



Why Employer Life Insurance Isn't Enough

Most insurance policies help protect you from high costs after an incident like an injury, flood, or car crash. But life insurance is unique—it's designed to protect your loved ones, offering them financial support in the event of your death.

With life insurance, you can protect your spouse, children, and others from the financial hardship of funeral costs and even provide a type of inheritance to them after your passing. Life insurance offers these “death benefits” alongside other potential financial returns, like income replacement.

Bankrate reported that 106 million American adults don't have sufficient life insurance coverage. However, a life insurance policy is only as good as the insurance company that provides it. This may be even more important than the amount of coverage or the type of coverage you select. In fact, those looking to make wise financial decisions for their loved ones should also consider the benefits of private life insurance policies, whether or not their employer offers a plan of their own.



This resource will outline why private life insurance is an essential investment, even if an employer enrolls you in a policy of their own.



Types of Life Insurance

Before you decide where to shop for life insurance coverage, you should get to know your options in full. The following page highlights the two general types of life insurance in which you can enroll.

▶ **Term life insurance**

This type of policy is purchased for a given time period, or term. The term can range from as little as ten years to as much as thirty. This does make it possible to outlive your policy, at which point your coverage will end. If you want the option to make your coverage

permanent, you can enroll in convertible term life insurance, which allows you to transition your policy from term to permanent at any point in your coverage. Term policies are generally the most affordable because they tend to be lower risk.

▶ **Permanent life insurance**

This type of policy is active so long as you continue to make regular premium payments and do not “surrender” it. It will provide benefits after your death, whenever that occurs, and isn’t limited to a certain time range. While this type of policy is more expensive than term life insurance, permanent life insurance is a better long-term investment that may offer excellent returns as the plan ages.

There are several types of permanent policies, including

indexed universal and variable universal. These plans each have their own financial rewards and premium costs, but it’s best to discuss the intricacies of these plans with an insurance professional before selecting one. The type that’s best for you will likely depend on your current finances, your fiscal goals, and the level of protection you need to offer your loved ones (funeral expenses coverage or a substantial death benefit that acts as reliable financial support for them long after you pass on).

▶ **Finding sufficient coverage**

Whatever type of coverage you choose, the most important choice you can make is selecting a private policy. There are several

reasons why an employer-sponsored life insurance plan, also called a “group plan,” may be insufficient.



Coverage Tied to Employment

When your employer extends an offer to enroll you in a group life insurance policy, you enter a very precise contract. The terms of this contract may make the available policy less appealing or beneficial to you.

▶ **Full-time only**

An employer's group policy will likely be tied to active, full-time employment status. Even after making regular premium payments—which your employer may cover or will otherwise deduct from your paycheck—you might lose the coverage and the protection it offers should your employment status change. That means that should you go part-time to pursue other work, have your hours reduced due to the employer's financial decisions, or become ill and must leave your employer, you will more likely than not lose your policy. If you are terminated or laid off, you stand to lose much more than your paycheck, and you will surrender life insurance as well.

Many people who are unaware of this may find themselves devastated to learn that they have lost life insurance coverage.

Because of the aforementioned requirements, an employer-issued life insurance plan may only fulfill its promise to pay death benefits should you pass while fully employed. When you think about it, this only covers a limited range of incidents. By not adding your own plan, you may be opting out of coverage for death due to natural causes in old age, as the policy may not remain active after you retire. Instead, you're only getting coverage for sudden, unexpected death during your employment.

▶ **Nonportable coverage**

Most employer-backed insurance policies are nonportable, meaning that you cannot take them with you when you leave your employer. Should you leave the company to accept another offer, you will surrender your life insurance—and that means losing any money you paid into the policy. This may make you hesitant to leave your current role, even when you are extended a

financially lucrative offer or one that offers superior working conditions.

What if the business that employs you closes or is taken under new ownership? Your coverage disappears with the company's name. If you work in an industry that isn't extremely financially stable, life insurance through an employer may be an unnecessary risk.



Insufficient Coverage

While your employer's group life insurance policy may seem to offer generous benefits on paper, you may find it necessary to add an individual or supplemental plan for additional financial coverage.

▶ **What employer policies cover**

Most employers' life insurance policies cover a fixed amount. This may be equivalent to your average annual salary or as much as twice that amount. Some policies, meanwhile, offer a fixed coverage amount, like a standard \$50,000. As much money as that may seem to be, though, it could be insufficient for funeral expenses and other costs.

How will your spouse and children make do after your death when they may lose your salary, health insurance coverage, and other benefits? Deduct the amount of debt you have from credit cards, property like a vehicle or home, or student loans, and even one-to-two years' salary worth of financial support will seem very slight.

▶ **The coverage you need**

Many insurance experts recommend that, to provide substantial death benefits to your loved ones, you should hold five to ten times your average annual salary in life insurance coverage. Based on that number, your employer's plan may pale in comparison to your actual needs.

Worse, a limited employer group plan may provide insufficient coverage for upcoming expenses—costs that your loved ones will be saddled with after you pass. These include:

- Buying a home
- Having children
- Buying a car
- Educational costs like sending a child to college
- Unexpected costs that your current coverage may not account for, such as you or your spouse losing employment or a family member having chronic health expenses in the future



Adding Individual Life Insurance Is Easy

Thankfully, it's simple to purchase an individual policy. You have two options for doing so, the most straightforward being purchasing supplemental insurance through your employer-sponsored policy. However, these plans are also likely tied to employment—and come with limitations and drawbacks.

Supplemental policies may be dictated by your employer as well, meaning you will have little ability to customize the specific terms of the plan.

You may find it to be more beneficial to purchase an individual life insurance policy outside of your employer. To get started, simply call a licensed insurance agent or broker outside your workplace who can assist you in designing a plan around your additional needs. They can help you find the right coverage amount, discuss additional benefits of life insurance with you—like income replacement or investment returns—and even provide coverage for your spouse.

Remember, the sooner you invest in life insurance, the greater its benefits to you and your loved ones will be.

