

Dangerous deficiency

Studies show life insurance misconceptions abound

BY MIKE STUHLREYER
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The increasing mobility in the U.S. work force has exposed critical deficiencies in the financial literacy of most Americans, particularly when it comes to life insurance.

That's according to two recent studies conducted for the life insurance industry. The studies find widespread confusion and false assumptions abound when it comes to employees' knowledge of how their policies work.

Considering the average business professional will change jobs seven or eight times in a lifetime, learning the facts about insurance mobility can be vital.

Despite that, a study for Northwestern Mutual Financial Network found that more than half of Americans incorrectly believe their employer-provided group life insurance continues even after they've left the company.

That notion, says Chuck Pruett, Managing Partner of Pruett Financial Group, is potentially catastrophic.

"People really need to take responsibility and be knowledgeable about insurance coverages because they're generally not portable," Pruett says, noting that only 40 percent of employees understand there is a

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Pruett Financial Group

significant life insurance impact from leaving a job.

"You're left so vulnerable if you're between careers or jobs and you've depended on an employer to take care of (life insurance) for you," he says.

Sometimes a portability option allows an employee to continue a term-life policy after leaving a job. The option provides the same amount of coverage at the same premium the employee was insured for under the company's group plan. If portability is not an option and there haven't been other provisions made, that person is left vulnerable, without life insurance.

Such heavy reliance on employer provided-insurance is a consequence of market forces, the same ones that have made the door-to-door insurance salesman a relic of the past.

"It used to be that when you graduated from college, you had a life insurance salesman at your door wanting to sell you a \$10,000 policy," says William "Willo" Taylor, an employee benefit practice leader for Synaxis, the commercial insurance arm of First Tennessee Bank. "Then, as you had children, your agent continued to build on (your coverage). Now the agency system isn't economically feasible for the insurance companies."

As a result, most life insurance purchased over the last quarter century has been purchased by companies rather than individuals and – largely because they are not usually the ones purchasing their policies – many

Americans have only a cursory understanding of their coverage and aren't aware of the right questions to ask about it.

"Once they hear the company has benefits, that's where the questions stop," Pruett says. "They feel like they're OK and they're covered. A lot of people just take what's given to them."

Such a laissez-faire approach is fraught with risk, suggests Taylor, whose company consults with companies of 50 or more employees that are considering a change in coverage or want an analysis of existing coverage. He says a company's priorities may not always align with the life insurance needs of its employees, particularly today's mobile business professionals.

"Insurance carriers are competing for clients and one way for them to offer companies a lower rate is to remove features from their contract," he says.

Taylor notes that the average annual cost per participant in a health plan is between \$6,000-\$8,000 per year and the bulk of the cost is paid by the employer. He says the employer may look for the cheapest rate possible for life insurance and adds that, in that case, features such as portability will be the first to go.

While most employers are fairly sophisticated insurance buyers – especially larger employers – employees don't necessarily have to be. They do however need to ask a few common-sense questions to gauge the efficacy of their insurance benefits.

The answers involve finding which insurance company underwrites the policy and what is the company's financial strength in the event the policy needs to be accessed. It's also important to be aware of optional add-on programs and portability options, as well as options for an employee who becomes disabled and can't work.

There are signs that employees – particularly middle-aged ones – are becoming more insurance savvy. Merrin Cantin, director of human resources at Nashville-based American Esoteric Laboratories, sees a trend among her company's 800 employees.

"I think they are learning and part of our job is to educate them on what AEL can do for them," she says. "They're ask-

ing about taking their insurance with them when they leave. Portability is a good marketing tool for us because we do count on our employees to stay with us for a long period of time – so it's valuable because if they retire, they may not be able to get life insurance by another means."

A person's stage of life and situation affect how much life insurance is necessary. Experts seem to agree though that it's best to get insurance early, rather than later. Not only does insurance cost more at an older age but there is also the risk of being uninsurable. Both are a big part of the misunderstanding, Pruett says.

"We don't learn enough about (insurance) in our younger years," he says. "When you're young and unattached the attitude is, 'I don't need it, why should I do it?' Insurance could be the most misunderstood financial instrument ever created."

Mike Stuhlejer is a Nashville-area freelance writer.

Chuck Pruett of Pruett Financial Group says life insurance is a misunderstood financial planning tool.

