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## GUARANTEED UNCERTAINTY SOCIOECONOMIC INFLUENCES ON PRODUCT DEVELOPMENT AND DISTRIBUTION IN THE LIFE INSURANCE INDUSTRY

By Richard Hekeler, Ph.D.

Uncertainty—indeed, one need only look to the last three years to know this is the case. Government, business, and the populace were forced to react to an economic downturn that few anticipated would be so severe. However, what is certain is that the effects of the recession, although technically over, will be felt for several more years.

The recent economic downturn—along with its high levels of unemployment and underemployment—is only one element of our uncertain world. Recent decades have witnessed broad scale changes that continue to influence other aspects of our life in ways not fully understood. Some changes are positive forces of change while others are more ominous.

### Positive Forces of Change

- The American family continues to evolve, taking on a variety of different structures with unique needs and abilities to manage those needs.
- Immigration, long a part of our nation's history, continues apace spreading a wave of multiculturalism from the large urban areas to the rural towns.
- Technology has led to advancements that have improved the quality and length of life, increased efficiency and productivity, and created vast new social networks.

### Ominous Forces of Change

- The population of the United States is aging, thus placing a burden on families, health care delivery, and government entitlement programs.
- The social safety net of government and employer-based benefits is less certain and as such, the financial future of many is questionable.

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- Wage stagnation and inflation threaten savings and personal/family financial well-being.

Apart from these socioeconomic trends, a host of other less certain events—both socioeconomic and otherwise—further obscures an already cloudy vision of the future. To meet these challenges, the industry will have to be nimble in its product development and distribution to stay current with the changing marketplace.

Financial Security Today

The public's frustration with the current economic environment demonstrates the value placed on financial security. Our sense of financial security starts with having a dependable source of income whether it is from a job commensurate with our skills and ambitions or from a retirement plan sufficient to meet the life style for which we are accustom. The challenge for the industry is the public has a hard time recognizing what they need to achieve financial security beyond a dependable source of income and, furthermore, recognizing how the industry's products and services help fulfill their needs. To illustrate the industry's challenge, consider these three facts:

- Fifty-eight million U.S. households (44 percent) believe they do not have enough life insurance.<sup>1</sup>
- Twenty-nine million Americans controlling \$881 billion of investable assets reach retirement age over the next five years; yet the public has only a limited understanding in how immediate annuities can play a role in retirement income planning.<sup>2</sup>
- More than 60 percent of personal bankruptcies in the United States in 2007 were caused by health care costs associated with a major illness.<sup>3</sup>

LIMRA and the Marketing and Distribution Section of the Society of Actuaries recognize these facts and others will shape the industry over the next five years (and beyond) and will also inspire creativity in product development and distribution. The two organizations also recognize the importance of conducting a joint study exploring how socioeconomic trends will influence the need and demand for the industry's products and services over the next five years. The research is now available and addresses these objectives:

- What are the key socioeconomic trends influencing the need and demand for the industry's retail products and services?
- How will these trends influence product development and distribution given the potential changes to the economy, population, and societal

expectations anticipated over the next five years?

The report will be posted to the Society's website in January 2011. If you would like more information on the research please contact Lucian Lombardi ([llombardi@limra.com](mailto:llombardi@limra.com)) or Ronora Stryker ([rstryker@soa.org](mailto:rstryker@soa.org)).

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*For more information on this research you may contact Lucian Lombardi, vice president LIMRA Research, Windsor CT, at [llombardi@limra.com](mailto:llombardi@limra.com).*

<sup>1</sup>Trends in Life Insurance Ownership, LIMRA, 2010.

<sup>2</sup>Money in Motion, LIMRA, 2010.

<sup>3</sup>Medical Bankruptcy in the United States: Results of a National Study, American Journal of Medicine, August 2009.