



Millions of people have access to group life insurance through benefits programs at work. These plans generally provide employees with a small amount of life insurance and the option to purchase a limited amount of additional coverage.

Many people buy this additional coverage because it is convenient and easy. They generally don't need to provide any health information, and their premiums are deducted from each paycheck.

Most don't realize that purchasing individual term life insurance on their own may be a better option than adding the additional group coverage offered by their employer. Here are some reasons why:

- Group term life insurance plans are limited in the coverage amount (often three or four times the annual salary).
- The insured doesn't own their policy, meaning that a change in job, company or work status, in general, leave limited options for continuing coverage.
- Often, premium rates are not guaranteed and increase over time. In addition, they're usually more expensive, especially for healthy individuals, or may exclude a potential insured with health conditions.

Additional Income Tax

You may also pay additional income taxes if you buy group life insurance. Under the current tax rules, you are taxed on the value of group life insurance over \$50,000 based on the difference between what you pay for it and premium rates established by the IRS.

For example, let's assume Tom is 45 and his employer provides him with \$50,000 of group life insurance:

- He purchases an additional \$150,000 of group coverage for \$15 per month.
- The premium rate prescribed by the IRS for the additional amount of coverage is \$22.50 per month.
- In this example, the difference of \$7.50 (\$22.50 - \$15) per month will be considered taxable income to Tom and \$90 (\$7.50 x 12 months) of additional taxable income will be reported on Tom's W-2 at the end of the year. This amount will also be subject to Social Security and Medicare taxes.

This may not seem significant, but it may increase as Tom gets older and the additional income tax he will pay can add up over time.

Individual Life Insurance

Buying individual term life insurance instead of group life insurance allows you to:

- Get the coverage you need – A life insurance professional can help you determine how much life insurance you need, and the type of coverage that is right for you.
- Control your coverage – You own the policy, so you control your coverage if you lose or change jobs – or leave the workforce.
- Know what you will pay – You can buy individual term life insurance with level premiums that are guaranteed. Your premiums per dollar of coverage may be substantially less than what you would have paid for group life insurance over the long run.

REMEMBER: Individual life insurance usually makes good financial sense and clients should consider individual coverage even if they need to go through an underwriting (risk evaluation) process to qualify and that the cost of coverage is lower when we're younger, and in good health meaning that clients should lock in their coverage sooner rather than later.

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If your client needs more life insurance, they may be faced with a question: Do I purchase an “individual” life insurance policy? Or do I just get it at work?

Sixty percent of employees have access to life insurance through work (commonly referred to as “group life insurance”). How does this coverage differ from an “individual” life insurance policy (purchased separately from work)? When does it make sense to buy an individual policy?

UNDERSTANDING EMPLOYER (GROUP) LIFE INSURANCE

Basic Term Life Insurance Policy:

For some, the policy coverage is a flat amount (e.g., \$25k of coverage). For others, it is based on one’s salary (e.g., coverage = 1 x salary).

Advantages:

- Convenient – Sign up at work, premiums get deducted from your paycheck
- Guaranteed coverage -- No questions, no tests, no underwriting
- Free -- Generally free, regardless of age, health, etc.

Disadvantages:

- Work-Related Restrictions --- Coverage typically requires “active” working status. If you become ill and unemployed before dying, the insurance may not pay.
- Not Portable – Can’t take the policy with you if you leave the employer. The next employer may not offer life insurance.

Supplemental Term Life Insurance Policy:

Some employers offer the option to buy additional life insurance – which can be 2x salary, 3x salary, etc. This can be added to the “Basic” coverage.

Advantages:

- Convenient – Sign up at work, premiums get deducted from paycheck (if issued).
- Minimal Underwriting (if any) – There may be some high-level medical questions (e.g., “Have you ever had a heart attack?”) or a medical exam.
- Potentially Lower Cost for Unhealthy – Have health issues? Your premiums may be lower than for an “individual” policy because they are based on covering a group (the young, old, healthy, and unhealthy).

Disadvantages:

- Work-Related Restrictions – Like the “Basic” coverage, it typically requires you to be “actively” working.
- Not Portable – Can’t take the policy with you if you leave the employer. Suppose your next employer doesn’t offer “Supplemental” insurance. In that case, you may need to purchase an “individual” policy to maintain the same level of coverage – paying higher premiums based on your age and health.
- Increasing Premiums – Typically, costs increase each year as you age.
- No Options – Employer coverage typically offers few or no bells and whistles that an “individual” policy may include.

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Understanding Individual Life Insurance

Individual Term Life Insurance Policy:

A policy purchased from an insurance company or a licensed agent – outside of the workplace.

Advantages:

- Potentially Lower Costs for Healthy – Coverage is dependent on your circumstances via underwriting. Healthy people will typically experience significantly lower premiums compared to “Supplemental” insurance.
- Level Premiums-- Term policies lock in the premium for a fixed period (e.g., 10 years, 20 years).
- Portable – Since this policy is not connected to your employer, it is completely portable, providing you with continuous coverage.
- No Work-Related Restrictions – This means that an “individual” insurance policy is more likely to pay out benefits than employer-provided coverage.
- Multiple Options – Can choose from a large selection of term policies that offer a variety of special features and riders that provide flexibility.

Disadvantages:

- Underwriting Process--- Policies are, typically, fully underwritten, meaning that your policy will be based on your health and other factors. There will be more questions than for “Supplemental” insurance and it may include some medical tests.

How do you decide what to do?

1. Always take advantage of free “Basic” employer-provided coverage.
2. Determine how much insurance you would like to have.
 - Online calculators, such as aig.com/calculators, can help determine the right amount.
3. Get quotes for both “Individual” and “Supplemental” group life insurance for the coverage needed in addition to the “Basic” employer policy.
 - Provide an “individual” life insurance policy quote to your client
 - Have your client get the price for “Supplemental” coverage from their employer benefits office.
4. Consider the features/benefits important to you in helping you make a decision.

FEATURE/BENEFIT	SUPPLEMENTAL EMPLOYER	INDIVIDUAL
Convenient/Least Underwriting	X	
Best Price - Healthy		X
Best Price – Less Healthy	X	
Level Premiums		X
Portable		X
No work-related Restrictions		X
Multiple Options/Features/Riders		X

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