

5 Reasons Why Your Life Insurance at Work May Fall Short of Protecting Your Family When They Need It Most

Everyday there are millions of Canadians in the work force, working for large, medium and small sized businesses. In fact, according to Statista, there were 15.4 million Canadians above the age of 15 and employed on a full-time basis during 2021. Of those, approximately 84.9% of them work for small or medium sized businesses. While it's staggering just how many Canadians work for small and medium sized companies, it may be more surprising to find out that approximately 94% of these employers offer group benefits.

Group benefits are a very important piece to a compensation package as it shows that the employers are caring and want their employees not only to be earning a decent wage, but also have the complete package to go along with it.

While it's great so many Canadians have the coverage they need, unfortunately there are a range of packages that are offered by employers and not all of them are the same. While many employers are motivated to take care of their employees ensuring that they are fairly compensated and taken care of. Others, offer group benefits just so that they can state that benefits are provided. This can be evident by how insufficient some coverages are.

One thing that remains constant with almost all benefit packages is that while they all offer some form of life insurance, there is no standard that is followed. While there are common themes with all of these plans, there are important factors to consider when deciding if your family should be protected using only these employer group packages.

Most benefit packages only offer a small amount of basic/guaranteed life insurance

When an employee is covered for life insurance, quite often the plan that is offered by the employer is a flat rate or a multiple of the salary earned by the employee. In most cases the flat rate is around \$25,000 or may go as high as \$50,000. For salary multiples, it is usually around 1x to 2x the salary of the employee and there is typically a cap that is stated. For example, 2x your salary to a maximum of \$100,000.

In the event of a premature death, your loved ones don't typically complain about the money they are getting from your group benefits package. Sadly, more often than you would hope for, survivors find that that the money received is not enough to cover their needs. Regrettably, this is evident through the GoFundMe pages that are mentioned in obituaries and death notices more frequently.

With individually owned life insurance coverage, you can choose the amount that you want your loved ones to receive upon your passing. This can help ensure that they have the money they need without having an economic shock to their lifestyle, coupled with the already devastating shock of living without you.

You can buy additional insurance through work, but it can be expensive and have limitations

Most group benefits packages have the option for the employee to purchase additional insurance coverage, but there can be disadvantages to such additional coverage.

First, the additional coverage is subject to regular underwriting. This isn't a problem on its own because if you purchased an individual policy, you would experience the same underwriting process. The issue becomes that when you buy the additional coverage, you don't typically have a choice of what kind of insurance you are purchasing. The additional coverage offered is typically term insurance with a 5-year age bands. This means that as you get older (typically every 5 years) you will experience an increased premium for the same life insurance. With individually owned insurance, you could customize and tailor your policy to meet your specific needs. For example, you could arrange for a 5, 10, 15, 20, 25 or even 30-year term policy. This means that the premiums would stay constant for the length of time that you choose, thereby ensuring that your family's needs are met as you intended.

A change or loss of job could mean you lose your coverage completely

Many people rely solely on the life insurance offered by work only to find out that they changed their job but the new employer doesn't offer any group benefits, or that the coverage offered by the new employer is only a fraction of what they had at their old job.

When you leave your employer, you are no longer covered under the old policy. If your new employer doesn't offer life insurance that is equal to what you had previously, then you will have to go without. You could purchase an individual policy at that time but the cost could be much higher as you are now older, and you also might not be able to qualify. What if you are no longer insurable? What happens if your health has changed and now you are going to be charged extra?

It's recommended to purchase individual life insurance to meet your family's needs. That way, regardless of where you work, you can make sure that your loved ones will be able to continue with the same standard of living they have become accustomed to. What's best, if you have your own life insurance coverage, you can take better paying jobs regardless of the life insurance offered in their group benefits.

You don't own the policy, your employer does

When you have coverage through work, you don't own that policy, your employer does. This means they have control over what happens to that policy. The policy can be cancelled or changed by your employer.

Economies grow and shrink. When the economy is shrinking for two quarters or more, this is called a recession. Many companies look to cut back during recessions and see where they can save costs. There are companies that may look at changing, reducing or cancelling their group benefits packages as a result of a recession. This can have a dire impact on your family's finances if the only coverage someone has been offered is through their work.

Again, with individually owned life insurance you are in the driver seat. You are the owner, therefore only you can cancel or make changes to your existing coverage.

If your employer misses a payment, your insurance won't pay out

While many companies are viable and will continue to be so for many years to come, there are times when companies (as do individuals) fall on hard times. Some companies unintentionally fall behind on their premiums which puts your life insurance coverage at risk.

It's best to be in control of your family finances for your loved ones

Ultimately, group coverage can offer some protection for your family and loved ones but it's best to stay in control and not put their well being to chance. So, what should you do? Well, first off, take the coverage that is basic and guaranteed – because you probably don't have a choice anyway. Second, you should contact a qualified and licensed life insurance specialist to help you figure out how much life insurance you need for your coverage. There are no one-size-fits-all solutions when it comes to your family. You should make sure that they are covered the best way, with the best products, and fully so that all of your needs are included.

Who to contact?

My name is Jim Thornton and I'm an Insurance Advisor with Assante Wealth Management. If you have any questions regarding this information or how it might impact your family, please feel free to reach out to me. I'd be happy to offer a free no-obligation needs analysis specifically designed for you and your family.

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