A woman in a blue hooded jacket is holding a black umbrella over a young child. The child is wearing a bright yellow duffle coat and a blue knit hat with a pom-pom. They are walking on a wet surface, possibly a sidewalk, with a blurred background suggesting an outdoor setting. The woman is smiling and looking down at the child, who is looking towards the camera.

LIFE INSURANCE SPOTLIGHT

# Insuring the Way to a Financially Resilient America

**CFSI** Center for  
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## KEY TAKEAWAYS

1

Consumers, especially low- to moderate-income (LMI) consumers, struggle with the complexity of life insurance policies and find it difficult to know the appropriate coverage amount for their families.

2

The employer channel is important to increase life insurance access, but LMI consumers are much less likely to have this option.

3

LMI consumers understand the value and importance of life insurance, but struggle to prioritize its purchase, given other financial constraints.



# INTRODUCTION

There are few life events more unsettling and emotional than the death of a loved one. While insurance products run the gamut of covering various types and degrees of financial shocks, life insurance arguably covers the most acute shock of them all. But often those who need this protection the most, specifically low- to moderate-income (LMI) consumers, don't have it.<sup>1</sup> This lack of coverage puts their families in a precarious situation. More than a third of households would feel the financial impact within one month if the primary wage earner died.<sup>2</sup>

Yet the complexity and perceived cost of life insurance is a barrier for many consumers. Words like *term*, *whole*, *variable*, and *universal* are confusing to potential customers, making the buying process intimidating. Without clear guidance on which type of policy is most appropriate for one's needs, the pricing behind it also becomes murky. Despite this confusion, almost everyone (90 percent) thinks a family's primary wage earner needs to own life insurance.<sup>3</sup> So while the intent is there, the action lags behind.

This brief takes a closer look at the life insurance coverage, acquisition channels, and knowledge of American consumers, with a particular focus on LMI consumers. The data in this brief comes from a larger CFSI report on LMI insurance consumers.<sup>4</sup>

## LIFE INSURANCE PRODUCTS, EXPLAINED

- > **Term:** A policy that provides a death benefit only and stays in effect for a set number of years.
- > **Whole:** A policy that has a death benefit along with a cash value as a savings tool, and lasts as long as the premiums are paid.
- > **Variable:** A policy that has a death benefit along with a cash value, but the cash value is more investment than savings, since it is placed in the stock market.
- > **Universal:** A policy that has a death benefit and also a cash value (like a whole policy), where the policyholder can change the premium and death benefit amounts, and where premiums may change based on varying interest rates.

Source: *Different Types of Life Insurance*, PolicyGenius

<sup>1</sup> In this brief, LMI refers to household incomes under \$60,000 annually.

<sup>2</sup> 2018 Insurance Barometer Study, Life Happens and LIMRA.

<sup>3</sup> 2018 Insurance Barometer Study, Life Happens and LIMRA.

<sup>4</sup> *Insuring the Way to a Financially Resilient America: Developing Successful Products for LMI Consumers*, CFSI, June 2018. See full report for details on the research methodology.

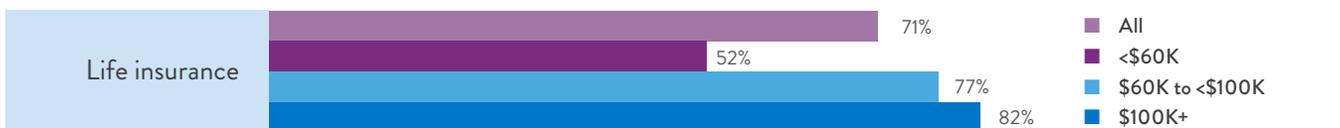
## COVERAGE

“Long-term planning is difficult because it’s hard to know where you’ll be in a couple of months, let alone five to 20 years from now.”

— MALE, FRESNO

### Do you currently have the following types of insurance?

% yes



LMI consumers are dangerously underprotected when it comes to life insurance coverage. While 71 percent of Americans with spouses or dependents have life insurance, just 52 percent of such LMI consumers have coverage, compared with 80 percent of those with household incomes over \$60,000. Yet 67 percent of LMI individuals think they need it, regardless of their current coverage status.

For those who have life insurance, the main reason for purchasing it is to alleviate worry about the financial impact of dying prematurely (peace of mind), with around 65 percent of consumers

feeling this way. This sentiment remains similar across income levels.

While about a quarter of consumers feel that they are adequately covered by their life insurance policy, another quarter of consumers are much less sure, with some saying that they do not even know if their life insurance coverage is adequate (6 percent). Confidence in coverage does not differ much by income, highlighting an **opportunity** for insurers to better guide their potential and existing customers through the process of choosing the policy type and coverage amount that suits their family best.

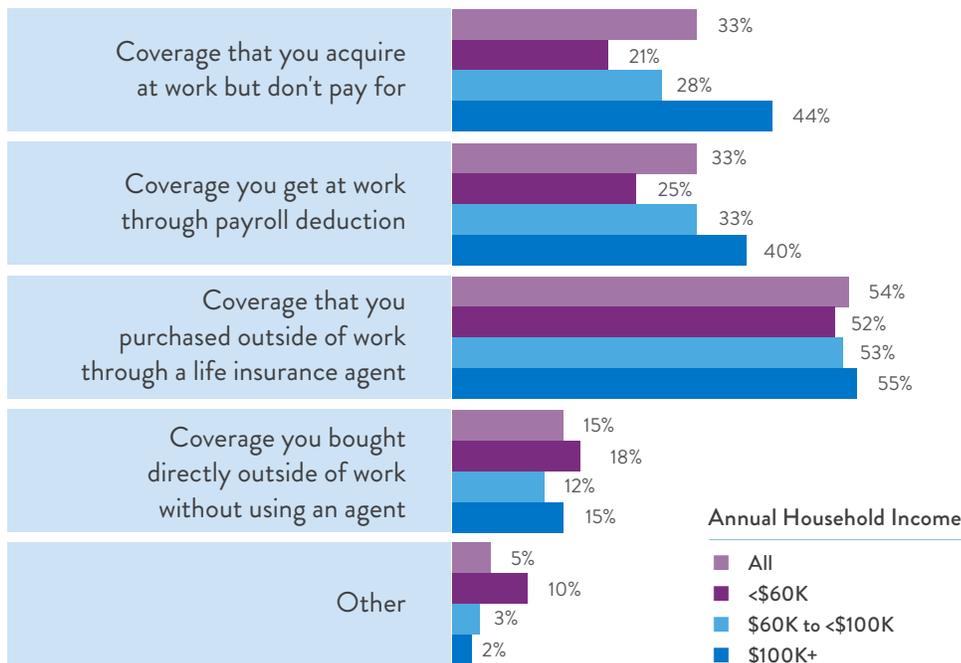
## ACQUISITION CHANNELS

Life insurance is unique among many of the other types of insurance we studied,<sup>5</sup> since consumers often find and purchase coverage through their employer. This varies greatly by income, however.

Higher-income employees are much more likely to acquire life insurance coverage at work either as a no-cost benefit (44 percent for those with incomes over

\$100,000) or through a payroll deduction (40 percent of those with incomes over \$100,000). In comparison, only 21 percent of LMI employees receive coverage as a no-cost benefit and 25 percent receive it as a payroll deduction. Income differences are much less stark when purchasing outside of work, either with or without an agent.

### Which type(s) of life insurance policies do you have?



This clearly points to an **opportunity** to expand access to life insurance for a greater number of LMI employees. Yet when thinking about the employer channel, there are some critical considerations to take into account. First, large employers often have the bargaining power to secure high-quality insurance products for their employees, but smaller employers

may struggle to figure out the economics. Second, life insurance coverage provided through an employer is often a basic amount that may be insufficient to cover employees' full needs. This coverage may be better viewed as basic coverage, on top of which employees should supplement with their own individual policies. Finally, the changing nature of work and rise of the

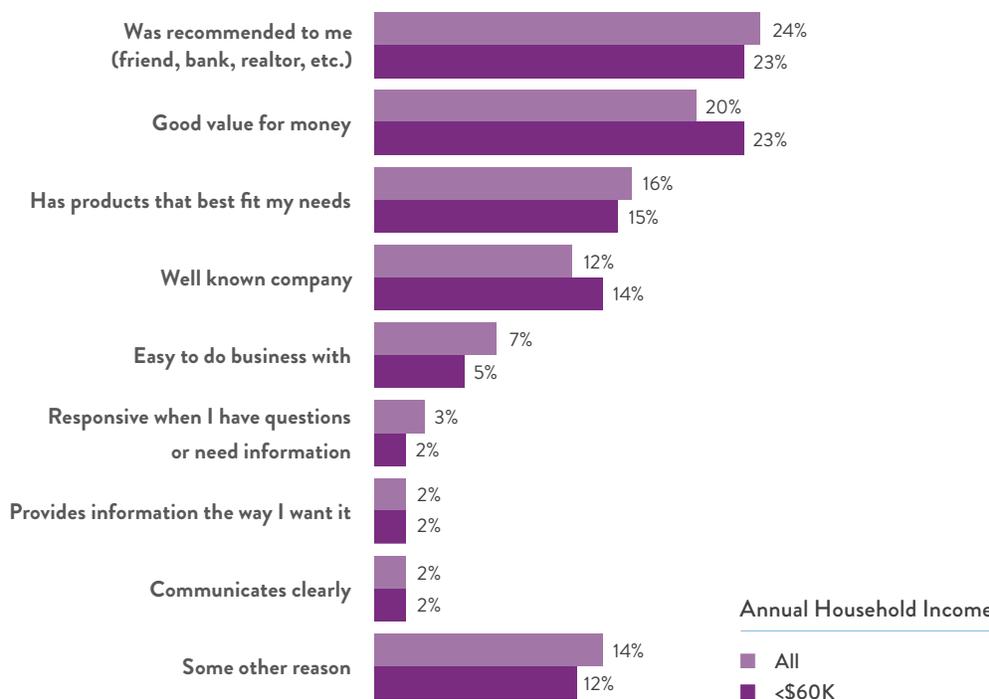
<sup>5</sup> The insurance products in scope for the overall research were auto, homeowners, renters, life, and short- and long-term disability insurance.

gig economy means that employment is less secure and formal than ever before.<sup>6</sup> Even with traditional jobs, life insurance benefits are often not portable when moving to a new job. If conversion to an individual policy is possible, the premium costs could also rise significantly. Relying fully on one’s employer to offer critical life insurance products may not be a wise long-term solution.

Those that buy direct without an agent find their life insurance policy largely through their own shopping (46 percent) and family or friends (23 percent).

Recommendations from friends and family are also the main reason people selected the life insurance company from which they bought their policy. This was the only insurance type among those we studied where good value for money (i.e., price) was not the main reason for selecting a particular carrier. For LMI customers, however, price and recommendations were equally important.

### What is the main reason you selected the company you bought your life insurance from?<sup>7</sup>



<sup>6</sup> Some gig economy platforms are beginning to offer insurance. For example, Uber now offers its drivers coverage against illness, disability, and death through Aon. Airbnb offers a “host guarantee” against theft and vandalism. Source: *Insurance and the gig economy*, The Economist, April 5, 2018.

<sup>7</sup> These percentages are relative to all the answer choices respondents could select. For example, in this case, “was recommended” was the most selected answer choice at 24 percent.

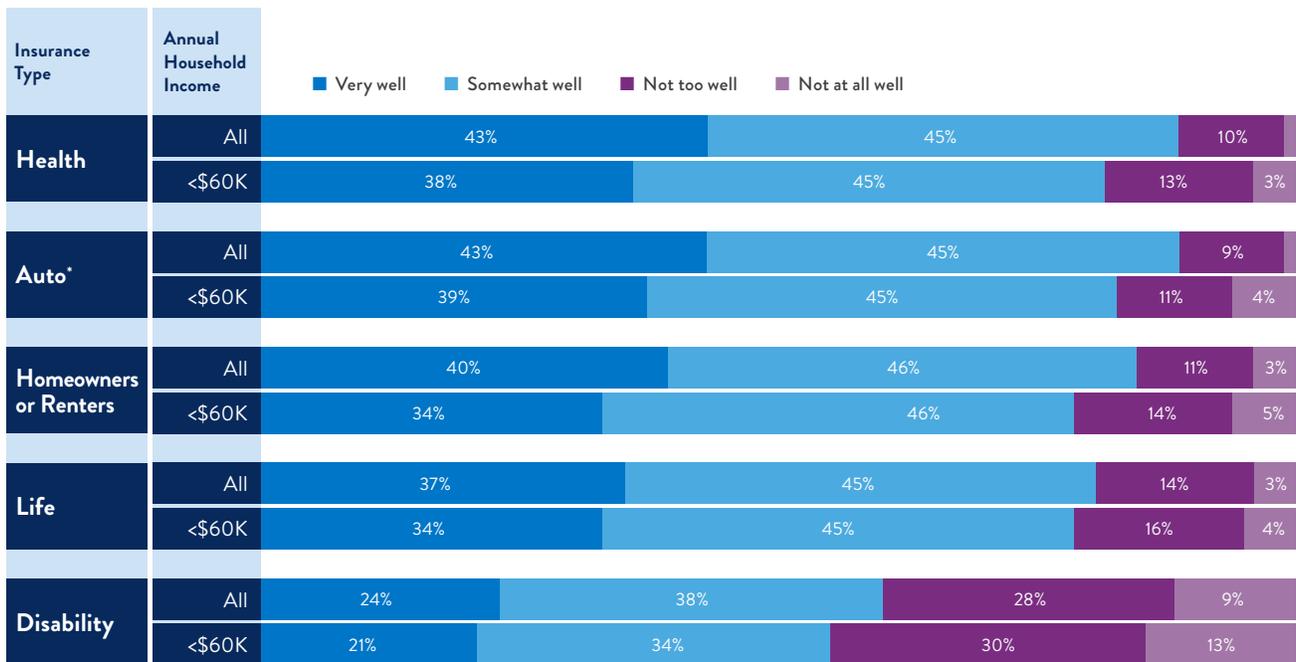
## KNOWLEDGE

Aside from disability insurance, life insurance is the least understood out of the insurance products we studied. Only 34 percent of LMI consumers claim to understand it very well, and 20 percent claim to understand it not too well or not at all.

Consumers seem to understand the kind of life insurance coverage they purchased at least somewhat well at the time of purchase. A quarter of consumers claim to understand it very well, while about 20

percent are not so confident. But as the focus groups showed, knowledge of life insurance products is more nuanced and complex for consumers than they may initially think. Perceived understanding tends to be higher than actual understanding. The different kinds of life insurance policies (i.e., term, whole, variable, universal) can also confuse consumers, with about a third of people saying that they do not understand these different products very well (33 percent).

### How well do you understand each of the following types of insurance?



\*Beyond basic liability required by law.

“Life insurance is more difficult to understand. I’ve tried to look into it but it feels like you’re running around in circles.”

— MALE, FRESNO

## THE UNINSURED

The biggest reason why people do *not* purchase life insurance is cost (48 percent), and this is significantly higher for LMI consumers (59 percent). Yet LMI consumers know they need it. While 31 percent of overall respondents said they didn't purchase life insurance because they had no need for it, only 18 percent of LMI consumers gave this same reason. Overall, of those without life insurance, 51 percent of people thought they needed it.

The cost barrier is often more perception than reality: 44 percent of millennials overestimate the cost of life insurance by five times the actual amount.<sup>8</sup> This presents an **opportunity** for insurers to be clearer in their marketing about the actual costs for life insurance policies.

In the absence of life insurance, people report different potential coping mechanisms among those who depend on their financial support. The two most common responses are on separate ends of the spectrum. On the one hand, people would expect their dependents to rely on savings, although this percentage is lower for LMI individuals (28 percent for overall sample vs. 21 percent for LMI individuals). On the other hand, people think that their dependents would simply take no action at all (24 percent). This again puts LMI families in a precarious situation in the absence of adequate savings or safety nets.



“I have considered buying life insurance many times. But it’s paycheck to paycheck how we’re living and I can’t afford to take on any more expenses right now. If I could afford it, I would have it.”

— MALE, FRESNO

<sup>8</sup> 2018 Insurance Barometer Study, Life Happens and LIMRA.

### Percentage of Non-Owners of Life Insurance by Income<sup>9</sup>

All	<\$60k	\$60K to <\$100K	\$100K+
28%	45%	23%	17%

### Percentage of Non-Owners of Life Insurance by Age<sup>9</sup>

All	18-29	30-44	45-59	60+
28%	38%	32%	21%	25%

### Percentage of Non-Owners of Life Insurance by Gender<sup>9</sup>

All	Male	Female
28%	24%	31%

### Percentage of Non-Owners of Life Insurance by Race<sup>9</sup>

All	White	Black	Hispanic	Other
28%	23%	22%	49%	32%



<sup>9</sup> Among those who are married and/or have financially dependent children.

## OPPORTUNITIES FOR INSURERS

- > Better guide customers through the process of choosing the life insurance policy type and coverage amount that is appropriate for their family.
- > Explore how to expand access to life insurance more fully through the employer channel, specifically for LMI employees and smaller employers.
- > Enhance marketing efforts to communicate the actual costs of life insurance to counter misperceptions among consumers about costs.

### Innovation Ideas

We asked focus group and survey respondents how they felt about using a Fitbit or other activity tracker to share health and activity information with an insurance company to potentially lower life insurance premiums.

While about a third of consumers found this idea somewhat appealing, when pressed for their likelihood of using such a device, only 17 percent were very likely to do so. In the focus groups, people said that there would need to be a substantial reduction of premium costs to make this worthwhile.



“Our privacy is already violated in so many ways. Why would I [share health and activity information with an insurer?]”

— FEMALE, BALTIMORE