

BENEFITS INSIGHTS

Brought to you by the insurance professionals at
The CIMA Companies, Inc

Offering Life Insurance: The Basics

Life insurance is one of the most common employer-provided benefits. This article covers the basics you should know, from types of coverage to promoting it to your employees.

Types of Life Insurance

Life insurance is divided into two categories: term and permanent. Term life insurance has a specified coverage period (term), but can usually be renewed or converted into a permanent policy at the end of a term. Premiums are generally affordable initially, but can increase substantially when renewed.

Permanent life insurance is life-long coverage that generally also includes a cash value savings component. There are many types of permanent life insurance, including whole, universal and variable. This type of coverage has higher premiums, but offers more long-term value.

Employer-sponsored Coverage

Employer-sponsored coverage can be offered in a variety of ways. Employers may offer a term policy, permanent coverage or both. Cost-sharing also varies, as some employers cover the full cost, some require employees to pay the full premium and others split the cost with employees.

A common scenario is an employer offering a group-term policy at no cost to the employee, with a coverage amount that is a multiple of annual salary (usually one to five times annual pay). Group-term policies often end when an employee leaves the organization (or dies), but employees may be able to convert it to a permanent policy or renew it upon leaving. This is generally an affordable plan for employers to offer, though it does not offer as much long-term value to employees as a permanent plan.

Many employers who offer such a group-term policy also offer additional voluntary coverage options, in which the employee pays the full cost but still realizes the benefit of group rates and payroll deductions. Additional coverages offered may include:

- Spouse/dependent life insurance (group-term policies only cover the employee)

Though life insurance is an important asset for future financial security, many employees don't realize its importance. Teaching employees about the value of life insurance may increase loyalty to the company as they better appreciate this benefit.



- Supplemental term life insurance (to elect a higher amount than the employer offers)
- Supplemental permanent coverage (a whole, universal or variable life policy in addition to the term policy)
- Accidental death & dismemberment (AD&D) coverage

Tax Treatment

Premiums for life insurance offered by the employer are generally deductible as ordinary and necessary business expenses (unless the employer is the beneficiary of the policy). In addition, the cost of employer-provided group-term life insurance is excludable from the employees' gross income (up to \$50,000 of coverage). The plan must meet special nondiscrimination rules, however, or key employees may not be eligible to exclude the cost of their coverage from their gross income.

Benefits for Employees

Though life insurance is an important asset for future financial security, many employees don't realize its importance. Teaching employees about the value of life insurance may increase loyalty to the company as they better appreciate this benefit.

Ask employees to envision the debt and financial responsibilities that loved ones would face in the event of their death. If the employee is the primary household income, how will the family support themselves? If the employee dies and leaves behind a mortgage or substantial medical bills, who will have the burden of paying that debt? Many employees do not realize the financial benefits of a life insurance policy until they think through these issues. If you offer a permanent coverage option, also explain the value of having the cash benefit component to the policy.

Emphasize to employees that buying life insurance on their own is costly; even if your group coverage is employee-paid, you are still offering significant advantages:

- Lower rates through a group policy than if buying individual coverage
- Generally no medical review is required for group policies, as opposed to individual policies where an unfavorable medical exam could disqualify the individual or trigger extremely high premiums. (Be sure to inform employees on restrictions regarding this issue, such as a requirement to enroll when first eligible to avoid a medical exam.)
- Convenience of payroll deductions for premiums


Educating employees on the benefits of life insurance in general and the advantages of purchasing through your group plan can help increase awareness and participation, boost loyalty, and support hiring and retention initiatives.

Factors to Consider

When deciding to offer life insurance as an employee benefit, there are a number of factors to consider:

- What type of coverage will you offer?
- Will you offer term insurance, permanent or both?
- Who will be covered (employees only, retirees, spouses, dependents)?

Note: Only employees can be covered under a group-term policy.

- 
- When is coverage effective? Will there be a waiting period?
 - What amount of insurance will be available? How will that amount be determined (flat fee vs. multiple of salary)?
 - Who will pay premiums (you, employees or both)?
 - Will there be a minimum amount employees are required to elect? What is the maximum coverage amount allowed?

Once you have an idea about the type of coverage you'd like to offer, The CIMA Companies, Inc can help you find a plan that meets your needs.

