

# Phoenix High-Net-Worth Market Insights



JULY 2010



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**Going The Extra Mile for your clients starts with walking a mile in their shoes. Our insight into the lives and minds of the high-net-worth client can be your point of departure.**

## LIFE INSURANCE SALES OPPORTUNITIES IN THE HIGH-NET-WORTH MARKET

Is it a myth or a fact that the high-net-worth market is saturated when it comes to financial product ownership? Many believe that market opportunity is limited, particularly when it comes to life insurance – the result of companies and agents going upscale in their marketing efforts in the last several decades. The 2010 Phoenix Wealth Survey debunks this myth – and clearly shows ample opportunity for life insurance sales in this market.

### Overall Ownership

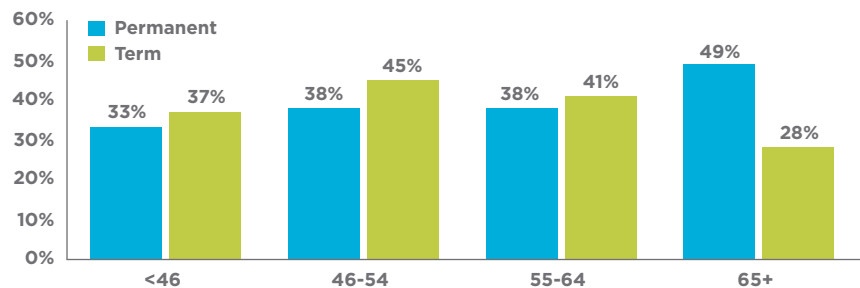
This year, we asked high-net-worth respondents if anyone in their household owns individual permanent life insurance, term life insurance or second-to-die life insurance. Overall, only 62 percent of these millionaire households reported owning one of these types of policies. That means there is no individual life insurance in force in nearly four out of ten high-net-worth households. So much for a saturated market!

The overall incidence of life insurance ownership does not vary much by the wealth level or age range of the household. The lowest level of ownership was found to be 55 percent in households 45 years of age and younger and the highest (66 percent) was among the 46-54 age demographic. Fewer than two-thirds (64 percent) of pentamillionaires (net worth of \$5 million or more) report owning one of these three products.

### Type of Life Insurance Owned

While overall ownership of life insurance does not vary significantly across the various age and net worth categories in the high-net-worth market, the type of life insurance owned clearly does. For all respondents, 40 percent own individual permanent, 37 percent own term and five percent reported owning second-to-die. Clear differences in the type of life insurance owned are found by age category as shown below.

#### TYPE OF LIFE INSURANCE OWNED BY AGE GROUP



Source: 2010 Phoenix Wealth Survey



*Will younger consumers move to permanent products as they age?*

The low levels of permanent life insurance ownership among younger age groups raise an interesting strategic question for companies and the overall industry. Does this difference represent a generational shift, or will these younger consumers turn toward permanent product ownership as they age? Only time will tell, but if this is a permanent shift in generational product preference, there are significant implications for the industry.

We consistently find low levels of overall ownership of second-to-die life insurance, as this is a specialty product. Given the continuing potential for estate tax reform, it is not surprising to find low levels of ownership in the lower net worth ranges. But even among pentamillionaires, the ownership of second-to-die is just 15 percent.

### Reasons for Owning Life Insurance

For the first time in the eleven year history of the Wealth Survey, we asked high-net-worth households why they own life insurance.

#### REASONS FOR OWNING INDIVIDUAL LIFE INSURANCE

To help provide for family needs after my/spouse's death	69%
To create an inheritance for my heirs	30%
For estate liquidity (i.e., to pay estate taxes)	24%
As a way of saving for retirement	18%
As an investment	16%
For tax-sheltered savings	11%
To pay for college expenses	8%
For business purposes (e.g., key person, buy-sell)	7%
To sell my policy at a later time	6%
As a charitable contribution	5%
Other	10%

Source: 2010 Phoenix Wealth Survey

The percentages in this table add to greater than 100 percent, indicating that high-net-worth consumers own their life insurance for a variety of reasons – testimony to the versatility of life insurance. Significantly, nearly seven out of ten (69 percent) high-net-worth consumers own life insurance for basic household protection in the event of a premature death of one of the breadwinners. With increasing wealth comes increasing use of life insurance for other purposes such as estate liquidity, charitable giving and business applications. But even among pentamillionaires, 51 percent still indicate that family need is one of the reasons that they own life insurance.

The second most frequently mentioned reason for owning life insurance among the high net worth is to create an estate (30 percent). We don't know for sure, but it may be a good bet that this reason has increased in the past year or two. As reported in last month's Phoenix High-Net-Worth Market Insights, a significant percentage of the high net worth agreed with the statement that they will now not be able to leave as much money to their heirs as originally planned because of the financial crisis. Life insurance, of course, can serve to fill part of this gap upon death of the insured.

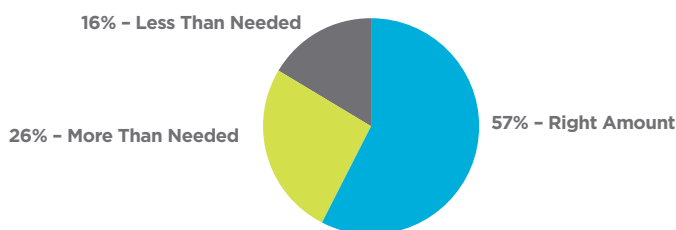
*Consumers may be underinsured if they are off-base about the right amount of coverage.*

Finally, it is interesting that six percent indicate that one of the reasons that they own life insurance is to sell it at a later time. While this percentage is not high, it does show some awareness of the life settlement concept in this market. This percentage is clearly related to level of wealth. For households at the \$3-5 million and pentamillionaire levels of wealth, this percentage increases to ten percent and 21 percent, respectively.

### Adequacy of Coverage

While the life insurance ownership percentages discussed above indicate an opportunity for additional sales in this market, they may understate the opportunity if those who own policies are significantly underinsured. For the first time, this year’s survey asked respondents about the adequacy of their coverage and what they believe constitutes an adequate amount of household life insurance coverage for their level of household income. The results from these questions are eye-opening.

#### PERCEIVED ADEQUACY OF LIFE INSURANCE COVERAGE

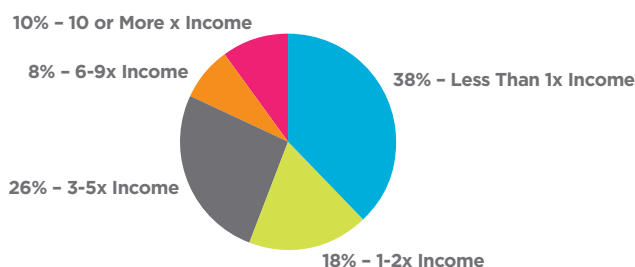


Source: 2010 Phoenix Wealth Survey

Sixteen percent of respondents say they need more life insurance – which may be an understatement if respondents thought the survey was a veiled sales attempt or were unwilling to admit that they are not providing for their family’s needs. And, there are several demographic segments where an even greater percentage of respondents indicate they are underinsured – notably households with net worth between \$2-3 million (25 percent), those age 46-54 (24 percent), and those 45 or younger and with net worth in excess of \$2 million (22 percent).

Of course, these responses are a function of how respondents define “adequate” coverage. Consumers indicating they have “more than enough” or the “right amount,” actually may be underinsured if their perception as to what constitutes the right amount of coverage is off-base.

#### RIGHT AMOUNT OF LIFE INSURANCE COVERAGE RELATIVE TO HOUSEHOLD INCOME



Source: 2010 Phoenix Wealth Survey



*Many high-net-worth households do not have an advisor for life insurance.*

It's quite surprising that 56 percent of high-net-worth households believe that two times their income or less constitutes adequate life insurance coverage for someone with their level of household income. Only 18 percent see the right amount of coverage as being six or more times their household income, which is more in line with what financial planners tend to recommend.

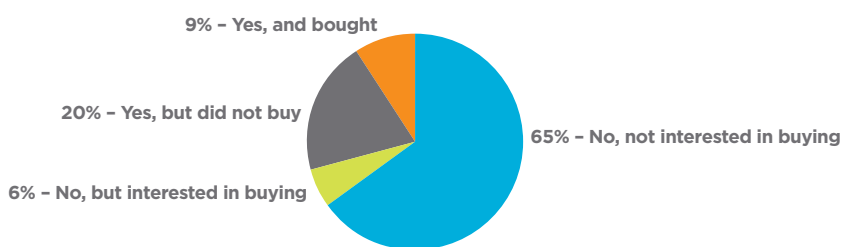
Of course, these percentages vary by demographic group and are most clearly related to age. Only 28 percent of those 45 and younger view two times income or less as being adequate, whereas 80 percent of those 65 and older see this as an appropriate amount of coverage. The group most realistic about the amount of coverage needed is made up of the young wealthy – those 45 or younger with net worth in excess of \$2 million. As discussed above, they are one of the demographic segments most likely to admit needing more life insurance. Among this group, 44 percent say that six or more times income is the right amount of life insurance coverage for someone with their level of household income.

### Are They Being Served?

Our analysis clearly shows that the high-net worth market is under-penetrated for both life insurance ownership and adequacy of coverage. This suggests that the market is not fully saturated when it comes to advisory relationships. And, those who do have advisors may not be receiving adequate counseling with regard to their life insurance needs.

To explore this further, we first asked our survey respondents whether an advisor or an insurance agent had approached them about purchasing life insurance during the last 12 months.

#### APPROACHED REGARDING LIFE INSURANCE IN THE PAST YEAR



Source: 2010 Phoenix Wealth Survey

Approximately seven out of ten high-net-worth households (71 percent) were not approached by an advisor or an insurance agent about buying life insurance during the past year. Contact regarding life insurance is clearly related to both age and level of wealth. Eighty-four percent of high-net-worth households 65 or older and 77 percent of those in the \$1-2 million net worth range were not contacted. However, even among pentamillionaires and households 45 and younger, the percentages not having contact were 41 percent and 45 percent, respectively.

*There is plenty of opportunity for life insurance sales in the high-net-worth market.*

These results suggest that many high-net-worth households do not have someone they consider to be their advisor for life insurance. And, when asked about this directly, only 26 percent indicate they have an advisor for life insurance. The groups most likely to be contacted – pentamillionaires and households 45 and younger – are more likely to report that they have an advisor for life insurance. But even among these demographic groups, the percentages are only 48 percent and 43 percent, respectively.

### Summary

Market myths notwithstanding, there is plenty of opportunity for life insurance sales within the high-net-worth market. This year, we found relatively low levels of ownership of any type of life insurance product, significant reporting of under-insurance, low incidence of advisory relationships for life insurance and infrequent contact by advisors to discuss life insurance needs. And, there seems to be a clear need, even among this well-educated market segment, for additional education on what constitutes an adequate level of household life insurance coverage.

