

LIFE INSURANCE — AT THE END OF ITS PRODUCT LIFE CYCLE?



COMMENTARY

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LIMRA's last U.S. Life Insurance Ownership Study concluded that "There has been a decline in ownership of individual life for men under age 65 during the past six years... Today, insured adults are more likely to have only group life insurance obtained through the workplace. Adults with only group coverage carry the lowest amounts of life insurance."

A number of reasons have been suggested to explain why households are not buying the life insurance they need. These include:

- They intend to buy but make excuses.
- It is a confusing process.
- Sales reps are focusing on easier investment sales.

But the industry has not seriously considered the simpler fact that men don't need individual life insurance anymore. People don't buy what they don't need. The industry is reluctant to accept that the product is outdated and at the end of its product life cycle.

Consider the situation 40 years ago. As Pew Research Center's recent *Women, Men and the New Economics of Marriage* report notes, in 1970, 84 percent of individuals ages 30 to 44 were married — even though there was no economic gain in marriage. The husband worked and the wife stayed at home. Marriage enhanced the economic status of women, but not men. The life expectancy of men was less than women, so there was a need to protect the economic status of the household if the husband died

prematurely. Life insurance provided this income protection and married men bought it because they saw the benefits.

Today, marriage is a very different situation. Men now gain economically in marriage. Since women make up nearly half of the workforce (47 percent), there is increased earning power of a second income when a man and woman marry. Not only are women working, but their earnings grew 44 percent from 1970 to 2007, while men's earnings grew only 6 percent. The economic gains of marriage are now greater for the man than for the woman; a reversal of what it was 40 years ago. Not only does the man gain a second income, but the wife's earnings growth buffers his stagnant growth. There is not the devastating economic loss to the household if the husband dies prematurely. The need for individual life insurance is not there like before. Can you say "buggy whip"?

The life insurance industry has to accept the fact that the need for life insurance is not what it used to be. It is a much harder sale to convince a husband that his wife is going to be destitute if he dies prematurely. And not only is there less reason for married couples to buy life insurance, there are fewer married couples. Today 60 percent of individuals ages 30 to 44 are married versus 84 percent in 1970.

To sell life insurance today you have to sing a different tune than in the past. A husband expressing his love for his wife and family by

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A close-up photograph of a person's hands holding a silver mobile phone. The person is wearing a dark suit jacket, a light blue shirt, and a blue and white striped tie. The background is dark and out of focus.

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providing for their financial security through life insurance doesn't resonate like it used to do. If anything, rewrite the song to focus on the wife protecting her husband's economic standard if she dies or can't work.

To sell life insurance to married couples you need a different focus — perhaps one on burial insurance since everyone will die and life insurance lets you prepay final expenses. Or how about being able to transfer wealth to the children? A life insurance paid-up policy at age 65 is a way to leave a financial legacy that cannot be taken away from the children. Or how about endowment contracts that will provide funds at a specified time to help pay for things like a college education? Unlike a savings account, they have the added benefit that the funds will be there even if you die and cannot continue contributing to the savings account. If you insist on selling life insurance as income protection, how about getting away from the “times income” approach? Sell an amount that will help out with some obligations, since there will be earnings coming in from the other spouse.

The way to deal with a product at the end of its life cycle is to find a way to reinvent the product. We need to reinvent life insurance as meeting different needs than just income protection. 🌐