

Life Insurance

Although not required to by law, many employers offer group-term life insurance coverage to their employees. Benefits under a group-term life insurance policy are paid only if the insured dies during the policy's term.

Advantages of Group-Term Life Insurance

1. Group-term life insurance generally features lower premiums than individual term life insurance.
2. In general, the cost of up to \$50,000 of group-term life insurance can be **excluded from an insured employee's wages** for federal income tax, Social Security, Medicare, and federal unemployment tax purposes.
3. Premiums paid by employers are tax deductible for those employers as long as they are not policy beneficiaries.
4. Group-term life insurance can be offered as part of a cafeteria plan, allowing employees to contribute toward their coverage on a pre-tax basis.

Requirements for Employers

To preserve the tax exclusion mentioned above and comply with the Internal Revenue Code, employers generally must:

1. Provide the benefit to **all employees**. However, coverage may be offered to a smaller group of employees if group membership is determined solely on the basis of—among other things—compensation, job duties, length of service, or other employment-related factors.
2. Provide the benefit to **more than 10 full-time employees**.
3. Not discriminate in favor of **key employees**. A key employee is an officer having annual pay of more than \$175,000 **or** an individual who is either a 5% owner of the business or a 1% owner of the business having annual pay of more than \$150,000.
4. Provide an amount of insurance to each employee based on a formula that **prevents individual selection**. This formula can be based on age, years of service, pay, or position.
5. Include the cost of group-term life insurance beyond \$50,000 of coverage in the employee's wages, reduced by the amount the employee paid toward the insurance.
6. Ensure the policy provides a general death benefit that is not includable in the policy beneficiary's gross income when paid.

Additional requirements and exceptions to the information above may apply. For more information, please see [IRS Publication 15-B](#).