Employer Provider Life Insurance

Cost Effective or Financial Trap?

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For many, one of the benefits offered by their employer is life insurance. What easier way to protect the family should the unexpected occur? Generally all that is needed is to answer a few questions, sign on the dotted line, and see what appears to be a very small amount deducted from each paycheck. But, is it really a good deal?

Group plans first and foremost are just that, a group plan; one in which the employee does not own and thus does not control. The employee could find themselves without coverage should the employer reduce or do away with the benefit. Secondly, the benefit may not be portable, thus when an employee terminates their employment the coverage is also terminated. Lastly, the amount of coverage may not be sufficient to fully replace income when needed since coverage is generally offered in multiples of base income and does not include overtime pay or bonuses.

While the premium for group life is not *smoke and mirrors*, it is not what it seems. A group term plan provided by Prudential offers a rate of $46.29/month for a 45 to 49 year old non-smoker. Upon turning 50, the rate increases to $71.21 and then to $109.06 upon reaching age 55. To make the premium seem more appealing, it is often quoted based upon the amount deducted on each pay period. The best way to evaluate this type of coverage is to determine the cost for a period of time, ten years as an example. During a ten year period, most people would experience three or more rate changes. For this plan, an employee signing up on their 45th birthday would have one rate for the first five years and a second rate for the second five years with a resulting cost of $7,050 at a minimum. Signing up when the age is in the middle of the first band will result in three different rates being paid during a ten year period.

However, someone in good health may qualify for '*standard plus*' coverage on their own for $53.59 per month. While this rate appears more costly and is above the group's plan amount, this rate is for the entire ten year period or for a total cost of $6,430.80. This could be reduced by paying annually since all insurance companies add an interest adjustment to accommodate monthly payments. The total cost would now be $6,125.00 for the ten year period. Not only would this create a savings of $925, but the plan would be under control of the employee and stay in force in the event of a job change. But, what if either *preferred* or *preferred plus* rate classes could be achieved? The cost for ten years of coverage paying annually would now be $4,675.00 or $3,475.00 respectively. Clearly, a substantial savings over the cost of group coverage. The savings could be even more if the applicant is a female, since their life insurance rates are usually lower than their male counterparts of the same age.

Group plans are usually "guarantee issue", meaning no matter the state of the health of the new employee, they can complete the forms and obtain life insurance coverage, even at the maximum level. Based upon automatic acceptance, no insurance company will offer rates for group plans at preferred levels unless the group is guaranteed to be in excellent health such as commercial airline pilots. For those who might not qualify for *preferred* rates and believe they can go with the group plan for the first year or two at the lower rates and then switch to private insurance when its rate is lower than the group's, this plan will not work. Private term policy rates increase with each birthday rather than for an age band. To save money over the longer period, the private policy term rates will have to be locked in for at least a ten year period and while the rates are higher for a year or two, ultimately they will save money.

Term coverage can be obtained for various level premium periods from the most common ten year period to as long as thirty years; this allows policies to be designed to meet specific needs. A variety of companies offer term coverage and those most widely known are usually not the ones with the best rates. Additionally, while the death benefit may be the same, most companies have slight differences in their underwriting requirements. Thus, someone with slightly higher cholesterol may be rated *standard plus* at one company while *preferred* at another. The same could be true of an applicant's weight or other medical issues. For those who use tobacco but do not smoke, there is a company which offers those individuals rates far better than tobacco rates from most companies.

You might be wondering, if group coverage is really this costly, why is it offered? First, it is easy since no paramed exam is required to obtain coverage and many employees do not realize similar coverage could be obtained for much less. Also, for those employees who are not in optimal health, coverage can be obtained through their employer without proving insurability.

Term coverage is only one type of life insurance and while it is low cost, it may not be the best solution for long term needs. Seeking professional assistance may provide long term solutions using a blend of policies, coverage, and coverage periods.