

## 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.

## 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 fact sheet 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 and possibly a reduction in benefits.
- 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.*