Age-related reductions in workers' life insurance

Half the participants in group life insurance plans of medium and large firms face reduced or discontinued benefits as they grow older; reduced coverage generally begins at age 65, frequently with a sharp drop

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In 1984, 54 percent of participants in employer financed group life insurance plans of medium and large firms faced age-based reductions or discontinuation of protection late in their careers. For example, the amount of coverage may be reduced after workers reach age 65 (benefits are seldom reduced prior to age 65), or discontinued after age 70. This article examines the prevalance and details of these age-related changes in life insurance coverage.

The analysis is based on data collected in the Bureau of Labor Statistics' annual survey of employee benefits in medium and large firms in the United States—excluding Alaska and Hawaii.[1] The survey is conducted among private sector establishments employing at least 50, 100, or 250 workers, depending on the industry. Industrial coverage includes establishments in mining; construction; manufacturing; transportation, communications, electric, gas, and sanitary services; wholesale trade; retail trade; finance, insurance, and real estate; and selected services. The 1984 survey, based on a probability sample of 1,499 establishments, covered 45,000 establishments and 21 million workers. Excluded from the survey were executive managers (those whose decisions have direct and substantial effects on the organization's policy-making) and part-time, temporary, seasonal, and constant travel-status employees (such as airline flight crews and long-distance truck drivers).

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Rationale for reducing coverage

Cost considerations are the primary explanation for age-related reductions in life insurance benefits. The tabulation below, based on Internal Revenue Service data for determining premium costs for group-term life insurance,[2] illustrates the dramatic rise in the cost of life insurance associated with increasing age. As shown, the cost of providing $1,000 of coverage ranges from 8 cents a month before workers reach age 30, to $1.17 at ages 60 to 64:

Age	*Monthly cost per $1,000 coverage*
Under 30	$.08
30 to 34	.09
35 to 39	.11
40 to 44	.17
45 to 49	.29
50 to 54	.48
55 to 59	.75
60 to 64	1.17

For a given group of employees, the cost of providing insurance depends upon their age-mix. Thus, a firm employing many older workers will pay higher life insurance premiums than a firm with a younger staff. Even a relatively small percentage of employees over 65, with high salaries and correspondingly larger amounts of life insurance coverage, can account for a substantial portion of an employer's premiums.

Nevertheless, while the cost of life insurance increases with age, the need for coverage may decrease. Frequently, children of older workers have reached maturity, completed their education, and become independent. Where available, accumulation of home equity and investments, as well as spouse benefits under a retirement plan, help meet a surviving spouse's needs.

Protection for older workers

The 1978 amendments to the Age Discrimination in Employment Act affected practices that discriminate against workers over age 65. Prior to the amendments, some employers reduced coverage for workers over age 65 to $1,000 or $2,000—enough to help pay burial expenses. Others discontinued life insurance coverage at age 65, or excluded from participation those employees hired after age 65. As enacted in 1967, the statute applied to workers between the ages of 40 and 65, and prohibited discrimination on the basis of age in such areas as hiring, job retention, compensation, and other "terms, conditions, or privileges of employment." Because benefit reductions typically did not begin until workers reached age 65, the 1967 statute had relatively little effect on employer-provided life insurance plans. The 1978 amendments, which raised the maximum protected age to 70,[3] however, did influence insurance plan provisions.

The act does not require that employee benefit plans apply uniformly to all workers, regardless of age. Differential treatment is permissible under a "bona fide employee benefit plan such as a retirement, pension, or insurance plan, which is not a subterfuge to evade the purposes of the Act. . . ." As interpreted by the U.S. Department of Labor in May 1979, this provision of the statute permits age-based reductions in employee benefits where such reductions can be justified by significant cost considerations.[4] A benefit plan complies with the statute when costs incurred on behalf of an older worker equal those made on behalf of a younger worker, even though the older worker may receive a lesser amount of insurance coverage.[5]

Cost factors may be considered on a "benefit-by-benefit" or on a "benefit package" basis. Under the former, reductions in life insurance benefits do not violate the act (even if reductions start before workers reach age 65) provided that the reduction for an employee of a given age is no greater than that justified by the increased cost of covering employees of that age bracket. Cost comparisons may be made on the basis of age brackets of up to 5 years. Total denial of life insurance coverage on the basis of age, however, cannot be justified under a benefit-by-benefit analysis. (Life insurance coverage can legally cease when an employee reaches age 70 or upon separation from service, whichever occurs first.) It is, therefore, possible under the act to reduce life insurance coverage each year beginning at age 65 by a stated percentage of benefits or to make a larger one-time percentage benefit reduction at age 65 and maintain the resulting benefit level until age 70.

Where a benefit package approach is used, an employer has greater flexibility in adjusting individual benefits, "so long as the overall result is no lesser cost to the employer *and* no less favorable benefits for employees." Under this approach, life insurance could be reduced by an amount greater than warranted by cost considerations, or even discontinued, but only if an offsetting benefit is made available to the employees affected.

Basic coverage formulas

In 1984, employers of medium and large firms provided group life insurance to nearly all employees (96 percent); for four-fifths of the workers, the employer paid the full cost of basic coverage. (Although a small minority of employees also had supplemental plans which were paid for, at least in part, by the employer, data presented here refer to basic plans only.)

The amount of coverage for about two-thirds of the participants was based on earnings, generally determined as a multiple of the employee's annual wages or salary. As shown below, this method was most prevalent among professional-administrative and technical-clerical employees, while flat amounts of life insurance applied to half of the production workers.

Method	*All participants*	*Professional and administrative*	*Technical and clerical*	*Production*
Based on earnings	64	84	81	45
Multiple	49	72	69	28
Graduated schedule	15	12	11	17
Flat amount	34	13	17	53
Other	3	3	2	2

The most common formula for tying life insurance protection to earnings was to multiply the employee's annual earnings by 1 or 2 and round the product to the next $1,000. The following shows that 41 percent of the participants in plans with multiple of earnings formulas used a multiple of 1:

Life insurance is equal to annual earnings times:	*Percent*
Less than 1.0	3
1.0	41
1.1–1.9	12
2.0	37
More than 2.0	7

In most cases, the life insurance plans did not specify a dollar ceiling on benefits resulting from these multiple-of-earnings formulas. Where ceilings existed, they were usually $100,000 or greater and relevant mostly to those workers earning well over $50,000 a year.

Most of the remaining participants (one-third) received a flat amount of life insurance typically ranging from $5,000 to $15,000, regardless of earnings. Professional employees were more likely than the other two groups to be covered for $20,000 or more. Following are the amounts of life insurance and the percent distribution of participants in plans using flat amount formulas.

Amount	*Percent*
Less than $2,000	4
$2,000 to $4,999	11
$5,000 to $9,999	36
$10,000 to $14,999	30
$15,000 to $19,000	9
$20,000 and over	11

Three percent of workers had coverage that varied by service or was based upon the monthly pension payments they would have received if they had retired on the date that they died.

Reductions in life insurance

The preceding tables describe life insurance coverage before reductions are made due to age of the employee. According to the 1984 survey, plans covering 54 percent (or 10.9 million) of life insurance participants reduced or discontinued life insurance for older workers (table 1). Reductions in life insurance coverage were somewhat more common for professional-administrative and technical-clerical workers than for production workers: Sixty-one percent of the white-collar participants had plans that reduced or discontinued coverage compared with 47 percent of the insured production workers. As noted earlier, white-collar workers were more likely to participate in earnings-based insurance plans, where age-related benefit reductions would have the potential for greater cost savings than under plans providing flat dollar coverages. Also, production workers, whose plans tended to maintain levels of insurance coverage, were more likely than white-collar workers to be under collectively bargained benefit plans.

Table 1. Percent of participants in life insurance plans in medium and large firms by provision for age-related reductions of basic coverage, 1984

Plan provision	All participants	Professional and administrative participants	Technical and clerical participants	Production participants
All plans				
Total	100	100	100	100
Basic benefits reduced or discontinued	54	63	59	47
Single reduction	21	23	22	20
Basic benefits continued while active	19	21	19	18
Discontinued at age 70 or over	2	2	2	2
Multiple reductions	30	37	33	25
Basic benefits continued while active	24	29	26	29
Reduced before age 70 to stated minimum ($1000)	(1)	(1)	(1)	(1)
Discontinued at age 70 or over	7	7	6	6
Discontinued without prior reduction	2	3	4	1
Before age 70	(1)	(1)	(1)	(1)
At age 70 or over	2	2	4	1
Lower ceiling on basic benefits imposed, but not otherwise reduced	1	1	1	(1)
Basic benefits never reduced	45	36	40	53
Plans collectively bargained for all or some workers				
Total	100	100	100	100
Basic benefits reduced or discontinued	44	67	52	40
Single reduction	7	6	8	7
Basic benefits continued while active	6	6	8	5
Discontinued at age 70 or over	1	—	(1)	1
Multiple reductions	37	60	43	33
Basic benefits continued while active	29	41	35	27
Discontinued at age 70 or over	8	19	9	7
Discontinued without prior reduction	(1)	1	(1)	(1)
At age 70 or over	(1)	1	(1)	(1)
Basic benefits never reduced	56	33	48	60
Plans not collectively bargained				
Total	100	100	100	100
Basic benefits reduced or discontinued	58	62	60	53
Single reduction	28	26	24	33
Basic benefits continued while active	25	23	22	30
Discontinued at age 70 or over	3	2	2	3
Multiple reductions	27	34	31	18
Basic benefits continued while active	21	28	25	12
Reduced before age 70 to stated minimum ($1,000)	(1)	(1)	1	(1)
Discontinued at age 70 or over	6	5	6	6
Discontinued without prior reduction	3	3	5	3
Before age 70	(1)	(1)	(1)	(1)
At age 70 or over	3	3	5	3
Lower ceiling on basic benefits imposed, but not otherwise reduced	1	1	1	1
Basic benefits never reduced	40	37	38	46

[1] Less than 0.5 percent.

NOTE: Because of rounding, sums of individual items may not equal totals. Dash indicates no employees in this category.

Overall, in the survey, multiple reductions in life insurance coverage were more common than a single reduction. This largely reflects the prevalence of multiple reductions in collectively bargained plans; five-sixths of the participants in bargained plans which reduce or discontinue coverage face multiple benefit reductions. Among nonbargained plans, the split was nearly even between single and multiple reductions. Plans that discontinued life insurance coverage at a specified age, but without prior reduction in coverage, were rare.

About nine-tenths of all participants retained either full or reduced life insurance coverage throughout their active careers. Nearly all of the remainder were in plans that discontinued benefits at age 70 or later. (Fewer than 1 percent were in plans that discontinued benefits before age 70.)

Where cut-backs in benefits were stipulated, percentage reductions would apply to more than nine-tenths of the participants. Flat amount reductions were specified for the remainder.

Table 2 shows wide variation in the effects of initial benefit reductions. This range reflects a number of factors, including (1) the different methods (one-time or multiple reductions) of adjusting benefits, (2) the age at which the initial reduction occurred, (3) the actuarial assumptions and other data used in cost justifying reductions, and (4) the use of benefit-by-benefit or benefit package approaches to evaluating benefit reductions. Thus, 31 percent of the participants subject to percentage reductions based on age had their insurance initially reduced by 8 to 10 percent. This percentage was common in plans specifying year-by-year decreases in coverage starting at age 65. In plans calling for a single, or one-time, reduction of coverage, however, participants were most likely to have a 50-percent reduction, particularly if they had a flat amount of insurance protection.

Table 2. Percent of participants in life insurance plans in medium and large firms[1] with age-related reductions of basic coverage, by size of initial reduction, 1984

Percent of insurance maintained after initial reduction	Total	Method of determining basic benefit: Based on earnings			Flat amount		
		Total	Single reduction	Multiple reductions	Total	Single reduction	Multiple reductions
All plans							
Total	100	100	34	66	100	67	33
93 or greater[2]	3	4	—	4	—	—	—
92	19	19	—	19	16	—	16
91	(3)	(3)	(3)	—	(3)	—	(3)
90	12	14	2	13	4	(3)	4
68 to 89	17	20	1	20	3	1	2
67	4	5	2	4	1	1	—
66	1	1	1	(3)	(3)	—	(3)
65	16	15	9	6	21	12	9
51 to 64	2	2	1	(3)	4	4	(3)
50	24	17	16	1	48	47	1
Less than 50	2	2	2	—	2	2	—
Plans collectively bargained for all or some workers							
Total	100	100	5	95	100	56	44
93 or greater[2]	2	2	—	2	—	—	—
92	14	11	—	11	26	—	26
90	27	31	—	31	6	(3)	6
68 to 89	43	51	—	51	2	—	2
65	8	3	3	—	34	28	5
51 to 64	2	1	1	—	5	5	—
50	4	1	1	—	20	15	5
Less than 50	1	—	—	—	7	7	—
Plans not collectively bargained							
Total	100	100	45	55	100	70	30
93 or greater[2]	4	5	—	5	—	—	—
92	20	22	—	22	14	—	14
91	(3)	(3)	(3)	—	(3)	—	(3)
90	7	8	3	5	3	—	3
68 to 89	7	8	1	7	3	1	2
67	6	8	2	5	1	1	—
66	1	1	1	(3)	(3)	—	(3)
65	19	19	11	8	17	8	10
51 to 64	3	2	1	1	4	4	(3)
50	31	24	23	1	56	56	(3)
Less than 50	3	3	3	—	1	1	—

[1]This table is limited to participants in plans reducing benefits on a percentage basis and excludes plans that reduce benefits to a lower flat amount or are discontinued without prior reduction. It also excludes plans with coverage based on service or amount of accrued pension.

[2]Includes participation in plans where the amount of coverage was reduced by a specified percent (typically 2 percent), the first month following age 65, and further reduced by the same percentage each month thereafter until a minimum coverage level was reached.

[3]Less than 0.5 percent.

NOTE: Because of rounding, sums of individual items may not equal totals. Dashes indicate no employees in this category.

Table 3. Percent of participants in life insurance plans[1] in medium and large firms with age-related reductions in basic coverage, by percent of original coverage maintained at specified ages, 1984

Percent of basic benefit remaining[2]	Age of active employee: Under 65	65	66	67	68	69	70	71	72	73	74	75 and over
Total	100	100	100	100	100	100	100	100	100	100	100	100
100	96	32	23	23	23	23	(3)	(3)	(3)	(3)	(3)	—
90 to 99	1	23	11	2	2	2	2	2	2	2	2	3
80 to 89	1	6	22	10	1	(3)	—	(3)	—	—	—	—
70 to 79	(3)	10	6	22	12	4	3	3	3	3	3	3
60 to 69	1	22	23	27	41	47	18	18	18	18	18	18
50 to 59	1	4	12	6	6	9	43	38	38	38	38	37
40 to 49	(3)	1	2	8	12	8	11	14	10	10	10	9
30 to 39	—	1	1	1	1	5	4	6	9	5	5	6
20 to 29	(3)	1	1	1	2	1	8	4	5	8	8	5
10 to 19	(3)	(3)	(3)	(3)	(3)	(3)	1	1	2	2	2	5
1 to 9	—	—	—	—	—	—	(3)	5	5	5	5	5
0	—	—	—	—	—	(4)	9	9	9	9	9	10

[1]This table is limited to participants in plans reducing benefits on a percentage basis and excludes plans that reduce benefits to a lower flat amount or are discontinued without prior reduction. It also excludes plans with coverage based on service or amount of accrued pension.

[2]The percent of basic benefit remaining for some participants may be affected by minimum or maximum coverage provisions, not included in these computations.

[3]Less than 0.5 percent.

[4]Less than 0.5 percent participated in a plan reducing coverage at age 69 to a stated minimum ($1,000).

NOTE: Because of rounding, sums of individual items may not equal totals. Dashes indicate no employees in this category.

When the plan was subject to collective bargaining, reductions tended to be smaller, regardless of reduction method or type of basic benefit.

What is the effect of these age-related reductions on the insurance protection available to older active workers? Table 3 sheds light on this question by showing a distribution of participants in life insurance plans according to the percentage of basic benefits remaining at specified ages. (Like table 2, this table is limited to plans reducing benefits on a percentage basis and covering an estimated 9.8 million participants.) For nearly two-thirds of these participants, the basic life insurance benefit would be first reduced at age 65. (Four percent face reduced coverage before age 65.) For 23 percent of the participants, benefits were not diminished until age 70, when federal employment age discrimination protection ceased.

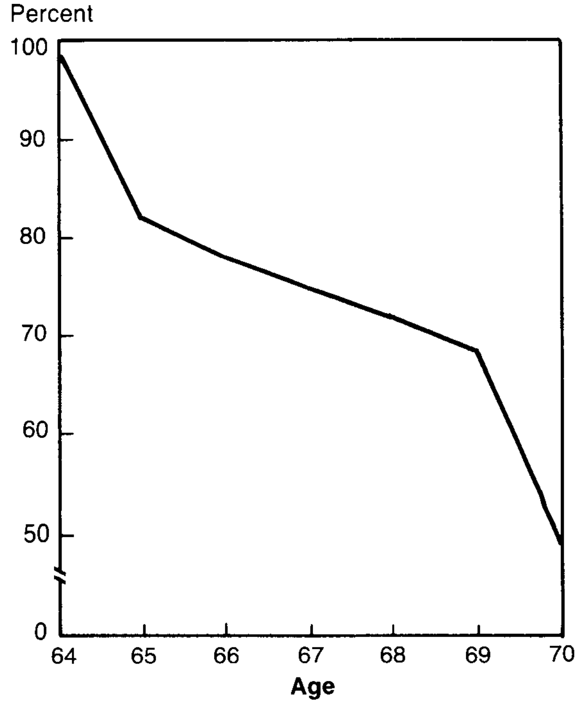
On average, workers with percentage reductions in life insurance coverage retain nearly all of their basic coverage through age 64. These workers, however, lose nearly a fifth of their coverage at age 65, retaining 82 percent of the original amount. Workers from age 65 to 69 will experience a gradual decline in coverage to 72 percent of the initial amount. At age 70, when most single reductions take effect, the residual coverage drops to 47 percent. (See chart 1.)

After age 70, reductions become less frequent, virtually ceasing by age 75. Sixty percent of the participants retained half or more of their basic coverage as long as they remained employed. (Twenty-three percent were in plans which kept at least three-fifths.) However, 10 percent would have their benefits completely discontinued, most often at age 70.

Group life insurance plans typically provide for accidental death and dismemberment benefits and for coverage during total and permanent disability.[6] Benefit levels are usually geared to the amount of basic life insurance protection and, therefore, are subject to age-related reductions paralleling those in basic coverage.

Coverage for employee dependents, however, is an exception to this pattern. Dependent coverage that is at least partly paid for by the employer, applies to less than a fifth of the workers in medium and large firms and is usually

Chart 1. Average percent of initial life insurance coverage remaining at ages 64 through 70, medium and large firms, 1984



expressed as a flat dollar amount—typically $1,000 or $2,000. Also, dependent coverage is seldom linked to the employee's age.

Retiree coverage

According to the 1984 survey, two-thirds of the life insurance participants would have basic protection extending into retirement.[7] Federal employment age discrimination protection however, does not apply to retirees, and the level of preretirement insurance was rarely maintained.

In general, the amount of coverage under a group life insurance plan is lower for retirees than for active employees of the same age. This conclusion is derived from a study of 1,321 plans collected in the Bureau's 1982 Employee Benefits Survey. A comparison of retiree benefits with coverage for active employees between ages 65 and 70 under these plans shows that more than nine-tenths of the plans provided less coverage to retirees. This occurred through eliminating coverage at retirement or by providing less coverage to retirees than to active employees. As shown below, the pattern of reduced coverage for retirees occurs both in plans where full coverage is maintained for older active employees and where it is reduced for older active employees.

	Percentage of plans
Benefits not reduced for older active workers	57
Same percentage coverage for active workers and retirees	3
Less percentage coverage for retirees	31
No coverage for retirees	23
Benefits reduced for older active workers	39
Same percentage coverage for active workers and retirees	6
Less percentage coverage for retirees	17
No coverage for retirees	16
Benefits discontinued for older active workers	4
No coverage for retirees	4

Retirees' benefits were more likely to decrease on a one-time basis than were those of active workers. Where multiple reductions in retiree coverage were found, the final amount was typically 10 or 25 percent of preretirement entitlement with a minimum benefit of $1,000 or $2,500.

TWO FACTORS THAT PLAY A MAJOR part in explaining the more severe reductions in life insurance coverage for retirees than for active older workers are cost considerations and governmental regulations. First, employer cost considerations result in larger reductions when based on the average expenditures for all retiree life insurance and not on specific ages or age brackets. The second factor, observed earlier in this analysis, is the lack of regulation of retiree benefits. Employers are not obligated to provide coverage to retirees, nor are there regulations on the extent of reductions if coverage continues. □

———*FOOTNOTES*———

[1] See Robert Frumkin and William Wiatrowski, "Bureau of Labor Statistics takes a new look at employee benefits," *Monthly Labor Review*, August 1982, pp. 41–45.

[2] See *26 Code of Federal Regulations*, Section 1.79–3.

[3] The Age Discrimination in Employment Act applies to private employers having 25 or more workers, as well as State and local government agencies, employment agencies, and labor organizations. The 1978 amendments also eliminated an upper age limit for Federal employees.

[4] Responsibility for enforcement of the Age Discrimination in Employment Act was transferred on July 1, 1979 to the Equal Employment Opportunity Commission. Previously issued interpretations of the Department of Labor remained in effect.

[5] If an insurance benefit is jointly financed by the employer and employee, the required contribution of the employee may increase with age—reflecting the rise of insurance premiums with age—so long as the *proportion* of the total premium paid by the employee does not increase with age. Also, employers may give older workers the option of making additional contributions necessary to receive the same level of coverage as younger workers.

[6] See *Employee Benefits in Medium and Large Firms, 1984*, Bulletin 2237 (Bureau of Labor Statistics, 1985), table 35.

[7] *Employee Benefits*, table 38.