

BENEFITS INSIGHTS

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Group-term Life Insurance

Group-term life insurance is a common employer-sponsored life insurance offering. This article discusses the basics of this coverage, plus important rules and considerations.

The Basics

Group-term life insurance is coverage that employers offer to employees only. Coverage may be employer- or employee-paid. Often, employers offer a specified benefit (flat fee or percentage of salary) that is cost-free for employees, then offer the option for employees to purchase additional coverage.

Because spouses and dependents are not covered under this type of plan, some employers also offer a separate voluntary plan to cover these individuals if employees choose.

Advantages

This coverage is generally very affordable for employers, because the group plan spreads the risk over many people so premiums tend to be low. Plus, if you take the time to educate employees about the importance of life insurance, offering this coverage can increase employees' appreciation of their benefits package.

Group-term life insurance is also advantageous for employees. Employees get coverage that is either employer-paid or at least cheaper than a policy purchased in the individual coverage market. Another big advantage for employees is that most group-term plans do not require health assessments. Employees purchasing individual coverage often face premiums contingent on the results of a medical exam—or may even be denied coverage on that basis.

Tax Implications

Group-term life insurance coverage is deductible by employers as a business expense, unless the employer is a beneficiary of the policy. Employees may also generally exclude coverage up to \$50,000 from their income. Coverage above that amount must be included in an employee's income and is subject to Social Security and Medicare taxes. There are some exceptions and special considerations to this rule; see the IRS website for more details www.irs.gov/pub/irs-pdf/p15b.pdf.

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The plan may not discriminate in favor of key employees regarding their eligibility to participate or the amount of benefits available to them. If the plan does discriminate in favor of key employees, those employees are not able to exclude their first \$50,000 in coverage from gross income.

Plan Requirements

In order to qualify as a group-term life insurance plan under IRS rules, the plan must meet **all** of the following conditions:

- The plan must provide a general death benefit that is excludable from the gross income of the beneficiary when paid.
- Coverage must be offered either to all employees or a smaller group of employees only if group membership is determined solely on the basis of the following:
 - Marital status
 - Union membership
 - Job duties
 - Compensation
 - Length of service
 - Participation in an employer's pension, profit-sharing, stock bonus, or accident and health plan
 - Other employment-related factors
- The policy must be carried directly or indirectly by the employer.
- The amount of coverage provided must be computed under a formula that precludes individual selection. Formula can be based on factors such as age, years of service, compensation or position.
- The plan generally may not provide a permanent benefit to employees (there may be an exception to this if certain IRS requirements are met).
- Coverage must be provided to a group of at least 10 full-time employees (unless certain conditions set by the IRS are satisfied).


For more details on these requirements, visit the IRS website at www.irs.gov/publications/p15b/ar02.html#en_US_2011_publink1000193677.

Important Considerations

Be sure to articulate plan rules to employees. For instance, some plans require medical underwriting if the employee elects coverage above a certain amount or elects after the initial eligible enrollment period.

In addition, remind employees regularly to update their beneficiary and other personal information as needed. This is especially important for employer-sponsored coverage that is elected each year, since employees may forget to check their information because the election is so low maintenance.

Many employees do not fully appreciate the importance or value of life insurance. It is vital that you educate your employees. Doing so can foster improved company loyalty, as employees often appreciate getting financial advice from their employer. In addition,



employees with a better understanding of life insurance are more likely to enroll in your program and better realize and appreciate the value of your benefits package.

For more information about group-term life insurance, contact The CIMA Companies, Inc today.

