CHAPTER 7
GROUP LIFE INSURANCE

Group insurance is one of the general categories of life insurance as noted in Chapter 3. Any life insurer may issue life, disability, term, and endowment insurance on a group basis with premium rates less than the usual rates for insurance. (CIC 10200) Group insurance provides benefits for a number of persons under one contract. Group insurance is available to almost any kind of natural group. A natural group is one formed for a purpose other than to obtain insurance coverage. Some groups that are eligible for group insurance include:

Employer/Employee Groups
Labor Unions
Trade Associations
Creditor/Debtor Groups
Fraternal Organizations

There are advantages and disadvantages to group insurance. An advantage of group insurance is that it can be offered to a large group with no requirement of proof of insurability on the part of its members. This is very different from individual life policies where the applicant must undergo individual underwriting requirements. Another advantage is that it costs less than equivalent coverage in individual policies. This is due to the insurer having fewer administrative and underwriting costs. Also, as a number of individuals are covered under a group policy, there is less chance of the insurer experiencing adverse selection. In an employer/employee group, older employees who represent a greater risk to the insurer retire and are replaced by younger, lower-risk employees.

Group insurance frequently provides insurance to people who may not be able to afford it on their own. Dependents can be covered under a group policy. The employer or sponsoring organization pays all or a portion of the premium in group insurance. Group policies are less likely to lapse due to non-payment as it is the sponsoring group (e.g. employer) that is responsible for sending the premium payment to the insurer.

Premiums in group insurance are based on loss experience. Experience rating is a method of establishing the premium for the group based on the group's previous claims experience. The larger the group, the more closely it will reflect standard mortality and morbidity rates. The employer may deduct the cost of insurance premiums as a cost of doing business.

A disadvantage of group insurance is that there is no individual selection as to amount and kind of insurance that is offered. The sponsor makes these decisions. Another disadvantage is that if a member leaves the group he/she may no longer be eligible for the group insurance.

In group insurance the contract is between the insurer and the sponsoring group (e.g. employer). The employer receives the master policy or master contract. Employees participating in the group plan will have to fill out an enrollment card and will receive a *certificate of insurance* which summarizes the coverage terms and employee's rights under the contract. If the employee dies, the group life policy will pay a death benefit to the employee's beneficiary. The beneficiary is named by the employee. Employers are prohibited from being named as the beneficiary of a group policy. In group health insurance, if a covered member becomes ill, the group health policy will provide a stated benefit amount to help cover medical costs. In group disability income insurance, if the member becomes disabled, the policy will replace a percentage of lost income.

CONTRIBUTORY AND NON-CONTRIBUTORY PLANS

Group plans are either contributory or non-contributory. The type of plan will be determined from the member's perspective. If the sponsor is paying the entire premium and the members do not have to pay anything, it is called a **non-contributory** policy. The sponsor pays 100% of the premium and must cover **100%** of eligible members. Eligibility is determined according to guidelines established by the sponsor. Eligibility factors frequently used are hours worked per week, length of service, and salary level.

In a **contributory** policy, the members might pay all of the premium or the members and sponsor might jointly contribute to the premium payment. It is the decision of the member whether or not to be covered under a contributory policy. As this is based on voluntary participation, insurers will require that **75%** of the eligible members participate in order to avoid adverse selection. Since there is minimal or no medical underwriting, people in poor health certainly would wish to be covered. With 75% participation required, insurers will achieve a good cross section of insured members.

ELIGIBILITY REQUIREMENTS

A group life insurance policy may not be issued or delivered in California until a copy of the policy form has been filed and approved by the commissioner. Employee group life insurance must conform to the following rules: (CIC 10202)

A true group is one that covers not less than 10 public or private employees when issued. California now recognizes a group to be 2 or more.

The policy will be issued to the employer and the premium will be paid by the employer or jointly by the employer and employees.

The plan must preclude individual selection as to amount of benefits. The level of benefits will be determined by such things as salary, position, or length of employment.

The plan must be for the benefit of someone other than the employer.

The insurance may be issued with or without medical examinations. Group insurance is often issued without individual medical examinations.

In a non-contributory plan, the policy must insure all of the employees or all of any class or classes of employees.

In a contributory plan, the policy must cover not less than 75% of the eligible employees.

A contributory policy will terminate if after the policy is issued the number of insured employees falls below 75%.

Normally a probationary period is required for new employees. This means a new employee will have to wait a period of time before qualifying for the group insurance coverage. The probationary period could be from a month to six months in length. The probationary period reduces administrative costs as employees who work for the employer only a short amount of time are not covered under the insurance plan. When the probationary period is over, the enrollment or eligibility period begins. This typically is a 31-day period during which the employee may sign up for the insurance without proof of insurability. If an employee wants the insurance after the eligibility period has terminated, he/she will have to prove insurability.

STANDARD PROVISIONS

Most states have adopted the standard provisions found in the NAIC Model Bill for Group Life Insurance. The following are the provisions that must be found in group policies:

Grace period—31 days

Incontestability—group coverage is incontestable after it has been in effect for a period of two years. It can be voided for non-payment of premium. (CIC 10206)

Entire contract—the policy and the attached application

Representations—all statements made on the application are representations and not warranties.

Evidence of insurability—if a member joins the group after the enrollment or eligibility period, insurability must be proven. If a member joins the group during the eligibility period, no medical examination is required.

Misstatement of age—the group policy must have a provision allowing for the equitable adjustment of either the premium or the death benefit payable if an employee has misstated his/her age. (CIC 10208)

Facility of payment—allows for the payment of the death proceeds to a close relative or friend if there is no named or living beneficiary rather than having to pay the proceeds into the deceased's estate.

Termination of master contract—the group coverage may be converted to an individual contract if the master policyholder has terminated the contract. Conversion typically is required to be within 31 days with no proof of insurability required.

Conversion—the group member is allowed the right to convert to an individual policy when coverage is terminated due to termination of employment or the elimination of a class of insureds.

Individual certificates—insured member's evidence of coverage under a group contract.

Restrictions—group policies may exclude or reduce the amounts payable when loss is caused by war or any act of war, military or naval service, or aviation. After notice and hearing, the commissioner may prescribe reasonable rules and regulations relative to the use of these provisions in respect to policies outstanding or issued hereafter. (CIC 10206.5)

CERTIFICATE OF INSURANCE

Group policies must provide for the issuance of individual certificates delivered by the master policyholder to the insured employee. These certificates of insurance need to contain: (CIC 10209)

The amount of insurance and to whom payable.

An employee conversion option to an individual policy in an amount not exceeding the group coverage without proof of insurability during a 31-day period following termination of employment.

An employee, who dies during the 31-day period after termination of employment and before electing to convert to an individual policy, will be covered under the group policy and the beneficiary will receive the amount of insurance to which the employee is entitled to convert as an individual policy.
An employee who was not given notice of the right of conversion to an individual policy at least 15 days before the end of the conversion period shall have 25 days after notice in which to convert. This additional period cannot extend more than 60 days beyond the end of the conversion period of the policy.

TYPES OF GROUP LIFE INSURANCE/BENEFIT AMOUNTS

Group life insurance may be written as either term or permanent insurance. The type of insurance chosen will depend on the objectives and resources of the employer. Most group life insurance is term insurance—more specifically annual renewable term (ART) insurance. Each year the policyholder has the right to renew the contract without evidence of insurability. The insurer has the right to adjust the premium each year based on the experience rating of the group.

If group permanent insurance is used, some form of permanent or whole life insurance will be the underlying policy. The most common forms of permanent group insurance include group ordinary insurance, group paid-up insurance, and group universal life insurance.

Employers are allowed to deduct the premiums paid for group insurance as a business expense. The employee does not have to report the employer -paid premium for life insurance as long as the coverage is $50,000 or less. Employees who have more than $50,000 of coverage must declare the premium paid by the employer for the coverage in excess of $50,000.

In order for a group life insurance plan to have favorable tax treatment, there are some non-discriminatory requirements. These requirements are:

The plan must benefit at least 70% of all employees.
At least 85% of participating employees cannot be key employees.

The amount of insurance provided to employees must have a relationship to level of compensation or position. The amount of coverage will be predetermined by the employer and does not allow for individual selection by the employee. Amount of insurance normally will be a flat benefit or based on earnings or position.

Earnings—This can be a flat amount per earnings level or a percentage of earnings. As an example, employees may receive life insurance in an amount 2½ times their salary.
Position—A schedule sets the amount of insurance according to job position. For instance clerical staff may have $25,000 of life insurance, managers $50,000 of life insurance, supervisors $75,000 of life insurance, and officers $100,000 of life insurance.
Flat Benefit—This type of schedule provides the same amount of life insurance for all employees regardless of earnings or position.

Dependents also can be covered under a group policy. The amount of life insurance on dependents cannot be in excess of 100% of the insurance on the life of the employee. (CIC 10203.4) The premium for dependent insurance may be paid by the employer, the employee, or be shared by the employer and employee. Dependents would include the following: employee's spouse; employee's unmarried children from birth to age 20, or 22 if in school; and children 21 or older if either physically or mentally handicapped and dependent upon the employee for support. For a handicapped child to remain on the policy, proof of incapacity and dependency must be given to the insurer within 31 days of the child reaching the limiting age. The insurer is allowed to ask for subsequent proof of incapacity, but cannot ask for such proof more than once a year after the two-year period following the child attaining the limiting age. (CIC 10203.4)

A group policy may not offer or provide coverage for a registered domestic partner that is not equal to the coverage provided to the spouse of an employee, insured, or policyholder. (CIC 10121.7)

GOVERNMENT GROUP LIFE INSURANCE

Federal Employees' Group Life Insurance (FEGLI) provides life insurance protection for federal government employees whether working or retired. The federal government pays approximately one third of the monthly premium. The plan, administered by commercial insurers, provides a benefit amount that is a percentage of the individual's salary until 65. After that age, the benefit amount reduces until leveling off at 25% of the employee's salary prior to retirement.

Servicemembers' Group Life Insurance (SGLI) was established in 1965 to provide active duty armed service personnel with group life insurance. It is offered by a consortium of commercial life insurance companies. The cost of the insurance is shared by the federal government and the service personnel. It is available in $50,000 increments up to a maximum of $400,000. This coverage stays in effect for 120 days following discharge from the service. Servicemembers with SGLI upon discharge may convert to a permanent plan of insurance with a participating company or to term insurance under Veterans' Group Life Insurance.

Veterans' Group Life Insurance (VGLI) provides for life insurance protection following military discharge. It is issued in $10,000 increments up to a maximum of $400,000, but not for more than the amount of SGLI held by the servicemember at the time of separation. VGLI allows for the conversion of SGLI coverage to renewable term insurance. The insured is responsible for paying the entire premium and premiums are age-based. As it is term insurance, it has no cash values. The VGLI policy may be converted to an individual whole life policy with any of the participating insurers at any time. Other types of policies such as variable life or universal life are not allowed as conversion policies.

OTHER FORMS OF GROUP LIFE COVERAGE

Credit Life Insurance

Group life insurance may be issued to debtor groups. Application for this insurance is made by the creditor, vendor, or financial institution. The insurance is on the life of the borrower and the beneficiary is the lender. If the insured dies before the debt is repaid, the policy proceeds are paid to the lender to satisfy the amount remaining on the loan.

In California, debtor group policies must meet the following criteria:

The group must have at least 100 new entrants per year; credit unions need at least 50 new borrowers per year.
The amount of insurance on a borrower's life will be the lesser of the debt or $100,000.
All insureds must be borrowers from one financial institution and under agreement to repay the borrowed amount, or all insureds purchase merchandise under contract to pay the balance of the purchase price.

Franchise Life Insurance

Franchise life insurance, also called wholesale insurance, is a form of insurance in which a number of individual life policies are issued to a selected group at special rates. Such contracts frequently are used to cover small groups. These policies may be issued to employees of a common employer and to affiliated employers and professional associations. As individuals covered by franchise insurance receive their own policies, there is no master contract. (CIC 10200)

Blanket Insurance

A blanket life insurance policy is a form of group insurance in which a number of people are covered but are not individually named. Blanket life insurance may be written for a term not exceeding one year with premium rates less than the usual rates for such insurance. (CIC 10220) Some groups that might use a blanket policy include: sports teams (covering members while participating in the sports activity); universities to cover students and employees; religious, civic, recreational and volunteer organizations; newspapers to cover its carriers; and volunteer fire departments. These policies must be written for the benefit of persons other than the policyholder, the premium is to be remitted by the policyholder, and the policy insures persons without any requirement for individual enrollment and without individual commitment or undertaking to pay. There is no prohibition for the cost of the insurance being borne by the individuals who are insured. When the premium is paid by the person insured, he/she may request from the insurer in certificate form a copy of the policy. Coverage shall not be provided to any person who files with the entity to whom the blanket policy is to be issued, a written statement requesting that he/she not be covered. (CIC 10220;10222)

Multiple Employer Trusts

Multiple employer trusts (METs) are legal entities in which two or more financially unrelated companies join together to provide group life insurance, group health insurance, group disability income insurance, or pension benefits. The companies may employ workers in the same industry or the same labor union. Employer contributions go into a common pool from which benefits are paid. By banning together, small firms may enjoy lower costs of insurance by taking advantage of the economies of large group underwriting.

METs are formed by a sponsor which is commonly an insurance company or a third party administrator (TPA). The sponsor will handle managerial and clerical functions related to group benefits as well as setting underwriting guidelines to prevent adverse selection.