Is employer-sponsored life insurance declining relative to other benefits?

In contrast to health and retirement packages, company life insurance provisions changed little for 1971–80, in the 56 plans compared; however, amounts rose, largely in response to pay boosts

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Life insurance, health insurance, and private retirement programs are the three major types of nonwage benefits available to American workers from their employers. During the last 10 years, the characteristics of health insurance and retirement programs have changed markedly for a variety of reasons—union bargaining demands, employer social consciousness, Federal legislation, to cite just a few.[1] In contrast, the major provisions of employer-provided life insurance plans appear to have changed only slightly over the last decade, although the amount of insurance provided by many plans has increased as employee earnings have risen.

Why did company life insurance change so little, while corresponding pension and health benefits were dramatically transformed? One reason may have been that fewer workers were concerned about life insurance and more were interested in health and retirement benefits.

This study examines changes between 1971 and 1980 in the salient characteristics of 56 basic life insurance plans provided by 44 large employers or multi-employer associations.[2] Of the 56 plans, 23 were negotiated under collective bargaining agreements. Clearly, the plans are not a statistically representative sample of life insurance plans. However, they are large plans, covering occupational groups (43 covered over 10,000 employees and 11 covered over 100,000), and many are provided by leading companies in many different industries. Therefore, changes in these plans are probably indicative of general trends over the decade.

Financing and benefit formulas

Fifty-one of the plans were paid for entirely by the employers in 1980, one more than in 1971. The other five were only partially paid for by the employer; plan participants paid the balance.

In both 1971 and 1980, three-fourths of the plans related the amount of life insurance provided to the employee's earnings. Thus, insurance protection for many employees has automatically kept pace with the rise in earnings, although not necessarily the cost of living. In 1980, 42 plans based their insurance amounts on earnings, one more than in 1971 (table 1). The number of plans that had a multiple-of-earnings (multiplies annual earnings to establish insurance amount) formula, rather than the somewhat less generous graduated-schedule-of-earnings (insurance amount fixed by earnings schedule) formula, rose from 21 to 24.

Insurance equal to annual earnings was provided by somewhat more than half of the plans with a multiple-of-earnings formula in both 1971 and 1980, and most of the remainder provided twice the earnings (table 2).

In most plans which use a graduated earnings schedule, the amount of life insurance increased about pro-

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portionally with earnings during the last 10 years. These increases are made periodically through the collective bargaining or plan amendment process rather than the automatic and continuous adjustment inherent in the multiple-of-earnings formula. For example, in 1971 a plan in the automobile manufacturing industry provided $7,500 in insurance to employees who earned up to $7,000. Then, for each additional $500 in earnings, life insurance rose $500, to a maximum of $14,500. In 1980, the same plan gave $13,500 in insurance to employees whose earnings were $12,500 or less. Insurance then rose proportionally with earnings, up to $27,000. For employees who earned more than $27,000 a year, the maximum insurance was $30,000. Over the decade, insurance increased at about the same pace as average earnings for full-time employees in the industry, which rose from about $10,200 in 1971 to $21,000 in 1980.[3]

Several plans did not increase insurance as rapidly as earnings. For example, one large plan in the steel industry in 1971 provided $8,000 insurance to employees whose earnings were $6,500 or less. For each additional $1,000 in earnings, life insurance rose $500. The maximum amount of insurance was $10,500 for an employee who earned $11,000 or more. By 1980, insurance coverage declined to approximately three-fifths of earnings. The maximum insurance was $12,500 for an employee who earned $20,000 or more. Between 1971 and 1980, average earnings for full-time, year-round workers in the industry rose from about $9,300 to about $23,000, but life insurance for these workers increased only from $10,000 to $12,500.[4]

The number of plans that provided a flat amount of insurance, regardless of earnings, dropped from 15 to 12, as two plans shifted to a formula based on length of service and one moved to an earnings-based formula.

Table 1. Life insurance plans by selected characteristics, 1971 and 1980

Item	1980		1971	
	Percent	Number of plans	Percent	Number of plans
Method of determination:				
All methods	100	56	100	[1]56
Based on earnings	75	42	73	41
Multiple	43	24	38	21
Graduated schedule	32	18	36	20
Flat amount	21	12	27	15
Based on service	4	2	...	...
Plans with accidental death and dismemberment insurance	64	36	66	37
Fully employer-financed plans	91	51	89	50
Plans with retiree coverage	84	47	88	49

[1] Between 1971 and 1980, four plans that had similar benefits for all employees were revised to provide separate benefits based on employee group. Thus, there were 52 plans in 1971 compared with 56 plans in 1980. For comparison purposes, the four plans with identical benefits for all employees in 1971 were counted as separate plans for hourly and salaried employees. This accounts for 56 plans being shown in 1971 and 1980.

NOTE: Because of rounding, sums of individual items may not equal totals.

Table 2. Incidence of plans with multiple-of-earnings formulas, by size of multiplier

Multiple of earnings formula	1980		1971	
	Percent	Number of plans	Percent	Number of plans
Total	100	24	100	21
Life insurance is equal to annual earnings times:				
Less than 1.0	4	1	...	...
1.0	54	13	57	12
1.5	8	2	...	...
2.0	33	8	43	9

NOTE: Because of rounding, sums of individual items may not equal totals.

The average benefit for employees who received a flat amount of insurance increased from $6,100 in 1971 to $7,900 in 1980. Three plans did not increase their benefits during the decade, and four increased their benefits by less than 50 percent. During this time, average hourly earnings for production workers and other nonsupervisory workers in private industry nearly doubled, so life insurance for many employees covered by flat benefit insurance provisions failed to keep pace with the increase in earnings.

Permanent and total disability

Permanent and total disability insurance provides benefits to an employee who is unable to work because of a nonoccupational or occupational accident or sickness. Usually during the first 12 to 24 months, disability is defined as total if the employee is unable to perform his or her own job. Afterwards, the definition of total disability becomes more restrictive, requiring that an employee be unable to engage in any gainful employment. In 1980, all 56 plans had some form of permanent and total disability insurance, compared with 54 in 1971.

Disabled employees are generally provided one of three main types of life insurance coverage:

- Continuation of the full amount of life insurance while disabled, for life or until a specified age. In 1980, 38 plans provided this kind of coverage, an increase of three from 1971 (table 3). This protection was provided at no cost to employees, in every case, in both years;
- Lump-sum or monthly payment of all or part of the insurance upon determination that the employee is totally disabled, provided by 14 plans in 1980, compared with 16 in 1971;
- Continuation of a partial amount of insurance with the remainder being paid in a lump-sum or monthly installments, provided by four plans in 1980 and three in 1971.

To receive a benefit during disability, a participant frequently must be below age 60 or 65. This was the case in all but a few of the plans that paid a cash benefit. However, a third of the plans that only continued insurance and made no cash payment did so without regard for the disabled employee's age.

When insurance is continued during the period of disability, the amount is usually maintained until a specified age, or for life. In both 1971 and 1980, approximately 90 percent of the plans that continued coverage maintained the insurance level until at least age 62. After the disabled employee reaches the specified age, insurance is either discontinued or reduced to a level that would have been provided had the employee retired at the time.

Other provisions

Retiree coverage. In 1980, 47 plans provided life insurance for retired employees, compared with 49 in 1971, as table 1 indicates. During the period, one company eliminated retiree insurance in both its hourly and salaried employee plans.

In 1980, all but two plans with retiree insurance reduced the amount of coverage after retirement; all 1971 plans did so (table 4). Most frequently there was more than one reduction—usually a percentage reduction each year until a specified level was reached, which then became permanent.

Table 3. Incidence of life insurance plans by provision for permanent and total disability, 1971 and 1980

Provisions for disability	1980 Percent	1980 Number of plans	1971 Percent	1971 Number of plans
All plans	100	56	100	[1]56
No provisions	...	...	4	2
Full amount continued if disability occurs	68	38	63	35
At any age	23	13	21	12
Before age 60	23	13	23	13
Before age 65	21	12	18	10
Payment made if disability occurs	25	14	29	16
At any age	4	2	2	1
Before age 60	12	7	18	10
Before age 65	7	4	7	4
Other	2	1	2	1
Combination of payment and continuation of coverage	7	4	5	3

[1] See footnote 1, table 1.

NOTE: Because of rounding, sums of individual items may not equal totals.

Table 4. Incidence of providing retiree coverage, by method of reducing coverage for retirees, 1971 and 1980

Method of reduction	1980 Percent	1980 Number of plans	1971 Percent	1971 Number of plans
All plans with coverage	100	47	100	49
One reduction	36	17	43	21
Percent	9	4	10	5
Dollar amount	19	9	14	7
Varies by earnings	...	...	8	4
Varies by service	9	4	10	5
More than one reduction	60	28	57	28
Percent	55	26	53	26
Other	4	2	4	2
No reduction	4	2	...	...

NOTE: Because of rounding, sums of individual items may not equal totals.

Accidental death and dismemberment. Many employers who provide life insurance give additional benefits if death or dismemberment occurs accidentally. This form of insurance was offered by 36 plans in 1980, one less than in 1971. Table 1 indicates this. Coverage was equal to basic life insurance in 21 plans which provided accidental death and dismemberment insurance in 1980, compared with 20 in 1971. In both years, the remaining plans had coverage which was less than that of basic life insurance. Accidental death and multidismemberment are almost always covered for the same amount. Single dismemberment—a leg, arm, or hand—is usually covered for one-half the amount provided for multidismemberment.

Supplemental and dependent coverage. In both 1971 and 1980, nine plans offered participants the opportunity to purchase supplemental life insurance in addition to basic life insurance. Supplemental life insurance requires the employee to pay part of the cost. Another type of insurance which may be offered to employees is life insurance for dependents. This coverage, which usually pays a specified dollar amount to the employee in case of the death of the spouse or unmarried dependent children, was offered in three plans in 1980, compared with one plan in 1971. □

——— *FOOTNOTES* ———

[1] See Robert Frumkin and Donald Schmitt, "Pension improvements since 1974 reflect inflation, new U.S. law," *Monthly Labor Review*, April 1979, pp. 32–37 and Dennis Quigley, "Changes in selected health care plans," *Monthly Labor Review*, December 1975, pp. 22–26.

[2] Data relate to plans which were in the *Digest of Health and Insurance Plans, 1971 Edition* (Bureau of Labor Statistics, 1972), and were analyzed as part of the Bureau's 1980 Level of Benefits Survey. A multiemployer association is a group of two or more employers in a specific industry which negotiates wages, benefits, and working conditions with one or more labor unions.

[3] See *Employment and Earnings*, March 1972, table C2, p. 84, and June 1980, table C2, p. 86. Estimates are for a worker paid for 2,080 hours a year.

[4] See *Employment and Earnings*, March 1972, p. 82, and June 1980, p. 84.