Group Insurance of persons overview

1. The different types of group insurance

According to the *Canadian Life and Health Insurance Facts – 2019 Edition*, from the Canadian Life and Health Insurance Association (CLHIA), 38% of the value of Quebeckers' life insurance products in 2018 came from group insurance. This is something the advisor should consider when completing their clients' financial needs analyses.

Group insurance applies not only to the workplace, but also to any established group of people. Group insurance is commonly divided into three categories:

- Employer-employee group insurance.
- Creditor group insurance.
- Group insurance provided by associations.

In group insurance, insured people include participants (employees, borrowers and association members) and their dependents (legally married or common-law spouse and children). A common-law spouse is a spouse under the definition given in the insurance policy.

Let's look at the main differences between employer-employee group insurance and group insurance provided by associations.

Employer-employee group insurance

This is the most common and well-known type of group insurance. This insurance is part of the benefits offered by an employer to some or all of its employees. Employee participation is generally mandatory.

A company may offer different coverage depending on the employee category. It is not uncommon for managers to receive more coverage than other employees (for example, double or triple the salary amount, instead of only the salary amount). **Consequently, the advisor must ensure they have the correct information brochures before beginning their analysis**. This applies each time they update their file, because coverage may have changed, especially if there is a new insurer.

Employees may also subscribe to optional life insurance, in addition to the base amount, by providing proof of insurability. They must then compare the cost of premiums and the conditions with other individual life insurance policies and select the most advantageous based on their needs.

Advantages and disadvantages

As with all insurance contracts, employer-employee group insurance has advantages and disadvantages. The main advantages of insurance offered at the workplace are:

- Enrollment is easier than individual contracts. It is not generally necessary to provide proof of insurability (small groups may be required to provide proof of health, as well as the higher employees for the portion of their income that exceeds a certain threshold, for example $50,000).
- The cost is generally less than individual contracts, especially for smaller amounts of insurance.
- It includes the right to convert to individual insurance.

The main disadvantages of insurance offered at the workplace are:

- Generally, an employee cannot adapt the insurance to their specific needs.
- It includes an additional sales tax of 9%.
- The coverage may sometimes be suspended during a strike or a lock-out.

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“Association” type group insurance

The policyholder on this type of insurance is an association. Contrary to popular belief, “association”-type group insurance is not only meant for members of professional associations such as accountants, doctors, or legal professionals. Some other associations offer their members the option to purchase insurance through them.

These insurances may be a combination of individual insurance policies or a group insurance policy. For the contract to be considered group insurance, it must cover people who are members of a designated group, and in some cases, their families and dependents as well.

A designated group of people is a group whose members share activities or interests, particularly socioeconomic or cultural interests, and who shared them before group insurance was offered to them.

This group could be made up of:

- People who have or who have had employment ties with one or more employers.
- People who share a profession or a regular occupation.
- Members of a university alumni association.

NOTE – In order to determine whether the “association”-type insurance is a group insurance, you should check the content of the policy or, if that isn’t possible, contact the insurer in question to get an accurate definition of the nature of the contract. If a 9% tax is added to the premiums, it is group insurance.

Unlike group life insurance from an employer, enrollment in association life insurance is optional. However, it is mandatory for its “medical expenses” portion if the employer doesn’t offer any coverage.

Advantages and disadvantages

The main advantages of “association”-type insurance are:

- The cost of insurance is generally lower than individual contracts.
- It includes the right to convert to individual insurance.
- Some associations provide the services of a financial security advisor.

The main disadvantages of “association”-type insurance are:

- The insured person does not always receive advice from a financial security advisor.
- It includes an additional sales tax of 9%.

In this tool, the masculine gender has been used solely to improve readability.

Rates

The selection process varies depending on the association. In many cases, it is more similar to individual contracts than traditional group contracts.

Premiums for this type of insurance are in brackets, meaning that they vary depending on the age group, such as age 35 to 39, age 40 to 44, etc. Generally, they take sex into account as well as smoking habits. After negotiating with the purchaser, the insurer can change premiums for all insured people, but not for one insured person in particular.

2. Group insurance taxation

Sales tax

In Quebec, in addition to 3.48% tax on premiums, group insurance premiums include sales tax (QST) of 9%. The total of these taxes is therefore 12.8%: (1.0348 x 1.09) – 1.

Taxable benefit

When group life insurance premiums are paid by an employer, these premiums must be added to the employee's taxable income, for both Quebec and Canada. The following table illustrates the total disbursements for a $1,000 group life insurance premium to be paid.

Total disbursements necessary to pay a $1,000 premium

Marginal taxation rate in 2018 en 2018	Premiums paid by the employer	Tax due	Taxable income necessary to pay these taxes	Disbursement total
27,525 %	$1,000.00	$275.25	$379.79	$1,379.79
32.525%	$1,000.00	$325.25	$482.03	$1,482.03
37.118%	$1,000.00	$371.18	$590.28	$1,590.28
41.118%	$1,000.00	$411.18	$698.31	$1,698.31
45.710%	$1,000.00	$457.10	$841.96	$1,841.96
47.460%	$1,000.00	$474.60	$903.31	$1,903.31
49.965 %	$1,000.00	$499.65	$998.60	$1,998.60

In this tool, the masculine gender has been used solely to improve readability.

The third column of this table indicates the tax due from an employee when their employer pays their $1,000 life insurance premium (second column).

The fourth column is the taxable income that the employee must have in order to pay the tax on the taxable benefit. For example, if the marginal taxation rate is 41.118%, an employee must earn income of $698.31. On this income, they will pay $287.13 in taxes ($698.31 x 41.118%). They will then have $411.18 left ($698.31 – $287.13) to pay the taxable benefit. The last column is the total premium paid ($1,000) plus the salary that the employee needs to earn to pay the premium.