

# FYI – For Your Information

## Catastrophic Health Insurance

### GENERAL INFORMATION

Any employer who does not offer other health insurance may offer catastrophic health insurance to its employees. Any Catastrophic Health Insurance Premiums withheld by an employer can be subtracted from the employees taxable income on the "Other Subtractions" line of the Colorado Individual Income Tax return (Form 104). Self-employed persons cannot claim this subtraction.

### RESPONSIBILITIES OF THE EMPLOYEE AND EMPLOYER

When an employee purchases catastrophic health insurance, the employee is responsible for paying the entire cost of the insurance; however, the employer, at its option, may pay all or a part of such cost.

An employee who decides to have a Catastrophic Health Insurance Plan must sign an "Employee Election: Catastrophic Health Insurance" (DR 0811). The form must be signed before the employer withholds the first contribution to the insurance plan.

The employer should withhold the premium payments for catastrophic health insurance from the wages of an employee who has elected coverage. The employer must remit the premiums to the insuring entity on the employee's behalf. All such premiums collected by an employer are withheld from the employee's wages on a Colorado pre-tax basis. [§39-22-104.5 C.R.S.]

The employer must report the premiums withheld in the form of a letter on the employer's letterhead. The letter should be furnished to the employee and the Department of Revenue on or before Jan. 31. The letter must explain that the premiums withheld may be claimed as a subtraction when computing the employee's Colorado taxable income for the year of the withholding. This letter must be attached to the employee's Colorado income tax return when the subtraction is claimed.

NOTE: This catastrophic health insurance pre-tax feature is NOT available to self-employed persons.

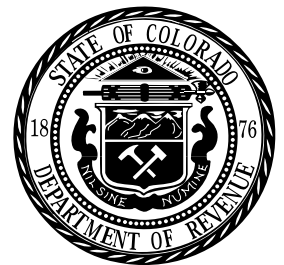
### DEFINITIONS

"Employer" means a person or entity employing one or more individuals in Colorado, excluding the federal government, or businesses providing health insurance coverage through a self-insured plan which has benefits equal to or greater than a catastrophic health insurance policy described in this FYI.

"Employee" means an individual who resides in Colorado and is employed by an employer.

"Dependent child" means an adopted or natural child of an employee who:

- a) is under the age of 21;
- b) is legally entitled to or the subject of a court order for the provision of proper or necessary subsistence, education,



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medical care, or any other care necessary for his or her health guidance or well-being, and who is not otherwise self-supporting, married or a member of the U.S. armed forces; or

- c) cannot be self-supporting because of mental or physical disability. [§39-22-504.6 C.R.S.]

### **REQUIREMENTS FOR CATASTROPHIC HEALTH INSURANCE POLICIES**

Effective January 1, 2001 each catastrophic health insurance policy must:

- be issued to the employer unless issued as an individual plan.
- have a minimum deductible of \$1,500 but no more than \$2,250 for individual coverage, or \$3,000 but no more than \$4,500 for family coverage.
- offer coverage for the spouse and dependent children of the insured employee.
- cover all employees who elect coverage and are not otherwise covered by medicare or another employer's catastrophic health insurance policy.
- For group coverage, cover an employee and eligible dependents regardless of health status; except that a business group of one may be restricted to obtaining coverage during an open enrollment period.
- be priced based on rating requirements as specified by law.
- provide a clearly written contract of coverage including a list of procedures covered under the policy. This list shall be updated annually and sent to the insured.

For group coverage, the policy must include a portability clause which provides that:

- When an employee leaves employment for any reason the employee, the employee's spouse and the employee's dependent children may each elect to convert coverage to an individual policy if they request to do so within 31 days after the date coverage is lost.

- An employee or the spouse or covered dependents of an employee who elect to convert coverage shall pay all premiums after the date of the conversion. The premiums may not exceed 135 percent of premium amounts that would have been charged if coverage were provided to an employee under the plan during the same period. If the plan the employee had is canceled or not renewed, the premium rates shall be based on the rate which would have been charged by the insurer if the plan continued in force.
- Conversion benefits shall be the insured's choice of the same coverage issued, without evidence of insurability, as an individual policy or the specified conversion coverage.
- The insurer may apply against the benefit limits of the conversion policy any benefits paid prior to the date of conversion, if the insurer credits the insured with any waiting period or deductible which was credited under the policy prior to the date of conversion.
- Upon the death of the insured, one of the surviving dependents of the insured may convert the policy to an individual policy.

### **FURTHER INFORMATION**

For more information on related topics, consult the following DOR publications:

- FYI Income 29 "Medical Savings Accounts"

FYIs, commonly used forms and additional tax information are available on the Web at [www.taxcolorado.com](http://www.taxcolorado.com)

For additional income tax information visit the "Tax Information Index" which covers a variety of topics including links to forms, publications, statutes general questions and answers. The Tax Information Index is located on the Web at [www.taxcolorado.com](http://www.taxcolorado.com)

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having authority to bind the Department, has not formally reviewed and/or approved these FYIs.