



# Income Term Life Survey Results

By Chuck Preti

Income term life insurance can refer to many things. Term life insurance is widely recognized, but place the word *income* in front and people form their own interpretations.

Some believe applying the death benefit proceeds to a settlement option at the time of payment—an option often offered to beneficiaries—transforms the contract into income term life insurance (or income whole life insurance, as the case may be). A more popular opinion is that an income term life contract offers a death benefit that is only payable in installments, such as monthly over a 10-year period, rather than as a lump sum. If the insured dies during the term period, then the same total death benefit would be paid in the time period that follows. These impressions of income term life insurance, while certainly reasonable, were not the subject of a recent survey conducted by Greenwald & Associates.

Greenwald & Associates, a full-service nationally recognized market research firm, surveyed online 504 full-time working individuals in the third quarter of 2019 to determine their interest in income term life insurance. The survey first defined conventional term life insurance—a product that was already familiar to most—and then explained how income term life insurance is different, focusing on the payment of the death benefit proceeds. For the purposes of the survey, income term life insurance was defined in two ways for the participants.

- **Definition 1.** A very small payment at the time of the insured's death *plus* a stream of monthly payments ceasing at a predefined date.

In other words, if the contract is purchased on July 1, 2020, with a 20-year term period and a benefit period ending July 1, 2055, then the monthly portion of the death benefit would be payable up to July 1, 2055, if and only if the



insured dies prior to July 1, 2040. Such a design might be attractive to someone who is 35, perhaps considering retirement at 55, and wants to replace lost income until what would have been attained age 70.

- **Definition 2.** A very small payment at the time of the insured's death plus a stream of monthly payments ceasing upon death of the beneficiary.

Under the second definition, the precise ending date for the benefit period is not known in advance. If the contract is purchased on July 1, 2020, with a 20-year term period, and the insured dies within this 20-year term period, then the monthly portion of the death benefit would be payable until the death of the beneficiary. This presumes the death of the beneficiary did not predate the death of the insured.

## APPEAL OF INCOME TERM UNDER FIRST DEFINITION

Participants acknowledged at least a basic understanding of the difference between conventional term life insurance and income term life insurance, including the distinction in ending date of the monthly benefit period for the two versions of income term. Gauging their interest in the income term life insurance designs,

however, was not so straightforward. It depended on how the monthly income (plus the small initial death benefit) compared to the conventional lump-sum amount when the premium for the products were equated. No pricing was performed, so hypothetical values were assumed.

The two products on offer were described as follows:

Product A	Product B
Conventional term life insurance	Income term life insurance (definition 1)
N-year term period	N-year term period
\$250,000 death benefit	Y-year benefit period [There would be $12 \times (Y-4)$ monthly benefit payments if the insured dies four years into the term period]
	\$25,000 immediate death benefit plus \$K per month until the end of the benefit period

The survey results showed strong support for income term life insurance when the benefit period had a defined end date.

Participants were then asked whether they preferred Product A or Product B, assuming the same premium for both products. A full 88 percent of those between 20 and 35 years of age prefer Product B over Product A when the monthly benefit is \$3,000 (Table 1), whereas only 18 percent of those between 36 and 50 years of age prefer Product A over Product B when the monthly benefit is \$3,000 (Table 2). Sometimes a preference for one product over the other was not stated.

Table 1  
Participants Who Prefer Product B Over Product A, Assuming the Same Premium is Charged for Both Products

Age of Participant	No. of Participants	N (years)	Y (years)	K = \$2,000		K = \$3,000		K = \$4,000	
				No.	%	No.	%	No.	%
20–35	209	30	40	126	60	184	88	190	91
36–50	295	20	25	154	52	229	78	245	83
<b>Total</b>	<b>504</b>			280	56	413	82	435	86

Abbreviations: K, amount of monthly payment until the end of the benefit period; N, length of term period; Y, length of benefit period.

Table 2  
Participants Who Prefer Product A Over Product B, Assuming the Same Premium is Charged for Both Products

Age of Participants	No. of Participants	N (years)	Y (years)	K = \$2,000		K = \$3,000		K = \$4,000	
				No.	%	No.	%	No.	%
20–35	209	30	40	36	17	18	9	16	8
36–50	295	20	25	74	25	54	18	36	12
<b>Total</b>	<b>504</b>			110	22	72	14	52	10

Abbreviations: K, amount of monthly payment until the end of the benefit period; N, length of term period; Y, length of benefit period.

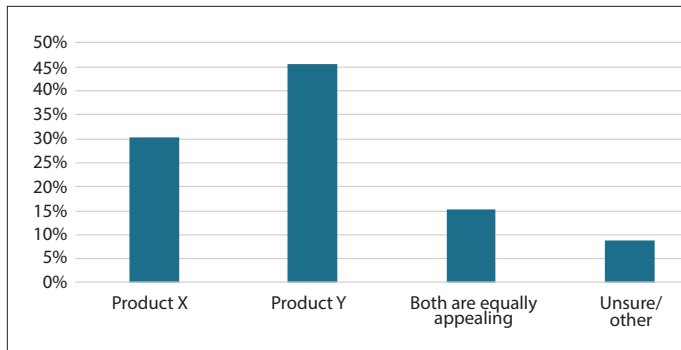
## APPEAL OF INCOME TERM UNDER SECOND DEFINITION

The survey results showed strong support for income term life insurance when the benefit period had a defined end date. Participants were then asked how they would feel about an income term life insurance product where payments would instead continue until the death of the beneficiary. The products were described as follows:

Product X	Product Y
Income term life insurance (definition 1)	Income term life insurance (definition 2)
Monthly death benefit is \$2,000 payable from the date of the insured's death until the date when the insured would have reached age 70	Same term period as Product X
	Same initial death benefit as Product X
	Monthly death benefit is \$2,000 payable from the date of the insured's death until the date of the beneficiary's death

Under these parameters, Product Y garnered approval from more than 45 percent of respondents, compared to 30 percent for Product X (Figure 1).

Figure 1  
Preferred Product, Assuming the Same Premium



## REASONS BEHIND THE APPEAL OF INCOME TERM

Participants expressed a strong interest in customization. The ability to select a benefit period end date tailored to their needs was considered important. Presumably having the choice between a fixed end date and benefit payments ceasing upon death of the beneficiary would be welcomed.

With a lump-sum death benefit comes the question of whether the death benefit proceeds will be sufficient to provide for the beneficiary's future needs. There is also the risk of mismanagement. These concerns were cited as support for income term life insurance.

## A LITTLE KNOWLEDGE HELPS

When first introduced to income term life insurance, participants liked what they saw. Forty-eight percent found the product to be either extremely or very appealing, compared to 36 percent for conventional term insurance.

The survey went on to describe some situations in which income term life insurance might be advantageous. When individuals were made aware of these situations, their fondness for income term life insurance jumped significantly, with more than two out of every three participants now finding income term life insurance either extremely or very appealing (Figure 2).

Figure 2  
Change in Appeal of Income Term

		Subsequent Response to Appeal Question				
		Extremely	Very	Somewhat	Not too	Not at all
Initial Response to Appeal Question	Extremely	12%	3%	1%	0%	0%
	Very	10%	17%	5%	0%	0%
	Somewhat	6%	17%	16%	2%	0%
	Not too	1%	2%	5%	2%	0%
	Not at all	0%	0%	1%	0%	1%

- ↑ 41% saw the appeal of income term rise
- ↓ 12% saw the appeal of income term decline

Figure 3  
Respondent 2018 Income

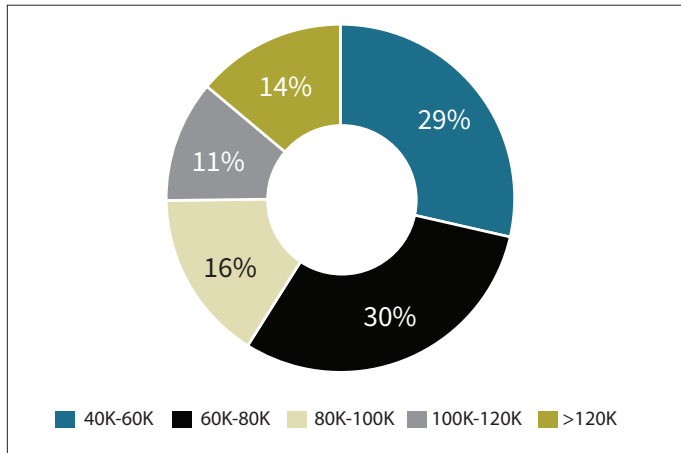
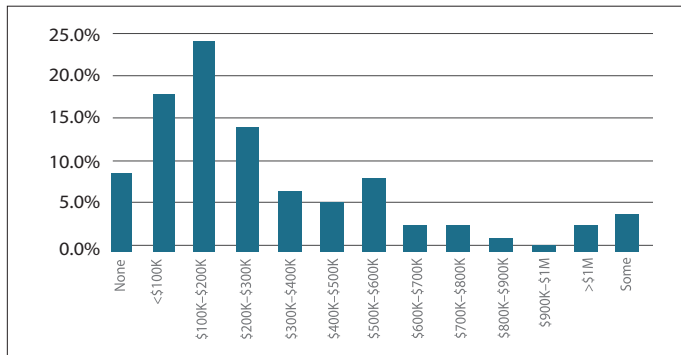


Figure 4  
Respondent Amount of Life Insurance on Own Life



### PARTICIPANT DEMOGRAPHICS

Sixty-four percent of participants were male, 36 percent female. All but five participants were married or cohabitating. All but 13 participants had at least one child 18 years of age or younger. Figures 3 and 4 depict participant 2018 income and life insurance data.

As Figure 3 shows, participants were all earning at least \$40,000 per year. More than two in five earned at least \$80,000. In addition, participants had some familiarity with life insurance, as more than 90 percent of them referenced the existence of a policy where they were the named insured (Figure 4). For most, the amount of coverage was under \$300,000.

### CONCLUSION

Carriers may wish to take a closer look at income term life insurance. Depending on the flexibility and level of monthly death benefit, consumers may be looking for something more than conventional term life insurance. For more information on the survey and its results, along with a webinar elaborating on potential implications to carriers, please contact Matt Greenwald at Greenwald and Associates. ■



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