

Date: April 19, 2010

To: IBBP Health/Dental Plan Administrators

From: Chris Wehde, IBIS, and Vice-President

RE: Adult Children and Tax Treatment of Premiums

The Iowa Bankers Benefit Plan **now** currently covers unmarried dependents to the end of the calendar year of their 25th birthday regardless of student status. Beyond age 25, an unmarried fulltime student is eligible to remain on IBBP as long as the dependent is a fulltime student and currently covered under IBBP as a dependent. A dependent who marries can remain covered under the Iowa Bankers Benefit Plan until the end of the calendar year.

The recently passed health care reform legislation addressed the **tax treatment of adult children** covered under their parent's health care plans. **Effective March 30, 2010**, there are no longer tax consequences to adult children covered under a group health plan, provided the adult child is age 26 or younger for the entire taxable year and meets the other requirements of a tax dependent. This is the result of a change to the definition of "dependent" in Section 105(b) of the Internal Revenue Code which expands the definition to adult children who are under age 27 for the entire taxable year. An employee with an adult child covered under the health plan will not have any additional Federal tax consequences until the plan year after the year in which the child turned 26. For the plan year during which the adult child turns age 27, the adult child will be a non-tax dependent and the value of his/her coverage must be paid on an after-tax basis and any employer contribution toward the adult child's coverage considered taxable income to the employee. Because of Iowa's dependent mandate, the only adult children on the plan that should now be impacted by tax issues are those covered due to their full time student status that are 27 or older or will turn 27 during the plan year. This affects both health and dental coverage.

If you have any further questions, please let contact our office at 1-800-258-1415. Thank you!