IMPORTANT

Please forward immediately to person responsible for Government Tax Reporting.

2018 Year-End Tax Reporting

For Group Disability Income Benefits
January 2019

To: Our Short Term and Long Term Disability Group Policyowners

Re: Reporting 2018 STD/LTD Third Party Sick Pay

To assist you in your preparation for reporting 2018 disability income benefits paid to your employees, we have assembled this packet of information.

Please note that for all LTD claims and also for any STD claims covered under contracts with active 2018 FICA/W-2 Tax Service Agreements:

1. We are paying the employer’s share of Social Security and Medicare taxes on payments made to these claimants during 2018. We now include these payments on our quarterly 941 statements so you, the employer, should not report them on your 941’s.

2. We will prepare the W-2 forms for these benefits for the 2018 tax year.

We are also providing additional detail information on the year-end Disability Income Report which you will receive after year-end to further assist you with your tax reporting responsibilities.

- A sample Disability Income Report (DIR) and information about the report contents
- A sample W-2 form & summary information about preparing it
- A copy of the 2018 Form W-3
- A question & answer section of common questions

The W-2 forms prepared by Northwestern Mutual will be mailed by January 31, 2019.

If you have any question about the contents of this material please contact our Disability Income Report Hotline at 1-800-378-4665.
Reporting Responsibilities

Internal Revenue Code section 6051 (f) requires that Northwestern Mutual must report to you the amount of disability benefits paid to claimants and the amount of taxes withheld during the previous calendar year. We will refer to this as “sick pay” in this packet.

Policyowner:

Northwestern Mutual will provide you with the information needed to prepare W-2 forms through the report we call the DIR – Disability Income Report. This report provides detail information about each claimant including: name, address, Social Security number, taxable %, and yearly totals for benefit payments and tax withholding. Please notify us immediately if any of this information differs from your records.

On Short Term Disability (STD) claim payments you are responsible for the following unless you have an active STD FICA/W-2 tax service agreement in place:

- Preparing and submitting W-2 forms for those claimants who received sick pay benefits during the year and will not receive a W-2 from Northwestern Mutual.
- Paying the employer share of FICA tax and reporting that amount on your quarterly 941 statements.

Please review the DIR carefully to ensure you only prepare tax statements for those people who should receive one from you.

Note: The DIR is mailed shortly after the end of the year so that all payments, tax withholdings and adjustment transactions from January 1 through December 31 are included. If you have an outside payroll service handle your tax reporting you’ll need to have them keep your records open until the “sick pay” information is included (some vendors call this a “variable hold”). To avoid difficulties you should notify them of the need to do this prior to year-end.

If you accidentally prepare a W-2 form for someone who will receive a tax statement from us, you will need to amend your tax reports to avoid double reporting of benefits to the IRS. Please remember the W-2s we prepare are only for the sick pay benefits. You are still responsible for preparing W-2 forms on any regular wages you paid to employees during the year. Please contact your tax consultant for further information or advice about your particular situation.

Northwestern Mutual:

For 2018, Northwestern Mutual is paying the employer’s share of Social Security and Medicare taxes on all LTD sick pay benefits and on any STD sick pay benefits covered under contracts with active 2018 FICA Tax Service Agreements. We report these sick pay benefit payments on our quarterly 941 statements so you, the employer, should not report them on your 941 statements.

We will prepare W-2 tax statements for:

- all 2018 LTD sick pay benefits, and
- all STD claim payments covered by an active 2018 W-2 Tax Service Agreement

The DIR identifies which individuals will receive a W-2 form from Northwestern Mutual by putting “We Prepared W-2” under the name and address information for each person.

Note: The employer is still responsible for paying and reporting Federal Unemployment tax (FUTA), State Unemployment tax (SUTA), and any other miscellaneous payroll taxes due on both STD and LTD claim payments.
**SAMPLE LTD**

**DISABILITY INCOME REPORT**

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### 2018 YTD DISABILITY INCOME REPORT

PUBLIC LAW 96-601 REQUIRES INSURANCE CARRIERS TO REPORT THE AMOUNT OF DISABILITY PAYMENTS MADE TO YOUR EMPLOYEES LAST YEAR. WE MUST ALSO REPORT TO YOU THE AMOUNTS WITHHELD FOR TAXES. THE INFORMATION BELOW IS FOR YOUR USE IN PREPARING TAX FORMS FOR YOUR EMPLOYEES. YOU MAY ACCESS THE DIR BOOKLET ONLINE AT [WWW.NMFN.COM](http://WWW.NMFN.COM).

* Indicates the claim was set up in 2018. If repayment or benefits withheld data appear on the report, refer to the "Disability Income Report Information" section in the tax packet for instructions on how credit may be reflected on the W-2. Tax rates used: EE SS 6.20%, ER SS 6.20%, EE MED 1.45%, ER MED 1.45%

### **LONG TERM DISABILITY**

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<thead>
<tr>
<th>MEMBER/PROVIDER</th>
<th>SS/TIN NUMBER</th>
<th>TAXES / DEDUCTIONS</th>
</tr>
</thead>
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<td>97333</td>
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We prepared W-2 ****** 2018 YTD TOTALS

| BENEFITS ISSUED | $63,293.28 |
| REPAYMENTS | .00 |
| BENEFITS WITHHOLD | 2,989.56 |
| REPORTABLE BEN | 60,303.72 |
| TAXABLE AMOUNT | 60,303.72 |
| SS WAGE AMT | 60,303.72 |
| MED WAGE AMT | 60,303.72 |
| TIER 1 WAGE AMT | .00 |
| TIER 1 MED WAGE | .00 |
| STATE WAGES | 60,303.72 |
| ER ESTIMATE SS TX | 3,738.84 |
| ER ESTIMATE MED TX | 874.40 |

CLAIM COUNT IS: 1

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**Notes:**

- Your Federal Tax ID#. Please notify us if this number is incorrect or missing.
- **Indicates type of insurance coverage.**
- Do not prepare a tax statement for these benefits. The employee will receive a W-2 form from Northwestern Mutual.
- **Portion of benefit considered taxable.** Please notify us immediately if this is incorrect.
**SHORT TERM DISABILITY**

<table>
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<tr>
<th>CLAIM MEMBER/PROVIDER</th>
<th>BENEFITS ISSUED</th>
<th>REPAYMENTS</th>
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<th>TAXABLE AMOUNT</th>
<th>SS WAGE AMT</th>
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**STATEMENT NEEDED ****** 2018 YTD TOTALS**

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<th>BENEFITS ISSUED</th>
<th>REPORTABLE BEN</th>
<th>TAXABLE AMOUNT</th>
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<td>12.81</td>
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**2018 YTD DISABILITY INCOME REPORT**

PUBLIC LAW 96-601 REQUIRES INSURANCE CARRIERS TO REPORT THE AMOUNT OF DISABILITY PAYMENTS MADE TO YOUR EMPLOYEES LAST YEAR. WE MUST ALSO REPORT TO YOU THE AMOUNTS WITHHELD FOR TAXES. THE INFORMATION BELOW IS FOR YOUR USE IN PREPARING TAX FORMS FOR YOUR EMPLOYEES. YOU MAY ACCESS THE DIR BOOKLET ONLINE AT WWW.NMFN.COM.

* INDICATES THE CLAIM WAS SET UP IN 2018. IF REPAYMENT OR BENEFITS WITHHELD DATA APPEAR ON THE REPORT, REFER TO THE "DISABILITY INCOME REPORT INFORMATION" SECTION IN THE TAX PACKET FOR INSTRUCTIONS ON HOW CREDIT MAY BE REFLECTED ON THE W-2. TAX RATES USED: EE SS 6.20%, ER SS 6.20%, EE MED 1.45%, ER MED 1.45%

You must prepare W-2s for those claimants who will not receive one from Northwestern Mutual.

Portion of benefit considered taxable. Please notify us immediately if this is incorrect.

Enter in Boxes 4 and 6 on W-2.

Enter in Box 1 on W-2 Form.
The Disability Income Report Information

**Benefits Issued:** The overall or “gross” amount of all benefits issued on this claim during 2018.

**Repayments:** Amount paid back to Northwestern Mutual during 2018 for an overpayment.

**Benefits Withld:** Amount of benefits retained by Northwestern Mutual and applied to an existing overpayment.

**Net Benefit:** Benefits issued during 2018 less repayments and benefits withheld in 2018. When the total of the repayments and benefits withheld are less than the Benefits Issued, the Benefits Issued amount is adjusted to reflect the repayment and benefits withheld amounts. When the total of the repayments and benefits withheld amounts are greater than the Benefits Issued amount, the new Net Benefit is a negative amount. The “N/A” term appears in this field.

**Taxable %:** The percent of benefits issued that are reportable for federal income tax purposes. This is determined by the percent of premium contributions the IRS classifies as employer contributions.

If you, the employer, paid 100% of the premium, then the entire amount is reportable for tax purposes. If the employee paid the entire cost, then benefits are not taxable. **Note:** If the employee pays the premium with pretax dollars (i.e. IRS section 125 cafeteria plans) benefits are still considered taxable by the IRS.

We rely on you to properly calculate the employer contributions percentage figure according to the IRS three year averaging rule and to provide us with the correct information on the “Employer Statement.”

**Gross Taxable:** The amount of “gross” Benefits Issued subject to federal taxation. This figure was calculated by multiplying the Benefits Issued amount by the employer contribution percentage reported to Northwestern Mutual. If we were not able to confirm what percentage rate applied, benefits have been reported as 100% taxable.

**ADJ Taxable:** The amount of Net Benefit issued subject to federal taxation. This figure was calculated by multiplying the Net Benefit amount by the employer contribution percentage reported to Northwestern Mutual. If we were not able to confirm what percentage rate applied, benefits have been reported as 100% taxable.

The IRS prefers you adjust the taxable benefit amount reported as “Wages” in box 1 on the W-2 form. If you do not adjust the taxable amount, please notify the individual of the repayment amount. We suggest you refer people to the 2018 IRS Publication 525 and their tax consultants for guidance.

*If you do use an ADJ Taxable amount, please be sure to adjust your 941 and make sure those individuals know that the W-2 form reflects the repayment/withholding credit and that they should not also take a credit on their 1040 tax returns.*
ADJ Taxable: To help you identify those claims where it is appropriate to use an ADJ Taxable amount, we will print an asterisk (*) next to the claimant's name on the DIR if the claim was received in 2018. For those claims set up prior to 2018 you’ll need to rely on your own records and the claimants’ records to determine if the overpayment occurred in 2018.

Calculating an ADJ Taxable amount is done as follows:

1. Subtract the repayment and/or benefits withheld amount from the "Benefits Issued" amount to get the Net Benefit figure.
2. Multiply the Net Benefit amount by the Taxable % rate to get the ADJ Taxable amount.

UCT: In 2003, Pennsylvania reinstated the unemployment (UC) employee contribution tax rate. Northwestern Mutual does not withhold the UC tax from taxable sick pay. Instead, Northwestern Mutual provides quarterly reports to employers with work locations in Pennsylvania showing the taxable benefits and the calculated UC tax amounts.

State Tax: Amount withheld from benefits for State Income Tax.

Federal Tax: Amount withheld from benefits by Northwestern Mutual for federal income tax. Withholding is done only at the request of the claimant.

Social Security Tax: Amount withheld from benefits by Northwestern Mutual for the Social Security portion of FICA tax.

SS Wage Amt: The amount of benefits subject to the Social Security portion of FICA tax. This figure was calculated based on the amount of Social Security tax withheld for the year.

Medicare Tax: Amount withheld from benefits by Northwestern Mutual for the Medicare portion of FICA tax.

Med Wage Amt: The amount of benefits subject to the Medicare portion of FICA tax. This figure was calculated based on the amount of Medicare tax withheld for the year.

RR Tier 1 Tax: Amount withheld from Railroad workers’ sick pay benefits by Northwestern Mutual for Railroad Retirement Tier 1 tax.

Tier 1 Wage Amt: The amount of benefits subject to the Tier 1 tax. This figure was calculated based on the amount of Tier 1 tax withheld for the year.

Tier 1 Med Tax: Amount withheld from Railroad workers’ sick pay benefits by Northwestern Mutual for Railroad Retirement Tier 1 Medicare tax.

Tier 1 Med Wage: The amount of benefits subject to the Tier 1 Medicare tax. This figure was calculated based on the amount of Tier 1 Medicare tax withheld for the year.

State Wage: The amount of the ADJ Taxable figure that is subject to state wage reporting, providing the state taxes sick pay benefits.

ER EST SS TX: The amount to be remitted by employer, or on employer’s behalf by Northwestern Mutual if an agreement is in place, for Social Security portion of FICA tax. This remittance is mandatory whenever there is Social Security withheld from an Employee’s benefit payment (for employees who participate in the Social Security system).

ER EST MED TX: The amount to be remitted by employer, or on employer’s behalf by Northwestern Mutual if an agreement is in place, for Medicare portion of FICA tax. This remittance is mandatory whenever there is Medicare withheld from an Employee’s benefit payment (for private sector employees and for public employees hired on or after April 1, 1986).
The Internal Revenue Service provides information in 2018 Publication 15-A Employer’s Supplemental Tax Guide on how to complete the Form W-2. This information is found on pages 18-19.

**Form W-2.** The employer must generally prepare Form W-2 for the sick pay, but see Optional Rule for Form W-2. The employer may either combine the sick pay with other wages and prepare a single Form W-2 for each employee or may prepare a separate Form W-2 for each employee, one reporting sick pay and the other reporting regular wages. **A Form W-2 must be prepared even if all the sick pay is nontaxable.**

The Form W-2 filed for the sick pay must include the following information.

a) The employer’s name, address, and EIN  
b) The employee’s name, address, and SSN  
c) The sick pay the employee must include in income (box 1),  
d) Any federal income tax withheld from the sick pay (box 2),  
e) The sick pay subject to employee social security tax (box 3),  
f) The employee social security tax withheld from sick pay (box 4),  
g) The sick pay subject to employee Medicare tax (box 5),  
h) The employee Medicare tax withheld (box 6),  
  
i) Any amount not subject to federal income tax because the employee contributed to the sick pay plan (box 12, enter code “J”).

Note: The IRS instructions for preparing the Form W-2 do not address sick pay reporting for State income tax purposes. Please consult your tax advisor or your State Revenue Department to determine what information (if any) needs to be reported in boxes 15-20.
**SAMPLE W-3 FORM**

**DO NOT STAPLE**

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<th>Control number</th>
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</tr>
<tr>
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<td>State/local 501c</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>Govt.</td>
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<td>Third-party sick pay (Check if applicable)</td>
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<tr>
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<td>501c non-govt.</td>
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<td>Third-party sick pay (Check if applicable)</td>
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<td>Third-party sick pay (Check if applicable)</td>
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<tr>
<td>▲</td>
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<td>▲</td>
<td>▲</td>
</tr>
</tbody>
</table>

| b | Kind of Payer (Check one) | c | Total number of Forms W-2 | d | Establishment number | e | Employer identification number (EIN) | f | Employer's name | g | Employer's address and ZIP code | h | Other EIN used this year |
|---|---------------------------|---|---------------------------|---|----------------------|---|-----------------------------|---|---------------------|---|-----------------------------|---|______________________|
| 9 | 941 | Military | 1 | Wages, tips, other compensation | 2 | Federal income tax withheld | 3 | Social security wages | 4 | Social security tax withheld | 5 | Medicare wages and tips | 6 | Medicare tax withheld |
| 9 | 943 | Hand. emp. | 7 | Social security tips | 8 | Allocated tips | 9 | 10 | Dependent care benefits | 11 | Nonqualified plans | 12a | Deferred compensation |
| 9 | 944 | Medicare govt. emp. | 13 | For third-party sick pay use only | 12b | 14 | Income tax withheld by payer of third-party sick pay |
| 501 | 501c non-govt. | None apply | 15 | State employer's state ID number | 16 | State wages, tips, etc. | 17 | State income tax | 18 | Local wages, tips, etc. | 19 | Local income tax |
| | | None apply | 19 | Employer's contact person | 18 | Employer's telephone number | 17 | Employer's telephone number | 16 | Employer's email address |

**Filing Information**

- **Signature ➤**  
- **Title ➤**  
- **Date ➤**

**Form W-3 Transmittal of Wage and Tax Statements 2018**

Send this entire page with the entire Copy A page of Form(s) W-2 to the Social Security Administration (SSA). Photocopies are not acceptable. Do not send Form W-3 if you filed electronically with the SSA. Do not send any payment (cash, checks, money orders, etc.) with Forms W-2 and W-3.

**Reminder**

Separate instructions. See the 2018 General Instructions for Forms W-2 and W-3 for information on completing this form. Do not file Form W-3 for Form(s) W-2 that were submitted electronically to the SSA.

**Purpose of Form**

Complete a Form W-3 Transmittal only when filing paper Copy A of Form(s) W-2. Wage and Tax Statement. Don't file Form W-3 alone. All paper forms must comply with IRS standards and be machine readable. Photocopies are not acceptable. Use a Form W-3 even if only one paper Form W-2 is being filed. Make sure both the Form W-3 and Form(s) W-2 show the correct tax year and Employer Identification Number (EIN). Make a copy of this form and keep it with Copy D (For Employer) of Form(s) W-2 for your records. The IRS recommends retaining copies of these forms for four years.

**E-Filing**

The SSA strongly suggests employers report Form W-3 and Forms W-2 Copy A electronically instead of on paper. The SSA provides two free e-filing options on its Business Services Online (BSO) website:

- **W-2 Online.** Use fill-in forms to create, save, print, and submit up to 50 Forms W-2 at a time to the SSA.
- **File Upload.** Upload wage files to the SSA you have created using payroll or tax software that formats the files according to the SSA’s Specifications for Filing Forms W-2 Electronically (EFW2). W-2 Online fill-in forms or file uploads will be on time if submitted by January 31, 2019. For more information, go to www.SSA.gov/bsos. First time filers, select “Register”; returning filers select “Log In.”

**When To File Paper Forms**

Mail Form W-3 with Copy A of Form(s) W-2 by January 31, 2019.

**Where To File Paper Forms**

Send this entire page with the entire Copy A page of Form(s) W-2 to:

**Social Security Administration**

Direct Operations Center  
Wilkes-Barre, PA 18769-0001

**Note:** If you use “Certified Mail” to file, change the ZIP code to “18769-0002.” If you use an IRS-approved private delivery service, add “ATTN: W-2 Process, 1150 E. Mountain Dr.” to the address and change the ZIP code to “18702-7997.” See Publication 15 (Circular E), Employer’s Tax Guide, for a list of IRS-approved private delivery services.

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 10159Y
Q: Are disability benefits subject to federal and state income tax?

A: Federal Tax – The portion of the member’s benefits for which the IRS considers the insurance premium to be Employer paid, is subject to federal income tax. For example, if you, the employer, paid 100% of the premium, all benefits paid are subject to federal income tax. If you paid 50% of the premium and the member paid the other 50%, only 50% of the benefits would be taxed.

State Tax – Some states do tax disability benefits, however state laws differ. If your business is located in a state that has income tax, or if the member lives in a state that has an income tax, the State Revenue Department would be your best source of information.

Q: If disability benefits are subject to Federal Tax, why aren’t you withholding?

A: Federal tax withholding on disability benefits is voluntary. We withhold federal income tax only if the claimant completes and returns form “W4S – Withhold for Sick Pay” to us.

Q: Who is responsible for preparing year end tax statements for disabled employees?

A: The policyowner is responsible for preparing a W-2 statement for each disabled employee, unless Northwestern Mutual has prepared a W-2 for that employee. The Disability Income Report (DIR) that we will send you in January identifies disabled employees who will receive a W-2 from us.

For 2018: Northwestern Mutual will prepare W-2s for all LTD sick pay benefits and for any STD sick pay benefits covered under contracts with active 2018 FICA/W-2 Tax Service Agreements.

Note: If the employee pays the premium with pretax dollars (e.g. section 125 cafeteria plans), then benefits are considered taxable.

Q: Why isn’t it possible to receive the Disability Income Report prior to December 31st?

A: Because all benefit payments and tax transactions must appear on the DIR, to ensure that the report contains complete information, it must be produced after the close of the calendar year. All disability income reports will be mailed on or before January 15, 2019.

Q: What do I do with the data from the DIR if my W-2 data or W-3 form has already been prepared and mailed?

A: Your options will vary depending on your individual situation. In addition to contacting your local IRS or Social Security Administration office for information, you may want to refer to the SSA Publication EFW2 Specifications for Filing Forms W-2 Electronically, the IRS instructions for completing Forms W-2 and W-3, and Circular E.

Q: How is the taxable amount calculated and what should I do if the Disability Income Report shows an incorrect amount?

A: The taxable amount is calculated by multiplying the amount of benefits issued for the year by the taxable %. We rely on the information you supply regarding premium contributions for the taxable %. If the report is incorrect please let us know immediately so that all current and future tax reports will be accurate. If you will be preparing the W-2 you must re-calculate the taxable income amount using the correct taxable rate.

Q: How do I sign up for the STD FICA / W-2 Tax Service?

A: You must sign up prior to the start of the tax year. The Group DI Administration Office will be happy to provide you with the details.
Q: How does the Internal Revenue Service match up Social Security and/or Medicare (FICA) taxes that I paid for disabled employees and the Social Security/Medicare taxes Northwestern Mutual withheld from the disabled employees’ benefit payments?

A: All tax monies Northwestern Mutual withholds are deposited directly with the IRS under Northwestern Mutual’s tax identification number. When you submit year-end tax information to the Internal Revenue Service, the IRS will access data submitted by you & Northwestern Mutual.

When you prepare your quarterly 941 report, you should include all STD sick pay taxable benefit data and tax withholding data from the daily FICA Activity Reports and Monthly (140) Benefit Activity Reports you receive, unless Northwestern Mutual is taking care of remitting the employer share of the FICA tax. Do not include any LTD sick pay information.

Q: How can I be sure the 941 and W-2 forms balance?

A: The key to balancing is to make sure you report on the 941’s only those taxable sick pay benefits and Social Security and/or Medicare tax amounts that will be included in the W-2 forms you must prepare. You may want to refer to the IRS instructions for Form W-2 and the W-3 transmittal instructions available on the website www.irs.ustreas.gov. Be sure you have taken into account any benefit payment adjustments.

Q: Is it necessary to fill in both boxes 3 and 5, Social Security Wages and Medicare Wages, on the W-2 form for Short Term Disability payments?

A: If Social Security and/or Medicare (FICA) tax was withheld on STD sick pay benefits during the calendar year you must determine the Social Security and/or Medicare Wage amount and enter it in the appropriate box. Generally you can divide the Social Security tax withheld by .0620 to get the Social Security Wage amount and divide the amount of Medicare tax withheld by .0145 to get the Medicare Wage amount for 2018.

Q: How long are benefits subject to Social Security and/or Medicare tax?

A: Only benefits issued during the Social Security/Medicare withholding periods are subject to Social Security and/or Medicare tax. These periods are:

1) The first six complete calendar months after the employee ceased work due to disability, and

2) The time period during disability when the employee was engaged in some type of gainful employment for the policyowner or plan sponsor, and also during the following six complete calendar months should the employee again cease work.

Remember, Here’s Who To Call:

Questions about Disability Income Report .............. Call 1-800-378-4665
(staffed 7 am - 5 pm PST)

Questions about Group Claim Payments .............. Call your Group Benefit Analyst at 1-800-378-4665