Life insurance benefits for retired workers

The availability of life insurance for retired employees is limited; moreover, where it is available, coverage frequently is less than that provided for active workers

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The continuation of life insurance protection beyond active employment is one of the many concerns of employees approaching retirement age. For slightly more than half of all full-time employees in medium and large private establishments who have employer-provided life insurance protection while working, such coverage ceases at retirement. Many employers, however, do elect to continue at least a portion of life insurance coverage for retirees, providing some income protection for survivors. This article examines the availability and details of life insurance benefits provided to retired workers.

Forty-two percent of all full-time workers who were provided life insurance as active employees had coverage available to them after retirement if they met plan requirements, according to the Bureau's 1989 Employee Benefits Survey of medium and large private establishments. Virtually all workers with retiree coverage had some reduction in the amount of insurance they would receive after retirement, however. The life insurance benefit was usually reduced either once (to a flat dollar amount or a percent of preretirement life insurance), or gradually over a specific time period. Generally, the reduction began immediately upon retirement.

For all but a few employees with retiree life insurance coverage, the benefit was continued for life. The remaining fraction of workers had coverage continued until attainment of a specified age or for a given number of months after retirement.

Data for this article are from the Bureau's Employee Benefits Survey, conducted annually since 1979. The survey provides information on the incidence and characteristics of a variety of benefits offered to full-time employees. Benefits provided to employees in medium and large establishments were studied in each year except 1987, when benefits for State and local government workers were examined.[1]

Extent of coverage

In medium and large private establishments, life insurance protection for active employees is common, covering nearly all workers. However, the percent of life insurance participants offered retiree coverage has declined slightly during the last decade.[2] In 1981, the first year for which such data are available, 64 percent of life insurance participants were offered retiree coverage. The comparable figure for 1988 was 58 percent.

The 1988 survey expanded into some smaller establishments and more service firms. Including these added firms, 49 percent of life insurance participants had retiree coverage available in 1988. By 1989, that figure had declined to 42 percent. (See table 1.) When survey data are

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compared by broad employee groups, little variation is evident in the incidence of retiree life insurance coverage among several broadly defined employee groups for each of the years shown.[3]

Table 1. **Percent of full-time employees with life insurance benefits and percent of full-time life insurance participants with retiree coverage available, medium and large establishments, 1981–86, 1988–89**

Item	1981	1982	1983	1984	1985	1986	1988	1989
All full-time employees	100	100	100	100	100	100	100	100
With life insurance:								
All employees	96	96	96	96	96	96	92	94
Professional and administrative employees	98	98	97	97	97	97	96	95
Technical and clerical employees	95	96	95	95	96	96	94	94
Production and service employees	96	96	95	96	96	95	89	93
All life insurance plan participants	100	100	100	100	100	100	100	100
With retiree coverage:								
All participants	64	64	66	64	62	59	49	42
Professional and administrative participants	66	66	69	66	64	64	50	41
Technical and clerical participants	64	64	68	67	66	60	50	43
Production and service participants	63	62	64	61	59	56	47	42

Table 2. **Percent of full-time life insurance participants with retiree coverage, by eligibility requirements for retiree benefits, medium and large establishments, 1989**

Eligibility requirements	All participants	Professional and administrative participants	Technical and clerical participants	Production and service participants
Total	100	100	100	100
With requirements	84	82	84	85
Age and/or service requirement	36	32	37	36
Service only	16	13	13	19
Under age 62	13	15	20	7
Age 62 and over	7	4	4	10
Eligible for retirement	48	49	47	49
No requirement	16	18	16	15

Table 3. **Percent of full-time life insurance participants with retiree coverage, by financing arrangement, medium and large establishments, 1989**

Financing arrangement	All participants	Professional and administrative participants	Technical and clerical participants	Production and service participants
Total	100	100	100	100
Fully employer paid	84	83	76	88
Fully retiree paid	10	11	18	5
Jointly paid	6	6	5	6

Life insurance benefits were provided to 85 percent of State and local government workers, according to the 1987 survey. This slightly lower incidence, compared with data from private establishments, is offset by lump-sum survivor benefits available in the retirement plans offered to many of the government workers surveyed.[4] Among life insurance participants, retiree coverage was somewhat more available to police and firefighters than to teachers and regular government workers (workers other than teachers and police and firefighters). The following tabulation indicates the percent of State and local government life insurance participants with retiree protection:

All participants	55
Regular workers	55
Teachers	54
Police and firefighters	61

Details of retiree life insurance provisions are presented in the following sections. Unless otherwise indicated, data are from the 1989 survey of full-time employees in medium and large private establishments.

Eligibility requirements

Frequently, an employee had to meet an eligibility requirement to qualify for retiree life insurance. (See table 2.) Among such requirements were attainment of a specified age, eligibility for retirement under an employer's pension plan, and working for a stated number of years. Once eligibility requirements are met, retirees generally need only apply for coverage within the required time period in order to obtain protection. Coverage is provided without any requirement for the employee to take a preliminary medical examination.

Eighty-four percent of the life insurance participants in plans with retiree coverage had to satisfy specified requirements before their life insurance protection was extended into retirement. The requirement that was most prevalent was eligibility for benefits under the employer's pension plan: nearly half of the participants with retiree protection were in this category. (Pension plan eligibility requirements typically include attainment of a certain age, such as 60 or 65, and completion of a years-of-service period, such as 20 or 30 years.[5]) Another third of participants qualified by meeting specified minimum age and/or service requirements. A common requirement was a minimum age of 55 with 10 years of service; age 60 with 5 years of service was also common. A few plans imposed just a service requirement, while plans with only an age requirement were rare.

These eligibility requirements are modest in light of the difficulties retirees, and older people in general, may face in obtaining individual life insurance coverage. In the rare cases in which coverage is available to older individuals through private insurance, such policies ordinarily offer small amounts of insurance protection and are often costly.[6]

Financing

Retiree benefits were financed entirely by the employer for 84 percent of life insurance participants in 1989. Ten percent of participants were in plans that required retirees to pay the cost of their life insurance protection, while the remaining 6 percent of the retirees participated in plans that were jointly financed by the employer and the employee. Patterns in financing the plans were similar in all three occupational groups examined. (See table 3.)

The continuation of life insurance coverage for retirees can be expensive, given the advancing ages of the insured. Employers, who generally pay the entire cost for retiree coverage, may look to a variety of arrangements for funding these benefits. Typically, employers finance retiree life insurance on a pay-as-you-go basis, paying increasing premiums as retirees age.

Alternatively, employers may prefund retiree life insurance by paying premiums to a deposit fund or a retired lives reserve account throughout the working life of an employee. These funds are then used to purchase retiree insurance. While such arrangements allow employers to spread premium payments over many years, their tax-related aspects are not always favorable. Because contributions are not made for benefits that are immediately available to employees, such contributions may not be deductible by employers. A deduction for prefunded retiree life insurance benefits may be allowed if the plan meets a number of restrictions on contribution amounts and eventual use of the funds.[7]

Amounts of coverage

For 9 percent of participants with retiree protection, the benefits after retirement were unchanged from those provided during the employee's years of active work. The remaining participants had their benefits reduced, either once to a flat dollar amount, once to a percent of prior coverage, or gradually over a period of time. (See table 4.) In nearly all cases, the retiree's life insurance coverage was reduced immediately upon retirement; in a few cases, the reduction began within a few months of retirement. White-collar retirees most commonly experienced gradual reductions in life insurance protection throughout their retirement years. In contrast, single reductions to a flat dollar amount were most common among blue-collar workers.

Among participants whose plans provided for flat dollar amounts of retiree coverage, white-collar participants, on average, received greater protection than did blue-collar participants. The most common flat amount for all workers was $5,000. Other common amounts were $2,000 and $3,000; few participants had coverage of over $10,000. (See table 5.)

When life insurance protection was reduced once after retirement to a percent of prior coverage, 50 percent was the most common reduction, and it was rare for such benefits to be greater than 50 percent of that provided during

Table 4. **Percent of full-time life insurance participants with retiree coverage, by comparison of benefits before and after retirement, medium and large establishments, 1989**

Benefit reduction	All participants	Professional and administrative participants	Technical and clerical participants	Production and service participants
Total	100	100	100	100
Benefits unreduced at retirement	9	8	7	10
Benefits reduced at retirement:				
Once to a flat amount	34	29	26	42
Once to a percent of prior coverage	17	16	23	14
Gradually	36	43	41	29
Data not available	4	4	3	5

Table 5. **Percent of full-time life insurance participants with retiree benefits that reduce once to a flat dollar amount, by amount of benefit, medium and large establishments, 1989**

Flat dollar amount	All participants[1]	Professional and administrative participants	Production and service participants
Total	100	100	100
$1,000	8	5	11
$1,001–$1,999	4	2	2
$2,000	10	6	12
$2,001–$2,999	7	14	2
$3,000	11	8	14
$3,001–$3,999	6	1	9
$4,000	4	2	5
$4,001–$4,999	4	([2])	7
$5,000	33	48	23
$5,001–$9,999	8	6	8
$10,000 or more	6	8	6

[1] Includes data for technical and clerical participants, which were insufficient to present separately.

[2] Less than 0.5 percent.

active employment. In fact, participants in these plans often received no more than 10, 20, or 25 percent of prior coverage.[8]

In plans with multiple reductions in retiree benefits, coverage was typically lowered each year after retirement for a set number of years, or lowered as retirees reached specified ages. For example, if an employee retired at age 65, the following schedule of reductions to active employee life insurance benefits might apply:

Age	*Percent of preretirement benefit*
65	92
66	84
67	76
68	68
69	*60

*But not less than $5,000

Employees with life insurance coverage that is reduced more than once after retirement frequently had a minimum benefit amount or final percentage specified by the plan.[9] Minimum amounts were either a flat dollar amount, such as $5,000, or a percent of preretirement coverage. While final percentages varied widely, common figures were 25 and 50 percent of preretirement coverage.

Retiree—active employee coverage

Just as plans may reduce the amount of life insurance protection available to retirees, reductions may also be imposed upon the benefits of older active workers. (See table 6.) Such reductions are related to the increased costs of insuring older workers.[10] How do these reductions compare with those imposed on retiree benefits? A look at life insurance participants in plans that reduce benefits for older workers as well as retirees shows variations in the reduction provisions. While active workers often face gradual reductions, the same workers, when retired, frequently have their benefit reduced once, to a flat amount or a percent of prior coverage.

Some similarities are observed among plans that reduce both active employee and retiree life insurance benefits gradually. For example, both reductions may be a percent of current protection—such as 10 percent—each year until a minimum level is reached.

Table 6. **Percent of full-time life insurance participants, by provisions for age-related reductions of benefits, medium and large establishments, 1989**

Provision	All participants	Professional and administrative participants	Technical and clerical participants	Production and service participants
Total	100	100	100	100
Life insurance changes	52	57	57	47
Life insurance reduced	52	57	57	47
Reduction begins at:				
Age 60 or earlier	1	2	1	1
Ages 61 to 64	(1)	(1)	(1)	(1)
Age 65	29	33	32	26
Ages 66 to 69	3	3	3	3
Age 70	18	18	20	16
Age 71 or later	1	1	1	1
Reduction in maximum life insurance benefits	(1)	(1)	(1)	(1)
Life insurance benefits do not change	48	43	43	53

[1] Less than 0.5 percent.

Other survivor benefits

If life insurance is terminated at retirement, the retiree is often given the option to convert existing employer-financed group insurance to an individual policy paid for by the retiree. This conversion is generally permitted without any requirement that the retiree provide evidence of insurability (such as passing a medical examination to the satisfaction of the company). Usually, if, within 31 days after life insurance terminates due to retirement, written application is made and the first premium is paid, the retiree may convert all or a part of the amount of life insurance in force immediately before retirement to an individual policy. Premium payments then become the responsibility of the retiree.[11]

Although conversion may provide the only available source of life insurance for older individuals, the premium rates for such benefits are generally greater than those applied to younger individuals. This is because these rates are typically influenced by the risk associated with insuring older individuals.[12]

The need for substantial life insurance benefits for retired workers is often less than that for younger workers. Typically, children are grown, major purchases—such as houses—are not anticipated, and a retirement nest egg may have been saved. Lump-sum payments may be needed for funeral expenses at the time of death, but perhaps for little else. In contrast, survivors may be more concerned about a continuing source of income, such as periodic pension or Social Security payments. Both private pension plans and Social Security provide survivor benefits, which maintain a source of income for surviving spouses.[13] □

Footnotes

[1] Benefits studied include lunch and rest periods; holidays; vacations; personal, funeral, jury duty, military, parental, and sick leave; sickness and accident, long-term disability, and life insurance; health care coverage; and private retirement/capital accumulation plans. For detailed survey results, see *Employee Benefits in State and Local Governments, 1987*, Bulletin 2309 (Bureau of Labor Statistics, 1988); and *Employee Benefits in Medium and Large Firms, 1989*, Bulletin 2363 (Bureau of Labor Statistics, 1990).

[2] The Employee Benefits Survey covers active employees only, and not retirees. Consequently, the data in this article refer to the percentage of current employees participating in plans calling for the eventual provision of retiree benefits.

[3] Survey data on the incidence and characteristics of benefits are available for all full-time workers and for three broad classes of full-time workers: professional and administrative; technical and clerical; and production and service workers. The first two groups are often combined to provide data on "white-collar" workers, in contrast to "blue-collar" production and service employees.

[4] For additional details on variations among public- and private-sector employee benefits, see Allan P. Blostin, Thomas P. Burke, and Lora M. Lovejoy, "Disability and insurance plans in the public and private sectors," *Monthly Labor Review*, December 1988, pp. 9–17.

[5] See *Employee Benefits in Medium and Large Firms, 1989*, p. 98.

[6] For a discussion of life insurance for older individuals, see Dan M. McGill, *Life Insurance* (Homewood, IL, Richard D. Irwin, Inc., 1977), pp. 416–18.

[7] For a more complete discussion of retiree life insurance funding, see William H. Rabel, "Permanent Forms of Group Life Insurance"; and James E. Roberts and Ronald T. Martin, "Retired Lives Reserve," in Jerry S. Rosenbloom, editor, *Handbook of Employee Benefits: Design, Funding and Administration (Homewood,* IL. Dow Jones-Irwin, 1984).

[8] Because of the small number of life insurance plan participants with benefits reduced once to a percent of active worker coverage, data were insufficient to present a detailed distribution of the features of such plans.

[9] In addition to specifying a minimum benefit amount, some plans imposed a maximum dollar limit on retiree life insurance benefits. For example, a plan might reduce benefits to 50 percent of that provided during active employment, but impose a $20,000 maximum on the amount of protection available.

[10] For more information, see Michael A. Miller, "Age-related reductions in workers' life insurance," *Monthly Labor Review*, September 1985, pp. 29–34.

[11] Participants in life insurance plans with conversion features, but no other provisions for retiree benefits, were not included among the counts of workers with retiree life insurance benefits for this analysis.

[12] For additional details on life insurance conversion, see McGill, *Life Insurance*, pp. 689–90.

[13] For additional details on survivor benefits in pension plans, see Donald Bell and Avy Graham, "Surviving spouse's benefits in private pension plans," *Monthly Labor Review*, April 1984, pp. 23–31.

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