What Consumers Don't Know About *Life*

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The life insurance industry has thrived in America for over 260 years, beginning with the Presbyterian Ministers' Fund in 1759.[1] Despite this country's long history with life insurance, however, many consumers lack basic life insurance knowledge. It is important to understand this lack of knowledge, and consumer understanding of life insurance concepts, because lack of knowledge deters many consumers from enjoying the financial security that life insurance offers.[2]

Educating consumers about life insurance and enabling insured consumers to retain that knowledge throughout their life is a significant marketing challenge. Consumers need a range of information, from basic insurance concepts to detailed information on coverage types, amounts, terms, and cost. That list does not encompass everything consumers need to know, as their needs change over the course of their lives.

Faced with this scenario, life marketers must place a premium on the information they provide to consumers. To assist marketers in prioritizing the different kinds of information consumers need to know, LIMRA's Understanding Life research identifies the life insurance concepts that most distinguish life insurance owners from non-owners.[3] The research also identifies knowledge areas that distinguish insureds with higher and lower levels of coverage adequacy.

By identifying specific concepts that distinguish owners from non-owners — and the adequately covered from the inadequately covered — the analysis reveals where marketers need to place more emphasis. By closing the most important knowledge gaps, marketers can improve the likelihood that consumers will obtain coverage, and keep coverage levels adequate over time.

Life Insurance Knowledge

Participants in the Understanding Life Study completed a life insurance knowledge test, containing questions on basic concepts, distribution, product features, product types, terminology, and underwriting concepts. Before looking at the results, have some fun and test your knowledge of consumers by answering these questions:

"The average consumer understands just 28 percent of life insurance material."

1. On average, how often did consumers reply, "Don't know"?
   a) 10%   b) 25%   c) 40%   d) 55%
2. On questions consumers tried to answer, how often were they correct?
   a) 34%   b) 46%   c) 54%   d) 66%

- The correct answer to question number one is C. On average, participants replied, "Don't know" to 40 percent of the questions. This indicates that average consumers may understand less than 60 percent of the information they see about life insurance. This by itself *demonstrates a significant life insurance knowledge gap* among American consumers.
- The correct answer to question number two is B. When consumers did not reply, "Don't know," just 46 percent of their responses were correct. This result implies that consumers not only have a significant gap in life insurance knowledge, but also appear to *misunderstand more information than they understand.*
- Combining the percentage of "Don't know" responses with incorrect answers suggests the average consumer *understands just 28 percent of the life insurance material.* This finding reveals the true size of the life insurance knowledge gap among American consumers.

Life Insurance Knowledge Gaps — Insured versus Uninsured

The questions in the knowledge test represent different areas of life insurance knowledge. By examining the knowledge areas among life insurance owners and non-owners, the analysis identifies the areas of knowledge that most distinguish the insured from the uninsured (Figure 1).

The negative values in Figure 1 represent the higher likelihood of non-owners to respond incorrectly. The longer lines at the top of the graph identify areas where the knowledge gaps between owners and non-owners are greatest. This suggests these areas of knowledge are important obstacles to ownership for many consumers.

The life insurance concepts that most distinguish life insurance owners from non-owners are:

- *Investment risk* — Non-owners are more likely to think that the policyholder does not bear the risk of the investment in "variable" or "variable universal" life policies.
- *Cash value* — Non-owners are less able to identify the type of life policies that accumulate cash value, against which the policyholder can borrow.
- *Riders* — Non-owners are less likely to know that a policy with an "accidental death rider" pays twice the amount of the death benefit if the insured dies in an accident.
- *Term versus permanent insurance* — Non-owners are less able to distinguish between term and permanent insurance policy types.

These items represent concepts about which many non-owners have either no information or misinformation. The lack of accurate knowledge on these specific concepts represents a knowledge gap that contributes to non-owners' apprehension about obtaining life insurance coverage. Given our underlying hypothesis that knowledge precedes ownership, this analysis identifies specific concepts with which consumers must be comfortable before they purchase coverage.

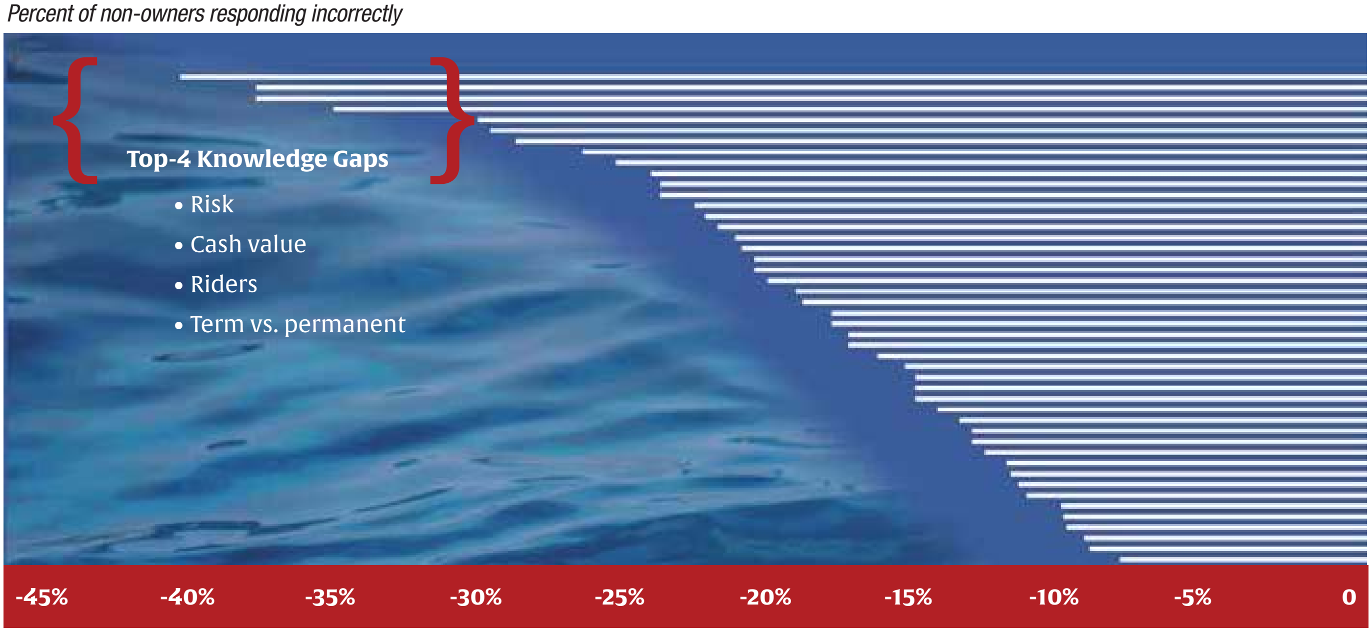
Life Insurance Knowledge and Coverage Adequacy

Further analysis supports the idea that higher levels of knowledge are associated with higher levels of coverage adequacy. By examining areas where knowledge gaps

Figure 1

Knowledge Gaps — Insured versus Uninsured

Percent of non-owners responding incorrectly

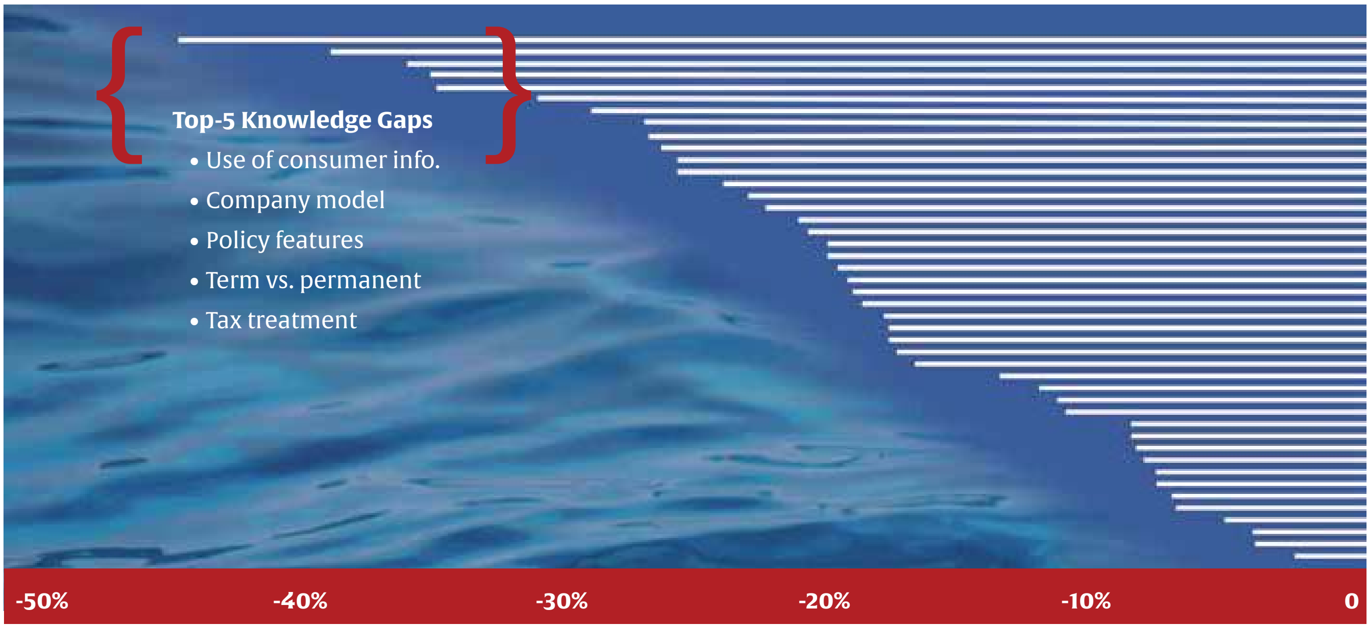


Source: Understanding Life — The Impact of Life Insurance Knowledge on Consumer Attitudes and Behaviors, LIMRA, 2019.

Figure 2

Knowledge Gaps by Coverage Levels

Percent of "inadequately covered" responding incorrectly



Source: Understanding Life — The Impact of Life Insurance Knowledge on Consumer Attitudes and Behaviors, LIMRA, 2019.

are greatest, we can identify the specific life insurance concepts that most distinguish those with different coverage levels.

Figure 2 illustrates the difference in knowledge between respondents who say they own adequate life insurance coverage and those who indicate they do not own adequate coverage. The negative values represent the higher likelihood of those with inadequate coverage to respond incorrectly on the life insurance knowledge test.

The five items at the top of Figure 2 depict significantly lower response accuracy among respondents with inadequate life coverage. Filling these knowledge gaps with relevant information may provide consumers with the information they need to acquire appropriate coverage. The concepts include:

- *Carrier use of consumer information* — The inadequately covered are more likely to think that the purpose of collecting information on policy applications is to deny future claims.
- *Life company financial model* — The inadequately covered are more likely to think that mutual life insurance companies pay dividends to policyholders if the company has good financial experience.
- *Policy features* — The inadequately covered are less likely to know that universal life policies allow policyholders to skip premium payments by using accrued cash value to keep the policy active.
- *Term versus permanent insurance* — The inadequately covered are less able to distinguish between term and permanent insurance policy types.
- *Life premiums tax treatment* — The inadequately covered are more likely to believe that life insurance premium payments are tax deductible.

The list of life insurance concepts that most distinguish the inadequately covered represent a number of different dimensions. They reflect a profound lack of trust in the way carriers operate, lack of basic product knowledge, and that policyholders receive different financial treatment depending on their life carrier's corporate structure.

Not being able to identify term and permanent policy types is the only item on this list that overlaps with the list that distinguishes owners from non-owners. This is interesting, because it suggests being able to distinguish between term and permanent insurance is a key milestone on the road to life insurance knowledge. Once consumers reach this milestone, they become prospects who are more likely to buy, and insureds who are more likely to maintain adequate coverage levels.

It's an Industry Issue

The lack of life insurance knowledge among consumers is an industrywide problem that marketers face every day. Despite the availability of information, consumers lack the motivation to learn about life insurance until propelled by some life event like marriage. At that point, there is so much information to process it is not surprising that people have knowledge gaps and misunderstandings.

Learning is a lifelong process, and consumers need regular exposure to life insurance information to understand its relevance and its importance to their financial security. The industry is attempting to do this through their marketing operations, with some companies supporting organizations such as Life Happens, that attempt to raise consumer awareness on life insurance.[4]

Given the extent of the life insurance knowledge gaps among American consumers — and the role that knowledge plays in life insurance ownership — it is in the best interest of all life marketers to support consumer awareness.

Key Points and Recommendations

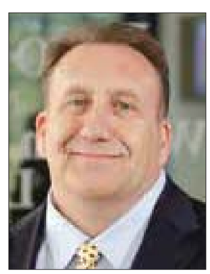
- American consumers "don't know" 40 percent of the material on a life insurance knowledge test. They are correct less than half the time (46 percent), indicating they misunderstand more information than they understand.
- The typical American consumer correctly understands just 28 percent of the material on life insurance. This is a challenge for life insurance marketers who must not only educate the uninformed, but also reeducate the misinformed.
- Identifying the knowledge gaps that deter consumers from owning coverage is critical, so life marketers can emphasize this information and close the most important life knowledge gaps.
- For non-owners the most important knowledge gaps for life marketers to fill include policyholder investment risk, cash value accumulation, policy riders, and types of insurance policies.
- Responding to consumer lack of knowledge requires an industrywide solution. Informational tools and initiatives to educate the uninformed, and reeducate the misinformed, are important elements of marketing and communication initiatives. However, these might be more effective when paired with industrywide initiatives.
- Life marketers can leverage tools from industry associations to help inform and educate consumers. Associations such as Life Happens receive financial support from over 100 insurance companies who are committed to making sure consumers have the knowledge needed to make informed insurance-buying decisions.

[1] *Presbyterian Ministers' Fund Records,* The Historical Society of Pennsylvania, 2008.

[2] *Insurance Barometer Study,* LIMRA and Life Happens, 2019.

[3] *Understanding Life — The Impact of Consumer Knowledge on Life Insurance Ownership,* LIMRA, 2019.

[4] See the Life Happens website for more information — https://lifehappens.org/



James T. Scanlon, M.S., HIA leads LIMRA's Markets Research program. This program includes time series studies, which track consumer financial behavior across generations; and topical studies, which examine topics influencing present-day markets. The studies identify business opportunities in key consumer segments, such as affluent households, single mothers, and small-business owners. Scanlon holds an M.S. in resource economics from the University of Massachusetts, where he also earned a B.A. in economics. He can be reached at jscanlon@limra.com.