

Why You Can't Depend on Group Life Insurance



If you have a full time job, you may also be fortunate enough to have a free term life insurance policy through your employer. For most people, it's the equivalent of a year's salary. If you're lucky, it might even be as high as three times your annual salary.

Your H.R. department probably billed the coverage as a big benefit when they brought you on - but despite what you may have been led to believe, it's not really as good a deal as you may think.

"The biggest problem with group life insurance policies is they are loaded with pitfalls the policy holder has no control over," says Byron Udell, founder and CEO of Accu, a Web -based insurance company that takes the legwork out of the insurance shopping experience. "The company could do away with the coverage with little or no warning, go out of business or terminate your employment. If this happens, you lose your coverage." If you are uninsurable when this happens it could be disastrous!

Second, they don't offer the full amount of coverage you need. Most experts recommend you should have between five to ten times your annual gross income. "The small amount offered by group policies won't even come close to providing for your family if you were to die," says Udell.

So, what should you do if you need more coverage than your employer provides? You have two choices. Purchase additional coverage through work (most group plans will offer this option) or buy the extra coverage on your own.

Determining whether it makes sense to buy through your employer usually depends on your age and health status. With most group plans, employees are offered the same premium as others in their general age bracket (e.g., 25-34 year olds), regardless of their health status or actual age. So if you're healthy or near the lower end of your age bracket, this one-size-fits-all premium may be higher than what you would find if you shopped around on your own.

On the other hand, if you're an older employee or perhaps suffer from a chronic health condition, increasing your coverage through work might be a great option because you might not be able to find a policy on the open market that's as affordable as what your employer is offering.

Experts agree that insurance buyers would be wise to shop around before open enrollment at their place of employment to see whether life insurance coverage is available elsewhere at a better price. Many Canadian brokers have access to a Quotation system that permits them to shop for you. Independent Brokers, unlike captive agents, have the advantage of accessing multiple companies.