Employee Life Insurance and why every employer needs to offer it

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While four out of five employees believe their *life insurance benefit* is sufficient, according to MetLife's 2011 Insurance Literacy Survey, 45% of working women and 28% of working men with life insurance have not assessed their needs after having their first policy, potentially making themselves and their families financially vulnerable in the event of premature death.

What is employee life insurance?

Life insurance is a means of offering funds payable upon the insured's death to named beneficiaries. Most employers that offer life insurance to their employees offer it in the form of group life insurance. Group life insurance provides insurance for a group of employees through a contract that exists between your organisation and the insurance company. Generally, group life insurance can be similar to the types of *life insurance policies* that are available on an individual basis, such as term, whole, and universal life. The actual group life insurance contract is issued to the company rather than to each employee, and the contract, known as the master contract, provides coverage for the entire group. Instead of having the master contract in hand, the insurance company issues each employee a certificate of insurance as proof of coverage. Although your employee is not a party to the master contract, he or she will be able to enforce his or her legal rights under the master contract as a third-party beneficiary.

Employee life insurance is an *insurance policy* which provides a lump sum of money to the designated beneficiary of an employee who dies, in exchange for monthly, quarterly, or annual premium payments.

Why is employee life insurance benefit important?

Life insurance policy makes an employer as an employer of choice when desirable candidates select job opportunities. It is one of the comprehensive set of benefits that employees look for when the job search and choose an employer.

Life insurance provides peace of mind for an employee who is concerned about how his or her family, or heirs, will make out financially in the event of his or her death. *Life insurance policy* provides a certain financial cushion for the employee's survivors if the employee's death is not due to his fault.

For example, life insurance carriers generally exclude some deaths, including death by suicide, civil commotion or riots, death occurring during military service, and other events that vary by policy.

Employees who are covered by a reputable *life insurance policy* know that, in the event of unforeseen circumstances, the money will be paid directly to their beneficiaries. Their loved ones can use the funds as they see fit, for reasons such as:

- Replacing lost income.
- Covering basic living expenses.
- Paying household debts and funeral expenses.
- Funding a child's education.
- Supplementing retirement savings.

Practices on employee life insurance

Although employee benefits are an ever-increasing share of employee compensation costs, having a competitive benefits package is vital to attracting and retaining the best employees. The best benefits programs are those that align with an organization's business strategy and compensation philosophy.

Benefits help both you and your employees: when you have happy, satisfied employees, they're more likely to be engaged, remain with the company longer, and go the extra mile.

Group life insurance premiums are considerably lower than premiums for individual *life insurance policies*, mainly because group life insurance is less risky for the insurance company. Insurance companies base group life premiums on the overall risk of the company or group,

and for most companies, that risk factor is low. Also, since group life insurance is typically bundled with health insurance, sales and administrative costs are minimal.

There are two main types of group employee *life insurance policies*:

1. Term

The term covers the employee for a specific length of time, typically the length of employment. Employers typically provide term life insurance coverage equal to an employee's yearly salary and pay premiums themselves. Premiums for term policies are less expensive because the insurance lasts only a limited time, whereas those for permanent policies cost more largely because they provide coverage for a longer period.

1. Whole

Whole (or permanent), which continues for as long as the employee lives. This type of insurance is much more expensive and premiums are generally paid by the employee. Because it accumulates over time, and the policyholder can cash in the policy before they die, whole life insurance is an investment. But financial experts tend to regard these policies as a bad investment because their rate of return is typically small.

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