Chapter 45

Public-Sector Life Insurance and Related Protection

Introduction

Most public jurisdictions make group life insurance coverage available to their employees, and many pay all or a portion of the cost. According to the Bureau of Labor Statistics, in 2007, 78 percent of state and local government employees participated in group life insurance funded wholly or partly by their employers (U.S. Department of Labor, 2008). Another survey covering only state employee benefits, indicates that 43 states provide at least a basic life insurance benefit at no cost to the employee (Workplace Economics, Inc., 2006). Approximately 90 percent of active and retired federal employees participated in the basic federal group life insurance program in fiscal year 2004 (U.S. Office of Personnel Management, 2006).[1]

Federal Program

The Federal Employees' Group Life Insurance (FEGLI) Program was established by the Federal Employees' Group Life Insurance Act of 1954 and was significantly modified by the Federal Employees' Group Life Insurance Act of 1980 (U.S. Office of Personnel Management, 2000). Modifications included an increased level of insurance under basic life insurance (discussed below), introduction of new optional forms of coverage, and a more competitive premium structure. Prior to the FEGLI Program, life insurance coverage was offered to groups of federal employees by beneficial associations. There were 27 such associations in 1954. Under the FEGLI Act of 1954, the Civil Service Commission was authorized to purchase a qualified life insurance policy to insure all or portions of the agreements assumed from the beneficial associations. Beneficial association insurance still has members, although it is closed to new enrollment.

Coverage—With few exceptions, all federal civilian employees are eligible to participate in the FEGLI Program. Those covered by the FEGLI Program include the president, members of Congress, federal government employees, Gallaudet University[2] faculty, and others not excluded by OPM

[1] Participation in the basic program by both active and retired federal employees has held consistently at 90 percent since the program was expanded and revitalized in 1981.

[2] Gallaudet University is a private four-year institution in Washington, DC, with under-

statute or regulation. As of 2003, the program covered more than 4 million federal employees and retirees, as well as many of their family members, and was the largest group life insurance program in the world.[3]

Administration—The insurance program is administered by OPM, but each federal agency is responsible for daily program operations with respect to its own employees.

Basic Life Insurance—During employment, the group policy provides both life insurance and accidental death and dismemberment (AD&D) insurance. The basic life insurance benefit equals the employee's annual pay rounded upward to the next thousand, plus $2,000. For employees earning $8,000 or less annually, the minimum amount of insurance coverage was $10,000 (U.S. Office of Personnel Management, Federal Employees Group Life Insurance Program). Additional benefits at no additional cost are provided for employees under age 45.[4] The AD&D benefit provided to employees is twice the basic life insurance benefit in the case of accidental death and one-half the basic life insurance benefit for the loss of one limb or sight of one eye. (The full amount is paid for two or more such losses.)

Basic insurance cost is shared by the employee and the government (as employer). The employer pays one-third of the cost (contributed from agency appropriations or other funds available to pay salaries), and the employee pays two-thirds (withheld from his or her salary).[5] Unless eligible employees state in writing that they do not want basic insurance, they are automatically covered.

Basic life insurance enrollment is a prerequisite for enrollment in any of the following optional life insurance coverage.

Standard Optional Life Insurance (Option A)—Federal employees under the basic life insurance program have the option of purchasing additional insurance known as standard optional life insurance. Standard life provides $10,000 of life insurance and an equal amount of AD&D coverage. The full cost of standard life is paid by the employee and is dependent on his or her age. The premium is withheld from the employee's salary. The monthly withholding ranges from $0.30 per $10,000 of coverage for employees under age 35 to $6.00 per $10,000 of coverage for employees age 60 or

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graduate programs open only to deaf individuals. The university was federally chartered in 1864 and continues to receive a portion of its funding from the federal government.

[3] Office of Personnel Management, Introduction to the FEGLI Program, www.opm.gov/insure/life/intro.asp (last reviewed July 2003).

[4] Additional benefits range from 2 times the basic life insurance benefit for employees age 35 or younger to 1.1 times the basic life insurance benefit for employees at age 44.

[5] The employee paid $0.155 per $1,000 of basic coverage in 2000 (Federal Employees News Digest, Inc., 2001).

over. (U.S. Office of Personnel Management, Federal Employees Group Life Insurance Program).

Additional Optional Insurance (Option B)—Additional optional insurance is also available to employees covered by the basic life insurance program. Additional life is offered in amounts equal to one, two, three, four, or five times annual basic pay (after the pay has been rounded to the next higher $1,000).[6] The full cost of additional life is paid by the employee and is dependent on his or her age. The premium is withheld from the employee's salary. Unlike standard life, AD&D coverage is not included in additional life. The monthly withholdings for additional optional insurance range from $0.03 per $1,000 of coverage for employees under age 35 to $0.70 per $1,000 of coverage for employees age 60 and over (U.S. Office of Personnel Management, Federal Employees Group Life Insurance Program).

Family Optional Insurance (Option C)—Federal employees covered by the basic life insurance program also have the option of purchasing insurance to cover eligible family members (spouse and unmarried dependent children). Family optional insurance is offered with $5,000 coverage for a spouse and $2,500 coverage for each child under age 22.[7] The full cost of family optional insurance is paid by the employee and is withheld from his or her salary. The premium depends on the employee's age. Monthly withholdings range from $0.27 for employees under age 35 to $3.40 for employees age 70 and over. Family optional insurance does not include AD&D coverage (U.S. Office of Personnel Management, Federal Employees Group Life Insurance Program).

Coverage after Retirement—Basic life insurance continues into retirement, with three elections offered to annuitants (U.S. Office of Personnel Management, Federal Employees Group Life Insurance Program).[8] The first option is a reduction in basic life insurance coverage of 2 percent a month after age 65 (maximum reduction of 75 percent of the basic policy face value), with no additional cost to the retiree. The second option is a lesser reduction of 1 percent a month after age 65 (maximum reduction of 50 percent of the

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[6] The maximum amount of basic pay used in this calculation was set at $143,000 in 1999 (U.S. Office of Personnel Management, 2000).

[7] This coverage may include children age 22 and over, provided the child is incapable of self-support due to a mental or physical disability that existed prior to age 22 (U.S. Office of Personnel Management, 2000).

[8] Provided the employee is retiring on an immediate annuity and he or she either had been covered by the basic life insurance during either of (1) the five years of service immediately preceding the starting date of the annuity or (2) if less than the full five years, the full period or periods of service during which the basic insurance was available to the individual (U.S. Office of Personnel Management, Federal Employees Group Life Insurance Program). (Note: The AD&D benefit provided to employees under basic life insurance does not continue into retirement.)

basic policy value). In 2005, the additional premium for this lesser reduction was $0.925 a month per $1,000 of basic insurance coverage until age 65 and $0.60 a month per $1,000 for coverage thereafter (U.S. Office of Personnel Management, Federal Employees Group Life Insurance Program). The final option is no reduction in basic life insurance coverage after age 65, with a larger premium charge. In 2005, the additional premium required for no reduction in the amount of basic insurance was $2.155 a month per $1,000 of basic insurance until age 65 and $1.83 a month per $1,000 after age 65 (U.S. Office of Personnel Management, Federal Employees Group Life Insurance Program). If either of the last two elections is canceled, the amount of life insurance is computed as if the retiree had originally elected the 75 percent reduction.

The FEGLI Act of 1980 requires that employees who retire before reaching age 65 make a supplemental contribution in order to continue their basic life insurance coverage. This supplemental coverage applies regardless of which of the three postretirement options the retiree has elected. The supplemental contribution ceases when the retiree reaches age 65, at which point the elected option becomes effective. The optional insurance programs (standard, additional, and family) may also be continued into retirement (at the same cost to the retiree as when he or she was employed), although the cost and coverage change when the retiree reaches age 65.

Retirees age 65 and over do not pay premiums for standard optional life insurance. However, the $10,000 standard optional insurance begins to decline at the rate of 2 percent per month until it reaches $2,500 (i.e., one-fourth of the face value). Similarly, premiums for additional optional insurance and family optional insurance are no longer required of retirees who have reached age 65. However, the amount of coverage will begin to decline at the rate of 2 percent per month for 50 months, at which point coverage ends.

State and Local Programs

Generally, the cost of basic life insurance in state and local government plans is paid entirely by the employer. In 2007, for example, 89 percent of life insurance plan participants were in plans that were wholly employer financed; the remainder were in plans that were partly employer financed (U.S. Department of Labor, 2008). Workers in plans requiring employee contributions generally pay a dollar amount based on coverage. Some plans, however, require a set contribution that covers more than one benefit.

Coverage—Among all state and local government employees who were full-time life insurance participants in 1998, 30 percent were required to work a minimum period (commonly one or three months) to qualify for the plan; 68 percent were in plans with no service requirement, and 2 percent were in plans for which the service requirement was not determinable. Minimum age requirements were rare (U.S. Department of Labor, 2000).

Basic Life Insurance Benefit Formulas—For employees of state and local governments, the most common method (51 percent) of determining basic life insurance is a flat-dollar amount of coverage. Flat-dollar insurance amounts up to $25,000 accounted for 67 percent of life insurance participants in 2007 (U.S. Department of Labor, 2008).

The second-most common method (38 percent) of determining the amount of basic life insurance is to base it on a fixed multiple of earnings. Earnings-based coverage provides a level of protection that automatically increases with pay. The most prevalent method of tying life insurance to pay is to multiply the employee's annual salary by one or two and then round the result to the next higher $1,000. For example, an employee whose annual pay is $43,600 would receive $88,000 of coverage under a plan providing two times pay.[9] Some plans place limits on the amount of life insurance available; such limits are typically in the range of $50,000–$250,000. According to a 2006 state employee benefits study, 27 states vary the amount of insurance based on an employee's salary, 14 states vary the insurance amount by age, and 22 states provide a fixed amount (Workplace Economics, Inc., 2006).

Accidental Death and Dismemberment (AD&D) Coverage—Accidental death and dismemberment (AD&D) insurance was available to 65 percent of state and local government life insurance plan participants in 1998. AD&D insurance provides additional benefits if a worker dies or loses an eye or a limb in an accident. For most workers, the benefit is equal to the basic life insurance benefit in the case of accidental death and a portion of that benefit for dismemberment, although a few workers receive a flat amount of AD&D coverage. Some states provide optional AD&D coverage at the employee's expense.

Supplemental Benefits—The typical supplemental plan provides term life insurance in multiples of one to three times annual pay, at the employee's option. Supplemental benefits are more common among state and local employees who have their basic life insurance determined by a flat-dollar amount than among employees with a multiple of earnings formula. Among the 59 percent of state and local government employees with the option of supplemental benefits in 1998, about 52 percent were required to pay the full premium for such benefits.

Coverage for Dependents—Of the 51 percent of state and local government employees with dependent life insurance coverage in 1998, 39 percent were required to pay the entire premium to obtain coverage; the remainder

[9] The annual pay of $43,600 is multiplied by two, which yields $87,200. This amount is then rounded up to $88,000.

had coverage paid either partly or entirely by the employer. The most prevalent method used to provide dependent coverage is a flat-dollar amount, and the employee often has the option to select specific benefits.

Survivor Benefits—Life insurance plans providing a monthly benefit to surviving members of a state or local government employee's family are rare. When survivor income payments are available, they are generally either a percentage of the employee's pay or a flat-dollar amount. Survivor benefits usually continue for 24 months, although some plans provide benefits until the surviving spouse either remarries or attains age 65 or until surviving children reach a specified age.

Coverage for Older Active Workers—In some life insurance plans, coverage of older active workers is reduced to account for the increased cost of insuring older workers. Coverage may be reduced once or in several stages. Plans with reduced coverage typically make the first reduction at age 65 or 70. If coverage is reduced only once, it is typically reduced to 50 percent of the original life insurance amount. For plans that reduce coverage in several stages, a common provision is to reduce coverage to 65 percent at age 65 and then to 50 percent at age 70. In 1998, 34 percent of participants were in plans in which older active workers faced reduced benefits.

Coverage for Retirees—Plans that extend basic life insurance coverage into retirement almost always continue coverage for the remainder of the retiree's life. However, the amount of the benefit is usually reduced at least once during retirement. Some plans require that premiums for continued coverage be paid fully by the retiree. In 1994, 46 percent of the full-time participants in state and local governments had basic life insurance that continued into retirement.

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Additional Information

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