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[Back to Should you buy extra life insurance at work?](#)

Should you buy extra life insurance at work?

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Suppose your employer pays for group term life insurance equal to one times your salary. You also have the opportunity to buy more. How do you know how much additional life insurance you need and whether buying it at work or independently makes the most sense?

Rona Birenbaum, a financial planner with Caring for Clients, uses the following basic calculation to help clients assess their insurance needs:

Insurance coverage required = total outstanding debts + funeral costs + education funding for children + (annual cash flow needed by the survivor to remain debt free x number of years cash flow is required).

You can also plug more detailed numbers into this [online calculator](#). Once you know how much insurance you need, you have to consider the pros and cons of additional group term life vs individual coverage.

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While employer-paid premiums for your basic coverage are typically lower than individual life, you may be surprised to learn that this does not necessarily apply to employee-paid additional optional group life insurance. That's because you will have to undergo a medical examination in both cases, and your age and health status could drive up the cost of optional group life to the same or higher levels than individual life.

Furthermore, if you need coverage for an extended period, group insurance is often more expensive than individual rates since group rates tend to increase annually or on an age-banded basis while individual life premiums remain the same for a specified period.

Birenbaum says that when she compares individual policies to group rates, she compares the total cost over the needed coverage period and the group plans rarely come out ahead. "Even if an individual policy is slightly more expensive, the value of the policy is greater because the employee owns it outright and premiums are guaranteed for a specific period – say 10, 20 or 30 years."

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It is also important to recognize that unlike optional group life, individual policies can offer preferred rates to people who are in good health and have an excellent family health history. "In these circumstances, it may be a smart decision to buy up on individual term insurance instead of adding optional group life coverage," says ADP Insurance Solutions VP Laura Mensch.



Toronto Star illustration

Conversion of optional group life insurance can also be a problem if you change jobs or are out of work. Some group policies allow you to convert the coverage into an individual policy within 30 days of leaving the company without medical underwriting. However, because no medical underwriting is required, group conversions are typically priced higher than standard rates. Also, some group policies only allow employees to convert the insurance to a permanent policy, which is more expensive than individual term coverage and may not be what you need.

So do the math. You can compare [quotes for individual term life on this website](#) and then figure out what topping up your basic employer paid group insurance plan will cost you over an extended period. You may discover that individual life insurance will be cheaper in the long run as you age, even if you change jobs or poor plan experience drives up rates under your employer's plan.

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Sheryl Smolkin is a Toronto lawyer and writer. Contact her through her [website](#) and follow her on Twitter @SherylSmolkin.