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IS THERE MAGIC IN THE MIDDLE MARKET?

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Even during this worldwide economic crisis, people continue to need to protect their families against premature death, disability, and health problems as well as save for their children's college education and their own retirement. Can a market with 52 million households who understand these needs help the industry grow sales? The answer is maybe ... or maybe not.

Middle–market consumers have many other expenses competing for their dollars and companies need to understand the competition for this market's limited financial resources along with the choices households make for immediate pleasures–a family vacation, opportunities for children to play sports or a musical instrument, purchasing a new car or the latest electronic device.

This article, adapted from LIMRA's new Is There Magic in the Middle Market?–Maybe, Maybe Not research study (see side box), focuses on U.S. consumers' financial goals and priorities, what keeps them from achieving these goals, the amount of money available to spend, and the trade–offs made when there is not enough money for everything they desire. This information can help companies to better understand if their products and services will be among the winners when middle–market households decide where to spend their limited financial resources.

Their Financial Security Goals

Middle–market households want it all. Their financial goals include having:

- Enough money for a comfortable retirement
- Adequate hospital/medical coverage
- Adequate resources to replace income if a primary wage earner can't work
- Adequate life insurance coverage

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They may want it all, but they are not accomplishing their desired goals. Few households have achieved four of the six protection and accumulation goals they indicate are important (Figure 1).

Few middle–market consumers feel they have adequate coverage or resources to replace lost income or to pay for long–term nursing care needs. They also don't believe they are on track to having adequate retirement savings or saving for their children's educational needs. The two goals they have been most successful achieving–adequate medical and life insurance coverage–are generally related to workplace benefits. One third of middle–market consumers rely on group coverage from work as their only life insurance coverage. Why haven't middle–market households achieved their financial security goals?

Their Priorities

While middle–market households desire protection and accumulation products, those who have not yet achieved these goals have other priorities for their discretionary dollars.

Dollars spent on financial security products compete for any money left after first paying bills for everyday living expenses and then spending on those unique "extras" that are important to middle–market households. It is especially challenging for middle–market parents to know how to divide available dollars between activities that are important to family life and enjoyment today, while still meeting financial security needs for protection products and savings for the future.

When selling in this market, it is essential that companies and producers understand what is most important to middle–market prospects and what is competing for the dollars you may ask them to spend on your products.

So, how did six industry–related protection and accumulation goals stack up against the overall financial needs of middle–market households?

Unfortunately, the answer is not very well. The middle market may say their goal is to have adequate insurance protection, but buying that protection is not a top financial priority for them.

Respondents chose their top–three financial priorities from the goals they had not yet achieved from an original list of 20 possible goals. These are the six goals that got the most top–three votes from the goals each household had not yet accomplished:

1. Having enough money to start a family
2. Saving enough money for a comfortable retirement

3. Paying off credit card debt
4. Buying a home
5. Having enough money to meet monthly living expenses
6. Having adequate savings for an emergency

The only financial security goal among the middle market's top unmet priorities is saving enough money for retirement (Figure 2). Financial security goals remain unfulfilled because middle–market consumers spend their money on other life expenses that have higher priority.

Why did life insurance fare so poorly?

Only 7 percent of those for whom adequate life insurance is an unmet goal consider it a top priority. Since 3 in 4 households already have some life insurance, buying additional coverage may drop in overall financial priority since there is some insurance coverage already in place if something happens. But it may not be enough coverage.

Companies may want to communicate how their products can help middle–market households achieve their top priorities, such as paying off credit card debt which may become extremely difficult if someone in the household dies. Show how life insurance can help to ensure the debt is paid off in that situation.

What priorities are more important than life insurance?

The top priorities of households that have not achieved their goal to have adequate life insurance are to:

- Have enough money to start a family
- Be able to cover monthly living expenses
- Pay off credit card debt
- Save enough money for a comfortable retirement
- Buy a home
- Have emergency savings

Their top goals are not all that different from the top priorities of other middle–market households, including those who feel they already have adequate life insurance coverage. Other financial priorities just beat out purchasing the life insurance these households still say they need.

Little Spent on Life Insurance

Many middle–market households have not accomplished their goal to have adequate life insurance coverage despite believing life insurance to be an important necessity. In reality, middle–market households are not well protected against premature death, and spend very little of their total income on life insurance.

Belief in Life Insurance

They do think life insurance is an important goal. When asked if they consider life insurance to be a "necessity that you cannot do without or an extra that you could do without," 73 percent of middle–market consumers and 83 percent of parents say life insurance is "a necessity." Yet, 31 percent of all middle market households and 37 percent with dependent children admit they currently don't have enough life insurance.

Current Ownership

More than half of middle–market households have no individual life insurance coverage. Households with individual life insurance are more likely to have term coverage than permanent coverage (Figure 3).

Amount Spent

Middle–market households don't spend a lot of their budget on life insurance, averaging only $766 and a median of $500 annually for all individual policies and any group life insurance where they pay all or some of the premium. This equals only 1 percent of their household income. Producers can use the middle markets' strong belief in life insurance and their realization that they are underinsured to help them establish life insurance as a top financial security priority.

Competition for Limited Financial Resources

Given the competition for middle market consumers' limited financial resources, LIMRA wanted to gain a better understanding as to how they allocate dollars to one priority or another. In the study, respondents were given a hypothetical $1,000 budget to spend on accumulation and protection products. When making their selections, respondents were asked to answer as if they currently owned no protection products and had no savings accumulated in order to remove any influence from already having insurance coverage or savings.

The exercise was structured in a way to make sure that respondents did not have enough money to fund everything offered, which is the reality for many middle market households. It forced them to make trade–offs, and choose what was most important to them given their current family situation, and each household did spend their money in different ways. The exercise was done on the Internet with a calculator always visible to show what had been spent and what was left of their $1,000 budget. So how did they spend a specific budget across accumulation and protection products?

Almost all households allocated some of their $1,000 financial budget to savings, mirroring middle–market consumers' selection of saving enough for a comfortable retirement as one of their top–three financial priorities.

But, the median amount put into a retirement account was only the $150 minimum that the exercise designated was needed if they wanted to participate in a retirement savings plan, while $70 was the median amount deposited into a savings account that had no minimum deposit requirement (Figure 4).

Medical/health insurance was purchased by 9 in 10 middle–market households despite having to spend the largest proportion of their limited budget for coverage.

One in four households chose to spend the extra $50 for the more expensive no–deductible policy, possibly trying to minimize their out–of–pocket medical expenses.

But, given their limited budget, the money might have been better used elsewhere. For example, the extra $50 could have been used to increase their contributions to retirement savings, a top financial priority, which they are behind schedule accomplishing. In reality, 16 percent of middle–market households have no retirement savings at all and the 71 percent of households with defined contribution plans (401k, 403b, 457) have only modest amounts in their accounts–a mean of $62,900 and a median of $30,000.

Dental coverage has been a popular voluntary benefit in recent years, and two thirds of middle–market consumers selected the coverage, while only 55 percent chose vision coverage even though it was the least expensive option in the exercise, costing only $5.00. Consumers, through experience, may realize that vision plans pay limited amounts for eye care services.

This exercise helps illustrate the importance of life insurance to middle–market consumers. When starting with no insurance coverage at all, 72 percent chose to use some of their financial security budget to buy life insurance. Households buying life insurance selected from three coverage options: 30 percent selected the least expensive option and bought coverage equal to one times income, 24 percent chose coverage of two times income, and 18 percent chose the maximum coverage of three times income. In comparison, only half the households used their budget to purchase disability income insurance even though every household would lose significant income if a primary wage earner was unable to work.

Most middle–market households decided to forego long–term nursing care insurance when their allocated budget could not cover everything. This is probably because many are young–average age 42–and LTC coverage was fairly pricey at $100. Twenty–nine percent of the oldest households, ages 55 to

64, decided to use a share of their $1,000 budget to purchase long–term care coverage. According to LIMRA's U.S. Individual and U.S. Group Long–Term Care Insurance Studies, the average purchase–age for long–term care insurance buyers is 57 for individual products and age 47 for group purchasers.

Challenges Exist...

Middle–market consumers may understand how important it is to protect their families against premature death, disability, and health problems, and save for their own retirement, but they procrastinate in accomplishing these goals. What's stopping them from achieving their financial security goals?

Low Priority of Financial Security Goals

Middle–market households that have not reached their goals to have adequate insurance protection and to accumulate adequate retirement savings and children's education funds opt to spend their money elsewhere. They may not be proactive about putting available dollars toward financial security products without the industry intervening to help them plan what to buy, how much to buy, and when to buy.

Being Non–Savers

A non–saving mentality keeps some middle market households from achieving goals of saving enough for their children's education and their own retirement. Saving regularly is not a way of life for more than half the middle market–26 percent don't save at all, 32 percent save only whatever is left after paying bills and buying items they want, and only 42 percent set aside specific amounts to save for specific financial goals such as retirement, education, vacations, or major purchases.

Being Debt Burdened

The need to pay down high debt delays some middle–market households from pursuing their financial security goals. Half of middle–market households say their debt payments limit their ability to fund their financial goals, and 27 percent believe it to be the #1 reason they haven't yet obtained their financial goals. Sixty percent of middle–market households carry a balance on their credit cards from month to month, and 42 percent of young households, ages 25 to 34, are paying off student loans. Middle–market households' non–mortgage debt averages $21,200 with a median of $12,500.

Current Economy

The current financial climate will exacerbate the challenges the middle market faces in having enough discretionary dollars to fund all financial goals.

The housing collapse and financial industry bailouts were not yet on the horizon at the beginning of 2008 when the middle–market consumers were surveyed, yet they already had high debt, low savings, and were behind schedule in accomplishing their top financial goals. The uncertain economy can be leveraged by producers to show consumers how important it is to protect against risks such as lost income and illustrate how important it is to get their finances in order now.

Opportunities Exist as Well

The magic of the middle market as future customers is not only their large numbers, but that they understand the importance of financial security products. They have long–term goals to obtain adequate protection against death, disability, health care costs, and they want to save for retirement and education for their children.

But, they are way behind on achieving these goals–providing companies and producers with the opportunity to reach out to middle–market households to help them obtain their financial security goals. It is important to understand the types of financial risks the middle market is most concerned about and why they desire to speak with financial professionals so appropriate products and services can be used as door openers.

Need Your Help to Identify Financial Goals

It is difficult to plan and know what products to buy when you are uncertain about your financial needs. Forty–four percent of all middle–market households and 54 percent of those between ages 55 to 64 and 51 percent of women admit they are "uncertain about their own financial needs."

Middle–market households believe they need to protect against loss due to death, disability, illness, and accident while also accumulating funds for retirement or education; but 26 percent say they don't know how to reach their financial goals and this is where companies and producers can step in and help.

Desire Information About Financial Products

Seventy–two percent of middle–market consumers want to speak with a professional about at least one financial product or service. They most want to talk with a financial professional about:

- A lifetime income plan (41%)
- A retirement savings plan (40%)
- Setting up a will (35%)
- A debt reduction plan (29%)
- Investment advice and product information (28%)

- A plan to protect income if a wage earner becomes disabled (24%)

Parents want professional advice about a child's education savings plan (28%). Single parents are the most likely to want information on life insurance products (18%). And almost half (48%) of middle–market households think it is important to get a life insurance check–up every year or two.

Many Consumers Prefer to Buy Without Meeting Face–to–Face

It has been a huge challenge for the industry to reach middle–market households through profitable distribution methods. While the majority wants to meet face–to–face, today many middle–market consumers are not just willing but prefer to buy financial products without a face–to–face meeting, presenting the industry with opportunities to reach middle–market households through more cost–effective means. More than half of middle–market consumers want to purchase auto insurance through either the Internet or direct by mail or phone (Figure 5). If they were in the market for life insurance or long–term care insurance, more than 4 in 10 consumers say they would prefer to buy without meeting face–to–face with a financial professional. Buying insurance on the Internet is especially popular with consumers under age 35 while purchasing through the mail or phone is most popular with consumers ages 55 to 64. Consumers still prefer to meet face–to–face with a professional for complex planning activities–8 in 10 when doing estate planning and 7 in 10 when developing a retirement income plan.

Innovation Equals Magic

Can middle–market customers provide those "magical sales numbers" to produce extraordinary results for your company? Despite the size of this market, it will not be easy. Companies are competing for limited discretionary dollars that the market prefers to spend elsewhere–particularly on items with more immediate gratification. But, the opportunity for the industry lies in the fact that the middle market realizes they need your products. People care about their families and want to provide for them if something should happen. It is that love for their families that motivates them to purchase. Companies that find innovative ways to communicate with middle–market households about how to reach their financial security goals can reap the benefits of the magical numbers of this market segment.

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