Life Insurance

BY ANN C. FOSTER

Employers often provide benefits to survivors of deceased employees. The most common way is through a group life insurance plan that normally makes a lump-sum payment to a designated beneficiary.[1] Data from the Employee Benefits Survey show that in 1993-94, 77 percent of full-time workers had employer-provided life insurance. Coverage ranged from 61 percent among employees in small private establishments (those with fewer than 100 workers) to 91 percent among employees in medium and large private establishments (those with 100 or more workers); among State and local government employees, coverage was 87 percent.[2]

In 1993-94, employers paid the entire cost of providing basic life insurance benefits for most full-time covered workers (85 percent). The proportion with fully employer-paid coverage was similar among small private establishments (82 percent of covered employees), State and local governments (86 percent of covered employees), and medium and large private establishments (87 percent of covered employees).[3]

Employee contributions are usually required when life insurance is offered as part of a flexible benefits (or cafeteria) plan or in connection with a reimbursement (or flexible spending) account.[4]

Coverage amounts

The amount of an employee's basic life insurance coverage is often determined by the fixed multiple of earnings method. Under this method, an employee's annual earnings are multiplied by a factor of one or two and then rounded off to the next $1,000. For example, an employee making $29,800 is covered under a plan providing two times earnings. The face amount of the worker's coverage would be $60,000 (2 x $29,800 = $59,600, rounded off to $60,000). Under this method, an employee's coverage automatically increases as earnings increase.[5]

In 1993-94, 44 percent of all full-time employees with basic life insurance were in plans using the fixed multiple of earnings method. The figure ranged from 31 percent of covered employees in small private establishments to 58 percent of covered employees in medium and large private establishments. (See table 2.) Half of the covered employees had life insurance protection calculated at one times earnings, and about one-fifth had protection at two times earnings. The average fixed multiple of earnings ranged from 1.4 for employees in medium and large private establishments to 1.9 for public employees; for small business employees, the multiple was 1.5.

In 1993-94, the greatest proportion (52 percent) of full-time employees with basic life insurance was in plans providing a fixed dollar amount regardless of earnings level. Covered employees in small private establishments and in State and local governments were more likely to be in these plans than covered workers in medium and large private establishments. The average amount of basic life insurance was similar for workers in medium and large and small private establishments ($15,481 and $15,935, respectively); for State and local government workers, the average was $17,518.

Other less prevalent methods of providing life insurance protection included fixed dollar amounts that increase as earnings levels increase, fixed dollar amounts that increase as length of service increases, and multiple of earnings formulas that increase the multiple at higher earnings levels or with longer tenure.

Supplemental and dependent coverage

In 1993-94, 48 percent of full-time employees with basic life insurance could purchase supplemental coverage. The proportion of employees able to purchase additional life insurance ranged from a low of 29 percent in small private establishments to a high of 61 percent in medium and large private establishments. (See table 1.) Most employees with this option have to pay the entire cost of the supplemental coverage. Eligible employees can usually obtain supplemental coverage in multiples of one to three times annual earnings.

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Dependent life insurance coverage is also available to many covered employees. Workers with such coverage must usually pay the entire premium. Dependent coverage is most often provided as a flat dollar amount. Spousal benefits are usually in amounts of $5,000 or more, while benefits for children are usually offered in amounts of $5,000 or less. In 1993-94, dependent coverage was available more often to employees in medium and large private establishments than to their counterparts in small private establishments.

Coverage for older workers

Life insurance costs increase with age. Accordingly, many plans reduce benefits for older workers to compensate for these increased costs. In 1993-94, a third of all full-time workers with basic life insurance were in plans with such reduced benefits. Those in plans calling for reduced benefits ranged from 27 percent of workers in small private establishments to 42 percent in medium and large private establishments.

Plans that reduce coverage frequently make their first reduction at age 65 or 70.[6] Many plans reduce coverage only once, most often to 50 percent of the original amount. Some plans reduce coverage in stages, for example, to 65 percent of original coverage at age 65 with a reduction to 50 percent at age 70.[7]

Retiree coverage

Basic life insurance often continues when a covered worker retires. Retiree coverage was available to a third of all workers with basic life insurance coverage in 1993-94. For 63 percent of workers with retiree coverage, the employer paid for the full cost of coverage. Twenty-eight percent of these workers paid for their own coverage and 7 percent shared the cost with their employer.[8] Retiree coverage was more often available to those employed by State and local governments (46 percent) and medium and large private establishments (41 percent) than to workers employed by small private establishments (20 percent). When such coverage is available, it is usually reduced at least once during a retiree's life.[9]

Accidental death and dismemberment coverage

Coverage for accidental death and dismemberment (AD&D) is also available to many workers. In 1993-94, 69 percent of employees in medium and large private establishments had AD&D coverage compared to 48 percent of employees in small private establishments, and 56 percent in State and local governments. When AD&D coverage is provided, it is almost always a part of an existing group life insurance plan.[10] If a covered worker dies as the result of an accident, the plan provides additional benefits, usually at an amount equal to 100 percent of the worker's basic life insurance. AD&D coverage may also pay benefits, usually stated as fractions of the basic life insurance amount, for the accidental loss of an eye or a limb.

Survivor income benefits

Although far less common than life insurance, survivor income insurance plans also provide benefits to a deceased employee's survivors. While life insurance usually provides a lump-sum benefit, a survivor income plan generally pays a monthly benefit to a deceased employee's survivors. Benefits may be a fixed monthly amount or may be a percentage of the deceased employee's salary, for example, 20 percent for a surviving spouse and 10 percent for each dependent child. Benefits are usually paid for a limited period, usually 24 months, but may continue until a surviving spouse marries or reaches age 65 or until dependent children reach a certain age.[11]

Five percent of employees in medium and large private establishments had survivor income benefit coverage in 1993-94, compared to 1 percent of small business employees and 2 percent of State and local government workers.

Survivors may also receive payments from other employer-provided plans such as defined benefit pension plans and long-term disability insurance.[12]

[1] The contract between the insurance company and the employer is usually for group term insurance. Term insurance coverage is bought for a specific time period (usually 1 year), but is usually renewable, and remains in effect as long as premiums are paid. Term insurance has no savings feature and does not build up cash value. It is pure protection, with benefits paid only at death. For more information, see *Fundamentals of Employee Benefit Programs, Fifth Edition*, Washington, DC: Employee Benefit Research Institute, 1997.

[2] See *Employee Benefits in Medium and Large Private Establishments, 1993*, Bulletin 2456, Bureau of Labor Statistics, 1994; *Employee Benefits in Small Private Establishments, 1994*, Bulletin 2475, Bureau of Labor Statistics, 1996; and *Employee Benefits in State and Local Governments, 1994*, Bulletin 2477, Bureau of Labor Statistics, 1996.

[3] For more information, see *Employee Benefits in Medium and Large Private Establishments, 1993; Employee Benefits in Small Private Establishments, 1994;* and *Employee Benefits in State and Local Governments, 1994.*

[4] For more information on flexible benefits plans, see Joseph R. Meisenheimer and William J. Wiatrowski, "Flexible Benefits Plans: Employees Who Have a Choice," *Monthly Labor Review*, December 1989, pp. 17-23. A more detailed explanation of reimbursement accounts can be found in Ann C. Foster, "Employee Contributions for Medical Care Coverage," *Compensation and Working Conditions*, September 1996, pp. 51-53.

[5] Some multiple of earnings policies limit the amount of coverage that an employee may obtain. In 1993-94, 52 percent of full-time employees in medium and large private establishments who had multiple of earnings plans were in plans that limited coverage. The average maximum was $263,286. In small private establishments, 57 percent of full-time covered employees with multiple of earnings plans were in plans specifying a maximum, which averaged $237,305. A lower proportion (31 percent) of State and local government workers in multiple of earnings plans were subject to a maximum, which averaged $256,196.

[6] For example, the greatest proportion (54 percent) of workers in medium and large private establishments who were in plans that reduce coverage faced their first reduction at age 65, while 33 percent faced their first reduction at age 70. Among State and local government workers in plans with reductions, equal proportions (48 percent) faced their first reduction at ages 65 and 70. Information for employees in small private establishments was not obtained. For more information, see *Employee Benefits in Medium and Large Private Establishments, 1993*, and *Employee Benefits in State and Local Governments, 1994.*

[7] For more information, see Stephanie L. Hyland, "Age-related Reductions in Life Insurance Benefits," *Monthly Labor Review*, February 1991, pp. 36-38, and Glenn M. Grossman, "Life Insurance Benefits in Small Establishments and Government," *Monthly Labor Review*, October 1992, pp. 33-35.

[8] The source of funding for the remaining 2 percent was unknown.

[9] For more information on retiree life insurance, see Margaret Simons and Cynthia Thompson, "Life Insurance Benefits for Retired Workers," *Monthly Labor Review*, September 1990, pp. 17-21.

[10] An earlier study using data from the 1988 Employee Benefits Survey found that 76 percent of full-time employees with basic life insurance had AD&D coverage, but less than 0.5 percent of employees without basic life insurance had AD&D coverage. For more information, see Cynthia Thompson, "Compensation for Death and Dismemberment," *Monthly Labor Review*, September 1989, pp. 13-17.

[11] For more information, see David E. Ott, "Survivor Income Benefits Provided by Employers," *Monthly Labor Review*, June 1991, pp. 13-18.

[12] *Ibid.*

Table 1. Life insurance provisions, full-time employees, 1993-94

(In percent)

Provision	Total	Medium and large private establishments	Small private establishments	State and local governments
Number with basic life insurance (in thousands) ...	59,324	26,175	21,955	11,194
Total with basic life insurance	100	100	100	100
Fully paid coverage	85	87	82	86
Supplemental coverage	48	61	29	55
Spouse coverage	46	59	31	46
Child coverage	45	58	30	44
Benefits reduced for older workers	34	42	27	31
Retiree coverage	34	41	20	46

NOTE: The total is less than the sum of the individual items because many employees are in plans with more than one of these provisions.

Table 2. Method of determining basic life insurance, full-time employees, 1993-94

(In percent)

Method	Total	Medium and large private establishments	Small private establishments	State and local governments
Number with basic life insurance (in thousands) ..	59,324	26,175	21,955	11,194
Total with basic life insurance	100	100	100	100
Multiple of earnings	45	58	32	40
Fixed multiple[1]	44	58	31	37
Multiple varies by earnings	(2)	(2)	(2)	-
Multiple varies by service	(2)	(2)	(2)	2
Dollar amount	55	41	68	60
Fixed dollar amount	52	36	67	58
Dollar amount varies by earnings	3	4	1	2
Dollar amount varies by service	(2)	1	(2)	(2)
Other	(2)	1	(2)	(2)
Not determinable	(2)	(2)	-	-

[1]Includes participants in plans in which insurance equals a multiple of earnings plus or minus a specified amount.

[2]Less than 0.5 percent.

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