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## Group Life Insurance

Employer provided group life insurance is usually annual renewable term life insurance. This means that the coverage expires at the end of each year but is renewed automatically without a medical examination or evidence of **insurability**. The premium rate per \$1,000 of protection increases from year to year. Death benefits are paid upon the insured's death from any cause. The most common employer provided group life insurance benefit is coverage up to \$50,000 per employee of group term life insurance with **additional coverage** for the employee's spouse and dependents of up to \$2,000 each. The reason this is the most common employer provided group life benefit is because this is the amount and type of life insurance coverage that an employer can offer to their employees without the premiums paid being considered as income to the employee. Section 79 of the internal revenue code sets these limits. With this type of arrangement, the employer pays the policy premiums, deducts them as a business expense, does not add the premiums to the employee's W2, and the **death benefit** is still income tax free to the beneficiary.

Group term life **insurance policy** contracts usually contain a waiver of premium provision to protect both the disabled employee and the employer. A waiver of premium provision relieves the employer of the requirement to pay premiums for any covered employee who becomes totally and continuously disabled prior to a specified age in the policy contract. This age may vary but is commonly set at 60 years of age. This provides for the disabled employee to have life insurance coverage without the employee or employer having to continue premium payments.

### A. Defining Group Life Insurance

**Group insurance** refers to a variety of insurance products available to people who belong to a definable group. Group insurance can include life, disability, and health coverages. Group life insurance provides insurance for a group, typically 10 or more employees, under a master **contract** between the insurer and the group administrator (often the employer). Technically, the insured individuals are not part of that contract. Planners should note that almost 40% of all life insurance in force in the U.S. is group insurance.

Because life insurance is usually considered a basic workforce benefit, many employers offer it to their employees on a partially or fully subsidized basis. This means that the employer pays some or all of the premiums, so that the employee is covered at no cost or for much less than an individual policy. Group life plans enable employers and associations to provide life insurance protection for employees or members and their dependents.

### B. Types of Group Life Insurance

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Communication Workers of America, or any other organized labor or workers' union.

**Employer-Employee Groups:** Employer-employee groups are probably the most familiar type of group insurance. Under this arrangement, the employer makes insurance available to its employees.

**Creditor-Debtor Groups:** Creditor-debtor groups are formed when a lending institution offers the borrower or debtor the opportunity to purchase insurance coverage. This could be to protect the creditor by making funds available to pay off the loan if the debtor dies while the loan is outstanding. This is considered to be an eligible group life insurance plan because it is available to a group of people who share a common relationship as debtors to the same creditor.

**Franchise Groups:** Life insurance provides coverage for small groups of employees. However, each participant is issued an individual policy instead of a master [contract](#). This type of insurance requires individual underwriting and each participant could be charged a different premium rate. The policy remains in force for each individual as long as he or she maintains a valid relationship with the employer and pays the required premiums.

It is important to note that under various laws, a minimum of 10 individuals are required to qualify as a group.

## 1. Multiple Employer-Employee Groups

Multiple employer-employee groups also can be referred to as multiple-employer trusts (METs). This arrangement allows small employer-employee groups to join and receive the same group insurance considerations as larger employers. A group must have a minimum number of people (generally 10) in order to be eligible for the group insurance.

A **multiple-employer trust (MET)** is made up of two or more employers in *similar or related businesses* who do not qualify for group insurance on their own. Before HIPAA defined small employers, many small companies were unable to get health insurance at a reasonable cost because there weren't enough employees to insure. In situations like this, several small companies banded together to create a large pool of people so that the insurance company would provide coverage. This group of employers jointly purchase a single benefits plan to cover employees of each employer.

A noninsured plan may operate without the services and funds of an insurance company. Once the trust fund is established, it can pay for employees' health care expenses or life insurance death benefits directly (self-funding). The trustee has charge of the funds, and all financial activities occur through it. As with any self-funded program, the employer assumes legal responsibility for providing coverage, and the employee has no conversion right upon leaving the group coverage.

**Multiple employer welfare associations (MEWAs)** can be any entity, other than a duly admitted insurer, that establishes an employee benefit plan in order to offer or provide

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of the law of large numbers/similar risks.

## 2. Basic Group Term Life

Basic group term life insurance usually refers to the layer of group term life insurance that an employer can provide tax free to the employee (\$50,000) and spouse and dependents (\$2,000 each). This coverage is usually available on a guaranteed issue basis with no medical underwriting if the employer has 50 or more employees.

## 3. Supplemental Group Term Life

Supplemental group term life (called voluntary life insurance by some employers) is a means by which employers may make additional life insurance available to their employees at no cost to the employer. Supplemental group term life offers the same features as basic group term life, subject to a few special requirements. Most insurers require that for an employer to offer this coverage, they must have an active employee participation level of **at least 65%**. This insurance coverage is paid for by the employee with after tax dollars and allows the employee to buy [additional coverage](#) at group rates without medical underwriting. This coverage is convertible to an individual policy if the employee leaves the company.

To qualify for the supplemental life insurance without proof of [insurability](#), the employee must elect to purchase the coverage within an initial enrollment period (usually within 30 days of employment). If the employee elects to purchase the coverage after this initial enrollment period, they will have to prove insurability.

## 4. Dependent Group Term Life

Dependent group term life extends voluntary life insurance protection to the employee's entire family. The coverage is often limited to \$15,000 in coverage for the employee's spouse and \$2,500 for each dependent child. It also usually offers conversion coverage without evidence of [insurability](#) and a waiver of premium for disability.

## 5. Group Creditor Life

Banks, finance companies, credit unions, retailers, and others may qualify for group life insurance on the lives of individuals who borrow money from the creditor. Although one purpose of group creditor life insurance is to protect lenders against possible financial loss because of the death of a debtor, these companies are often in the business of selling the insurance and therefore profit from the sales directly.

The coverage is usually decreasing term life insurance with the [face amount](#) decreasing at the same rate as the outstanding loan principal. It is very common for the lender to be named as [beneficiary](#) of the policy. The premiums are added into the loan payment, so the lender collects the premium and remits it to the insurer. These life policies often include a waiver of premium provision that will pay the entire loan payment (principal, interest, and insurance premium) if the borrower (the insured) becomes disabled. This type of group life [insurance policy](#) is usually called "credit life" or "credit life & disability."

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life, Social Security survivor benefits, and income from other sources.

Payments made to a surviving spouse stop at the earlier of a specified age (such as 62) or the survivor's death. Some benefits cease at the age at which Social Security retirement payments become available or upon remarriage of the surviving spouse. Payments made to surviving children usually end when the youngest unmarried child reaches age 19.

## 7. Group Universal Life

Group universal life insurance allows covered employees and their spouses the option of contributing to a cash value fund in addition to purchasing group term life insurance.

Group universal life is a combination of group term life insurance with a cash accumulation feature. The insurer issues a master **contract** to an employer, who in turn makes it available to employees who receive certificates of coverage and pay the entire premium. Because the policy is divided into pure life insurance protection and cash value, a part of each premium goes toward mortality costs, while the balance of the covered employee's premium is placed into the cash value portion of the policy.

Premiums are flexible, not fixed. At his or her discretion, each insured can increase or decrease the premium or benefits, or borrow against the cash value. As with individual universal life policies, an employee's premium payments can be suspended and coverage will continue, as long as the cash value is high enough to meet the insurer's mortality and expense charges.

The typical group universal life contract is held by a group of 1,000 or more employees. Employees pay the entire premium for the coverage, and the employer's only outlay is for indirect costs, such as installation and administration.

A group universal life **insurance policy** contract can often be purchased as a standalone employee benefit or combined with a group term life insurance policy. An employee may participate in either or both plans.

## 8. Dependent Life

Employer-paid premiums for dependent life insurance are tax-deductible by the employer and tax-free for the employee, to the extent that the coverage is considered **incidental** – not exceeding \$2,000 of coverage for a spouse and each dependent child. When the premiums are employer-paid, \$2,000 or less of coverage for a spouse and each dependent child is excluded from a covered employee's gross income.

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