

WHAT IS IT?

Supplemental life insurance is an employee-paid voluntary benefit offered in addition to the employer-provided basic life coverage. Dependent life insurance coverage is typically available if the employee elects coverage for themselves.

WHY OFFER IT?

- Employer-paid life insurance may not provide adequate protection for all employees.
- Group-sponsored, supplemental life plans generally offer some level of coverage without proof of insurability, assuming minimum participation requirements are met, allowing employees who are otherwise uninsurable to obtain coverage.

WHAT TYPES OF EMPLOYERS OFFER IT?

- Companies with lower amounts of employer-paid life insurance.
- Companies with high dependent ratios where life insurance coverage is increasingly important.
- Companies where at least 10-20% of employees will enroll.

WHAT SIZE EMPLOYERS OFFER IT?

Companies with 100 or more employees are generally able to offer supplemental life coverage with some level of guarantee issue.

WHAT ARE THE CRITICAL UNDERWRITING OR PARTICIPATION REQUIREMENTS?

- Premiums are based on plan design, coverage amounts, employer industry classification, and employee demographics.
- Benefit can be structured in flat amounts, multiples of salary, or increments (i.e., \$10,000).
- Insurers typically require 10-20% participation in order to offer some level of guarantee issue.

WHAT'S NEW IN THIS AREA?

- Employers may choose to modify eligibility for Dependent Supplemental Life to cover dependents up to age 26, to maintain consistency with medical plan eligibility requirements under the Affordable Care Act.
- Additional benefits available include:
 - Terminal illness benefits, which allow an insured to receive up to 50-90% of their death benefit amount upon being diagnosed with a terminal illness.
 - Waiver of premium provision, which allows coverage to be kept in force from the date of total disability without requirement of continued premium payment.
 - Portability provision, which allows an insured to keep all or part of the death benefit coverage in force upon termination or retirement.

- Many insurers are also offering value-added services for participants in connection with Supplemental Life or Supplemental AD&D policies, such as: travel assistance, identity theft protection, online will preparation, funeral planning services and financial counseling for beneficiaries.

HOW MUCH DOES IT COST?

Death benefits are age-rated. Monthly costs for \$100,000 in coverage are approximately (based on IRS Table I):

Age 25-29	\$6	Age 50-54	\$23
Age 30-34	\$8	Age 55-59	\$43
Age 35-39	\$9	Age 60-64	\$66
Age 40-44	\$10	Age 65-69	\$127
Age 45-49	\$15		

Individual term life insurance purchased directly from a carrier specializing in such coverage may be less expensive than employer-sponsored supplemental life. This is because employer-sponsored plans generally offer some form of guarantee issue benefit while individual life insurance is always medically underwritten for all benefit amounts.

INFORMATIONAL LINK(S)

- [Life Insurance Basics](http://insure.com) (insure.com)

PROS AND CONS

PROS

- Offers employees the convenience of acquiring and paying for life insurance through the workplace.
- Plans with a guarantee issue amount allow employees who would otherwise be uninsurable to obtain a minimum level of coverage.
- Many plans offer portability, which allows employees to continue coverage beyond employment at group rates.

CONS

- Requires additional administrative work, especially when employees must submit evidence of insurability.
- Employee's coverage is only in force as long as the master contract is in force unless the employee converts coverage to an individual life policy, which is very costly.

NOTES

Supplemental life insurance is usually funded with after-tax contributions to avoid complex imputed income calculations.

Both employer-paid and supplemental life insurance can be affected by Section 79 of the Internal Revenue Code. Section 79 requires employers to calculate imputed income if pre-tax employee contributions are made for life amounts exceeding \$50,000, or if the plan's age-banded rates straddle Table I. For more information, please refer to the [Section 79 fact sheet](#).



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.

