
UNDERSTANDING THE BASICS OF GROUP LIFE AND DISABILITY INSURANCE

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AGENDA

- Value of life and disability programs
- Plan types, rates, underwriting requirements
- Understanding Guarantee Issue and why it's important
- Taxability
- Common additional features included in these policies



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VALUE OF GROUP LIFE AND DISABILITY POLICIES

Why Offer These Types of Benefits???

- Large Risk Pool to gain access to lower rates and higher policy amounts.
- Advantage of group underwriting vs. individual underwriting.
- Financial Benefits for employees.
- Round out a robust employee benefits program.

Who Qualifies for group coverage?

- Must be full time eligible employee working/residing in the U.S.
- Must be “actively at work” to qualify for coverage.

TYPES OF GROUP LIFE INSURANCE



Levels of coverage:

- Employer Sponsored
 - Flat Amount: \$10,000 or \$25,000, etc.;
 - Multiple of salary: i.e.: 1 x annual salary up to \$100,000.
 - Multiple Classes, i.e.: Owners: \$50,000 Managers: \$25,000 All others: \$10,000.
- Voluntary Buy Up (Employee Paid)
 - In conjunction with group sponsored plan.
 - Can be written “stand alone”.
- Accidental Death & Dismemberment Rider
 - Pays a percentage benefit for disabling conditions.
 - Pays out the policy amount should a member perish due to an accident.

WHAT DRIVES THE LIFE INSURANCE RATES?



- Group Industry
- Group Size
- Average Age
- Gender make up
- Volume

Volume Defined:

Total cumulative amount of all policies in the group: .

- A group of 5 employees requesting \$20,000 each would have a volume of \$100,000

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GUARANTEE ISSUE AND ITS IMPORTANCE

What does Guarantee Issue Mean??

- Amount of life insurance that a carrier will issue to employees with no health questions asked.
- This amount is driven by overall group size, amount requested, and group volume.
- If a plan maximum is above the “GI” amount, those who qualify would be subject to health questions and underwriting review.
 - If coming from an existing policy, most carriers will “grandfather” over existing amounts from the prior policy.
- *Example:* Policy Requested is 2 x Annual Salary to \$500,000
 - Carrier grants coverage to that amount, but with a Guarantee Issue Limit of \$350,000
 - All employees that qualify for above \$350,000 (earnings of \$175,000 annually) would be subject to health questions.
 - Based on answers, they may be approved, pended for more information, or denied the amount.
 - Employee will not be denied the \$350,000 Guarantee Issue though.

TAXABILITY OF LIFE INSURANCE



Imputed Income:

- Applies to all Group Sponsored (Employer Paid) plans for amounts above \$50,000
- The cost/value of the coverage above \$50,000 would be included as income to the employee and subject to social security and Medicare taxes
- This amount is not that significant as the premium costs of group life insurance is so low.

VOLUNTARY LIFE INSURANCE



Additional Life Insurance Paid By Employee

- Opportunity to buy more life insurance at group level rates.
- Participation requirements vary by carrier.
- Ease of underwriting vs. trying to buy an individual plan on your own.
- Can take the policy with you if you leave the company.

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ADDITIONAL PROGRAMS BUILT INTO POLICIES



- Will and Trust Planning
- Grief Counseling
- Conversion/Portability
- Seat Belt/Airbag Benefit
- Waiver of Premium – if totally disabled before age 60, coverage will continue and premium waived.
- Accelerated Benefits – if terminally ill, may receive up to 75% of benefit up front if life expectancy is less than 12 months.
- Travel Assistance

BENEFICIARIES



- The appointed person(s) who receives the Life/AD&D benefit proceeds when a claim occurs.
- You may update any time during the year, not just an open enrollment type of update.
- Any time a life changing event occurs (marriage, divorce, birth/adoption of a child, etc.) be sure to update your beneficiary on file with the employer.

THE VALUE OF DISABILITY INSURANCE



Benefits To Protect Employees' Incomes

- Income replacement should an employee become sick or injured and cannot perform their daily job duties resulting in a 20% or more earnings loss.
- Short Term and Long Term policies available.
- Percentage income replacement set to 60% or 66 2/3%.
- May be fully employer paid or employee paid.
- Mostly Guarantee Issue benefits based on group size (over 10 employees).

TYPES OF DISABILITY COVERAGE

Short Term Disability

- Waiting period set to 0, 8, 31, or 60 days before benefits begin.
- Benefits are in terms of weeks 12, 26, 52.
- Benefits are offset and integrate with CA State Disability to get employee up to 60% income replacement.
 - CA SDI: 55% income replacement up to \$1,601 per week. 7 day wait and benefits pay out for 52 weeks (just over \$120,000 in annual salary).

Long Term Disability

- Waiting period dovetails the exhaustion of Short Term Disability Benefit payout.
- Benefits are paid out on a monthly basis.
- Benefits will last up until age 67 or when Social Security Retirement benefits begin.

DISABILITY UNDERWRITING AND RATING

Underwriting Requirements

- Groups with 10 or more employees typically underwritten by group level health questions.
- Groups with fewer than 10 employees may be subject to health questions.
- Similar to life insurance, smaller groups may have a benefit maximum higher than the guaranteed issue limit amount.
 - Larger groups will likely all be guarantee issue up to the policy maximum.
- Length of time in business.
 - Most carriers will require minimum of 2 years

What drives the rates??

- Census data that drives the rates: age, gender, income, and job title.
- Employer SIC code and industry is also a big factor.
 - Some industries are auto declines for most carriers.
- Plan maximum is typically calculated by the average of the top 3 employees' salaries.

TAXABILITY OF BENEFITS

100% Employer Paid

- Benefits paid to employee are taxable as income.
- Premium/rates are less expensive.
- 100% participation required with no underwriting (over 10 employees).

100% Employee Paid (Voluntary)

- Benefits paid to employee are not taxable if deductions are made on a post tax basis.
- Premium/rates are more expensive.
- Subject to participation requirements and underwriting.

COMMON ADDITIONAL FEATURES TO LOOK FOR



- Employee Assistance Programs
 - Telephonic or Face to Face for legal, financial, personal counseling.
- W-2 and FICA Services
 - Option for carrier to do W-2 prep and FICA services for those on disability to calculate appropriate taxes, income from benefits, etc;
- Rehabilitation Incentive Benefit
 - Increase in benefit paid if disabled employee participates in rehab program.

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THANK YOU!!

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