

Virtually All US Households Are Woefully Underinsured, New Study Finds

According to a new study by LIMRA International, virtually all US households have inadequate amounts of life insurance coverage and the most underinsured groups are those with the largest needs - married parents and single parents. Though it shouldn't come as a big surprise that most Americans are underinsured, the degree to which people lack adequate protection is alarming and should serve as a wake-up call to consumers and industry professionals alike.

Past studies have shown that most households have two to three times their income in life insurance coverage. LIMRA's new study finds that couples with no children need roughly 12 times their income in life insurance coverage and households with children need around 20 times their income.

In dollars and cents, LIMRA found that the average recommended amount of insurance for all households examined in its analysis was \$459,000, compared to \$126,000 owned. That means the "underinsurance gap" for the typical household is more than \$300,000.

As one would expect, certain types of households have more insurance than others. For instance, affluent households with more than \$100,000 of household income own almost 40 percent of the recommended insurance coverage. By contrast, middle income households only have about 15 percent the recommended coverage.

Although cost is the top reason consumers cite for not having adequate life insurance coverage, LIMRA found that the average cost to fully insure the primary wage earner in the households it studied is \$720 or 2.2% of the earner's annual wages.

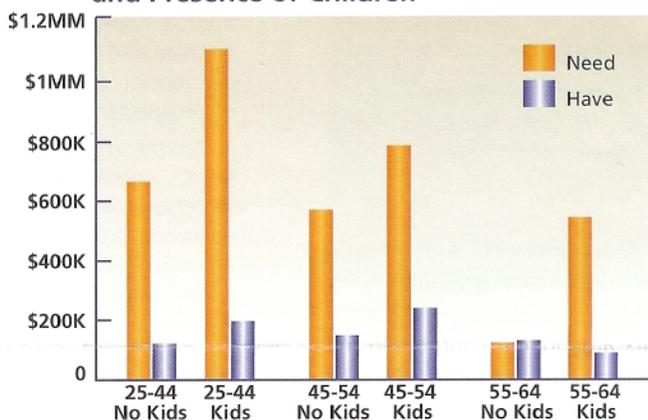
How the Study Was Conducted

For detailed financial information, including life insurance coverage, LIMRA used the Federal Reserve Board's Survey of Consumer Finances (SCF), a robust database that covers a wide range of different household types. LIMRA examined a subset of the SCF sample of 4,000 households, focusing on households over age 25 and under age 65, where the need for life insurance coverage is typically greatest.

To determine "recommended" coverage, LIMRA experimented with a wide variety of online calculators before deciding to use two of the calculators on LIFE'S Web site: the Life Insurance Needs Calculator (a Capital Needs approach) and the Human Life Value Calculator (a Human Capitalized Value approach). The recommendations that these calculators generated were typically in the middle of the range of the various calculators that LIMRA tested. In most cases, the Life Insurance Needs calculator produced larger recommended values than the Human Life Value calculator did, but the results were not appreciably different.

LIMRA's study appeared in the May 2003 issue of the Journal of *Financial Service Professionals*. For a copy of the study, please send an e-mail request to journal@financialpro.org and ask for the May 2003 Adequacy of Life Insurance Coverage article.

Life Insurance Coverage by Age and Presence of Children



Life Insurance Coverage for Parents by Income

