



Employee Benefits

The Employer-Insurer Partnership for Financial Security

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HISTORY OF EMPLOYEE BENEFITS

Employee benefit programs are an integral part of America's workplace and have existed in this country since colonial times. In the early twentieth century, these programs began to evolve from simple pension plans to include more comprehensive benefits, such as health coverage and life insurance. The federal government recognized the important role these plans play in providing financial security to working Americans, and over time, our nation's tax policy has strengthened the incentive for employers to provide such programs. This voluntary employer-based system has served Americans well for decades, and continues to provide workers and their families with protection against life's financial risks. In fact, 41 percent of workers consider workplace benefits to be the foundation of their personal safety net.¹ These benefit plans include health care, retirement savings, and financial protection products. Perhaps least recognized and understood are the financial protection products, described below, that help working families manage life's uncertainties.

THE EMPLOYER-INSURER PARTNERSHIP

The life insurance industry is the leading provider of products and services for employer-sponsored benefit packages, including products that protect against the risk of premature death, extended disability, long-term care, or the non-medical expenses often associated with serious illness. For most American workers, the coverage they receive at the workplace is the only insurance they have for these events, making the benefits provided through the employer-insurer partnership a vital component to the financial security of families across the nation. In fact, half (51 percent) of all employees report obtaining the majority of their financial protection products, such as life, disability income, and long-term care insurance, as well as retirement savings plans, through the workplace.²

The workplace is an efficient and cost-effective way to provide American workers—and their families—with the tools they need to attain financial security. Employers conduct extensive research before choosing a provider (life insurance company) that meets the needs of their employees, and negotiate favorable prices that make the coverage affordable. Employers also provide a range of educational information that helps guide their employees through the process of selecting appropriate benefits for their families' needs. In many instances, employees would not have access to these products without the convenient and efficient venue provided by their employers.



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In addition, employers help to make these products affordable by offering various subsidy levels for their employees. Some employers pay 100 percent of employee benefits; others share the costs with their employees; and others offer employees discounted rates on benefits programs that employees pay for themselves. Additionally, many employers allow employees to purchase life insurance coverage for their spouse and children, and long-term care insurance for their spouse and parents. The employee must pay for the dependent coverage in full. The result is a system in which workers and their families have access to affordable coverage through their employer. In fact, 90 percent of Americans believe that it is important for employers to continue to offer benefits even if the employee must pay most or all of the cost.³ In this volatile economy, working Americans are able to find the financial protection they need through these vital, employer-sponsored plans.

LIFE INSURANCE

Life insurance is a key component of Americans' ability to take individual responsibility for the financial futures of their families. It protects families from financial hardships associated with the death of a loved one. In 2008, group life insurance represented 44 percent of all life insurance policies in force.⁴ That same year, life insurers paid \$22 billion to beneficiaries of group life insurance contracts, or 36 percent of total death payments.⁵

More and more employers are offering life insurance coverage to their employees. In 2008, 62 percent of workers had access to life insurance at work, up from 58 percent the previous year.⁶ And of those employees offered coverage, 96 percent participated.⁷ The high percentage of worker participation is a key factor in protecting American families from the financial impact of the death of a loved one. It is also becoming increasingly common for employees to be able to increase their coverage or purchase additional coverage through the workplace. In fact, 70 percent of all life insurance coverage is purchased at work.⁸

Life insurance provided through an employer is most commonly term insurance, which covers a defined period of time and doesn't build up cash value. When an employee leaves his or her job, coverage is terminated. However, most states require a conversion privilege, which allow employees to convert their group coverage to a permanent policy when they leave their job so they can retain life insurance coverage.

While most group insurance contracts provide a lump sum death benefit to a designated beneficiary, many also offer survivor income benefits in the form of monthly or periodic payments to a deceased employee's spouse or other named beneficiary. Some also continue payments to dependent children in the event of a spouse's death.

DISABILITY INCOME INSURANCE

Disability income insurance serves as income protection for workers by replacing a portion of earnings if an insured employee is unable to work due to accident or illness. Prolonged unemployment due to disability can jeopardize a worker's lifestyle and savings for retirement. The risk of becoming disabled is quite high—45 percent for persons between ages 35 and 65.⁹ And according to a study conducted by The Hartford, 97 percent of individuals stated they would need to make lifestyle changes if a member of their household lost his or her income.¹⁰

Many disability income insurance policies are offered as part of an employee group benefit package. According to the U.S. Bureau of Labor Statistics, at least 35 percent of workers were covered by disability income insurance.¹¹ In 2007, insurers paid \$15.7 billion dollars in disability benefits.¹²

A typical policy pays at least half a covered employee's salary up to a specified limit, such as \$5,000 a month. Some disability income insurance policies may cover the cost of job training if a worker can no longer perform his or her current occupation, or workspace modifications.



An increasing number of employers—including the federal government and many state governments—offer long-term care insurance as part of their employee-benefit packages.

LONG-TERM CARE INSURANCE

Long-term care insurance has become a critical component of retirement planning. It protects savings from being depleted by the steadily growing costs of long-term care and covers a wide range of services in a variety of settings to help individuals receive care inside or outside the home. An increasing number of employers—including the federal government and many state governments—offer long-term care insurance as part of their employee-benefit packages.

Federal legislation has been introduced in the 111th Congress that would permit employees to pay for long-term care insurance premiums with pre-tax dollars in employer-sponsored cafeteria plans and flexible spending accounts (FSAs). If passed, this legislation will encourage more employers and employees to consider long-term care insurance in their benefit plans.

Those who have long-term care insurance receive substantial benefits. In 2007, insurers paid \$7.2 billion in long-term care benefits, helping families pay for long-term care needs and often making it possible for the insured to live at home.¹³

Group long-term care insurance typically is offered as a voluntary benefit for which the employee pays some or all of the premium. In addition, long-term care insurance purchased through the workplace is portable: Employees can retain coverage if they change employers or retire.

SUPPLEMENTAL PRODUCTS

Supplemental benefit products provide employers and employees with flexible benefit choices that build on the basic coverage offered by an employer. Sold at the workplace at discounted rates, supplemental products include additional life and disability income insurance as well as products that help offset employees' out-of-pocket medical expenses. The American Cancer Society and the American Heart Association estimate that two-thirds of the total cost of fighting heart disease, cancer, and stroke comes directly out of the patient's pocket.¹⁴

Supplemental products offer a wide range of benefit amount and rider options and can be retained when employees change jobs or retire.

WORKPLACE RETIREMENT PLANS

The life insurance industry is an important supplier of products and services to employer-sponsored retirement plans. Life insurers work with employers to create retirement savings options and to provide workers with access to lifetime income in retirement through annuities.

Employer-sponsored retirement savings plans have provided many American workers with an opportunity to achieve financial security in retirement. These vehicles include traditional defined-benefit pensions, profit-sharing plans, and defined contribution plans, including 401(k)s, 403(b)s, and 457s. In 2007, approximately 60 percent of workers were offered a retirement savings plan through their employer.¹⁵ The vast majority of workers, both private and government, who are offered such a plan, participate. In fact, 80 percent of workers with access to a workplace retirement plan participated.¹⁶ These statistics prove just how vital these retirement security tools are to America's workforce.

- ¹ MetLife, Study of the American Dream, 2008.
- ² Ibid.
- ³ MetLife, Study of Employee Benefits Trends, 2009.
- ⁴ American Council of Life Insurers, Life Insurers Fact Book 2009. Note: Group insurance data includes employer-sponsored insurance and insurance offered through unions and professional associations.
- ⁵ Ibid.
- ⁶ United States Department of Labor, Bureau of Labor Statistics. Employee Benefits Survey. March 2008.
- ⁷ Ibid.
- ⁸ UNUM, Employer-Sponsored Benefit Plans, 2008.
- ⁹ JHA Disability Fact Book, 2003/2004.
- ¹⁰ The Hartford, Benefit Landscape Study, 2009.
- ¹¹ United States Department of Labor.
- ¹² ACLI tabulations of Accident And Health Policy Experience Exhibit data, used by permission.
- ¹³ NAIC Long-term Care Insurance Experience Reports 2008
- ¹⁴ American Cancer Society, Cancer Facts & Figures, 2006.
- ¹⁵ "Pension Sponsorship and Participation: Summary of Recent Trends," CRS, Patrick Purcell, September 8, 2008
- ¹⁶ The Hartford, Benefit Landscape Study, 2009.

The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry. In addition to life insurance and annuities, ACLI member companies offer pensions, 401(k) and other retirement plans, long-term care and disability income insurance, and reinsurance. ACLI's public Web site can be accessed at www.acli.com.



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