



**MetLife**

# Three Steps to Closing the Underinsured Gap

Evaluate

Enhance

Educate

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# Research Methodology

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In 2009, MetLife conducted a study to further understand the financial severity and duration of the impact to surviving spouses after their partners died prematurely. It builds on proprietary research conducted in 2003. While these reports include many similarities and confirm the fact that the underinsured issue is still quite prevalent, the new study provides a deeper level of analysis and valuable insight from surviving spouses. All findings were the result of 1,000 online interviews with participants who were married to someone who died between the ages of 25 and 60 within a period of six months to seven years prior to the survey.

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## Executive Summary

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As the U.S. seeks to reduce the number of working Americans without health insurance, a similar national challenge continues to linger — largely hidden from view, but also significant in terms of its socio-economic impact. Many employees of varying ages and backgrounds are financially ill-equipped to maintain their standard of living should a primary income-earner die prematurely.<sup>1</sup> The consequences of not having any, or enough, life insurance can be so critical, that in some cases it leads the surviving spouse to file for personal bankruptcy.<sup>1</sup>

Research indicates that the underinsured issue is just as severe—if not worse—than it was six years ago when MetLife last studied this issue. The emergence of a challenging economic climate in 2008 heightened the value employees place on benefits. This, coupled with fact that they are not taking full advantage of access to convenient coverage at competitive group rates through the workplace, creates missed opportunities in the group life insurance market.<sup>1</sup>

But closing the nation's underinsurance gap is a complex undertaking that involves the collective efforts of three major stakeholders: employees, employers and insurance carriers. While employees say they value life insurance, they are not taking full advantage of this product as a means to help financially protect their families from the devastating impacts of being underinsured.<sup>2</sup> Their inaction suggests complacency and a lack of education to help them make informed choices. With access to the right information, employees will be better able to achieve peace of mind, appreciate their benefits and make better coverage choices.

As for employers, most provide some amount of life insurance coverage through the workplace and periodically re-evaluate their benefits plan to determine whether they are offering the right choices. Employers are well-positioned to play a critical leadership role in mitigating the financial impact of premature death on surviving spouses by providing better benefits information, including promoting the need for adequate life insurance coverage and making available a robust benefit offering. These steps can build greater value in an employer's benefits offering and gain substantial goodwill in terms of employee loyalty and retention.

The third group, insurance carriers, can use their deep expertise to demonstrate how the employee populations they serve can achieve optimal coverage levels. It starts with providing the right tools and personalized communication strategies that account for key demographic differences, which drive the level of financial preparedness among today's workforce and shape coverage decisions.

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# Financial Devastation of a Life-Altering Event

The nation’s underinsured issue has had a devastating impact on our population. About two-thirds of life insurance plan beneficiaries say a spouse’s premature death had a major impact on their financial security.<sup>1</sup> Among the most noteworthy areas: the survivors’ earnings (67%), with many losing their primary source of income; lifestyle (64%), such as relocating their residence; and savings (55%), as many are forced to cover daily expenses by withdrawing from savings, investments or retirement funds.<sup>1</sup>

## Financial Impact of Premature Death



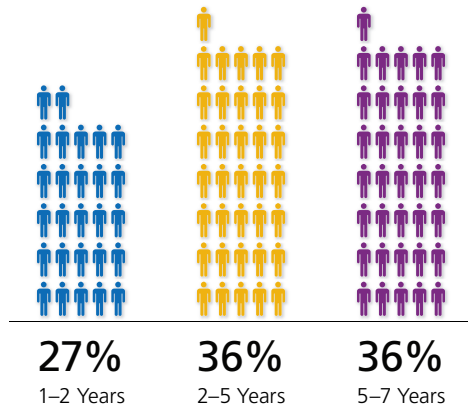
### Those Most Impacted\*

- Younger (30 – 50)
- Women
- Low-Income
- Children under 18
- Spouse was primary breadwinner

\*More likely to report devastating/major impact

The effects of being underinsured can be lasting. Research conducted in 2003 found that 28% of respondents reported being financially vulnerable four to five years after the death of a loved one. In 2009, this statistic increased to 36% of individuals remaining financially vulnerable as many as five to seven years after their spouse’s death.<sup>1</sup> These issues, of course, are exacerbated by tough times, with 62% of beneficiaries reporting that the difficult economy had significantly eroded their financial security.<sup>1</sup>

**Percent of Beneficiaries Who Said They Were “Not at All” Financially Secure Following Their Spouses Premature Death**



These statistics are backed by heartbreaking testimonials that reveal a compelling human dimension behind the numbers. They serve as cautionary tales about the impact of not owning adequate life insurance coverage and the need to educate employees on how to better secure protection for their loved ones.

**Beneficiary Voices**

- *“I was laid off in March. My husband passed away in April of the same year. It’s been hard living off unemployment and trying to pay the mortgage, utilities, car insurance and keep health insurance through COBRA for me and my youngest daughter...”*
- *“We were a two-income family and all of a sudden, I was down to one income to pay the mortgage, utilities, credit cards, auto loans and the rest.”*
- *“I used most of the life insurance money to maintain our home...but all the money is gone and I’m losing the house. I’m working two part-time jobs and just getting by. Not quite where I expected to be at age 52.”*

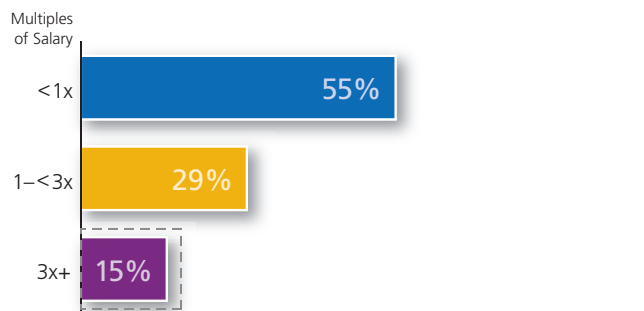
*Beneficiary testimonials were captured from interviews with participants in the 2009 MetLife Financial Impact of Premature Death Study.*

# Understanding the Employee's Mindset

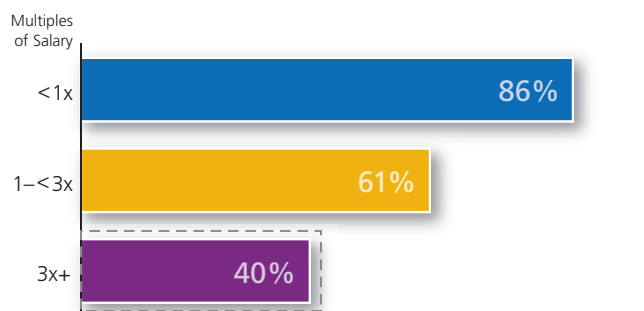
In the face of growing uncertainty about the future of government programs and a fluctuating economy, not to mention evolving family dynamics and a greater life expectancy, there is a desire for employees to take greater control of their personal finances. It should come as no surprise that they are increasingly looking to the workplace for help.<sup>2</sup>

While many employees say they value group life insurance as a fundamental part of their overall benefits program,<sup>2</sup> a significant number of them are not taking action.<sup>3</sup> Nearly half of employees are underinsured.<sup>4</sup> In addition, 43% of beneficiaries received less than \$50,000 of life insurance proceeds. 84% received life insurance proceeds that were less than three times the employee's salary, with 77% of beneficiaries considering them inadequate.<sup>1</sup>

## Amount of Life Insurance Coverage Compared to the Deceased's Salary



## Inadequacy of Life Insurance Proceeds



Why aren't more employees buying life insurance or securing adequate protection? No doubt, there are purchasing barriers that need to be overcome. Employee inertia may be caused by a lack of time or financial resources, as well as other constraints. For example, a top reason so many U.S. households delay purchasing more life insurance is that perception of such a policy is too expensive, despite the cost actually being at an all-time low.<sup>1</sup> In addition, many individuals view selecting the right coverage and product as a complicated process.<sup>5</sup>

Demographic factors can have a huge impact on one's perception of life insurance. In fact, these trends help drive employees' purchasing decisions on the type and amount of coverage needed to secure greater peace of mind. The resulting generation and gender insights regarding life insurance ownership highlight the need to tailor communications.

For example, Generation X (those ages 34 to 45) relies more heavily on the workplace for help in determining the appropriate amount of life insurance coverage than Baby Boomers (40% and 24%, respectively).<sup>2</sup> Women also participate in group life insurance plans at significantly lower rates than their male counterparts, despite shouldering more care giving responsibilities for dependents, which in some cases, span multiple generations.<sup>6</sup> In fact, only 28% of women purchased coverage that was equal to at least three times their income<sup>2</sup>—leaving their families financially unprepared if faced with her premature death.

For the employer, these findings highlight the need to better educate employees about why they need life insurance, how much is considered adequate based on their situation, the ease of workplace access, and affordability of group policies. In addition, they suggest that the substantive differences among the most prominent populations of their workforce should be taken into consideration. When it comes to owning adequate life insurance, effective educational outreach can address gender and generational distinctions and resulting purchasing drivers. Benefit communication and decision-support tools can be tailored to promote the value of life insurance for different demographics. This can better prepare and motivate employees to secure appropriate protection and peace of mind for their families, and in turn, help close the underinsurance gap.

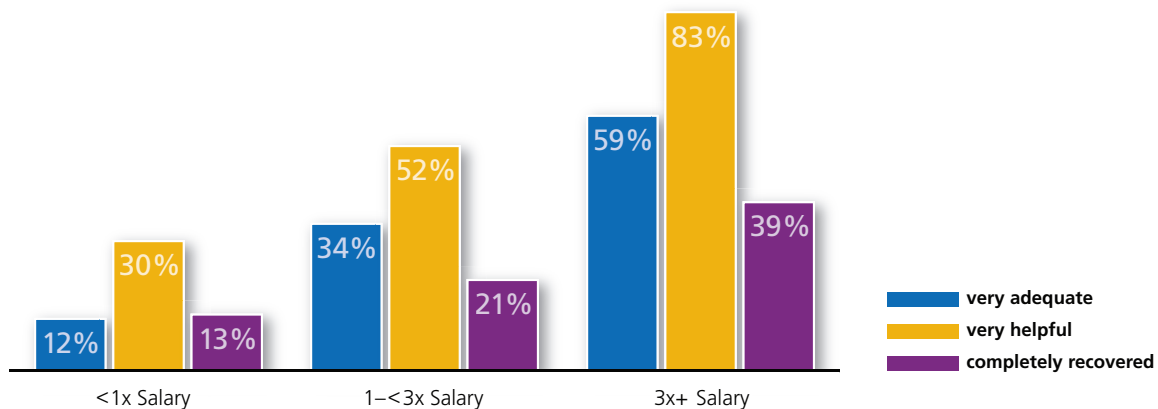
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## Advantages of Taking Action

There is tremendous value in employees owning life insurance and employers offering the benefit.

For employees, the biggest factor is adding a greater layer of financial security. Surviving spouses who received benefits in excess of the suggested baseline coverage of three times the covered employee's annual income are significantly more likely to feel that life insurance proceeds were very adequate (59%) or very helpful (83%).<sup>1</sup> Moreover, 39% of those surviving spouses completely recovered financially.<sup>1</sup> In fact, only those who received benefits equal or greater than three times the covered employee's income reported being as financially secure as before their spouses premature death.<sup>1</sup>

### Attitudes Towards Life Insurance Proceeds : Adequacy, Helpfulness and Ability to Recover



For employers, offering a valued benefit can have a positive impact on the way they are perceived by their workforce. Research suggests that there is considerable traction in this area, with 80% of employees purchasing life insurance through the workplace and employees valuing their workplace benefits more than ever, regardless of whether they are paid by the employer or employee.<sup>2</sup> In addition, most beneficiaries (66%) felt better about the employer that offered the coverage after receiving payouts and expressed a deep appreciation for the opportunity their spouse had to purchase critical financial protection for their families through the workplace.<sup>1</sup>

They can capitalize on the fact that their employees look to them as the primary source of access to financial protection such as life insurance. Employers who help their underinsured employee population secure the appropriate amount of protection they need, enhance the perceived value of their corporate benefits program and can also gain competitive advantages through increased employee loyalty.<sup>2</sup>

# Implementing Strategies for Success

At a time when protecting the workforce has become a distinguishing characteristic in business, one way for employers to increase employee loyalty is by providing a competitive benefits offering. Promoting life insurance as part of a comprehensive employee benefits package, along with the right plan design and tools necessary to help attain adequate coverage levels, can instill a sense of appreciation and loyalty toward employers, and serve as an employee recruitment and retention tool.

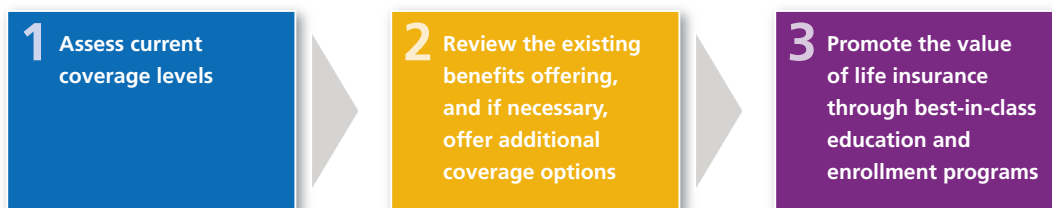
Nearly 70% of employees say non-health benefits are a strong influence on their workplace loyalty—which is up from 51% in 2007—and despite a difficult economic climate, employee retention remains a top benefits objective for employers.<sup>2</sup>

As employers are forced to reduce their workforce and cut back hours, employee benefits may become increasingly important. For example, 56% of employees surveyed admitted to appreciating their workplace benefits more than ever in the face of economic changes, while 41% strongly consider them to be the foundation of their financial protection.<sup>2</sup> Many of the respondents said a difficult economy made them take greater interest in understanding their employee benefits package and were prompted to determine their household’s needs for life insurance to help guard against financial risks.<sup>2</sup>

Perhaps more than ever, employees are focused on their benefits options—most working Americans look to their employers to offer benefits, and a majority of employees purchase financial protection products at work. Now may be the perfect time for employers to position themselves and help their most valuable asset—the people who work for them to emerge from these challenging times.

Slightly more than half of working Americans (51%) obtain most of their financial and retirement products through the workplace.<sup>2</sup>

There are three simple steps that employers can take to help maximize their life insurance benefits investment and help mitigate the financial impact of premature death.



## Step 1: Evaluate Your Plan

When evaluating current benefits offerings, it is crucial that employers understand the extent to which their employee populations are underinsured with less than the recommended amount of life insurance coverage. Many life insurance carriers can help employers conduct an analysis of current coverage levels and plan utilization to help determine a benchmark for adequate coverage among their own employee populations. Offering the appropriate amount of life insurance with access to educational and needs-assessment tools, can help each employee make an informed decision about their unique needs—a strategy that can play a vital role in helping an employer gain their employees’ loyalty and appreciation, and at the same time, reap corporate goodwill. This effort can, in turn, help their workforces overcome the purchasing barriers that have resulted in inadequate insurance protection.

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While the recommended amount of life insurance coverage will vary from one employee to the next, the numbers indicate substantial financial relief for beneficiaries who received coverage amounts above three times the employee’s salary.<sup>1</sup> MetLife recommends a coverage amount that equals all outstanding debt (mortgage and other loans) plus five years of salary. For more comprehensive and lasting protection, and as a rule of thumb, an individual should seek coverage in an amount that is at least 60% of annual income times the number of years to retirement.<sup>7</sup>

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## Step 2: Enhance Your Group Life Benefits Package

As employers evaluate their current plans and their underinsured population, they will be able to verify whether they are offering the right product mix and the appropriate levels of coverage for their employees to secure sufficient protection. A comprehensive benefits package can help provide a competitive advantage—life insurance may help address different needs and enhance the benefits package. A life insurance offering that features employee paid term or permanent coverage options is an easy approach to enhancing the total benefits program.

For many employees, universal life and variable universal life insurance coverage can go a long way toward meeting the need for additional tax-efficient investment vehicles beyond the 401(k) or other qualified retirement savings plans. Additional features, such as will preparation, are another great way to help ensure the employee’s evolving needs are met today as well as tomorrow.

## Step 3: Educate—Promote the Value of Life Insurance Through Personalized Communications and Enrollment Support

Any benefit plan enhancement must be accompanied by a thorough communication and educational effort. To effectively convey the value of owning adequate life insurance, employers should have an understanding of key demographic differences among various segments of the workforce and consider tailoring their life insurance communications to them. Targeted messages about the need for appropriate coverage can be a proactive, and more effective way, to motivate employees to review their life insurance needs and make any necessary adjustments.

There are several strategies employers can use to help make any communications campaign more effective.

- a. Host an off-cycle enrollment just for life insurance so that it doesn't compete with other benefits, which helps reinforce ongoing messages and keep employees more engaged.

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It's worth noting that 38% of employees are interested in learning about and modifying their benefits choices more than once a year.<sup>2</sup>

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- b. Communicate the consequences of inadequate life insurance protection—this can serve as a valuable reminder about the need for employees to take action. When these messages are conveyed from the standpoint of a surviving spouse, they are instantly humanized and are a powerful means of promoting the need for owning adequate coverage.
- c. Provide employees with access to a variety of decision-support tools and educational resources, such as income-assessment calculators and tutorials, through a variety of communication channels. This can help employees understand coverage needs based on their demographic profile, and in a manner that is most comfortable to them—making assessment and access to enrollment easy and convenient.

Any communications campaign launched in the workplace that includes these steps can help make a significant difference to the employee attempting to understand whether personal action is needed to secure adequate life insurance protection. The fact is that all employees are eager to receive information and assistance through the right channels to help address their concerns about having adequate financial protection.

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## Conclusion

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Now more than ever, employers have the opportunity to take action and offer an additional layer of financial protection to their most valued asset: their employees. Research suggests that too many employees and their families are vulnerable to a devastating financial impact in the event that a primary income-earner dies prematurely.

The solutions at hand include promoting the value of life insurance, enhancing the benefits package and personalizing communications and enrollment support. Forward-thinking employers are poised to assume a meaningful leadership role, since the workplace can offer easy access to comprehensive life insurance, at competitive group rates, for their employees. In the process, they can acquire substantial goodwill from employees and a competitive edge.

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<sup>1</sup> 2009 Financial Impact of Premature Death Study.

<sup>2</sup> MetLife Study of Employee Benefits Trends, 2009 (“Underinsured” is defined as having life insurance coverage that is equal to or less than three times annual household income).

<sup>3</sup> LIMRA, Trends in Life Insurance Ownership among U.S. Individuals, 2006.

<sup>4</sup> Internal Analysis of MetLife Participation Data, 2009.

<sup>5</sup> MetLife Life Insurance Ownership Research Study (via Nielsen/Claritas Insurance Audit Re-Contact Survey), 2009.

<sup>6</sup> Marketing to Women, Marti Barletta, 2006.

<sup>7</sup> MetLife’s Point of View on Life Insurance, 2010.

Benefits for the **if in life**<sup>SM</sup>

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