

Individual vs. Group Term Life Insurance

Millions of people are covered by group term life insurance plans through their benefit programs at work. These plans generally provide employees with a small amount of life insurance along with the option to purchase a limited amount of additional coverage.

Many people buy the additional life insurance because it is convenient and easy. They generally don't need to provide any health information, and their premiums are deducted from each paycheck.

What many people do not realize is that purchasing individual term life insurance on their own may be a better option than buying additional group coverage at work. Here are some reasons why:

- Group term life insurance plans limit the coverage you can get, often to three or four times your annual salary. For many people this is not enough.
- You do not own your group term life insurance. If you change jobs, get laid-off or leave the workforce for a period of time, your options to continue coverage may be limited.
- The premium rates for group life insurance are not guaranteed and increase over time. They also reflect the fact that these plans do not exclude employees with health conditions. As a result, the premiums may be higher than what you would pay for individual term coverage over time.



Additional Income Tax

You may also pay additional income taxes if you buy group life insurance. Under the current tax rules, you are taxed on the value of group life insurance over \$50,000 based on the difference between what you pay for it and premium rates established by the IRS.

As an example, assume that Tom is 45 and his employer provides him with \$50,000 of group life insurance:

- Tom decides to purchase an additional \$150,000 of group coverage for \$15 per month.
- The premium rate prescribed by the IRS for the additional amount of coverage is \$22.50 per month.
- In this example, the difference of \$7.50 (\$22.50 - \$15) per month will be considered taxable income to Tom and \$90 (\$7.50 x 12 months) of additional taxable income will be reported on Tom's W-2 at the end of the year. This amount will also be subject to Social Security and Medicare taxes.

This may not seem significant, but it may increase as Tom gets older and the additional income tax he will pay can add up over time.

Individual Life Insurance

Buying individual term life insurance instead of group life insurance allows you to:

- **Get the coverage you need** — A life insurance professional can help you determine how much life insurance you need, and the type of coverage that is right for you.
- **Control your coverage** — You own the policy, so you control your coverage if you lose or change jobs — or leave the workforce.
- **Know what you will pay** — You can buy individual term life insurance with level premiums that are guaranteed for 20 years or more. Your premiums per dollar of coverage may be substantially less than what you would have paid for group life insurance over the long run.

Overall, buying individual life insurance may make good financial sense. You will need to go through an underwriting (risk evaluation) process in order to qualify. However, buying a policy when you are young and in good health allows you to lock in the coverage you need with affordable, guaranteed premiums.

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