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HOUSEHOLD OWNERSHIP AND ACCESS TO INSURANCE PRODUCTS

Households purchase life insurers' products to manage risk. Life insurance helps maintain household income when an income earner dies; and, disability income insurance, long-term care insurance and supplemental products protect assets in the event of illness or when assistance with activities of daily living is required. Most households are underinsured in one or more of these areas, if they are insured at all. Coverage can be obtained through individual products or employer-sponsored group products.

EMPLOYER-SPONSORED BENEFITS

Most Americans have access to life insurance products and retirement savings accounts through their employer. In 2020, 56 percent of all private industry employees had access to life insurance through their employer (Table 9.1). In the past, as mentioned in the previous chapter, many employers provided pensions to their employees known as defined benefit plans. On January 1, 1980, the Revenue Act of 1978 went into effect. Section 401(k) of the Act had a provision which allowed employees to defer compensation from bonuses or stock options tax-free. The IRS soon issued regulations which permitted employees to contribute to their retirement savings through salary deductions. Since that time, defined contribution plans, such as 401(k), 403(b), and 457 plans, have gained in prominence while defined benefit plans have diminished.

In 2020, 64 percent of all private industry employees (both part-time and full-time) had access to a defined contribution plan, compared to 15 percent which had access to defined benefit plans (Table 9.1). In 2010, only 59 percent had access to a defined contribution plan and 20 percent had access to a defined benefit plan through their employers. These trends are expected to continue. Similarly, many employers sponsor other benefits such as group life insurance, short and long-term disability income insurance, and long-term care insurance. Access to these benefits has not changed as substantially since 2010.

RETIREMENT SAVINGS

In the absence of a sound defined benefit plan, sufficient retirement savings are necessary for a secure retirement. Though needs and individual circumstances vary widely, some financial advisors say that individuals entering retirement require up to ten times their pre-retirement income in savings.

Since the 1980s, the percent of households with dedicated retirement savings, as well as retirement savings balances, have been steadily increasing (Table 9.2). In 2019, more than half of U.S. households had dedicated retirement savings with a median balance of $65,000 and an average balance of $255,200. Retirement savings make up about 36 percent of an average household's financial assets, holding relatively steady since 2007.

Though retirement savings has trended upward, disparities exist (Tables 9.3 and 9.4). In 2019, 34.9 percent of Black Americans and 25.5 percent of Hispanics had dedicated retirement savings, compared to 50.5 percent for the total population. Similarly, median balances were $35,000 and $30,400, respectively. Growth in balances from 2016 to 2019 were greater than for the total population, 42 percent for Black households and 35 percent for Hispanic households, compared to 8.3 percent overall growth, though median and average balances remain below the overall population.

LIFE INSURANCE OWNERSHIP

The percent of households with any life insurance coverage has been steadily decreasing since the early 1970s, though median face value of in-force policies has held steady at $100,000 since 2004 (Table 9.5). This decline is true for both term and permanent life insurance, with the latter declining more sharply. In 2019, 59.4 percent of households had at least some coverage, with 48 percent owning a term policy and 19.6 holding a cash-value policy.

DISABILITY INCOME INSURANCE

Prolonged unemployment due to disability can jeopardize a worker's lifestyle and savings for retirement. The risk of becoming disabled is significant: According to the U.S. Census Bureau, nearly seventeen percent of working-age Americans reported a disability in 2010. Of those with a disability, 17.9 percent were employed compared to the 61.4 percent of working-age Americans with no disability in 2020.

Disability income policies commonly provide 50 to 70 percent of an insured employees pre-disability income while they are unable to work due to accident or illness. In addition to choices in benefits and elimination periods, some policies provide comprehensive protection while others define disability more narrowly, covering only accidental injury or illness. Policies may also include coverage for partial disability, residual benefits, cost-of-living adjustments, survivor benefits, and pension supplements. Many also include benefits to help people return to work following a disability.

Often insurers will reduce benefits if an employee is receiving disability payments from other sources. Workers compensation pays cash benefits to workers disabled by an on-the-job accident or illness. Because workers compensation is a state-administered program, rules governing payment, benefit levels, and length of coverage vary considerably from state to state. Workers whose illness or injury is not caused on the job may be eligible for paid sick leave or state-mandated short-term disability benefits. The federal disability insurance program under the Social Security Administration, known as SSDI, provides cash assistance to people with long-term disabilities who are unable to work. SSDI's modest income support is limited to those who meet a very strict test of work disability.

Both individual and group disability income insurance pay benefits as an indemnity—usually weekly or monthly. Disability income insurance may be offered by employers, purchased individually, or used to protect a business. Employers may offer insurance for either short- or long-term disabilities, or provide comprehensive disability protection. Some policies reimburse businesses for expenses associated with disability. Each of these types of policies is described below.

Individual Disability Income Insurance

Individual disability income policies are sold to the self-employed, professionals, and to a market of diverse needs. Some people prefer individual coverage rather than group coverage because the former is portable. Workers, whose employers provide only basic coverage, may buy additional disability insurance through an individual policy. Companies also purchase disability income insurance to protect or dispose of the business if a key employee or the owner becomes disabled.

Personal Coverage

Most people buy individual disability income insurance to protect against long-term disability. Individual policies typically cover both occupational and non-occupational accidents and sickness for a selected term. Individual long-term disability benefits are not subject to income tax if the policyholder pays the premiums in full. Since benefits are designed to replace earned income, most people do not purchase coverage beyond their working years.

Disability income insurance for individuals is offered primarily in two forms. Non-cancellable policies give policyholders the right to continue coverage as long as premiums are paid on time. The insurer cannot change the premiums or benefits prior to an age stated in the policy, usually 65. Insurers also offer guaranteed renewable policies that can be automatically renewed with the same benefits. The premium for this type of policy may be increased only if it is changed for the entire class of policyholders.

Business Coverage

A small proportion of individual disability income policies is bought by business owners.

Key-person disability insurance replaces income lost when an essential employee or owner is unable to work. Some policies pay benefits directly to the insured as salary continuation, while others pay benefits to the business to protect the company from sudden loss of income, credit, or profits. Another form of protection is disability buy-sell insurance, which pays benefits to the business to enable owners to purchase interest in the company from a disabled partner or owner.

Businesses frequently obtain a disability income policy to cover business overhead expenses, including wages, in case the owner becomes disabled. A business also can purchase reducing term disability insurance to help cover loan repayments, purchase agreements, or salary contracts if the owner or key employee becomes disabled. This type of insurance is in effect for the length of the loan or other commitment, and coverage is reduced as the amount due is paid off.

Group Disability Income Insurance

Many disability income policies are offered as part of an employee group benefit package. Employers purchase disability coverage from an insurance company or self-insure the benefits. According to the U.S. Bureau of Labor Statistics, 42 percent of all private industry employees have access to short-term disability income insurance in 2020; 34 percent have access to long-term disability income insurance (Table 9.1).

Short-Term Coverage

Short-term coverage helps protect against loss of income for employees unable to work because of a temporary illness or injury. Such sickness and accident plans replace a portion of earnings for a fixed period of time. Benefits commonly last 24 weeks, although coverage can range from 13 to 104 weeks. Short-term disability income insurance also can offer protection during the waiting period before a worker becomes eligible for SSDI or long-term disability coverage.

Disability income insurance pays short-term benefits as either a percentage of employee earnings or a flat dollar amount. The most common plans pay a percentage of earnings, typically replacing from one-half to two-thirds of pre-disability income. A majority of these plans places a dollar limit on the weekly or monthly benefit. Benefits also can vary depending on length of service and other factors. Most short-term coverage requires a waiting period, usually one to seven days, before benefits begin.

Long-Term Coverage

Long-term disability income plans cover both occupational and non-occupational sickness and accidents. Benefits typically start when short-term benefits are exhausted after a waiting period of three to six months following the onset of disability. These policies generally provide benefits for persons up to age 65 or Social Security retirement age. In certain cases, long-term coverage may provide benefits for life.

Almost all group long-term disability plans coordinate with Social Security and typically require claimants to apply for SSDI benefits. Disability insurers frequently offset benefits payable under private insurance dollar-for-dollar with SSDI payments. Benefits also are subject to income tax if the employer pays the premiums; they are not taxable if the employee pays the premiums.

LONG-TERM CARE INSURANCE

Long-term care insurance pays for services to help policyholders who are unable to perform certain activities of daily living without assistance—such as bathing, eating, dressing, using the toilet, and transferring from bed to chair. This insurance also pays benefits when the insured person requires supervision due to a cognitive impairment such as Alzheimer's disease.

Since the likelihood of chronic illness or disability increases with age, long-term care insurance traditionally has been sold to older Americans. However, the younger the purchaser, the lower the premiums, and within the last 10 years, group insurance plans have begun covering working-age people. In 2020, life insurers collected $11.7 billion in long-term care insurance premiums (Table 9.6).

The market for private long-term care insurance is closely linked to federal and state government policy.

Public funding for long-term care comes from two main sources. Medicaid—a joint federal-state program that targets low-income people—is the primary government funding source for long-term care. To qualify, beneficiaries must deplete most of their assets and meet a strict income test. Medicare primarily pays for medically related recovery and rehabilitation services at home or in a nursing home.

There are two basic types of long-term care insurance: individual insurance and group. The latter is employer-sponsored or offered through an association. These products are considered long-term if the benefit is one year or longer. Long-term care protection also is available through life insurance policies that accelerate the death benefits for individuals with chronic conditions.

Long-term care insurance has evolved in response to changes in the long-term care delivery system and consumer preferences. When first sold in 1972, policies covered only skilled care in a nursing home after a period of hospitalization. Since the mid-1980s, consumers have demanded greater choice and more help in maintaining their quality of life. Insurers now offer policies covering services that promote independent living including personal care, assisted living, care management, support for family caregivers, home modifications, homemaker services, and hospice, in addition to institutional care.

Coverage for long-term care also varies by how benefits are paid. Traditional indemnity policies offer a fixed daily payment to eligible beneficiaries, usually in a nursing home. Other policies reimburse the insured for expenses, up to the policy's daily maximum—for example, $150 per day for nursing home care or $100 per day for home care. Most reimbursement policies now pool benefit dollars under more flexible spending limits, so that a beneficiary can receive payment for either nursing-home care or home- and community-based care. A third payment method uses a disability model, providing a cash benefit when eligibility requirements are met, regardless of whether the insured actually uses any long-term care services.

Individual Long-Term Care Coverage

Individual long-term care insurance can be tailored to meet financial and lifestyle goals. The policyholder selects the length of benefit term (one to five years or a lifetime) and other options such as the amount of maximum daily benefit, length of elimination period, level of care, inflation protection, and nonforfeiture benefits.

Most individual long-term care insurance is offered as a guaranteed renewable policy—renewable with the same benefits as long as premiums are paid on time. Premiums cannot be increased unless they are changed for the entire class of policyholders. Since long-term care policies do not build cash value, buying a nonforfeiture benefit or selecting a policy with contingent nonforfeiture protection allows the insured to receive benefits upon surrendering the policy. Some policies offer riders that return premiums upon the death of the insured.

Group Long-Term Care Coverage

Businesses, some state governments, unions, and fraternal and other associations such as AARP sponsor group long-term care insurance. Groups can either purchase long-term care coverage from an insurance company or self-insure. Under self-insured plans, the members of the group, usually employees, assume all risks and expenses of providing long-term care coverage. Most employers offering this benefit purchase group insurance coverage.

Group long-term care insurance typically is offered as a voluntary benefit for which the employee pays some or all of the premium. Long-term care insurance purchased through the workplace also is portable: Employees can retain coverage in retirement or if they change employers by paying the entire premium directly to the insurer.

According to the U.S. Bureau of Labor Statistics, 14 percent of all workers in private industry had access to long-term care insurance at work in 2020 (Table 9.1).

ACCELERATED AND SUPPLEMENTAL BENEFITS

To help pay long-term care costs, certain life insurance policies allow the policyholder to access benefits prior to death. Circumstances that can trigger these accelerated benefits include diagnosis of a terminal illness or a medical condition that would drastically shorten the policyholder's life span, the need for long-term care, or permanent confinement in a nursing home. Accelerated benefit provisions may be integrated in the policy or more typically attached as a rider.

Supplemental benefits products are insurance policies that provide financial protection against expenses associated with accidents or illnesses not covered by major medical insurance. These products, provided through employers or offered on an individual basis, are key to the financial security of many families across the nation. Table 9.6 highlights some of the selected supplemental benefits (accident/AD&D, dental) that life insurers provide. Along with life insurers, other health insurers provide supplemental benefits, which also includes critical illness or specified disease, hospital indemnity, stop-loss, vision, and wellness, to policy holders as well.

Table 9.1

Access to Employer Sponsored Benefits, Percent All Private Industry Employees

Year	Life Insurance	Defined Contribution Retirement Plan	Defined Benefit Retirement Plan	Short-Term Disability Income Insurance	Long-Term Disability Income Insurance	Long-Term Care Insurance
	(%)	(%)	(%)	(%)	(%)	(%)
2010	59	59	20	39	33	14
2011	58	58	20	38	32	14
2012	57	59	19	39	33	16
2013	57	59	19	40	33	16
2014	57	60	19	40	34	16
2015	57	61	18	40	34	17
2016	55	62	18	40	33	17
2017	55	62	18	41	33	17
2018	57	64	17	42	34	15
2019	56	64	16	42	34	15
2020	56	64	15	42	34	14

Sources: United States, Bureau of Labor Statistics, National Companesation Survey, various years.
Note: Includes full and part-time workers.

Table 9.2

Household Ownership of Dedicated Retirement Saving Accounts

Year	Retirement Account Assets as a Percent of Total Financial Assets	Households with Retirement Savings Account(s)	Median Retirement Savings*	Mean Retirement Savings*
	(%)	(%)		
1989	21.5	37.1	$11,000	$37,500
1992	25.8	40.1	14,000	45,500
1995	28.3	45.3	17,000	57,000
1998	27.8	48.9	24,000	76,300
2001	29.0	52.8	29,500	104,700
2004	32.4	49.9	35,300	123,100
2007	35.0	53.0	45,000	147,300
2010	38.1	50.4	44,000	171,200
2013	38.8	49.2	59,000	201,300
2016	35.6	52.1	60,000	228,900
2019	36.0	50.5	65,000	255,200

Source: Federal Reserve Board of Governors, Federal Reserve Survey of Consumer Finances data, various years.
*Only households with retirment savings accounts.

Table 9.3

Household Ownership of Dedicated Retirement Saving Accounts, By Race*

Year	All Households	White	Black	Hispanic
	(%)	(%)	(%)	(%)
1989	37.1	43.5	17.1	15.5
1992	40.1	45.6	23.7	20.1
1995	45.3	49.3	28.4	32.8
1998	48.9	53.8	34.2	21.7
2001	52.8	57.7	40.1	31.5
2004	49.9	56.4	32.7	25.3
2007	53.0	58.5	37.0	30.8
2010	50.4	58.1	33.0	27.8
2013	49.2	56.7	35.2	25.1
2016	52.1	60.4	33.6	29.7
2019	50.5	57.2	34.9	25.5

Source: Federal Reserve Board of Governors, Federal Reserve Survey of Consumer Finances data, various years.
*Publicly available Survey of Consumer Finances data does not include other racial categories.
Dedicated retirement savings accounts include all defined contribution plans, IRAs, and Roth IRAs.

Table 9.4

Median Household Retirement Saving Balance, By Race*

Year	All Households	White	Black	Hispanic
1989	$11,000	$12,000	$6,000	$6,000
1992	14,000	15,000	5,500	6,500
1995	17,000	18,200	8,000	12,000
1998	24,000	26,000	11,000	11,000
2001	29,500	35,000	8,500	10,000
2004	35,300	41,000	15,000	14,700
2007	45,000	53,000	26,000	17,000
2010	44,000	54,000	18,000	18,000
2013	59,000	76,300	19,000	16,100
2016	60,000	77,000	24,600	22,600
2019	65,000	80,000	35,000	30,400

Source: Federal Reserve Board of Governors, Federal Reserve Survey of Consumer Finances data, various years.
*Publicly available Survey of Consumer Finances data does not include other racial categories.
In 2019 USD. Dedicated retirement savings accounts include all defined contribution plans, IRAs, and Roth IRAs.
Only considers households with dedicated retirement savings.

Table 9.5

Households with Life Insurance Coverage

	Any Life Insurance		Term Life Insurance		Cash-Value Life Insurance	
Year	Percent with Coverage	Median Face Value	Percent with Coverage	Median Face Value	Percent with Coverage	Median Face Value
1998	69.2%	$61,000	52.2%	$60,000	29.6%	$45,000
2001	69.3%	70,000	52.9%	78,000	28.0%	40,000
2004	65.4%	100,000	51.3%	100,000	25.6%	50,000
2007	64.9%	100,000	50.8%	100,000	24.0%	54,000
2010	62.6%	100,000	49.5%	100,000	20.7%	50,000
2013	60.1%	100,000	48.4%	100,000	19.8%	50,000
2016	61.1%	100,000	49.4%	102,000	20.6%	50,000
2019	59.4%	100,000	48.0%	110,000	19.6%	50,000

Source: ACLI tabulations of Federal Reserve Board of Governors, Federal Reserve Survey of Consumer Finances, various years.
Households reporting *any* life insurance coverage.
Median calculations are based on households reporting coverage.

Table 9.6

Selected Accident and Health Products of Life Insurers

	Millions			Average annual percent change	
	2010	2019	2020	2010/2020	2019/2020
PREMIUMS					
Disability Income	$19,984	$27,588	$28,115	3.5	1.9
Individual	6,421	7,296	7,302	1.3	0.1
Group	13,563	20,292	20,813	4.4	2.6
Long-Term Care	9,996	11,518	11,673	1.6	1.3
Individual	8,249	9,253	9,291	1.2	0.4
Group	1,747	2,265	2,382	3.1	5.2
Dental	8,849	14,583	14,064	4.7	-3.6
Individual	306	1,272	1,219	14.8	-4.2
Group	8,542	13,311	12,845	4.2	-3.5
Accident/AD&D	4,975	6,813	6,913	3.3	1.5
Individual	2,319	2,789	2,730	1.6	-2.1
Group	2,655	4,024	4,183	4.6	3.9
INCURRED CLAIMS					
Disability Income	$16,243	$19,638	$21,128	2.7	7.6
Individual	5,137	4,869	5,342	0.4	9.7
Group	11,106	14,769	15,786	3.6	6.9
Long-Term Care	6,697	11,877	10,321	4.4	-13.1
Individual	5,902	10,255	9,023	4.3	-12.0
Group	794	1,622	1,297	5.0	-20.0
Dental	6,813	10,757	9,128	3.0	-15.1
Individual	139	631	589	15.5	-6.5
Group	6,674	10,126	8,539	2.5	-15.7
Accident/AD&D	1,915	2,600	2,366	2.1	-9.0
Individual	884	988	861	-0.3	-12.8
Group	1,031	1,612	1,505	3.9	-6.7

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.
Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and fraternal benefit societies.