

Research Brief: Group Life Insurance

Addendum to The Study of Employee Benefits: 2008 & Beyond

The **Study of Employee Benefits: 2008 & Beyond** from The Prudential Insurance Company of America delves into a wide range of topics to uncover important trends in the marketplace and reveal top concerns of employers and employees regarding benefits. This study contains significant—and often surprising—findings about the emerging issues and trends we believe will shape the delivery of employee benefits programs now and in the future.

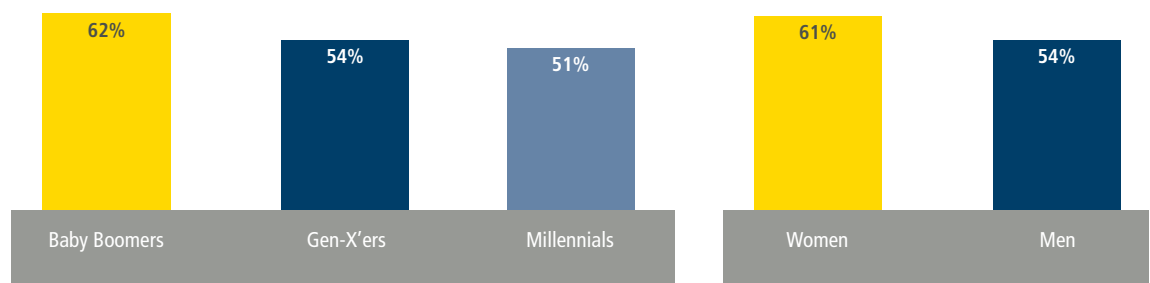
The research for Study of Employee Benefits: 2008 & Beyond was conducted via the Internet in May 2008 and consisted of two distinct surveys: one among 1,729 benefits decision-makers and the other among 1,820 full-time employees, age 18 or older, who work for a company with at least 50 benefits-eligible employees.

While compiling this data, we saw significant trends specific to group life insurance that deserve a closer look. This special addendum to the report highlights those findings to give you a deeper understanding of what drives life insurance decisions among employers and employees.

Concern Is Growing Among U.S. Workers About Their Household's Financial Security, Particularly in the Event of a Premature Death.

- More than half (57%) of workers surveyed in 2008 say it is highly important to them that their family is adequately protected financially in the event of a premature death—a notable increase from 47% in 2007. In fact, financial protection in the event of premature death ranks among workers' top personal and financial concerns.
 - Having financial security in the event of a premature death becomes increasingly important with age. Baby Boomers place a greater importance on having financial security in the event of a premature death compared to Gen-X'ers and Millennials.*
 - Women tend to be more concerned than men about many personal and financial needs. They also place greater importance on having financial security in the event of a premature death.

HAVING FINANCIAL SECURITY IN THE EVENT OF A PREMATURE DEATH



Despite Their Concern About Financial Security in the Event of a Premature Death, U.S. Workers Have Higher Priorities When Allocating Discretionary Dollars Towards Financial Benefits.

- When asked to allocate a hypothetical \$100 across seven financial benefits, workers would allocate an average of more than \$8 towards life insurance coverage. More than one-third (35%) of employees surveyed indicate they would not put any additional dollars towards life insurance benefits.





HOW PLAN PARTICIPANTS WOULD ALLOCATE \$100 FOR EMPLOYEE BENEFITS (MEAN SCORE)

Employee Benefit	Dollars Allocated
Retirement	\$40.63
Medical	\$21.21
Dental	\$9.04
Life Insurance	\$8.33
Disability Insurance	\$7.01
Long-Term Care Insurance	\$6.93
Vision	\$6.85

A Majority of U.S. Workers Who Own Life Insurance Are Likely Underinsured.

- About nine in ten (89%) workers indicate that they currently own some form of life insurance—either through the workplace or outside of work. However, less than half (45%) own any life insurance outside the workplace. Most workers receive either a small, flat amount of life insurance coverage (e.g., \$10,000 or \$50,000) or they receive coverage equal to one or two times their annual salary, which is what most employers offer at no cost to their employees.
- The industry's standard guideline for estimating adequate life insurance coverage is five to seven times annual household income. On average, only 17% of workers say they currently own life insurance coverage that is equal to at least five times their annual household income. More than eight in ten workers (83%) have less than the industry recommended coverage level.

AMOUNT OF LIFE INSURANCE CURRENTLY OWNED RELATIVE TO ANNUAL HOUSEHOLD INCOME

Amount of Life Insurance Coverage	Percentage of Workers*
None	11%
Less than five times the amount	72%
Five to seven times the amount	12%
More than seven times the amount	5%

*Based on firms with at least 50 benefits-eligible employees in the U.S.

- Among workers whose annual household income is less than \$50,000, 18% do not own any life insurance and another 23% have coverage equal to less than their annual household income—leaving 41% either uninsured or underinsured.
- Many of those workers who earn less than \$50,000 a year are Millennials. They are the generation least likely to currently be married or have financial dependents—and they are among those least likely to own any life insurance. Among those who have never been married—typically the Millennials—only 21% own any life insurance, and what they do have was obtained mainly through the workplace. That explains why even those who do have coverage typically have less than their annual household income (71%).
- Naturally, Baby Boomers—especially late Baby Boomers who are married with dependent children—are more likely to have life insurance coverage of five to seven times their annual household income.

AMOUNT OF LIFE INSURANCE COVERAGE RELATIVE TO ANNUAL HOUSEHOLD INCOME—

BY GENERATION, MARITAL STATUS, AND GENDER

Amount of Life Insurance Coverage	Early Baby Boomers	Late Baby Boomers	Gen-X'ers	Millennials	Never Been Married	Married/ Separated	Female	Male
None	7%	6%	11%	22%	21%	7%	11%	11%
Less than five times the amount	77%	74%	69%	67%	71%	71%	76%	69%
Five to seven times the amount	12%	16%	13%	7%	6%	15%	9%	14%
More than seven times the amount	4%	4%	7%	4%	2%	7%	4%	6%

Most U.S. Workers Need Help Determining How Much Life Insurance Coverage They Should Have.

- Less than one in four workers (23%) believe they should own life insurance coverage equal to five to seven times their annual household income. Thus, most workers (72%) own life insurance that is less than five to seven times their annual household income and 11% do not have life insurance coverage—leaving 83% either uninsured or underinsured.
 - Among workers who do believe they need life insurance coverage equal to five to seven times their annual household income, only about one in four (24%) actually report having that level of coverage.
 - Workers who believe they need life insurance coverage equal to five to seven times their annual household income are more likely to be:
 - Men (63% vs. 56%)
 - Married (71% vs. 53%)
 - Individuals with financial dependents (76% vs. 57%)
 - Individuals who place a greater importance on having financial security in the event of a premature death (63% vs. 55%)
 - Baby Boomers, especially late Boomers (aged in their mid-forties as of 2008, on average)
 - Middle-income earners (\$85,000 annual household income, on average)

AMOUNT OF LIFE INSURANCE WORKERS FEEL THEY SHOULD OWN RELATIVE TO THEIR ANNUAL HOUSEHOLD INCOME

Amount of Life Insurance Coverage	Percentage of Workers
Less than five times the amount	60%
Five to seven times the amount	23%
More than seven times the amount	17%





Major Life Events Lead Workers to Evaluate Their Life Insurance Needs.

- More than six in ten (62%) workers report that they have evaluated their life insurance needs within the past two years; 39% evaluated their needs within the past 12 months. Only 15% say they have never given consideration to their life insurance needs.
 - Workers who experienced one or more major life events in the past 18 months (e.g., switched jobs, purchased a home, had a child, married or divorced, lost a spouse) are more likely than others to have evaluated their life insurance coverage in the past year (46% vs. 37%).

PERCENTAGE OF U.S. WORKERS WHO HAVE RE-EVALUATED THEIR LIFE INSURANCE COVERAGE

Re-evaluated Coverage	Percentage of Workers
Within the past year	39%
1 to 2 years ago	23%
3 to 4 years ago	11%
5 to 7 years ago	6%
Over 7 years ago	6%
Never	15%

Plan Sponsors Anticipate Budget Increases for Their Life Insurance Benefits Plans Over the Next Five Years.

- In a separate but related survey among 1,400 benefits plan sponsors, about three in four (74%) say their budget for life insurance benefits per employee remained steady in 2008 compared to last year. However, more than one-third (36%) expects that their budget for life insurance benefits will increase an average of 10% over the next five years.

Summary

- Given life's many uncertainties, having financial security is a growing concern among workers, especially in the event of the premature death of a main wage earner. Making sure loved ones are adequately protected financially in the event of such tragic loss is a top personal and financial concern among workers.
- The amount of insurance coverage workers obtain through the workplace has been increasing in the past decade and many now own group as well as individual life insurance. Major life events, such as marriage and having a baby, are often the impetus for workers to re-evaluate their life insurance needs.
- However, a majority of workers are underinsured or have less than industry-recommended guidelines. While the industry suggests five to seven times annual household income as a rule of thumb, many workers have just one or two times their household income—barely enough for the average family to be able to maintain their standard of living in the year following the loss of the main wage earner.
- Many workers underestimate the amount of life insurance coverage they should have relative to their annual household income. They believe that the basic coverage provided to them by their employer is sufficient and they do not consider their particular situations and coverage needs.



- Most workers, especially those ages 40 to 60, need to be better informed about how much life insurance is right for their families to ensure that their loved ones are adequately protected. Employers that make life insurance plans available to their work force can assist by providing more effective communication and educational support during their open enrollment periods and when qualifying life events warrant re-examining life insurance benefits options.
- However, middle-age workers are faced with the reality of higher out-of-pocket costs on their group medical coverage and the need to be saving more for their retirement years. Discretionary benefits dollars are increasingly tight for many workers; consequently, concerns about life insurance get overshadowed by these more immediate financial pressures.

*Baby Boomers are those age 44 to 62 as of 2008; Gen-X'ers are those age 29 to 43 as of 2008; Millennials are those under age 29 as of 2008.

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