



Practical Insights: Liability for Termination of Group Life Insurance Coverage

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Problem

Generally speaking, employers are not familiar with the responsibility and potential liability for failing to notify employees of their right to convert group life insurance coverage to an individual life insurance policy upon termination of employment, or their right to apply for a waiver of premiums if they are disabled and absent from work. Within the past few years, there has been a wave of litigation brought by former employees and their beneficiaries complaining about the loss of group life insurance coverage due to misrepresentations made by employers about their group coverage and the failure of employers to inform terminated employees about their rights under the group life insurance plan documents.

How does an employer minimize its risks and ensure that its former employees know about their rights to convert group life insurance coverage to an individual policy or apply for a waiver of premiums in certain circumstances?

Solution

Most group life insurance policies contain a portability provision (also known as a right of conversion provision), which allows employees to convert their group life insurance coverage to an individual policy upon termination of employment. Similarly, most group life insurance policies also contain a waiver of premium provision if an employee ceases working due to a disability. If the application for waiver of premium is approved, the employee could maintain the group life insurance coverage without payment of premiums while out of work due to a disability.

An employer can minimize the risk of potential litigation by sending a notice to employees upon termination of their employment, stating that if the employee had group life insurance coverage, then the employee may be eligible for conversion of that coverage to an individual policy. The notice should direct the former employee to contact the insurance company as soon as possible as their may be a deadline to convert the coverage.

If an employee is provided a leave of absence due to a disability, or an employee is terminated due to a disability, a separate notice should be provided to the employee that she may be eligible for a waiver of premiums of the life insurance coverage. The notice should direct the employee to contact

the insurance company as soon as possible, as there may be a deadline to submit the application for waiver of life insurance premiums.

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