



SOCIETY OF ACTUARIES

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Market Potential for Preneed Insurance

by Donna B. Stalley

Preneed products are life insurance or annuity products purchased to fund a specific prearrangement of funeral/cemetery goods and services, most often sold by a representative of the funeral home or cemetery. They may be single-pay or limited multipay (3-, 5-, 7-, or 10-pay). Such products usually have some way of increasing the death benefit to cover inflation's effect on the prearranged prices of goods and services.

Research shows total preneed premium income increased 74% from 1992 to 1996 while ordinary life premium income for the life insurance industry as a whole grew only 27%. (*U.S. Ordinary Life Premium Net Gain*, LIMRA, 1997, I/R Code 47.50 and *Preneed and Final Expense Product Sales Survey*, LIMRA, 1998, I/R Code 55.65.

Contacts

To better understand the characteristics of this growing segment of the industry, LIMRA surveyed over 3,500 U.S. households. Twenty-four percent of respondents were contacted about planning and 21% were contacted about prepaying their own funeral expenses. As you would expect, these percentages vary widely by age of respondent. Forty percent of consumers ranging in age from 60 to 74 had been contacted about planning their own funerals and 40% had been contacted about prepaying (see Table 1, page 4).

The person most likely to have contacted consumers about planning or prepaying for funeral arrangements is a representative of a funeral home (see Table 2, page 4). Cemetery representatives are a distant second. Life insurance agents come in third, although some of the funeral home representatives are undoubtedly licensed as life insurance agents. The "other" category may include lawyers, friends, relatives, trust groups, and/or telemarketers.

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Chairperson's Corner

by Edward F. McKernan

This is my first "Chairperson's Corner" for *NewsDirect*. I am honored to serve as Chairperson of the Nontraditional Marketing (NTM) Section Council this coming year. Serving in this position was the result of the confidence of my peers, your NTM Section Council, and you, the members of the NTM Section.

The NTM Section owes a debt of gratitude to Dave Seidel and Kiran Desai whose terms expired this past October. These individuals have devoted many hours from their busy schedules to support NTM Section activities during the last several years. Dave served as Chairperson of the NTM Section Council this past year, making sure we all volunteered for various duties—no one was left out, including Kiran who served as Editor of *NewsDirect*. Although they will not officially be on the Council, I am pleased that these individuals will continue to participate in Section activities as *friends* of the NTM Section Council.

It is important that we pause to remember Chuck Haskins who passed away at the beginning of the year after a long battle with cancer. He will be missed.

Activities during 1998 included planning, recruiting, and delivering a dozen sessions at the SOA Spring and Annual Meetings. We thank Steve Ostland and Carl Meier, respectively, for spearheading these efforts. In fact, since both Steve and Carl had such a great time coordinating the 1998 meetings, both have stepped up to bat for the 1999 meetings. Carl is also

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Is "Direct" Where You Want To Be?

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of isolating the existing field force or perhaps disinterest in creating a back-office for the business, many insurers have avoided the risk of direct marketing. There is an alternative to completing the operation entirely in the home office. Through third party marketing arrangements (TPMs), you can create perception in the consumer's mind that you are direct marketing your insurance products. This model promotes efficiencies as the insurer completes what they do best—underwriting, policy issue, and assumption risk—while the agency focuses on their strengths—advertising and selling.

The direct marketing distribution channel may be small in relation to the older, more mature channels, but it is growing. And, it's growing fast. Is "direct" where you want to be? If your answer is yes, move quickly. Make decisions. Build an in-house direct marketing operation. Market through a direct response independent brokerage. Or, contract with a Third Party Marketers to market direct to the consumer.

David Florian, ASA, is the President of Pivot,™ a direct marketing agency, in Columbus, Ohio.

Market Potential for Preneed

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TABLE 1
Percentage Contacted About:

	Age			
	Under 45	45—59	60—74	75 and over
Planning	14%	29%	40%	36%
Prepaying	12%	27%	40%	33%

TABLE 2
Who Contacted You?

	Planning	Prepaying
Funeral home representative	62%	61%
Cemetery representative	33%	30%
Life insurance agent	10%	9%
Clergy	2%	NA
Other	12%	11%

Interest

Overall, 31% of consumers said that planning and prepaying for their own funeral is something they would be interested in. Interest does not vary significantly by age of the respondent, but gradually declines with increasing income (see Chart 1, page 6).

Current Arrangements

Seven percent of the sample already have signed contracts with funeral homes specifying their own funeral arrangements. As expected, the incidence rises sharply with age (see Chart 2, page 6). It also varies by income, but to a lesser degree (9% of respondents with household income less than \$25,000 vs. 4% with household incomes greater than \$50,000).

Widows/widowers are much more likely to have a signed contract with a funeral home (19%) than are consumers who are married (6%), divorced, separated, or single (5%). This is not surprising since the

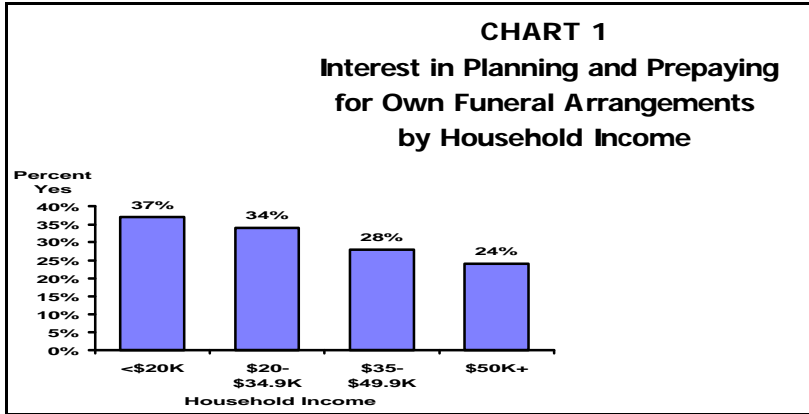
widowed are more likely to have built a relationship with a funeral home while arranging their spouse's funeral.

The percentage of consumers who have a signed contract with a funeral home is much greater for those who had been contacted about planning and prepaying; than for those who had not more than 20% of those contacted now have a contract versus only 2% among those who were not contacted. Less than 10% of consumers contacted about planning only (not prepaying) have a contract. This is a clear indication that contacting consumers does result in policy sales but that discussing prepayment options in addition to planning increases sales significantly.

Thirty-six percent of the respondents who currently have a contract with a funeral home indicated they bought an insurance policy to pay for the funeral at the same time they made the arrangements. Fifty-five percent

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Market Potential for Preneed Insurance (continued from page 4)



said they did not buy an insurance policy, and 9% were not sure. The 9% not sure is a number the preneed industry should note. Because market conduct is a top issue in the life insurance industry, any confusion among customers about whether they bought a life insurance policy or not should raise concern.

Saving for Funeral Expenses

Over half of the consumers do not have an insurance policy or money saved specifically to pay for their funeral expenses (Table 3, page 6). The 12% who have an insurance policy bought specifically for funeral expenses may include types of life insurance other than preneed; policies earmarked in their minds to cover any final expenses.

Whether/how consumers are planning to pay their final expenses does vary by age, income, and marital status. The older consumers are, the more likely they are to have funds set aside for their final expenses. The higher the household income, the more likely consumers are to have an insurance policy bought in part for funeral expenses and the less likely they are to have a specific policy for this purpose. Regardless of income category, however, fewer than half have money or insurance specifically earmarked for final expenses. Widows and widowers are more likely than others to have some type of funds specifically set aside for this purpose.

Market Potential

If we compare the percentage of consumers who have an interest in prepaying for their own funerals, the percentage who were contacted about it, to the percentage who actually have a signed contract with a funeral home,

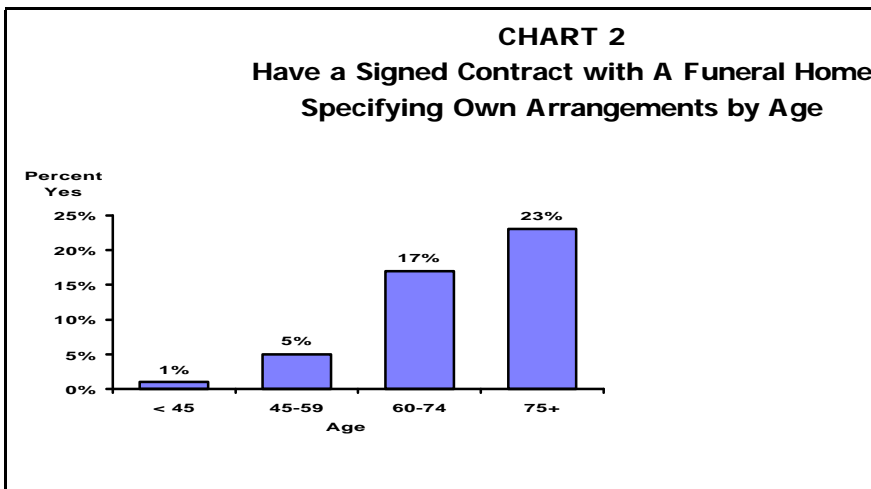


TABLE 3
**Do You Have Money Saved or an Insurance Policy
Specifically To Pay for Your Funeral Expenses?**

Yes, an insurance policy bought in part for funeral expenses	28%
Yes, an insurance policy bought specifically for funeral expenses	12
Yes, savings specifically for paying funeral expenses	5
No	55
	100%

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TABLE 4
Market Potential by Region
Percentage of Respondents Who Have:

	Interest	Been Contacted About:		A Contract
		Planning	Prepaying	
Northeast	31%	14%	11%	4%
North Central	28	19	14	5
South	34	30	23	10
West	28	26	22	8
Total	31%	24%	21%	7%

The Northeast has the lowest penetration rate in terms of percentage with a contract versus percentage who show an interest. Because of regulatory constraints, the market potential for this region is questionable. For example, preneed insurance products cannot be sold in New York state and regulations make it difficult to sell in Connecticut.

there appears to be a great deal of potential for marketing preneed insurance. Overall, 31% of consumers are interested in planning and prepaying for their own funeral and only 7% of consumers currently have a signed contract with a funeral home. The market potential by region is shown in Table 4.

Conclusion

Several factors, when combined, bode well for the increasing potential of the preneed market:

- Thirty-one percent of consumers are interested in planning and prepaying for their own funeral, yet only 7% have a contract.
- Fifty-five percent of consumers have no specific money earmarked for their final expenses.
- Baby boomers are turning 50 at the beginning of the target age for the preneed market.
- There is increased interest in prefunding funeral expenses.

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