

Today's Objectives

- To discuss the economic problem of premature death
- To discuss employer plans for premature death



Module 5 – Premature Death

→ Premature Death Financial Security (Overview)

Economic Problem of Premature Death

- One cause of Economic Insecurity previously discussed is when a person with unfilled obligations dies (i.e., premature death)
- Examples of unfilled obligations include:
 - a family (young children and a spouse) to support
 - education of children
 - mortgage payments to be made on a house
 - other outstanding loans



Module 5 – Premature Death

→ Premature Death Financial Security (Overview)

Attacking the Problem of Premature Death

- The **Three**-Legged Stool of Premature Death:

- I – Government

- CPP survivor benefits (see Module 2)
 - Worker's Comp survivor benefits (see Module 4)

- II – Employer

- **Pension Plan Death Benefits (see Module 2)**
 - **Group Insurance benefits**

- III – Individual

- RRSP/RRIF death benefits (see Module 2)
 - Other savings (see Module 2)
 - Insurance



Module 5 – Premature Death

→ Employer Plans (Ch 23 of *Social Ins. & Economic Security*)

Group Life and Accident Insurance

1. Highlights
2. How Group Insurers protect themselves
3. Conversion of Group Life Insurance
4. Level of Benefits
5. Optional Benefits
6. Variations of Group Life Plans
7. Employer Plan Example (Group Insurance)



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Group Life and Accident Insurance

1. Highlights

- Group Insurance is one of the earliest benefits provided by e'ers and is still the **most common group benefit in Canada**
- Group Insurance (Ins) is **usually renewed annually**, but with no guaranteed premium renewal rate
 - Where there are post retirement benefits, retirees may have a modest amount whole life insurance policy (fully paid for at retirement)
- Group Ins **provides lump sum death benefit to e'ee's designated beneficiary** in the event of death from any cause while e'ee is insured



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Group Life and Accident Insurance

1. Highlights

- **Key feature of Group Insurance: little or no underwriting is done**
 - All e'ees in a group can be insured up to the non-medical maximum without submitting any evidence of insurability
- **E'ees are taxed on any group Ins premiums paid by e'er (but premiums paid by e'ees are not deductible), Death Benefits paid are NOT taxable**



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Group Life and Accident Insurance

2. How Group Insurers protect themselves

- a) Insurers **generally issue group life insurance contracts with overall maximum on amount of insurance per life and a lower non-medical maximum per life**
 - If an e'ee wants coverage above non-medical maximum (but only up to the overall maximum), they must submit evidence of insurability
- b) Insurers **generally require 100% participation by all eligible e'ees, if the e'er pays 100% of the premium**
 - In plans where e'ee contributions are required, insurers generally require participation by at least 75% of the eligible group
 - If participation < 75%, coverage often subject to evidence of insurability
 - For very small employers (with 10 or fewer e'ees), all e'ees may be required to provide evidence of good health



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Group Life and Accident Insurance

2. How Group Insurers protect themselves

- c) Insurer agrees to insure each e'ee for only year only
 - Premium rate is given as a rate per \$1000 of face amount coverage and is based on the e'ee's age (but all e'ees of the same age pay the same premium)
 - This rate is determined based on the ages of all e'ees at the time of the contract
 - Rates are adjusted every year based on employees' ages
- Note: It is not necessary to offer group insurance to all e'ees of a company, but the group eligible for coverage must be well defined (Example: you could offer group life to your full-time e'ees, but not to your part-time or contract e'ees)



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Group Life and Accident Insurance

3. Conversion of Group Life Insurance

- E'ees under age 65 must be provided with an opportunity to convert their group life insurance to an individual insurance policy in the case of termination of employment or termination of the group life plan
- Must be converted within 31 days of termination of employment/plan
- Allows e'ee to purchase an individual policy from the insurer at standard rates without evidence of insurability
- E'ee can convert to a one-year term, a term to age 65, or a whole life policy
- If e'ee dies within 31 days of termination it is treated as if individual had exercised the conversion privilege



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Group Life and Accident Insurance

4. Level of Benefits

- For salaried and hourly e'ees who are not members of a union, the death benefit is **usually expressed as a multiple of annual earnings**, e.g. Death benefit = 1 or 2 times annual salary
- For unionized workers, death benefit is sometimes a flat amount

5. Optional Benefits E'er Can Decide to Offer

a) Waiver of Premium

- If e'ee becomes disabled before age 65, insurer continues life Ins. coverage during period of disability, no further premiums required
- If group policy is terminated, disabled e'ee continues to have life insurance coverage with the original insurer until they go off disability (after which they would get an extra 31 days of coverage)



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Group Life and Accident Insurance

5. Optional Benefits E'er Can Decide to Offer

b) Living Benefits

- Relatively new
- Pays up to ½ of the death benefit, in advance, in the case where an e'ee has a terminal illness
- Benefit upon death reduced by the advance payment (plus interest)
- Written consent is usually required of the beneficiary
- Not a widely used benefit option, but it is an area of growth



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Group Life and Accident Insurance

6. Variations of Group Life Plans

a) Accidental Death and Dismemberment (AD&D)

- Provides an additional death benefit if e'ee dies due to accidental causes (death benefit is usually doubled)
- Also provides benefit if e'ee suffers traumatic injury as result of an accident (e.g. loss of sight of one eye, loss of hearing, loss of a limb)
- Usually covers accidents at or away from the work-place

b) Optional Group Life

- Allows e'ees to buy additional group life coverage based on individual need
- **Premiums are paid by the e'ee**
- Requires evidence (or often does) of insurability
- Has the advantage of lower admin fees, lower commissions and the convenience of payroll deduction



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Group Life and Accident Insurance

6. Variations of Group Life Plans

c) Dependent Life Insurance

- Tend to be nominal amounts of dependent life insurance coverage
- Coverage amount are usually stated as a flat amount such as:
 - \$5000 in event of death of spouse
 - \$2000 per death of a dependent child
- Premium usually paid by e'ee
- Premium rate is stated as a flat rate per family unit (irrespective of the actual ages of the dependents)

d) Survivor Income Benefits

- Rarely encountered
- Instead of receiving a lump sum, the death benefit is paid out as an annuity for the life of the beneficiary
- This provides a steady flow of income and eliminates much of the investment responsibility for the spouse



Module 4 – Poor Health – Disability

→ Employer Plans (Ch 21 of *Social Ins. & Economic Security*)

Group Life and Accident Insurance

7. Employer Plan Example - Western Faculty Plan

i. Basic Insurance Coverage:

- Compulsory coverage and amount is 2 times (2×) salary
- E'er (UWO) pays monthly premium for 1st \$50,000, e'ee pays premium on the rest (Note: E'er premium is a taxable benefit)
- Same monthly premium rate per 1000 for all E'ees
- No evidence (U/W) required
- Conversion feature on Group Insurance (basic + optional)

ii. Optional Insurance Coverage:

- Up to 2× salary coverage, combined cap: \$500,000 (Basic + Optional)
- No evidence (U/W) if applied within 31 days of eligibility
- E'ee pays, premiums by gender and for S/NS by age band per 1000



Module 4 – Poor Health – Disability

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Group Life and Accident Insurance

7. Employer Plan Example - Western Faculty Plan

iii. Living Benefit (for those with terminal illness):

- Special Advance Payment of Group Insurance coverage
Amount = $\frac{1}{2}$ (Basic + Optional coverage) subject to overall \$50,000 cap
- Note: Insurance Death benefit is reduced by Living Benefit payout

iv. Dependent Insurance Coverage:

- \$40,000 for partner/spouse, \$10,000 for each dependent
- No evidence (U/W) if applied within 31 days of eligibility
- E'ee pays monthly premiums



Module 4 – Poor Health – Disability

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Group Life and Accident Insurance

7. Employer Plan Example - Western Faculty Plan

v. Voluntary Personal Accident Insurance:

- Optional plan and there are two - e'ee life only and e'ee and family
- Buy in multiples of 10,000 with overall max of \$500,000
- E'ee pays monthly premiums

vi. Post Retirement Benefit (PRB):

- \$15,000 Life Insurance PRB
- Fully funded by e'er



Module 4 – Poor Health – Disability

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Group Life and Accident Insurance

7. Employer Plan Example - Western Faculty Plan

- Further details (optional reading) on the above Western Faculty benefits can be found by accessing the link below and reviewing p. 24-29 of the benefits booklet (can access through link below)

https://www.uwo.ca/hr/benefits/your_benefits/faculty.html

