

What is Supplemental Life Insurance?

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Protecting your loved ones from financial hardship should something happen to you is the purpose behind life insurance. Many companies make it easy for their employees to have some coverage by including it as a benefit. Chances are, it's worth about one to two times your salary and costs you nothing.

It's usually not enough.

Often, you will have the chance to purchase supplemental life insurance in addition to the coverage that is an automatic benefit. But the supplemental coverage might not be as good as it seems.

Knowing what you're really signing up for could save you money and ensure you're covered.

Supplemental life insurance is a type of life insurance that is often provided through an organization (like your employer) to a group of people. The employer is the policyholder and gets discounted rates because they are insuring their entire organization. The premium is deducted from your paycheck and if you leave the company, you usually can't take the policy with you.

According to a March 2019 report about employee benefits by the Bureau of Labor Statistics, 83% of people working in private industry and 91% of people working for state or local governments had access to life insurance benefits through their employers.

Supplemental life insurance is also called voluntary life insurance and as the name says, is designed to supplement other insurance policies, not replace them. The policies typically are guaranteed issue, meaning there is no health exam and you can't be turned down. You choose the beneficiary, but not much else. Sometimes, you might be able to buy policies for your spouse, domestic partner, or children in addition to yourself.

"This is aimed at people who may not be able to get regular life insurance, either because any of the underwriting circumstances might not be ideal, or their health might not be good, or their finances might not be good," said Steven Weisbart, senior vice president and chief economist of the Insurance Information Institute. "There is very little underwriting that goes on here. You basically sign up, pay the premium, and you're covered."

Many groups like auto clubs, alumni organizations and veterans groups offer supplemental life insurance policies to members. Anyone who is a member can purchase the policy.

Types of Supplemental Life Insurance

Often, the supplemental life insurance offered through an employer or organization is different from term, universal, or whole life policies that are available on the open market.

Instead of being true life insurance, which pays a large death benefit to your beneficiary mostly for the purpose of replacing lost income, many supplemental life insurance policies offered through employers have many restrictions.

There are two main types:

- **Accidental death and dismemberment:** Also known as AD&D policies, Accidental death and dismemberment policies will pay out only if an accident caused the death. Some will pay out if a serious accident resulted in a loss of eyesight, hearing, or a limb, but not in death.
- **Burial insurance:** These policies have a low death benefit, mainly to cover the cost of burial and funeral expenses, and have a value of about \$5-\$10,000.

Weisbart says those policies are basically just applying their small death benefit to a specific function.

“The policy will pay under its terms if those conditions arise so if you do in fact die in an accident, then the policy would pay,” he says. “The trouble is, most people don’t [die in an accident,] so the chances of your beneficiary actually collecting a benefit under such a supplemental policy are really, really remote.”

Supplemental life insurance policies that are based on your employer are usually not portable. So if you leave the job, you leave the insurance policy.

The coverage available for spouses and domestic partners often has lower death benefits than the coverage you could purchase for yourself and it often has the same restrictions like being just AD&D or burial insurance.

Who Should Get Supplemental Life Insurance?

Financial experts recommend having life insurance worth about 10-12 times your income, so the policies that are part of your benefits package are usually not enough, even with supplements.

Premiums to buy sufficient coverage as part of a group plan are usually much higher than if you bought it privately.

“It’s not as good of (a) deal as it would be if you are willing to go through the medical exams and the extensive questionnaires that you would have to go through for conventional life insurance purchase,” Weisbart says.

Employer-based supplemental life insurance is best for people who:

- Have pre-existing health conditions that might prevent them from being able to get insurance on the open market.
- Can’t purchase individual term life insurance because of age, smoking, dangerous hobbies or other issues.
- Find premiums are too expensive on the open market.
- Want a quick payout for burial and funeral costs.

People who do not smoke, have no pre-existing conditions, and are young can easily find lower rates for less-restrictive term life policies on the private market.

“The vast majority of people can buy individual life insurance, it’s only five or at the most 10% of the market that gets rejected,” Weisbart explains. “And the great majority of those [people] can buy it preferred rates.”

Portability is also a major reason not to opt for coverage through your employer. You might be young and healthy now, but what happens if you develop a chronic condition as you get older, which would make you more difficult to insure on the private market?

Deciding If You Need Supplemental Life Insurance

Don’t say no to a free group policy if your employer provides it, but make sure you have enough coverage if you leave that job.

If you don’t have enough coverage, shop around and see what you can get on your own. Balance the cost of the supplemental insurance plan against the death benefit it will provide. If you have no debt and no dependants, an emergency fund should cover funeral and burial costs, so there wouldn’t be a need for a supplemental policy to cover those expenses.

Chances are, you can do better than buying a supplemental life insurance policy through an employer or other organization.

“If (your job is) the only place you can get life insurance, okay fine. But it certainly isn’t the first place I want people to go,” Weisbart says. “This is not a plan B, it’s a plan Z.”

Tiffani Sherman is a Florida-based freelance reporter with more than 25 years of experience writing about a variety of topics, including finance, health and travel. She likes to save money so she can travel more.