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# Uncovered And Out In The Cold

*Middle America's unmet need for life insurance,  
and the role for America's credit unions.*

	Page
<b>Introduction: Bringing clarity to the problem of underinsured Middle America . . . . .</b>	1
<b>A market largely overlooked and underserved. . . . .</b>	2
<b>Middle Americans recognize the need . . . . .</b>	3
<b>Credit union members among the uninsured . . . . .</b>	4
<b>The need among seniors . . . . .</b>	5
<b>The role for credit unions . . . . .</b>	6
<b>Appendix: Example of a turnkey solution . . . . .</b>	i-v

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### **Bringing clarity to the problem of underinsured Middle America**

Most credit union executives occasionally come across industry and general business publications that present various statistics noting how middle- and lower-income Americans are increasingly underserved by the life insurance industry.

This report was created to bring together, in one place, study findings about the state of life insurance among Middle Americans, thereby giving the reader a clearer picture of the facts and issues at hand. By providing this information to the credit union industry, we hope to underscore the magnitude of the problem, identify who in America is most affected by it, and convey how credit unions are uniquely well-positioned to help address it.

Readers of this report will appreciate the rarity, in today's highly competitive financial services market, of the demand for a financial product actually exceeding the ready supply of it. Yet that is precisely the situation today's life insurance marketplace is presenting to many of our nation's middle-income and lower-income households, who are not being offered the life insurance they want and need.

The motivation for credit unions to become involved in providing the solution is multi-fold:

- From a business perspective, credit unions can gain a steady, new stream of non-interest income and strengthen relationships with all member segments, particularly core depositors.
- On the member service side, a credit union can directly address a critical, unmet need among a large portion of its membership.
- On the social front, helping a community collectively be better prepared to handle the financial stresses that often accompany the death of a family member makes a real difference – not only at the individual family level – but through ripple effects, for the community as a whole.

*This report was created to bring together, in one place, study findings about the state of life insurance among Middle Americans.*

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## **Middle Americans are largely overlooked – and underserved – by the life insurance industry**

The life insurance industry is not reaching the 68 million Americans – one-third of all adults in this country – who are without any life insurance.<sup>1</sup> Many of these uninsured Americans are mid- to low-income individuals whose primary need is inexpensive term insurance – a market most insurance agents simply don't view as cost-effective prospects.

Most of these uninsured will not seek out life insurance on their own,<sup>2</sup> and they are not receiving information about it from agents, in the mail, or at work. According to a recent LIMRA report on the underinsured market, 56% of Americans making \$25,000 to under \$75,000 have not received information on life insurance that relates to their needs.<sup>3</sup>

## **Many workers can't even get life insurance on the job**

Contrary to what many people assume, the workplace is not providing the life insurance coverage many of these uninsured Americans need. The fact is that far fewer workers have access to life insurance benefits today, compared to years past.

The U.S. Bureau of Labor Statistics, which tracks employer-provided group life insurance, reported in 1991 that nearly all full-time employees in medium and large private establishments (100 workers or more) were provided group life insurance partially funded by their employers, and nearly two-thirds of employees in small companies received access to life insurance benefits.<sup>4</sup>

Today, however, only 52% of workers in private industry have access to life insurance at work – and only half of workers participate in the plan their employers offer.<sup>5</sup>

*“... The life insurance industry is not reaching the... one-third of all adults in this country who are without any life insurance.”<sup>1</sup>*

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## Middle Americans recognize they need life insurance

While many of these uninsured individuals may have limited financial resources, they also recognize that they need life insurance. In fact, 45% of households with no life insurance expect to buy it in the next year, according to LIMRA.<sup>6</sup>

Many of the uninsured households are middle-income Americans who need modest amounts of affordable insurance.<sup>7</sup> More than half of households making under \$25,000, and close to half of those making up to \$100,000, reported they need more insurance, with nearly one-third stating they were likely to buy insurance in the next year:

### Strong demand for life insurance

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Household income	Needs more	Likely to buy
Under \$25,000	57%	26%
\$25,000 - \$99,999	44%	28%
\$100,000 and over	32%	28%

Source: *Trends in Life Insurance Ownership Among U.S. Households, 2005*, LIMRA

*“Of those households that recognize they need more life insurance, 45% plan to buy some in the next 12 months, but many will not take the necessary steps to purchase the coverage they believe they need.”<sup>8</sup>*

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## **The uninsured and credit union memberships share similar demographics**

Based on age and income levels, the uninsured are a group likely to be well-represented in a typical credit union membership. For example, middle-income husbands (those with personal incomes between \$35,000 and \$100,000) are considerably less likely to own individual life insurance than they were six years ago. And one in three wives with incomes under \$35,000 have no life insurance at all.<sup>9</sup>

Men and women alike are among the ranks of the uninsured, with women in particular lacking coverage:

- Almost one in three women, and more than one in four men, have no life insurance coverage at all.<sup>10</sup>
- Women age 45 and older are less likely than men the same age to own life insurance.<sup>11</sup>

In the past few years, ownership of life insurance has declined for several key groups, including those approaching retirement age. Among Americans approaching retirement age, ownership of individual life insurance declined from 63% in 1998 to 57% in 2004.<sup>12</sup>

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## **There's a serious need for insurance among seniors, especially for final expense coverage**

Many seniors have a real need for at least a modest amount of life insurance. As the U.S. population ages, the ability to cover the cost of final expenses will become a greater issue for our society.<sup>13</sup> Even among seniors with little or no debt, and no plans to pass on a significant life insurance asset, many would like to have a small amount of coverage to help their families pay final expenses and remaining medical costs.

The Insurance Information Institute encourages Americans to plan for expenses that arise at death, including the funeral costs, taxes and administrative costs associated with 'winding up' an estate and passing property to heirs. At a minimum, the institute recommends \$15,000.<sup>14</sup>

Many Americans – 42% – buy life insurance to cover final expenses, according to LIMRA.<sup>15</sup> Yet, other than AARP, the marketplace in general does not have a life insurance program specifically geared to address that need, or the needs of senior members.\* Many insurance companies have stopped selling smaller policies geared to cover final expenses,<sup>16</sup> making it more difficult for seniors to get the coverage they need.

*\*See Appendix for update on this finding.*

*“The ‘senior tsunami’ is coming, and insurers will never have a better opportunity than now to grow their business.”<sup>17</sup>*

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## Credit unions are uniquely positioned to offer senior members the insurance they need

With the 50 to 74 age group making up about 30% of today's typical credit union membership, there is significant potential for programs specifically designed to help meet the demand for final expenses coverage among this key membership segment. And that opportunity is poised to grow in the years ahead.

From now until 2025, someone in America will turn 60 every seven seconds.<sup>18</sup> The aging of the U.S. population provides the potential for significant market growth among companies that offer pre-need and/or final expense products.<sup>19</sup>

Still, millions of potential households are not being reached. Two-thirds of underinsured Americans don't know where to buy or who to turn to for help.<sup>20</sup>

These uninsured households want the process of buying life insurance to be easy and pain-free. To feel comfortable, they want insurance offers to be simple and straightforward, with no high-pressure sales tactics. And they want to buy from someone they can trust.<sup>21</sup>

### Summary:

The membership base of most credit unions includes a large number of people who lack the life insurance coverage they would like to have in place for their families, and who would welcome having that coverage made available to them through a trusted source. For millions of Middle Americans, that source is their credit union. Acting on the facts presented here means finding and implementing a means to make it easier for members to buy the basic life insurance many want, at rates they can afford. Doing so will benefit credit unions, their memberships, and their communities.

*“...uninsured households...want to buy from someone they can trust.”<sup>21</sup>*

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**Sources:**

- <sup>1</sup> *Trends in Life Insurance Ownership Among U.S. Individuals*, LIMRA International, 2006.
- <sup>2</sup> *Trillion Dollar Baby: The Sales Potential of the Underinsured Life Market*, LIMRA International, 2005.
- <sup>3</sup> *Trillion Dollar Baby – Underinsured Life Market*, PowerPoint, LIMRA International, 2005.
- <sup>4</sup> *Growth of Employer-Sponsored Group Life Insurance*, *Monthly Labor Review*, Bureau of Labor Statistics, October 1991.
- <sup>5</sup> *National Compensation Survey: Employee Benefits in Private Industry in the United States*, Bureau of Labor Statistics, March 2006.
- <sup>6</sup> *Trends in Life Insurance Ownership Among U.S. Individuals*, LIMRA International, 2006.
- <sup>7</sup> *Trillion Dollar Baby: The Sales Potential of the Underinsured Life Market*, LIMRA International, 2005.
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- <sup>10</sup> Ibid.
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- <sup>12</sup> *Trends in Life Insurance Ownership Among U.S. Households*, LIMRA International, 2005.
- <sup>13</sup> *Preneed and Final Expense 2006*, LIMRA International, 2006.
- <sup>14</sup> *How Much Life Insurance Do I Need*, Insurance Information Institute, July 2007.
- <sup>15</sup> *Trillion Dollar Baby – Underinsured Life Market*, PowerPoint, LIMRA International, 2005.
- <sup>16</sup> *Every Excuse in the Book: Can You Motivate Consumers to Buy Life Insurance?*, LIMRA International, 2006.
- <sup>17</sup> *Silver and Gold (An Opportune Time for Insurers to Grow Their Business)*, *LIMRA's MarketFacts Quarterly*, Summer 2006.
- <sup>18</sup> Ibid.
- <sup>19</sup> *Preneed and Final Expense 2006*, LIMRA International, 2006.
- <sup>20</sup> *Facts About Life 2006*, LIMRA International, September 2006.
- <sup>21</sup> *Every Excuse in the Book: Can You Motivate Consumers to Buy Life Insurance?*, LIMRA International, 2006.



**One turnkey solution:** *50-Plus Group Term Life Insurance is filling a credit union membership need*

Older people don't need life insurance.

Conventional wisdom?

Not anymore.

Like Americans of any age, many empty nesters and single seniors need at least some life insurance. For those of modest means, this often means basic coverage to help with end-of-life expenses.

**One senior credit union member summed it up neatly:**

*"I wanted my children to...have money to fall back on for final expenses or any medical costs. I've been through this type of thing and know how hard it is if your family is left with final bills to pay."*

Mary Oliver, Akron Municipal Employees Credit Union, Akron, Ohio – 08/23/2007

At the same time, today's squeeze on earnings margins and return on assets has credit unions looking for new sources of non-interest income. A well-structured life insurance program for members age 50 and over not only contributes to that goal, but does so while strengthening ties to senior members by helping them meet a genuine, largely unmet need.

While credit unions have always well understood the crucial deposits-generation importance of their older, "senior saver" members, there hasn't been an industry-wide focus on offering these same households the life insurance they need. Until now.

A program that began in early 2006 – a joint effort between leading national insurer AIG American General and credit union life insurance specialist LifeHelp – has proven that life insurance marketing to senior members can be successful. Key program elements

(more...)

include the right product, pricing and promotion, of course. Beyond that, a practical turnkey program design requires very little time or effort from credit union management and staff. Thousands of members age 50 and older have chosen to use this easy, affordable way to buy anywhere from \$5,000 to \$100,000 of Term Life Insurance through a trusted source – their credit union.

And program results are impressive: 50-Plus Group Term Life Insurance solicitations are seeing double the response that would typically be projected for a life insurance program marketed primarily through mail. In a single 18-month period, LifeHelp placed more than \$66 million in term life insurance protection for members of participating credit unions.

This turnkey program is specifically designed to address reasons commonly given by the uninsured for their lack of life insurance, according to the 2005 LIMRA report, *Trillion Dollar Baby*:

<b>Reasons given for not having life insurance:</b>	<b>How 50+ Group Term Life Insurance addresses it:</b>
74% say they can't afford it	From underwriting design, to cost-effective marketing and administration — the program is constructed to offer much more affordable premiums than many members would assume.
52% say it's difficult to decide how much they need	Our coverage presentation methods help members more easily settle on a benefit amount by focusing the choice on a few commonly selected amounts based on age.
50% simply "haven't gotten around to it"	Our scheduled marketing programs give members multiple exposures to their buying opportunity, to increase the chances of reaching them at a time right for them.
<u>And a full 29% say they don't have life insurance for the simple reason that, "No one has approached me about it."</u>	Now is your opportunity to better serve your many members age 50+ who want life insurance, but are not being served by traditional insurance sales channels.

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Members appreciate their credit union bringing them the opportunity to quickly and easily apply for coverage they can afford:

*“As a senior citizen, I found that this was a very convenient thing to get through the credit union. It was a very reasonable price for the amount of insurance, especially at my age. I even looked into coverage from AARP, and this was a better price. And it’s very convenient to have the payment made automatically. I’m glad my credit union offered this.”*

Mary Oliver, Akron Municipal Employees Credit Union, Akron, Ohio – 08/23/2007

*“I trust the credit union and felt like they would do it right. The policy was offered at a very reasonable price, with no questions asked and no physical. I’m very, very satisfied with it. Being retired and on a set income, this was a policy I could actually afford.”*

Dottie Hensley, University Federal Credit Union, Austin, Texas – 09/07/2007

*“This plan...shows the credit union is helping to take care of people in my age group. I already have my funeral paid for, but I wanted to make sure my sister wouldn’t have any out-of-pocket expenses.”*

Jeanette Ferrari, Security Service Federal Credit Union, San Antonio, Texas – 08/21/2007

*“I wanted the plan...to take care of final expenses so my wife won’t be worried about those bills and have that burden. With this plan, the credit union is helping to meet the needs of people in my age group.”*

Paul Gerhart, Nicolet Credit Union, Three Lakes, Wisconsin – 08/21/2007

*“The cost is so reasonable (and) we love the convenience of the automatic withdrawal. My husband and I agreed on it right away. I feel a little more secure. We’ve been credit union members for some 20 years and are very, very satisfied with this policy.”*

Linda Kathka, Commonwealth Central Credit Union, San Jose, California – 08/29/2007

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Ease of administration is a notable aspect of the 50-Plus Group Term Life Insurance program design. Once the initial setup is complete, credit union personnel are, on average, spending less than one hour per month administering the program.

**What credit unions offering this program have to say about it:**

*“It’s been well received. The mailings...have hit a chord with our membership. We can only speak highly of LifeHelp. We generate a list and review the materials. It’s a no-brainer.”*

John Renforth, SVP, Harborstone Credit Union, Tacoma, Washington – 10/04/2007

*“Overall, our 50-Plus product is doing well compared to our 10-year term. We believe the 50-Plus product is the right product for the 50+ demographic.”*

Yung Tran, SVP Finance/CFO, University Federal Credit Union, Austin, Texas – 08/29/2007

*“We feel like we are offering a significant product to our elderly members. It’s a very good product to help members with final expenses. It’s (also) important to us that LifeHelp is easy to work with. We want anything offered to our members to reflect positively on the credit union.”*

Beverly Gagne, CEO, SAFE Federal Credit Union, Sumter, South Carolina – 09/05/2007

*“It’s a good program. Members (who) take advantage of the offer appreciate the value (of) the 50+ program. We knew that the AIG name meant stability...and administratively, it’s as easy as promised.”*

Cyndi Koan, EVP/CFO, Public Service Credit Union, Denver, Colorado – 9/17/2007

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## More than 30 Years of Serving America's Credit Unions

LifeHelp is a licensed, nationwide insurance agency and administrator that markets life insurance solutions to credit unions and their members. LifeHelp's focus as the leading provider of life insurance solutions to the credit union market, combined with more than 30 years of experience serving credit unions, gives the administrator an expertise unmatched in the industry. LifeHelp actively markets multiple life insurance programs through direct mail, the Internet, lobby brochures and other channels to a database representing several hundred credit unions and over 4 million members. LifeHelp has also developed a strong network of brokers that specialize in credit unions, to help meet the needs of credit unions across the country.

The underwriter for the 50-Plus Group Term Life Insurance program is The United States Life Insurance Company in the City of New York, a member company of American International Group, Inc. The underwriting risks, financial obligations and support functions associated with the products issued by The United States Life Insurance Company in the City of New York are its responsibility. The United States Life Insurance Company in the City of New York is responsible for its own financial condition and contractual obligations.

AIG American General insurers rank among the top insurance providers in North America. The industry's most prominent independent ratings agencies continue to recognize AIG American General's underwriting companies for their financial strength. The United States Life Insurance Company in the City of New York has been awarded an A++ (Superior) rating from A.M. Best. This rating, current as of October 15, 2007, reflects the company's superior overall financial strength and operating performance when compared to A.M. Best's standards. For the latest A.M. Best's ratings and A.M. Best's company reports, please visit the A.M. Best Web site at [www.ambest.com](http://www.ambest.com).

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