Insurance Market Consumers – 2017 Update

James Scanlon
Senior Research Director
Life Insurance Ownership Trends
Life Insurance Ownership Volume is Growing

Over 87 million U.S. households own life insurance, an increase of 5 million since 2010.

*Includes Individual, Group, SGLI & VGLI
* Individual Life Sold Face-to-Face through an Agent

Source: 2016 Life Insurance Ownership in Focus - Households
The Ownership Rate is Holding Steady

The increase in ownership volume is linked to population growth, as market penetration remains at 70%.

*Includes Individual, Group, SGLI & VGLI
+ Individual Life Sold Face-to-Face through an Agent

Source: 2016 Life Insurance Ownership in Focus - Households
Trends in Individual Life Insurance Buying Behavior

- Most buy through agents.
- The proportion buying through alternative methods increased by more than 25% in 2010 and 2016 studies.
- Trend indicates 1-in-3 may purchase via non-agent channels in 2022.
Overlapping Coverage

- Households owning both individual and group coverage has been declining since 1984. This trend is driven by all household segments age 45 and older.
- Households owning both individual and group have the highest level of coverage adequacy (3.6 years). However, even among this best-protected segment, coverage adequacy has declined by 1.2 years since 2010.
The mean amount of coverage owned = $300K. Average coverage amounts and the average income replacement ratio have declined over the past 12 years.

+++Ratio of total coverage to annual household income. **Coverage in 2016 dollars. Winsorized means.

Source: 2016 Life Insurance Ownership in Focus - Households
The ACLI Fact Book estimates $20.1 trillion as the total amount of U.S. life insurance in force in 2014.
U.S. Life Insurance Market Opportunity

48%
- Almost ½ of all households have a life insurance need gap*. Over 60 million.

$200,000
- Average life insurance need per household.

$12 trillion
- Current sales potential of underinsured market.

$340 billion
- New life insurance need entering the market each year.

*Based on LIMRA Life Insurance Needs Model analysis

Source: 2016 Life Insurance Ownership in Focus - Households
Life Insurance Coverage Gap

- Total life insurance coverage owned = $26 trillion.
- U.S. Households need another $12 trillion in coverage.
- Market need is almost ½ of the market’s current size.
Future Purchase Intentions

- Households saying they “need more” coverage declined by 18% since 2010. Yet, average income replacement ratios have declined by 6 months during this period.
- Households that are “likely to buy” in the next year increased by 80%. This huge increase suggests that many households are interested in adding to their coverage.

The increase in likelihood to buy is driven by key market segments: married couples under 45; higher income categories; and insured households.

* Includes “very likely” and “fairly likely” to buy.
Buying Influences

Consumers are More Likely to Buy Life Insurance if...

- Trust sales representative
- Sales rep recommended to me
- Sales rep reviews/analyzes needs
- Meet face-to-face
- Presented as part of financial plan
- Can buy at place of work
- Whole process done on Internet
- Mail offer
- Rep wants me to buy at first meeting
Barriers to Buying

Reasons Consumers Don't Buy (more) Life Insurance

- Other financial priorities: 71%
- Can’t afford it: 60%
- Put money in other financial products: 59%
- Difficult to decide how much to buy: 52%
- Difficult to know what type to buy: 52%
- Do Not Need Life Insurance: 51%
- Have Enough Insurance to Meet My Needs: 51%
- To avoid high-pressure sales tactics: 47%
- Worry about making the wrong decision: 47%
- Just haven’t gotten around to it: 46%
- Not received info related to my needs: 40%
- Unpleasant to think about dying: 38%
- No one has approached me: 36%
Consumers' Financial Mindscape
The Financial Concern Index (FCI)

- *The FCI tracks the level of financial pressure consumers feel.*
- *The pressure level dropped 8-points over the past 12 months.*

Source: 2017 Insurance Barometer
FCI Components

• FCI reveals a consistent hierarchy of financial concerns.

• Health related items consistently dominate concern rankings.

Source: 2017 Insurance Barometer
Financial Concern Hierarchy

Source: 2017 Insurance Barometer
In this category, concern levels are about equal.

Yet, ownership rates on related coverages are completely different.

Almost 90 percent of Americans have medical coverage, compared with 20 percent for DI and 14 percent for LTCI coverage.
The category of savings goals includes the desire for a comfortable retirement, which is consistently the top financial concern for American consumers.

Retirement ranks number one each year, and it maintains its ranking across demographic segments.
Living Expenses Component

- **Concern here is an indicator of consumers’ disposable income.**

- **When concern is high, it can overshadow savings goals.** Concern for these items declined noticeably after 2012, and then spiked back up last year.

Source: 2017 Insurance Barometer
• Though life products occupy the lowest tier in the financial mindscape, concern about them is always present.

• In the current environment, consumers are better positioned to address these issues, because they are less distracted by competing financial risks.
Sticky vs. Elastic Concerns

Sticky Concerns
- Long-term care services
- Dependents’ financial security
- Credit card debt
- Comfortable Retirement

Elastic Concerns
- Leaving an inheritance
- Dependent's education expenses

Source: 2017 Insurance Barometer
Financial concerns diminish as incomes rise

Couples express more financial concern than singles

Women express higher levels of financial concern

Source: 2017 Insurance Barometer
Your Trusted Source for Industry Knowledge

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RETIREMENT AND ROLE OF ANNUITIES IN RETIREMENT

Jafor Iqbal
LIMRA Secure Retirement Institute

September 20, 2017
AGENDA

01 UNDERSTANDING RETIREMENT MARKET

02 ROLE OF ANNUITIES IN RETIREMENT

03 A FEW STRATEGIES TO CONSIDER
More than 70% of U.S. households own $100k or less in investable financial assets.

<table>
<thead>
<tr>
<th>Weath Segments</th>
<th>Number of Households (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Net-Worth (Assets &lt;$100k)</td>
<td>88.2 M</td>
</tr>
<tr>
<td>Middle-Market (Assets $100k-$249k)</td>
<td>14.5 M</td>
</tr>
<tr>
<td>Mass-Affluent (Assets $250k-$499k)</td>
<td>8.1 M</td>
</tr>
<tr>
<td>Affluent (Assets $500k-$999k)</td>
<td>5.9 M</td>
</tr>
<tr>
<td>High-Net-Worth (Assets $1 mil-$3.49 mill)</td>
<td>4.3 M</td>
</tr>
<tr>
<td>Mega-Millionaires (Assets $3.5 mill or more)</td>
<td>1.5 M</td>
</tr>
</tbody>
</table>

Growth opportunity for advisors/firms in middle and mass-affluent markets

**Total Financial Assets in U.S. Households (in Trillions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Assets Range</th>
<th>Value (Trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Net-Worth</td>
<td>Assets &lt; $100k</td>
<td>$1.5 T</td>
</tr>
<tr>
<td>Middle-Market</td>
<td>Assets $100k-$249k</td>
<td>$2.4 T</td>
</tr>
<tr>
<td>Mass-Affluent</td>
<td>Assets $250k-$499k</td>
<td>$2.9 T</td>
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<td>$7.4 T</td>
</tr>
<tr>
<td>Mega-Millionaires</td>
<td>Assets $3.5 mill or more</td>
<td>$12.7 T</td>
</tr>
</tbody>
</table>

84 percent of investable assets are in the hands of Boomers and retired Americans.

Total Investable Assets in the U.S.

$31.0 Trillion

Retirement market will grow for decades.

Source: LIMRA Secure Retirement Institute analysis of 2013 Survey of Consumer Finance, Federal Reserve Board, 2014. The retirement income market size estimate reflects consumers aged 25 or over, and households with assets between $50k and $4.9 million.
Dear Advisor,

The 5 most valuable services from you are ...

- Minimize risk of running out of money: 42%
- Protect portfolio principal: 32%
- Minimize taxes: 27%
- Have a more realistic picture of life I can afford in retirement: 26%
- Maintain perspective and think clearly of events/trends: 25%

Source: Dear Advisor..., LIMRA Secure Retirement Institute, 2017. Three maximum choices for top most valuable services.
Total U.S. individual annuity sales declined in 2016

Annuity Sales: 2011 – 2016 (In Billions)

Looking at annuity sales by investment objectives – why buyers buy them – gives a clearer picture


Note: Totals include only retail annuity sales and exclude sales in Employer Plans and Structured Settlements. **Market Growth** includes sales of VAs without a GLB rider; **Principal Preservation** includes fixed indexed annuity sales without GLBs, fixed-rate deferred annuity sales, and VA GMAB rider sales; **Income Later** includes VA sales with GLWB/GMIB/GMWB riders elected, fixed indexed annuity sales with GLWB riders elected, and deferred income annuity sales; and **Income Now** includes immediate income annuity sales.
Once you know what are buyers investment objectives & risk-return tradeoff, it is easier to find the right annuity.

Source: Annuity Buyer Metrics, LIMRA Secure Retirement Institute, 2017
Roughly 1 in 6 U.S. households own a deferred annuity

Deferred Annuity Market Penetration Rates by Age and Other Characteristics

Average premium for all guaranteed lifetime income annuities = $115k or more

<table>
<thead>
<tr>
<th>Type</th>
<th>Fixed-rate</th>
<th>All Indexed</th>
<th>All Variable</th>
<th>Indexed GLWB</th>
<th>VA GLWB</th>
<th>SPIA</th>
<th>DIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Annuity</td>
<td>$89k</td>
<td>$105k</td>
<td>$133k</td>
<td>$116k</td>
<td>$148k</td>
<td>$150k</td>
<td>$135k</td>
</tr>
<tr>
<td>Lifetime Income Annuity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Women rely on guaranteed income products

**Women – who face increased longevity risk – own a high percentage of the guaranteed income products**

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-life VA with GLWB</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>Single-life Fixed Immediate Income Annuity</td>
<td>62%</td>
<td>38%</td>
</tr>
<tr>
<td>Single-life Deferred Income Annuity</td>
<td>57%</td>
<td>43%</td>
</tr>
</tbody>
</table>

VA GLB owners received ~$15 billion of guaranteed income payments in 2015

$8.4 billion: estimated industry guaranteed income payments for GLWB in 2015

$1.1 billion: estimated industry guaranteed income payments for GMWB in 2015

$5.1 billion: estimated industry guaranteed income payments for GMIB in 2015

Annuity owners receive $8k–$11k in annual guaranteed lifetime income or withdrawals.

Average Annual Guaranteed Lifetime Income from Annuities – 2015

- **Deferred Income**: $10,850 Per Year (Based on 11,497 contracts)
- **Fixed Immediate**: $10,340 Per Year (Based on 34,530 contracts)
- **VA with GLWB**: $8,170 Per Year (Based on 456,603 contracts)

Annuity owners are more confident

*Very Confident* in the Ability to Live the Retirement Lifestyle They Want

Percentage of Households

<table>
<thead>
<tr>
<th>Own an annuity</th>
<th>Do not own an annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Very confident</strong></td>
<td><strong>Very confident</strong></td>
</tr>
<tr>
<td>Mass-affluent (assets $100k-$499k)</td>
<td>Affluent (assets $500k-$999k)</td>
</tr>
<tr>
<td>13%</td>
<td>26%</td>
</tr>
<tr>
<td><strong>Very confident</strong></td>
<td><strong>Very confident</strong></td>
</tr>
<tr>
<td>Affluent (assets $500k-$999k)</td>
<td>High-net worth (assets $1 mill+)</td>
</tr>
<tr>
<td>35%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Very confident</strong></td>
<td><strong>Very confident</strong></td>
</tr>
<tr>
<td>High-net worth (assets $1 mill+)</td>
<td>All households</td>
</tr>
<tr>
<td>35%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Very confident</strong></td>
<td><strong>Very confident</strong></td>
</tr>
<tr>
<td>All households</td>
<td></td>
</tr>
<tr>
<td>18%</td>
<td></td>
</tr>
</tbody>
</table>

A FEW STRATEGIES TO CONSIDER
Do more retirement income planning.

Bought insurance/investments as part of the plan

70%

Significant Lift in Products/investments Purchased

- As Part of a Plan
- No Plan

Deferred Annuities: 34%
Corporation/Municipal Bonds: 14%
Payout Annuities: 24%
LTC Insurance: 5%
US Bonds/T-Bills: 9%

Source: The Benefits of Retirement Planning, LIMRA Secure Retirement Institute, 2016. The survey is based on 2,166 investors comprised of 1,285 not-retired and 881 retired with investable assets of $100k or more between ages 55 to 75.
Engage... ... and help clients at key retirement milestones.

### U.S. Retirement Milestones

<table>
<thead>
<tr>
<th>Age</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>55</td>
<td>If retired, may withdraw 401(k) savings without penalty</td>
</tr>
<tr>
<td>59½</td>
<td>Can withdraw tax-deferred assets without IRS penalty</td>
</tr>
<tr>
<td>62</td>
<td>Partial Social Security benefit eligibility</td>
</tr>
<tr>
<td>65</td>
<td>Medicare benefit eligibility</td>
</tr>
<tr>
<td>66-67</td>
<td>Full Social Security benefit eligibility</td>
</tr>
<tr>
<td>70</td>
<td>Maximum Social Security benefit eligibility</td>
</tr>
<tr>
<td>70½</td>
<td>Must take RMD (required minimum distribution)</td>
</tr>
</tbody>
</table>

Source: LIMRA Secure Retirement Institute, 2015
At age 60, 62 and 65

38% Retirement income plans are done

39% VA GLWB buyers

38% DIA buyers

28% SPIA buyers

RETIREMENT PLANNING is now intrinsic to “INVESTMENT ADVICE” under new fiduciary environment.
More advisors want training on Social Security & Health-care planning.

Top 5 Areas of Training Wanted by Advisors

- **Social Security Claiming Strategies**: 49%
- **Health/LTC/Medicare planning**: 42%
- **Regulatory Issues**: 40%
- **Estate Planning**: 36%
- **Tax advice**: 36%

FINANCIAL PROFESSIONAL OF THE FUTURE

PRODUCT FOCUSED

- Selling

SERVICE/KNOWLEDGE FOCUSED

- Retirement Planning
- Value Added Advice

LOWER Consumer Perceived Value

FUNGIBLE

HIGHER Consumer Perceived Value

STICKY
Thank you

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