SERVING THE LIFE INSURANCE NEEDS OF YOUNG CONSUMERS
INTRODUCTION

Generation Y (Gen Y), or consumers in their 20s, will become an increasingly attractive segment for financial professionals to pursue. As this generation continues to mature and encounter different life stage changes, they will need appropriate financial advice to help ensure financial security and protect against unexpected events that may arise in the future, such as an untimely death, job loss, or disability. Financial professionals can help these consumers secure their financial futures with appropriate insurance and financial products.

There are three key reasons why financial professionals should focus on Gen Y (Exhibit 1).

- **Demographics.** Gen Y is projected to become the second largest generation after the Baby Boomer generation by 2020. Moreover, Gen Y consumers will be entering their prime earning years, during which they will have a wide range of investment and protection needs.

- **Economics.** Gen Y will not only need a wide range of financial products and services, but they will also have the economic means to obtain them. Gen Y is expected to inherit more than $17.8 trillion. In addition, Gen Y's purchasing power is predicted to surpass that of the Baby Boomers by 2017.

- **Psychographics.** Gen Y is likely to be an attractive segment for financial professionals because of how young consumers' attitudes have been shaped by the experience of living through the worst recession since the Great Depression. Falling real estate prices, volatile stock markets, and widespread lay-offs have directly or indirectly impacted most young consumers. This experience is motivating many young consumers to devote more attention to planning their financial futures.

One of the best ways for financial professionals to build a relationship with Gen Y consumers is to help them purchase life insurance, as buying life insurance may be the first time that some Gen Y consumers seek the support of a financial professional. Moreover, many young consumers are likely to buy life insurance in the near future; in a recent survey, 48% of Gen Y consumers said that they intend to buy or add life insurance coverage within the next three years, and nearly 20% plan to buy life insurance within one year. The objectives for this article are to describe the unique needs of young consumers with respect to life insurance, and to outline how financial professionals can effectively serve these needs.

---

### EXHIBIT I: WHY FINANCIAL PROFESSIONALS SHOULD FOCUS ON GEN Y

#### Demographics

<table>
<thead>
<tr>
<th>Generation</th>
<th>Population Projection in 2020 (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby Boomers (1946-1964)</td>
<td>66</td>
</tr>
<tr>
<td>Gen X (1965-1980)</td>
<td>67</td>
</tr>
<tr>
<td>Gen Y (1981-1995)</td>
<td>68</td>
</tr>
</tbody>
</table>

#### Economics

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S. Total Annual Income (Trillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$1.0</td>
</tr>
<tr>
<td>2012</td>
<td>$1.5</td>
</tr>
<tr>
<td>2017</td>
<td>$2.0</td>
</tr>
</tbody>
</table>

- Baby Boomers
- Gen Y

#### Psychographics

<table>
<thead>
<tr>
<th>Generation</th>
<th>Likelihood of Consulting with a Financial Advisor as a Result of the Economic Downturn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby Boomers</td>
<td>10%</td>
</tr>
<tr>
<td>Gen X</td>
<td>15%</td>
</tr>
<tr>
<td>Gen Y</td>
<td>25%</td>
</tr>
</tbody>
</table>

GEN Y'S DISTINCT LIFE INSURANCE NEEDS

Like prior generations, Gen Y consumers need life insurance to help ensure that their families are provided for in case of their death. However, there are a number of reasons why Gen Y consumers may actually have a more acute need for life insurance than prior generations.

- **High levels of debt related to college or graduate school.** Undergraduates borrow an average of $19,300 by the time they graduate, and graduate students may borrow several times this amount. Young consumers often rely on the creditworthiness of family members to secure private student loans. Life insurance can help Gen Y consumers ensure that their debts are paid off in case they pass away. Otherwise, responsibility for these debts may pass on to family members who had assumed shared responsibility for the loans.

- **Increasing prevalence of single parent families.** The percentage of single-parent households in the U.S. has increased from 20% in 1980 to 30% in 2008. Single parents have a particularly strong need for life insurance to help ensure that their children will be provided for in case they pass away.

- **The need to support parents in retirement.** Research indicates that almost 4 in 10 young adults expect to support their parents financially during their parents' retirement years. Given increasing longevity, many Gen Y consumers may have to support their parents for decades. Life insurance can help Gen Y consumers ensure that their parents will be provided for in the event of their premature death.

In addition to these protection needs, financial professionals should also take into account the product needs of Gen Y consumers.

- **A need for longer term protection products.** As discussed above, some Gen Y consumers may need life insurance just after graduating from college. In addition, these consumers are likely to need life insurance much later in life for a variety of reasons, such as to fund a child's college education in case they pass away or for estate planning purposes. As a result, many Gen Y consumers may need life insurance protection that extends for more than 30 years, longer than the typical term policy available on the market.

---

• **Premium payment assistance.** Given the fact that most young adults have limited financial resources, they are at risk of being unable to pay life insurance premiums in case they lose their job or become disabled. During the recent recession of 2008-2009, young adults aged 18-29 were more likely than older workers to be forced to work fewer hours or switch from full-time to part-time employment.\(^\text{11}\) In addition, the risk of disability is high, with studies showing that a 20-year-old worker has a 3 in 10 chance of becoming disabled for some period of time before reaching retirement age.\(^\text{12}\)

---


RECOMMENDED STRATEGIES FOR FINANCIAL PROFESSIONALS TO ADDRESS GEN Y’S LIFE INSURANCE NEEDS

There are several steps financial professionals can take to effectively serve the distinct needs of Gen Y consumers.

1 **Propose term life insurance to obtain affordable coverage**
   Given the limited financial resources of most young consumers, it may be appropriate to focus on presenting term life insurance products. Term products enable consumers to obtain adequate coverage at an affordable cost, especially in the early years of the policy, while also typically providing policyholders with the right to convert their coverage from term to permanent policies such as universal life, variable universal life, and whole life insurance. Consumers can usually convert their policy without going through medical underwriting. This conversion privilege is extremely valuable given the fact that life insurance needs may change over time, and coverage may be unavailable in the future if an individual's health has significantly deteriorated. Financial professionals should emphasize the benefits of term conversion privileges, as this feature attracts a high level of interest from young consumers when presented to them.\(^{13}\)

2 **Recommend packaged solutions**
   For simplicity's sake, financial professionals should seek packaged solutions that address Gen Y’s needs, including appropriate coverage levels, protection that extends until retirement, and premium waivers. Carriers are beginning to introduce packaged products that meet these needs by providing term life insurance coverage that extends as long as 40 years, along with premium waivers in case of disability or job loss. Consumer interest in premium waivers is high – more than half of consumers say they are interested in riders that provide for a temporary waiver of premiums in the event of job loss or disability.\(^{14}\)

3 **Challenge the perception that life insurance is too expensive**
   Young consumers, many of whom have never purchased life insurance, are particularly prone to believing that life insurance is more expensive than it really is. In focus groups conducted with consumers under age 30, when attendees were told the price of a typical simplified issue term policy, 60% immediately became more interested in life insurance. Consumers in these focus groups had the perception that term life insurance is four or five times more expensive than it actually is.\(^{15}\)

---

\(^{13}\) Prudential Financial, PruTerm WorkLife 65 focus groups, December 2010.


\(^{15}\) Prudential Financial, “Reaching Gen Y with Life Insurance is Easier Than You Think”, 2010.
Another way to address the perception that life insurance is expensive is to present its costs on a monthly basis since many consumers tend to make buying decisions in terms of how a purchase impacts their monthly budgets. The monthly cost of term life insurance for a young consumer may be less than the monthly cost of cell phone or cable television service. Of course, eligibility and premiums will vary based on the satisfaction of underwriting criteria, including but not limited to age, sex, health history, and smoking status.

4 Discuss advantages of purchasing life insurance at a young age

Financial professionals can increase young consumers’ awareness of the need to buy life insurance by educating them about the advantages of purchasing life insurance at a younger age, given the fact that life insurance costs more the older you are. Moreover, coverage may become unavailable for older consumers who develop serious health issues.

5 Tailor sales and marketing tactics for young consumers

Financial professionals can benefit by adapting their sales and marketing tactics to the unique characteristics of Gen Y. For example, financial professionals can build relationships with Gen Y through social media. Moreover, some financial professionals are using LinkedIn to interact with clients online by adding clients to their LinkedIn professional network. Once connected, financial professionals can use LinkedIn to easily communicate financial planning suggestions related to life insurance or other topics to their clients. Like any other e-communication, when engaging in social media, producers must follow their company’s and the industry’s requirements.

Financial professionals can also generate leads by identifying Gen Y households with children under the age of 18 within their referral networks. These households may be exposed to financial risk in the event of a premature death of a parent. For example, two-parent households often neglect to insure a non-working parent. These households often fail to take account the critical services the non-working parent provides for the family and the cost of replacing these services if this parent passed away. In addition, single-parent households are at an increased financial risk since their dependents may have fewer individuals supporting them. Given the increasing prevalence of single-parent households, financial professionals should work to help ensure that the children of these families are properly protected.

Furthermore, financial professionals should highlight the benefits of life insurance that apply to Gen Y. For example, many young consumers may not have considered how life insurance can help them even if they do not have children. For example, life insurance can help Gen Y consumers ensure that their parents will be provided for and their debts are paid off in the event of their premature death. Highlighting these benefits can help convince young adults to buy life insurance in advance of traditional life events that motivate the purchase of life insurance, such as buying a house, getting married, or having children.

CONCLUSION

Gen Y is poised to become a very attractive opportunity for the financial services industry. Financial professionals can start building long-term relationships with Gen Y consumers by addressing their life insurance needs. However, to serve Gen Y’s life insurance needs effectively, financial professionals must tailor their sales and education approaches to Gen Y consumers, while emphasizing products that help meet the needs of young consumers.

For additional thought leadership materials from Prudential, please visit research.prudential.com.

Life insurance is issued by The Prudential Insurance Company of America, Pruco Life Insurance Company (except in NY and/or NJ) and Pruco Life Insurance Company of New Jersey (in NY and/or NJ). Variable life insurance is distributed by Pruco Securities, LLC (member SIPC). All are Prudential Financial companies located in Newark, NJ and each is solely responsible for its own financial condition and contractual obligations. All guarantees are based on the claims paying ability of the issuer. Our policies contain exclusions, limitations, reductions in benefits and terms for keeping them in force. A financial professional can provide you with costs and complete details.

It is possible to lose money by investing in securities.

© 2013 Prudential Financial, Inc. and its related entities.
0207223-00002-00 Ed. 04/2013 Exp. 10/12/2014