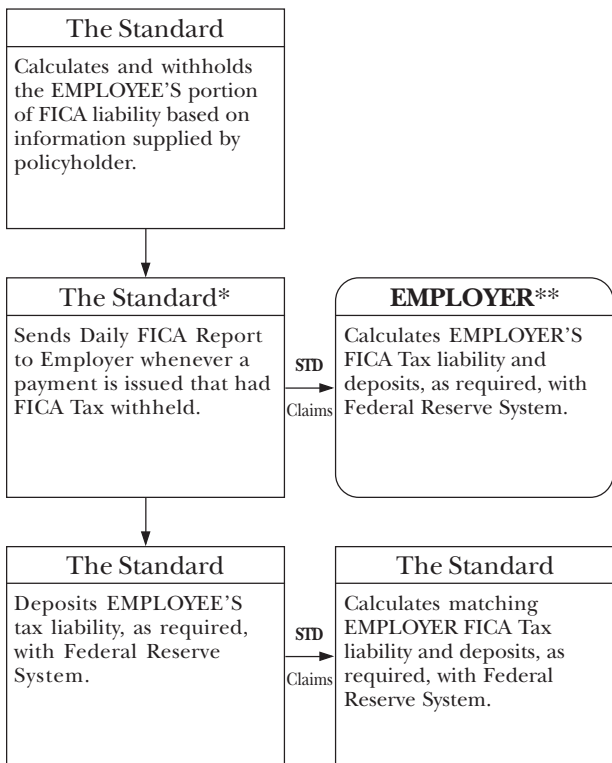
Information for Policyholders



The Standard[®]
Positively different.

Step One

As claim payments are made:



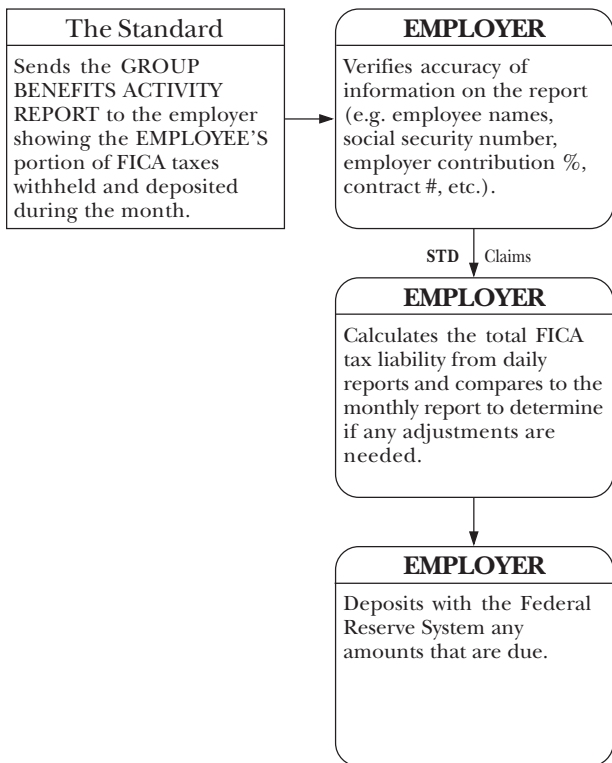
* The daily FICA report is your official notification that The Standard has withheld the EMPLOYEE portion of the FICA tax from benefits issued under your group policy. It will also include any FICA tax adjustments made that day.

** STD policyholders without an active FICA Service Agreement remain responsible for the EMPLOYER FICA tax. For all LTD and STD policyholders with an active FICA Service Agreement, The Standard will automatically remit & report the EMPLOYER portion of this tax.

You should also use this report to comply with your Federal Unemployment Tax (FUTA), State (SUTA) and other payroll tax remittance and reporting responsibilities for STD and/or LTD claims.

Step Two

At the end of each month:



The monthly **BENEFIT ACTIVITY REPORT** provides a summary of all benefit payment, FICA tax withheld and any other deductions withheld during the month.

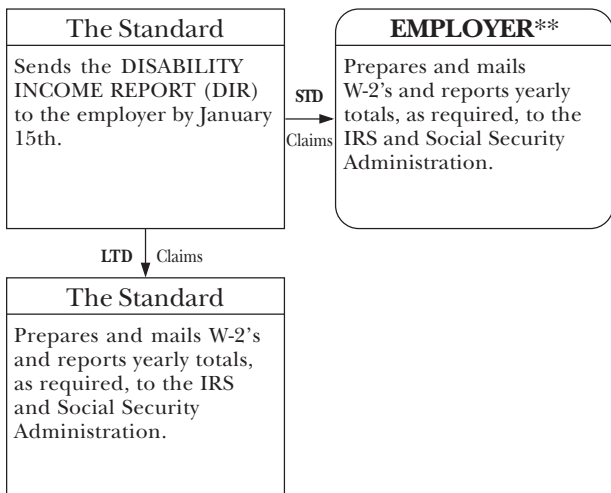
The monthly report is provided to assist you in verifying the sum of the daily FICA report totals and in complying with your quarterly 941 tax reporting responsibilities.

It also indicates what percentage of the benefits our records show are **EMPLOYER** paid and therefore used to calculate FICA tax withholding.

You need to notify us immediately of any errors on the reports we send you.

Step Three

At the end of each year:



The year-end DISABILITY INCOME REPORT (DIR) provides a summary of all benefit payments, FICA taxes withheld and any other deductions withheld during the previous calendar year.

It is also your official notification of whether or not The Standard has prepared a W-2 tax statement.

If you have any questions please call:

For STD claims – (800) 368-2859

For LTD claims – (800) 368-1135

For Tax reporting questions – (800) 525-3973

If you have other questions about this information, please contact your Tax Advisor, Broker or The Standard Representative.

General Taxation Information:

Under Internal Revenue Code section 105, Disability “Sick Pay” benefits, both Short Term Disability (STD) and Long Term Disability (LTD), may be included in the gross income of insured Members and may be subject to tax if the employer pays part or all of the premium for the coverage. The extent to which benefits are taxable is based on the proportion of the premium that is paid by the employer.

Note: If premium payments have been paid by the employee with “pretax” dollars (e.g. through a section 125 cafeteria plan) the IRS considers them to be “employer” paid.

Social Security and Medicare Tax (FICA)

Your disabled Member’s benefits may be subject to FICA tax. We will notify you if tax is withheld so you can meet your reporting responsibilities.

When FICA Tax Applies:

To the extent the benefits are taxable, any benefits paid during a member’s first complete six months of Disability are subject to FICA tax. Benefits may also be subject to FICA tax in some cases when the employee returns to part-time work.

For LTD policyholders and those STD policyholders with an active FICA Service Agreement The Standard will remit and report the matching employer’s share of the FICA tax.

STD policyholders without a FICA Service Agreement remain responsible for matching the employer’s portion of FICA taxes on STD payments.

Note: On “Contributory” policies FICA tax does not apply to the extent the premium payments have been paid by the employee with “after-tax” dollars.

Employer Contribution % Information

When claim information is submitted, the employer is responsible for determining and notifying The Standard what portion of the premium contribution is considered to be employer paid according to the IRS 3 year averaging rules.

Federal Income Tax Withholding

If part or all of a benefit is taxable, Members may request that The Standard withhold a portion of their benefits for Federal Income taxes.

This withholding is voluntary, except under certain Administrative Services Only (ASO) arrangements, and may ease the employees' obligation when Federal Income taxes are due.

Federal Unemployment (FUTA) and State Unemployment (SUTA) Taxes

Your disabled Member's STD and/or LTD benefits may be subject to FUTA and SUTA tax. To assist you with your reporting and remittance responsibilities we will notify you as benefit payments are issued which may be subject to these taxes.

Reports provided by Standard:

- The daily FICA Tax Activity Report - Provides immediate notification of benefit payments and the amount of FICA tax withheld.
- The monthly Benefit Activity Report - Summarizes all benefit payments, FICA taxes withheld and any other deductions during the month.
- The Disability Income Report (DIR) - Summarizes benefit payments, FICA and any Income taxes withheld during the previous calendar year. It also confirms whether or not The Standard has prepared a W-2 tax statement.

The Standard Insurance Company
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