
Is Group Life Insurance Enough?

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When discussing insurance needs with people, I occasionally hear, “I have life insurance coverage through work.”

While it might sound like an offer you can't refuse, it's important to understand what you're getting.

Why is \$50,000 Free?

Have you ever wondered why companies that offer “free” life insurance typically offer only \$50,000? The Internal Revenue Code section 79 provides an exclusion for the first \$50,000 of **employer-provided group-term life insurance (GTLI)** coverage for an employee. Any insurance more than this amount will be considered as taxable income to the employee (and is also subject to Social Security and Medicare taxes). Some companies are a little more generous by offering \$100,000, or even a multiple of the employee's salary (usually 1-3x), that can be purchased out-of-pocket.

Whatever life insurance plan your company offers, it's important to know your options and make the best decision for you and your family. Read on to get the pros and cons of GTLI and what you should consider:

The Pros of GTLI

1. **Access** – Life insurance through work gives some people access to options that they may not usually have available to them in



the individual market. People with serious medical conditions may find coverage costly or not even an option if they do not qualify for individual life insurance.

2. **Convenience** – Getting coverage through work can be very easy and convenient. Though your options are limited and you don't actually own your policy, getting life insurance through work will at least provide you with some protection. Most of the time, a detailed questionnaire is required, but a medical exam is not.
3. **Price** – If you are getting free life insurance through work, it's an added value that you're not directly paying for. It's FREE!

The Cons of GTLI

1. **You'll likely not have enough coverage** – The average employee will take the free insurance and nothing more. Even if you go out-of-pocket to for additional group-term life insurance, it will most likely not provide you with an appropriate amount of protection. While a small multiple of your salary sounds like a lot of money now, it is an insignificant amount if it's the last check that you leave behind for loved ones. Life

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insurance, among other purposes, should be utilized to protect your family, pay off outstanding debt (the average American mortgage alone is \$110,000), supplement retirement income, and provide educational expenses for children. The “rule of thumb” is that you have at least 10-12x your annual salary worth of life insurance.

2. **You’re probably going to change jobs** – Most people are not going to remain with one employer for their entire career. If the amount of coverage changes or the option of insurance disappears from one company to the next, and you do not own your policy, you have left yourself with a gap in coverage. There is also the risk that you develop a health condition before losing your job. If you are out of work because of illness and become unemployed, your group coverage will no longer be of use.
3. **You’ve spent more than you needed** – The rates may be competitive when offered the option to purchase additional out-of-pocket life insurance through your group-plan, but in most cases, the individual market will be

less expensive. If you are young and healthy, you’re helping to drive down the cost for less insurable individuals on the plan. Should you become uninsurable and wish to convert the plan so that you take on full ownership, the cost of doing this often becomes prohibitively expensive.

Conclusion

If your company offers free life insurance, there is virtually no reason not to accept it. After all, it’s factored into your overall compensation package. Having employee benefits is great, but, just as you shouldn’t rely solely on your 401(k) for retirement, you shouldn’t rely on the life insurance offered through work as your primary source of protection. At the end of the day, only you are responsible for yourself.

If you have a need for life insurance, qualify for insurance, and can afford it financially – owning your own policy is the best option with the greatest amount of protection. GTLI is an employee benefit and should not be viewed as your primary source of life insurance, but rather, a supplement to your own policy. Think of it as just icing on the cake.

About Risk Resource

Risk Resource insures life's risks by providing a single-source solution for a wide range of financial services that protect our clients and their families. With four decades of experience in insurance planning, we partner with our clients to navigate the full spectrum of financial tools by exploring all options and customizing plans that meets their unique needs.

We specialize in Life Insurance, Disability, Long-Term Care, Annuities, and Tax-Free Wealth Accumulation, and understand that every need is different which is why we represent over 100 insurance carriers. This gives us the flexibility and freedom to find the right solutions for each of our clients.