

Memo

Date: August 6, 2025

To: Agency Payroll, HR, and Accounting Staff

From: Mary Muellner, Co-Director, Statewide Payroll Services
Katie Karow, Co-Director, Statewide Payroll Services
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RE: Former Spouse Insurance Coverage and Tax Changes on Paychecks

This payroll bulletin is for informational purposes only. Agency Payroll, HR, and Accounting staff do not need to take any actions. Questions from employees should be directed to SEGIP Member Services using the contact information provided below.

Effective April 1, 2025, Minnesota Management and Budget (MMB) removed former spouses from employees' family medical and dental insurance coverage to align with federal tax law. As communicated previously to affected employees, former spouses are generally not considered tax-qualifying dependents under Internal Revenue Service (IRS) rules. More information about this change can be found in this MMB State Employee Group Insurance Program (SEGIP) [Member Communication](#).

Payroll Adjustments:

Federal tax regulations require that the value of a former spouse's medical and dental coverage be treated as taxable income to the employee. This is also known as imputed income, which is described in more detail below. The IRS is requiring the state to impute income for coverage an employee had for a former spouse in 2025. For most affected employees, that coverage was in effect January, February, and March 2025.

For affected employees, the imputed income and tax withholdings will be distributed across **five paychecks on the paydays listed below:**

- August 8, 2025
- September 5, 2025
- October 3, 2025
- October 31, 2025
- November 26, 2025

Paystub Impacts:

Affected employees that have imputed income for former spouse coverage will see the tax withholding impact on their paystubs in Self Service. An employee will see ***Imputed Income Ex-Spouse Ins*** in the Description Column of the **Earnings** section on their paystub. The Amount column will show

the dollar amount of income imputed on this paycheck. The YTD Amount column will show the total imputed income for former spouse coverage that has been added for the year.

The amount of imputed income reflected on an affected employee's paystubs will depend on the employee's specific circumstances. In tax year 2025, most affected employees had one former spouse enrolled in both medical and dental coverage for three months (January, February, and March). Employees whose former spouse had only medical or only dental insurance, or employees whose former spouse was enrolled for fewer than three months, or employees who had multiple former spouses enrolled, will see different imputed income amounts than most.

The Employer Paid Benefits section will show an increase for employer paid Social Security (Fed OASDI/ER) and Medicare (Fed Med/ER).

More About Imputed Income:

Imputed income is a taxable non-cash benefit that increases an employee's taxable wages, as required by federal tax regulations. In this situation, the imputed income added to an affected employee's paychecks is the monetary value of a former spouse's insurance coverage that was provided during January 1, 2025, through March 31, 2025. Federal tax regulations require that the former spouse's insurance coverage be treated as a benefit received by the employee, because it is provided under the employee's employment-based family insurance coverage. Thus, the employee receives the imputed income. While there are no direct wages paid to or received by affected employees, the imputed income on their paychecks will cause the withholding for each tax type to increase.

Questions from Employees:

If you receive questions from employees impacted by this change, please have them contact SEGIP Member Services at 651-355-0100, or segip.mmb@state.mn.us.