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DEMOGRAPHICS—PRODUCT SALES AND DESIGN IMPLICATIONS

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This session will educate the attendees on the impact that population demographics have on sales and product design:
- *What are the demographic trends?*
- *What are the implications for product design?*

MR. ABRAHAM S. GOOTZEIT: Our panelists include Denny Stanley, a consultant with Milliman & Robertson in Seattle for the past dozen years. Prior to that Denny was with Principal Mutual in Iowa. Mark Tullis, also on the panel, is the chief actuary of Primerica and has been there for one year. Prior to that Mark was with Tillinghast for 11 years, and before that he was with Liberty Life for 7 years. I'm with Tillinghast in St. Louis.

MR. DENNIS L. STANLEY: As Abe said, I'm going to give you a little bit of an overview of what's available out there in the demographic area. It was pretty interesting as I started doing some research for this, because I have to say that demography has not been an area of interest for me. As I did the research, I was really surprised about the amount of information available. I don't know how many people read it, but I became acquainted with a publication, *American Demographics*, a monthly publication by Dow Jones company. It's a magazine that markets to marketers. You can't believe the amount of technology and kinds of ideas that you can get from just thumbing through a magazine like this. I found it pretty interesting, and I think any one of you who might actually be in the product development process at your companies might want to subscribe to it.

Does anyone within your company have a demography department? Two or three? I have one client that has a demography department; they're in the mortgage business, and they actually use their demographer to help them evaluate neighborhoods in which they're considering purchasing a mortgage. They purchase their mortgages in the secondary market. They have a series of CD-ROMs that can pinpoint down to an address the general trends of that neighborhood. The next step is, they have to go through a drive-by appraisal process, which I believe costs $200. So it's a way in which they pre-screen an investment opportunity before spending any money.

Let's get some terminology out; there are six broad categories in the population. I think they're all pretty obvious. The one that was a surprise to me was Generation X, but those are the young people; the ones who came after us in the boomer era.

Who are all these people? We have our Depression people; those are the real old people to whom we're paying our social security benefits, the 13 million people out there. They are about 7% of the adult work force. Then you just go through World War II and you move on to the post-war and then the big area we always hear about is the baby boomers; there's 72 million of us.

In about three hours of research, I was able to get all the material for this presentation. It was very easy to find. They tell us that these various cohorts have some attitudes and some impressions that built up, when they were growing up. One example they give is the kind of music these people like. So you have the Depression era people with the big bands, swing music from World War II, Frank Sinatra, and rock and roll, to my son's favorite, rap and grunge music. As all these baby boomers start to age, I think that they are going to have a comeback of the big bands, because we're going to have 72 million people who are going to get into their 70s in the next 30 years, and I can just see the big bands coming back.

Some other things from this article about these cohorts and some of their attitudes include how they tell us that the Depressioners are compulsive savers; they always have been, they always will be because they grew up in tough times. And they're still saving. We boomers are borrowers. We grew up in the times of easy money; you bought your home; you got those nice relatively low interest rates, high inflation, and big appreciation.

Evidently the Depression era people want to leave a legacy for their family or their children. The World War II cohort grew up seeing their children having a fairly easy life, vacations, fancy dinners, and so on. The whole point of that particular section of the article was that for inheritance insurance, the Depression era people probably are a good target. They didn't feel that the post-war people are a good target because they're not so interested in passing things on to their children who are living it up.

The information I just used comes from the article, "The Power of Cohorts," from the publication *American Demographics*. This particular article is talking about baby boomers and their net worth and how it is invested. The vast majority of these baby boomers have most of their net worth related to their home; 65% of the people own a home and their average equity is $31,000. I was surprised by the next one, that another 21% of the whole generation has some sort of other real estate. It was equally split I believe, between investment real estate and vacation real estate. Then you can go through, and see the IRA Keogh savings. The other one I thought that is interesting is 16% have some sort of a business with an average equity of $10,000.

Another chart out of this publication talks about what baby boomers would do if they lose their job or they change jobs and they get a lump sum distribution from their job. Fifty percent of the people who went to a new job would actually roll their proceeds over into a new retirement account, whereas people who didn't have a new job, about 30%, wouldn't. They would use the money in some other way. Another use of the funds, savings, actually pays the taxes and are put into a normal savings account, suggesting they're being cautious, and they want to have access to their money. They also have a tendency to spend the money to retire debt or actually just to live on.

Another demographic profile I was able to come across was how earnings vary by education level between men and women. Again, you can see some broad characeristics; that as the education level increases, the average income increases, and the income is higher for men versus women.

Another cut of information they had available was based upon the amount of education: the less educated people tend to be in more conservative types of investments.

Other types of information you can get your hands on are projections. Over the next 20 years, a 50 million increase in the population is projected in the U.S. Some states are continuing to grow fairly rapidly. This information is available for all states and for even longer-term projections. The article then went on to projecting these migration trends. They're working from both the fertility rate, the immigration rate and then the migration rate among states. So there are certainly assumptions being used in projecting these growth patterns by state.

Other information is available on what cities are fastest growing. Fifty percent of the growth rate in America is occurring in 20 major metropolitan areas. I thought it was interesting that there is a huge difference in the growth rate, from city to city. There was a survey of counties in the U.S. that had the highest percentage of one-person households.

What I find interesting is the availability of information; so much is out there, and it's becoming electronically available. If you have any curiosity, you can really find information to test a hypothesis, especially if you want to get some ideas on what a market might look like.

I like this publication. They have bold quotes in the publication and you can just scan through it. The top 20 metropolitan areas account for one-third of the national population growth. The IRS and the Census Bureau are the best sources of immigration or migration data. The IRS provides publications related to migration of people because tax returns are being filed each year and they can follow the location of the taxpayer from year to year.

Most consumers planning to buy a new vehicle say they actually like to negotiate. I was wondering how many of you actually like to negotiate. Every doctor may be seeing 700 patients. Here's a quote I thought might be more relevant to the insurance business: education is a priority for the boomers because they want their children to be as educated as they are. You look around and how much financial institution marketing have you seen targeted towards saving for education? That is driving a lot of marketing that is occurring in the U.S. today.

Another one, I hadn't really thought of is that baby boomers, because they are two income families, will become a generation that will have two pensions. I'm not sure if that's really relevant, but it was kind of interesting to start thinking about it. We will be probably the first generation that will have a retirement, not only coming from social security and personal savings, but also from two pensions in a lot of situations.

The quote I thought was interesting, too, because it's probably reality for marketers when they do their focus groups, is: you have to be very, very careful, because what you may have heard the customer say may not have been what he or she meant to say and could be misinterpreted. As you see these market research surveys and the statistics, it's easy to jump to conclusions and generalizations, but they may be invalid.

By doing this research, it certainly made me much more aware that marketers are collecting vast amounts of information about the characteristics of people and their customers. They're generally using those behavior characteristics and predicting how those characteristics may change in the future. So we're seeing an awful lot of products and services being targeted to customer characteristics and then flipped around; the customer characteristics are being targeted for products and services. You could think about doing your marketing either way. If you have a captive sales force, you may want to have them view their customers as prospects and ask questions, and then narrow down to the product and the service, which is the most relevant by asking questions to determine which cohort they actually fit into.

If you are a direct marketer, you're starting with a list of the entire population, and you're trying to narrow it down.

MR. MARK A. TULLIS: I'm going to spend some time talking about my company, I will spend a short time talking about the few applications (demographics or market analysis) we've made. We have a database available that I think is real interesting, and I've done a little exercise that I'm going to take you through just so you can see what's available.

I'm with Primerica Life Insurance Company. We're the old Milico Company, and our affiliated agency used to be known as A.L. Williams. We have about three million insureds in the U.S. and Canada through our Canadian subsidiary. Our average issue age is 36, with about 72% of people ages 25–45. So compared to typical companies, we have very young insureds and are very highly concentrated at the younger ages. Fifty-two percent of our insureds by count are female, that's if you lump spouse riders together with basic policies. So, of the people whom we insure, more than half of them are female. We're very much in the middle income market, as opposed to a lot of companies that tend to be more in the upper income market. We don't really have any statistics on the ethnic mix of our insureds, but sort of conventional wisdom around the company is that we're relatively representative of the population as a whole in our target market. So that's a little background on us.

Basically we don't use demographics and market research a lot, although there are a few ways we have used it. If you do direct marketing, it's probably something that you live and breathe everyday, and you'll probably be familiar with the type of stuff I go through in my example. If I were doing direct marketing, it's the sort of thing I would use continually.

We deal primarily through agents. How our agents market and what groups they target aren't that closely controlled by the home office. We can't go to our agents and say, start marketing in Utah, for example. We don't have that sort of control over our agents. If you write through agents, and I think if you're a direct writer, too, you have to be careful so that you wouldn't be accused of redlining or targeting certain groups of people at the expense of others. That's part of the reason we haven't really done demographic studies because we're concerned, if we were, how it would really be viewed by some of our audiences.

I will mention three things we have done. First, when you look at our company, you notice we're very concentrated in the younger ages, and the logical question is, why don't you have things available for other ages? That is something we sort of have targeted to look at over the next few years. In fact, earlier this year we came out with a variable annuity to try to have an attractive product for the older ages.

Second, we're not looking at entering countries other than the U.S. and Canada, but certainly in the years to come that's something that will be at least in the back of our minds. When we do look at which countries would be attractive to enter, I'm sure we will do the sort of analysis that I'm about to take you through on our example to get a feel for whether the countries fit in with our market or not.

Finally, we have looked at regions in the U.S. and Canada where we had low market penetration, to see whether the population in those areas really fit in with our target market. When you're trying to get data on who lives where and what your clients look like, there's an amazing amount of material available from the U.S. Government. A book I have on my bookcase that I've used, with surprising frequency, is *Statistical Abstracts*. If you don't have *Statistical Abstracts*, you should get it. It's very inexpensive; it's paid for by your tax dollars. It has all sorts of good data on general information about states and territories. We used it when we had an agent who wanted us to get into Guam. We used it to get some information on numbers of people in various age groups in Guam. It helped us make the decision that there weren't enough people in Guam to be worth it to fly a lawyer out there to get a license. There is a lot of basic information available in *Statistical Abstracts*, and it's very useful.

If you have a good database of your clients, and if you do direct marketing, that's a really great source of information. We don't have a real great client database; we sell different products, and for historical reasons they're on different systems, and they never got integrated very well. So from our company's point of view, the client database is not a good source of information, but for most of you that would be one of your more valuable sources.

I'm going to skip vendors for a minute. You could always do some original research on surveys. There are outside firms that will be glad to do research for you. There are also vendors that specialize in providing services to companies, and they're surprisingly cheap. It's really amazing, you can do all sorts of analyses; those things have come way down in price over the past few years.

What I've done for this presentation is to use the analyses of a vendor that has split the U.S. into fairly small groups, basically by neighborhood. It's much finer than zip code, on the order of street or portion of a street. I've plugged the three panelists and their addresses (and this is really legitimate, I did not make this up) into their databases. I've gotten all sorts of information on what the panelists' general neighborhoods are like, what the consumption habits are like, what the financial habits in the neighborhood are like, favorite TV shows, favorite newspapers, and so on. This is typically used in reverse: typically if you market vodka and you were thinking of going into Maine, you would analyze a listing of all neighborhoods in Maine where there's higher than average vodka consumption, and then you'd know how to build your distribution network. Or if you're a life insurance company, and you had people in a target income level or target age group, for example as we do, you might get a listing of all counties or zip codes that have people in the age range and income distribution that would fit our market.

What I'd like to do is go one by one through the panel, say what the results from the demographic analysis of each address was and then see how accurate that is. I will go first, being the guinea pig. My cohort is called young influential, formerly known as young urban professionals or yuppies. These are educated, high tech, metropolitan sophisticates, swingles, and childless live-together couples whose double incomes bring the good life.

"Yuppie" probably is a reasonable description of my neighborhood. Most of the people are educated high tech, I guess, and whether we're sophisticated or not, I'll leave up to you. I do live with my wife and children. The predominate age range is through age 44 and I do fit in that range, but I'm not in the middle of it.

Financial products that supposedly I own are Treasury notes and savings certificates. I'm supposed to make three or more stock transactions a year, use financial planning services, and have an American Express card. I do make the stock transactions and have savings certificates. I don't own Treasury notes or government bonds. I do have an American Express card, and I don't use financial planning services, probably because I'm an actuary and don't trust anyone.

I drink imported wine; that's actually true, I have a wine cellar. I drink imported beer often; that's also true. Actually I like premium domestic beer; it's probably better than imported. We're supposed to eat Post Raisin Bran, and in fact that's my favorite cereal. It says one of our purchases is a 35mm camera; we do have a cheap 35mm camera, but we're not into photography. For cars, it lists BMW or Mazda; I actually drive a 12-year-old Toyota, but when it finally dies, probably a BMW would be the most likely car I actually would buy. It says we like soft contemporary, news talk, and progressive rock stations on the radio. My wife likes soft contemporary, neither of us listens to news talk, and I like progressive rock.

On TV it says we watch the Lifetime Channel and the Travel Channel, although I don't know what they are. It says we watch "Seinfeld," "Siskel and Ebert," "Mystery!" and "Star Trek Voyager." That's relatively accurate, I guess. As for print, it says we read *Inc, GQ, Sporting News*; the only one of those that's true is *Sporting News*. *Runners World, Glamour, Modern Bride,* and *PC World* are the others; I don't believe my wife reads *Glamour* or *Modern Bride* and I don't like PC magazines. All in all, I'd say this is actually a fairly accurate description of my neighborhood and probably me.

Denny's next. Denny is in a group called the Winner's Circle, typified by new money. They live in upscale homes in the suburbs of major metropolitan areas. They're well educated, mobile, and are executives and professionals who are married with teenage children. Is that relatively true?

MR. STANLEY: Yes.

MR. TULLIS: They are big producers and prolific spenders who enjoy global travel.

MR. STANLEY: No.

MR. TULLIS: College graduates who are professionals, ages 35–64.

MR. STANLEY: Yes.

MR. TULLIS: Financially, they own stock valued at $10,000 or more, have an American Express card, have a home equity loan, $100,000 or more of life insurance, and money market funds.

MR. STANLEY: Yes.

MR. TULLIS: Consumption, buy gourmet coffee beans?

MR. STANLEY: Yes, especially since I'm in Seattle.

MR. TULLIS: Drink Scotch?

MR. STANLEY: No.

MR. TULLIS: Own a convertible?

MR. STANLEY: Yes.

MR. TULLIS: Pagers and beepers?

MR. STANLEY: No.

MR. TULLIS: Car: Honda, Infinity, or Mercedes?

MR. STANLEY: Mercedes.

MR. TULLIS: Own a PC and piano?

MR. STANLEY: PC yes, but no piano.

MR. TULLIS: Do you listen to jazz, soft contemporary, or classical radio?

MR. STANLEY: No.

MR. TULLIS: What do you like?

MR. STANLEY: Sports talk.

MR. TULLIS: Do you watch C-Span?

MR. STANLEY: Yes.

MR. TULLIS: Arts and Entertainment?

MR. STANLEY: No.

MR. TULLIS: It says that you watch TV less often than most people. Is that relatively true?

MR. STANLEY: It could be because I don't watch that often.

MR. TULLIS: Do you watch the PGA Championship?

MR. STANLEY: No.

MR. TULLIS: "Nova?"

MR. STANLEY: No.

MR. TULLIS: "Face the Nation" or "Wall Street Week?"

MR. STANLEY: No.

MR. TULLIS: In print, *Newsweek, Forbes, Inc., PC World?*

MR. STANLEY: *Forbes* and *PC World.*

MR. TULLIS: *Metropolitan Home, Food and Wine* or *Travel and Leisure?*

MR. STANLEY: No to all of those.

MR. TULLIS: It says that in the newspaper you read the science and technology, home and garden, or style and fashion sections? Is that a relatively accurate description?

MR. STANLEY: Yes, it is.

MR. TULLIS: Abe's neighborhood is characterized as new empty nesters. His group is much more conservative than the young influential (that's my group), so Abe would be more conservative. Is that true? Are you more conservative than I am?

MR. GOOTZEIT: I'm not as conservative as some people.

MR. TULLIS: He achieved his affluence through education and career accomplishments in numerous professions and industries. He's mostly married, in his post-child years, with double income.

MR. GOOTZEIT: Married, single income.

MR. TULLIS: You do have children at home though?

MR. GOOTZEIT: We have 2 children at home, 13 and 7.

MR. TULLIS: Do most people in your neighborhood have children at home?

MR. GOOTZEIT: There are a lot of yuppies who are single.

MR. TULLIS: Age range 45 and over?

MR. GOOTZEIT: It's a mixed neighborhood; there's old people and younger people; the old are really old and the young are yuppies.

MR. TULLIS: So if you average 90 and 25 you get 45 or more?

With regard to financial services, do you use stock rating services, own annuities, have a home equity loan, and own less then $10,000 in mutual funds and U.S. Savings Bonds?

MR. GOOTZEIT: All of those are incorrect.

MR. TULLIS: They're all incorrect? Zero for five. You buy rechargeable batteries.

MR. GOOTZEIT: I have a pack of rechargeable batteries, but they're from the 1980s. They're in the closet.

MR. TULLIS: You eat fresh cold cuts.

MR. GOOTZEIT: We eat packaged cold cuts.

MR. TULLIS: Drink vodka and Diet Coke?

MR. GOOTZEIT: Neither.

MR. TULLIS: You own a PC.

MR. GOOTZEIT: Correct.

MR. TULLIS: You have three or more TV sets in your home.

MR. GOOTZEIT: Correct.

MR. TULLIS: Your car is apt to be a Buick, Cadillac, or Infinity.

MR. GOOTZEIT: It's a 12-year-old Toyota. Mark and I have had the same car for a while.

MR. TULLIS: You like classical, soft contemporary, or golden oldies radio.

MR. GOOTZEIT: Golden oldies.

MR. TULLIS: For TV programs and channels, you like HBO, CNN, "Masterpiece Theater," "20/20," "The Tonight Show," Arts and Entertainment, and "America's Most Wanted."

MR. GOOTZEIT: I prefer to watch sports.

MR. TULLIS: In terms of print, *Weight Watchers, Discover, Architectural Digest, Boating, Food and Wine, Business Week, Parade* and *Golf Magazine?*

MR. GOOTZEIT: Of those, I guess it would be *Business Week* and *Parade.*

MR. TULLIS: You read the newspaper editorial section.

MR. GOOTZEIT: Right, the editorials.

MR. TULLIS: Is that relatively indicative of your neighborhood?

MR. GOOTZEIT: Yes it is.

MR. TULLIS: That's all I have.

MR. GOOTZEIT: Now we know more about Mark, Denny, and me from the demographic statistics that are available. How do insurers apply this information in order to target certain products for implementation? This part of the presentation will be an overview of selected current products, and how we put some of the demographic information to use.

I'm going to discuss a number of products: market-sensitive annuities, index annuities, immediate annuities, pre-need insurance, final-expense insurance, last survivor life insurance, first-to-die life insurance, long-term-care insurance.

For each insurance product, we'll try to figure out which of the demographic trends are important contributors to its success.

First, consider market-sensitive annuities. What is the demographic trend that the product is attempting to take advantage of? I suggest that the answer is wealth accumulation by pre-retirees and retirees, many of whom don't believe that social security will be paid in the future. The double pension phenomenon (discussed earlier by Denny) is probably true for some members of society, but there will also be a number of people who don't have pensions for a variety of reasons.

For market-sensitive annuities, the product specifications begin with a traditional single-premium deferred annuity (SPDA) with a cash-value adjustment; this is the key feature. The cash-value adjustment is usually based on a formula of the current interest rate versus what was paid during the early part of the contract, to simulate a market- value adjustment. There's usually a cash-value floor to keep the product out of the separate account. Of course, the reason that companies would like to implement this kind of product is to credit higher interest and simultaneously reduce the disintermediation risk.

Critical issues for market-sensitive annuities are state approvals, marketing, and consumer disclosure. There may be some annuitants who will be upset when the value of their contracts go down, during periods of high interest rates.

A similar product is an indexed annuity; it's also designed for wealth accumulation by pre-retirees and retirees. It's an opportunity for consumers to participate in the capital market, generally for middle-income people.

Indexed annuities begin with traditional SPDA product specifications. The key feature is that the cash value is linked to an outside index. The index is usually a function of the Standard & Poor's (S&P) 500, something like 75% of the S&P 500 with a cumulative floor of 3% per year. One of the key items is that the base S&P 500 index just includes the principal amount and excludes the reinvestment of dividends; I don't think that fact is particularly well disclosed.

A critical issue for the index annuity is the investment package. Insurers would like to get an investment package that mimics the index and removes most of the interest-rate risk. A typical investment package might be options on the S&P 500 and a zero-coupon bond.

Marketing and consumer disclosure for the index annuity are critically important. The product has a lot of appeal, even though participation is limited to a fraction of the S&P 500. There is the obvious tax advantage by being inside a deferred annuity. For many people, participation of that fashion is very appealing.

Single premium immediate annuities: this is an old product that I remember from my days at American General in Houston. The demographic trend, of course, is that people are living longer, they exercise and jog a lot, and are afraid that they're going to outlive their assets. There's also a tax advantage to a single premium immediate annuity (SPIA), because of the exclusion ratio. For people who are building up tax-deferred accumulations in IRA accounts and 401(k)s, the distribution rules require you to take your money out beginning no later than age 70.5. An immediate annuity is a good way to do that.

Product specifications for immediate annuities are very simple: good rates and favorable payout options. Critical issues are distribution outlets and rate responsiveness. There are benefits to the company of having both immediate annuities and deferred annuities; there's a complementary interest-rate risk profile between the two products.

There are a lot of nonwealthy old people, so pre-need insurance should be a lucrative opportunity for insurers. It's a very simple product, generally single pay insurance with an increasing death benefit linked to the consumer price index or other kind of index. The funeral home is generally the agent and the beneficiary. There's usually a separate service agreement between the funeral home and the insured (predecedent). When the insured dies, the services are provided by the funeral home and the funeral home receives the death benefit from the insurance company. Underwriting is either on a guaranteed or simplified basis.

In the pre-need insurance market, the critical issue is distribution. Insurers that are successful in this market distribute to funeral homes. Many funeral homes have distribution relationships with insurance companies, already. However, most of the prearranged funerals are still done through trusts; the insurance market does have an opportunity for growth.

Let's suppose you wish to market other kinds of insurance to nonwealthy old people; insurers might consider final expense insurance. The demographic trend, again, is a large number of nonwealthy old people. The product specifications are very simple; it's whole life insurance for small face amounts sold on a money purchase plan. A unit could be $8.95 per month, for example. Final expense insurance can be sold through agents, but more often these policies are sold on a mass media basis, typically TV or newspaper. Underwriting is very liberal or guaranteed issue. There could be a limited death benefit in the first couple of years, similar to a return of premium, depending on how liberal the underwriting is.

The response rate and volume are key in the success of final expense insurance. Again, the demographic trend we've identified is large numbers of nonwealthy old people.

Last survivor life insurance has been around for a long time. It's typically sold to wealthy preretirees or retirees for estate preservation. Last survivor life product specifications can be quite complicated. Death benefits are payable on the last death, of course. This product, typically, is a high average face amount sale usually sold to a husband and a wife. The form of a last survivor life policy becomes complicated, and is usually traditional insurance, as measured by face amount sold in the marketplace. It's a combination of base life insurance, term insurance and paid-up additions. Sometimes last survivor life is sold on an interest-sensitive universal life basis; this design is slightly simpler.

Last survivor life typically contains many special benefits and riders: a split-policy option, automatic increase option, first-to-die option, simultaneous death benefit provision, and others. It can become quite a complicated package. In addition, there can be a large number of combinations of issue age, underwriting and sex. This can lead to a proliferation of rates.

For last survivor life insurance, the key product performance measure is internal rate of return on death or surrender. Critical administrative issues are the ability to handle substandard lives and uninsurables, and access to acceptable reinsurance.

First-to-die life insurance is a product that was popular in past years and made a comeback a couple of years ago. The product is generally targeted to the middle income and/or business market: middle income (family) market since a first-to-die policy is cheaper than two individual life policies; the business needs are for ownership transfer upon death. Death benefits are payable on the first death of at least two and up to ten lives. Again, we have a proliferation of issue age, underwriting and sex combinations.

A critical issue for first-to-die insurance is underwriting; each life has to be underwritten precisely. Marketing of long-term-care insurance relies on the demographic trend towards an expanding elderly population. Target insureds are concerned with wealth preservation. A target market might be people with moderate assets and wealth. Poor people don't need long-term-care insurance since Medicaid will pay the expense, and wealthy people can afford the expenses themselves.

Product specifications for long-term-care insurance can be somewhat complicated. Features include a choice of daily benefit, elimination period and benefit period; availability of noninstitutional care; nonforfeiture benefits; cost-of-living rider; and other features.

Long-term-care insurance hasn't been marketed as vigorously as I had thought five years ago. The critical issue is distribution. Long-term-care insurance is hard to sell; the agencies that are having success are large national and regional marketing organizations that really concentrate on this product. Consumer disclosure, especially to old people, is also very important. The penetration of long-term-care insurance in the marketplace is still low; it's only about 10% of the old-age population.

Other products that are also important markets for certain demographic groups include variable annuities, "combo" annuities, term insurance, child insurance, low-load life insurance, variable universal life insurance, payroll deduction insurance, association insurance, supplemental medical insurance, and disability income.

MR. STANLEY: What does all this mean? I thought I'd throw out some random ideas about how you might start thinking about using some of this information to design new products.

The first idea I thought of is a wedding insurance policy. You realize that the average cost for a wedding is $17,000. I think there's some probability they'll have a disaster at the wedding, about 1%. The average loss is about $5,000, so I think that means for about $50 of claims cost, you could cover those catastrophes, so for a $100 premium you got a $50 mark up for distribution and profit. I think there could be an opportunity there, and some of the coverages might be cancellation costs due to the bride or the groom being in the military and getting sent to Desert Storm; replacement cost for the bride's dress when someone spills on it; or later at the reception when someone slips and falls in the Congo line. Actually, this is a policy offered by Fireman's Fund.

Another example is through our Tokyo office and where we work with the Japanese insurance industry, specifically golf insurance, which is very popular in Japan. Golf is a very popular leisure activity, particularly for business people. Hitting a hole in one is a tremendous celebration in Japan; you have to give gifts to everybody you play golf with, and that can be expensive. People actually buy golf insurance; if they hit a hole in one, the policy pays off.

Everybody likes to talk about SPDAs and how hazardous they are to your health. Of course, it's the old book value cash out, interest rate risk issue. It seems that, for SPDAs, the key to improving profitability or risk reduction is to try to establish long-term relationships. If you could increase the persistency of the SPDA business, a lot of nice things would happen. So the product idea that I had was long-term-care insurance. The SPDA market is pretty much in the low 60s target age range. I think the probability of a long-term-care claim at the average age of claim is around 15%. Consider the possibility that you had a two-tier SPDA product design: the idea would be that the upper tier would be applicable if you had a nursing home event, a long-term care-coverage. Of course, the upper tier differential would be forfeited if you were to die or surrender.

Just to give you some examples of what the numbers might look like, if you had a 100-basis-point differential between the upper and lower tier with a $25,000 single premium and 7% interest, over a 25-year horizon, the policy would essentially create $36,000 of long-term-care insurance. That would probably pay for 12 months of coverage in a nursing home.

The whole idea is to apply some creativity to these situations and see what you can do with the demographic trends. I've had a lot of fun working with marketing people and brainstorming with ideas. Marketers tend to have a great deal of information related to demographic trends.