Insurance MATTERS...

by Irene Jarosewich

UNA Q&A: I have life insurance through my job, so why do I need more?

Among the fringe benefits offered by employers, such as health insurance, contributions to retirement plans and paid leave, a relatively new addition to the benefits package has become increasingly popular: term life insurance.

With group-term life policies, an employer is able to purchase term life insurance policies for an entire group of employees, getting a group discount; therefore, the cost per policy is low. Employees like the term life insurance benefit since, at no cost to themselves, they receive basic life insurance coverage.

Although group-term life insurance is a great employer-provided benefit, there is some risk in the complacency that comes with having this type of coverage. A number of drawbacks need to be considered.

First among these drawbacks is that you can benefit from this type of coverage only for as long as you are with the employer. If you are fired or laid off or downsized or quit, you will lose this benefit. As anyone who has suddenly and unexpectedly found themselves out of a job, among the items furthest down on your to-do list will be to research and purchase a new life insurance policy. Not only will you not have the time, incurring a new expense will be counter-intuitive. So during a period when your family is already vulnerable due to reduced income, they are also made even more vulnerable by reduced protection. A way to avoid this risk is to own a life insurance policy in addition to the one offered by your employer.

Another drawback to employer-sponsored group-term life insurance is that the policy usually covers only you, and does not cover your spouse. In the event of your death, your employer-provided group-term policy will pay out for the support of your spouse and family. However, unless your spouse also has insurance that pays out to you, then your family really is only half protected. To protect your family fully, an individual policy would still need to be purchased that covers your spouse and then pays out to you.

The amount of the policy can also be a drawback. Although the conditions of the life insurance policies offered by employers will differ somewhat, chances are high that the group-term life insurance policy is for no more than $50,000, and often for a lower amount. Although some companies offer executives a more generous life insurance policy as an employee benefit, for the vast majority of employees who receive group-term coverage through their employer, there is a ceiling of $50,000.

The reason for the $50,000 limit is simple: according to the IRS, for amounts over $50,000, the employee would need to report the premium payment as a form of income and then would be required to pay Social Security and Medicare taxes on the amount. The employees would probably turn to an employer's human resources department to help calculate the premium payments for each employee's policy – a large hassle to be sure. This extra step is a strong incentive for an employer to not go over the $50,000 limit and most employers are willing to stay under the IRS cap.

For your family, however, $50,000 is hardly enough to replace years of potential lost income. This limit is one of the largest dangers of the false sense of complacency that often comes with employer-sponsored policies. If you have family responsibilities, especially if you are the primary wage earner, then the amount of additional coverage that you should purchase privately must more accurately reflect the genuine needs of your family for income replacement.

Yet another drawback is that this fringe benefit is discretionary by nature. An employer is not required to offer this benefit, and may eliminate it at any time. If this were to happen a few years before you retire, you then could be too old to get a reasonably priced term life policy to protect your spouse and family through 20-plus years of retirement.

Now let us assume that you remain with this employer until you retire at age 66 or 67 and your employer did not cancel this benefit. Upon your happy retirement, your group-term policy will still end, and then you will still face approximately 20 years of retirement without additional protection for your spouse and family.

However, if at age 35 you had purchased one of the UNA's most popular policies, the P-20 whole life, then you would have finished paying this policy at age 55. When you retired 10 to 12 years later, you would still be covered under the paid-up P-20.

With a life insurance policy in effect after you retire, while you are protected in case of early or unexpected death, assuming that you live for many more years, then your heirs can receive the insurance benefit tax-free – an excellent way to pass along an inheritance.

A final thought as to drawbacks to employer-provided group-term life insurance policies. Although your employer may offer this benefit, if you did not provide authorization and paperwork, you, in fact, may not be enrolled at all and may not have this benefit. Check with your employer's human resources staff to confirm that you are included.

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