

Benefit Fact Sheet

What is it?

Employer paid term life insurance provides a benefit upon the death of the insured. Benefits can differ by class and can be offered as a flat amount or as a multiple of salary. Employers may also offer a basic life insurance benefit to spouses, domestic partners, and dependents.

Why offer it?

- Financial security for employees and their families.
- Basic component of a competitive benefit package. Many employers offer a base life insurance benefit at no cost to the employee, with an option to purchase additional life insurance for the employee and their family. See [Supplemental Life Insurance](#).
- Favorable tax treatment for both employer and employee contributions (up to \$50,000 of life insurance coverage).
- Proceeds are tax-free to beneficiary.
- Group-sponsored plans generally offer coverage up to certain limits without proof of insurability, allowing employees who are otherwise uninsurable to obtain coverage.

What types of employers offer it?

All types of employers offer basic life insurance.

What size employers offer it?

Employers of all sizes offer basic life insurance.

What are the critical underwriting or participation requirements?

- Premiums are based on plan design, coverage amounts, employer industry classification, and employee demographics.
- Benefits can be structured in flat amounts, multiples of salary, or increments (i.e., \$10,000).
- Insurers may consider prior claims experience when rating groups over 200 lives.
- Optional plan features impact rates, such as conversion or portability, accelerated death benefit, and waiver of premium.

What's new in this area?

Some insurers are now offering the following enhancements to life policies:

- Discounts may be available for employers implementing wellness programs and/or maintaining smoke-free working environments.
- Online will preparation services.
- Financial and emotional counseling services to help family survivors deal with issues surrounding the death of an employee.
- Global medical and legal emergency support for employees and their families who travel for business or pleasure more than 100 miles from home.

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How much does it cost?

- Premium rates are quoted per \$1,000 of benefit and are based on a number of factors, such the age, gender, and occupation of the employee population.
- Rate guarantees will commonly be issued for two or three years to avoid cost increases.

Informational link(s)

- [Tax Implications of Employer-Paid Group Life Insurance](#) (IRC Section 79)

Pros and cons

Pros

- Favorable tax treatment for employees and employer. Life coverage limits apply under IRC Section 79.
- Relatively easy to implement and administer.

Cons

- Imputed income charged to employees who obtain over \$50,000 of employer-paid life insurance through group plans. Take a look at this article on [Life Insurance Taxation](#) for more information.
- Employee's coverage only in force as long as the master contract is in force unless employee converts coverage, which usually requires a premium increase.
- Employer is responsible for coordinating beneficiary information and filing the beneficiary card.
- Term life insurance policies do not build any cash value.

Notes

- To avoid additional administrative work involved with imputed income calculations, some employers limit employee life coverage to \$50,000 and dependent coverage to \$2,000.
- To be eligible for favorable tax treatment under Code Section 79, Life coverage must be provided to at least 10 or more full time employees. Special rules apply for groups 2-9.
- Terminal illness benefits available under most life contracts allow an insured to receive up to 50-80% of the death benefit amount upon being diagnosed with a terminal illness such as cancer, a stroke, or kidney failure.
- Waiver of premium provision allows coverage to remain in force during total disability without requirement of continued premium payment.
- Portability riders may be added to allow employees to keep the insurance after terminating employment at the group rates (subject to state availability).

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: www.arlengroup.com/facts.