THE SOCIOECONOMIC IMPACT OF LIFE INSURANCE
Does life insurance have a role to play in supporting society and reducing the cost of government safety nets? At first blush, it may seem an odd question. After all, life insurance benefits are paid directly to the beneficiaries of their policyholders—not the public at large. Still, it stands to reason that the greater the number of people who are financially self-sufficient—for whatever reason—the lighter the burden on government programs and charitable organizations aimed at helping the financially distressed. That’s particularly worth considering right now, when many government budgets are stressed even though we are nine years into one of the longest economic expansions in U.S. history.

To understand more concretely how life insurance proceeds help support communities and benefit the common good, Prudential commissioned Oxford Economics to examine the relationship between life insurance payouts and various societal outcomes over a 16-year period—the first such research, we believe, of its kind. While the findings suggest a clear link between the two, we invite others to look further into this topic to more fully understand the socioeconomic impact of life insurance, particularly as it relates to government and other financial safety nets. Such research offers insights as to how private solutions may help alleviate some pressure on certain government programs.

Life Insurance as a Social Catalyst

Many products provide societal benefits beyond those they deliver directly to the consumers using them. Fuel-efficient cars save money for their owners, but also reduce pollution, benefiting society at large. Vaccines help keep the vaccinated from contracting illnesses, but, through their widespread use, also reduce the incidence of disease more broadly, benefiting the unvaccinated.

At Prudential, we think about life insurance as having two distinct sets of benefits, too. First, a policyholder contracts with a life insurance provider to leave a death benefit (“payout”) directly to his or her beneficiaries. That’s a private, or direct, benefit. In turn, this private benefit may indirectly impact a much broader set of people and communities. Keeping the families of life insurance beneficiaries out of poverty, for example, reduces government spending on poverty programs, benefiting all taxpayers. That’s a socioeconomic benefit.

To test this hypothesis, Prudential commissioned Oxford Economics to examine the relationship between life insurance payouts and various societal outcomes, then determine whether life insurance is a driver of those societal outcomes, and, if so, to what degree.

Oxford Economics’ econometric modeling indicates that life insurance payouts have a favorable impact on three socioeconomic factors:

- Poverty levels
- Unemployment rates
- Home values

Benefits of Life Insurance

Calculating the Socioeconomic Impact

To quantify the impact on socioeconomic factors, Oxford Economics looked at what would happen if life insurance payouts increased by a hypothetical 5 percent over current levels. (Payouts exceeded $100 billion in 2016, the last year for which accurate data is available. While the future level of payouts cannot be predicted with certainty, life insurance payouts in the U.S. have increased at an average annual rate of 5 percent over the last 16 years.) Oxford Economics concluded that if payouts were to increase 5 percent in a year, it would reduce federal spending by about $2.3 billion and boost home values by $109 billion. Specifically, the benefits would accrue in three areas:

- **Poverty programs.** Life insurance payouts may help keep some families from falling into poverty, and lift others out of poverty, by helping them protect savings, supplement income, and mitigate the need to take on additional debt. A hypothetical 5 percent increase in life insurance payouts would result in $1.7 billion in reduced spending on federal programs designed to help those in poverty.

- **Unemployment programs.** The impact of life insurance payouts on unemployment rates may derive from its use in business succession planning in the form of key person insurance. This insurance can help replace or supplement lost business revenue, cover replacement or succession expenses, buy out a deceased partner’s stake in a business, and reduce uncertainty in business decisions. All this helps to insure the continued viability of a business after the passing of an owner or

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3. The hypothetical 5 percent increase is calculated on a per person (across the U.S. population), inflation-adjusted basis.
4. Poverty levels were based on definitions established by the U.S. Census Bureau, which uses a set of money income thresholds that vary by family size and composition to determine who is in poverty. https://www.census.gov/topics/income-poverty/guidance/poverty-measures.html
5. Oxford Economics’ econometric modeling was based on statistically significant relationships between life insurance payouts and societal value. The data set for socioeconomic variables and insurance variables covered a 16-year period for each U.S. state. For more detail, see Oxford Economics’ report, “Life Insurance as a Social Catalyst.” https://www.prudential.com/media/managed/documents/wp/Life_Insurance_As_A_Social_Catalyst.pdf
other key employee, reducing the likelihood that its employees would lose their jobs. In addition, life insurance death benefits can provide the financing for families to continue their consumption as they spend money in the community on goods and services. In turn, businesses employ more individuals than they otherwise would. According to Oxford Economics’ analysis, a hypothetical 5 percent increase in life insurance payouts would reduce spending on federal unemployment programs by $600 million.⁶

- **Housing values.** Of the three socioeconomic factors impacted by life insurance payouts, housing prices, by far, saw the largest impact. Insurance payouts can enable homeowners to continue making mortgage payments and maintain their homes, thereby preserving their value. They also can give homeowners flexibility in determining when they choose to sell their home, which may mean they won’t be forced to sell at a below-market price due to financial duress or foreclosure. All this helps to support and buoy housing prices, thereby increasing homeownership wealth. Oxford Economics calculates that a 5 percent increase in life insurance payouts would increase the total value of the U.S.’s housing stock by about $109 billion.⁷

This analysis begs the question of what the total impact was of the $100 billion of life insurance payouts made in 2016. While Oxford Economics’ methodology applies to incremental increases in life insurance payouts and does not extend to the impact of total payouts, we can extrapolate from its work to estimate that it reduced federal spending on poverty and unemployment programs by $47 billion.⁸ Put another way, a $1 permanent increase in payouts results in a 47-cent reduction in federal spending on poverty and unemployment programs—plus a $22 increase in the aggregate value of home prices.

**Prudential’s Perspective**

The primary purpose of life insurance continues to be delivering the direct benefits to beneficiaries. The socioeconomic benefits are secondary, and often overlooked. To be fair, the estimated $2.3 billion in savings on federal programs that would accrue from a 5 percent increase in payouts may seem small relative to overall federal spending, which is projected to exceed $4 trillion in fiscal 2018. Nonetheless, it’s not insignificant. Given that the average federal tax bill for Americans who paid federal taxes was just under $15,000 in 2015,⁹ the federal savings alone would cover federal tax bills for more than 163,000 taxpayers. Moreover, these savings estimates are conservative, as they do not include savings from any state or local programs dedicated to poverty and unemployment.

On the real estate front, meanwhile, a 5 percent increase in payouts would translate into an average $800 increase in value for every single-family home in the U.S. That’s every home, not just those owned by insurance beneficiaries.

It is widely understood that life insurance plays an integral role in the financial well-being of millions of Americans. The death benefit from life insurance can act as a safety net that helps beneficiaries stay on track with their financial goals after the loss of a loved one.

This research broadens our understanding that life insurance payouts deliver benefits that extend beyond their direct recipients. We encourage additional research in this area to further understand the socioeconomic impacts of life insurance.

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⁶ Oxford Economics’ econometric modeling was based on statistically significant relationships between life insurance payouts and societal value. The data set for socioeconomic variables and insurance variables covered a 16-year period for each U.S. state. For more detail, see Oxford Economics’ report, “Life Insurance as a Social Catalyst.”

⁷ Ibid.

⁸ The relationships between life insurance payouts and poverty, and between life insurance payouts and unemployment, are nonlinear. However, absent historical data on large incremental shifts in life insurance payouts, we extrapolated marginal effects in payout changes to contextualize the effects of total payouts.

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Based on research Prudential commissioned Oxford Economics in 2017-2018.

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