

INSURANCE

# Insurance and Asset Building

by Robin Newberger and Michelle Coussens

## I. Introduction

This study explores the connections between insurance, wealth building/wealth preservation, and access to financial services (hereafter financial access) for low- and moderate-income consumers. It examines the needs, attitudes, and practices that these consumers have regarding insurance, and considers whether and how information or more direct access to insurance might complement the strategies and goals of organizations that help low-wealth consumers to build and protect their assets. Many of the same population groups who are less likely to use mainstream financial institutions are also less likely to have various types of insurance, although these populations may be particularly vulnerable to financial setbacks that could (potentially) be mitigated by insurance.

While many studies have shown that lower-income consumers often have some savings and assets or are interested in building their savings and assets, little is known about their experience with insurance and how having insurance affects the acquisition or protection of assets. There are few published examples of how asset-development organizations provide information or services connected with insurance, while the descriptions of how insurers support asset development are also limited. A handful of organizations and researchers have recently begun to explore some of these questions. For example, the Center for Financial Services Innovation (2007) has called the relationship between insurance and asset building a fertile field for study. CFED, a nonprofit organization dedicated to expanding economic opportunity and alleviating poverty, found that attendees of its 2006 national Assets Learning Conference ranked the topics of health insurance and asset preservation as emerging priorities for the field. A number of experts in the asset development field, including Seidman (2006) and Barr (2007), are advocating for broader ways of

thinking about the types of financial services that low- and moderate-income households need, in addition to account-based products, to build and keep their assets.

In this study, we examine the potential linkages between insurance coverage, asset development/asset preservation, and financial access based on a scan of the literature and responses from new focus groups convened on this topic. We explore the extent to which insurance helps lower-income households manage (or avoid) financial crises, factors that impact the choice within the cohort to buy insurance or not, their understanding of and familiarity with insurance concepts, and insurance distribution channels. We hypothesize that:

- More direct access to insurance and information about insurance would complement the strategies and goals of asset-development/preservation programs;
- Households eligible for asset-development programs need insurance and want to know more about insurance;
- Insurers may see participants in asset programs as a potential market for their products and, as such, draw insurers into the broader “assets” dialogue; and
- The purchase of insurance may be another way to broaden access to the mainstream financial system for underserved consumers.

Based on the literature and focus group discussions, we find support for at least three of our four hypotheses. Insurance complements the goals of asset organizations insofar as insurance has helped some people cope with their financial setbacks, and focus group participants did not view insurance as a substitute for savings. Low- and moderate-income participants also had belongings that they wanted to protect, as well as their own health and the well-being of their family members. Many participants already had

insurance to protect their assets and they would expect to use insurance industry sources to purchase policies in the future. We find less consensus around the idea of using a bank to obtain information or access to insurance products. However, the ways in which people often cope with their financial setbacks, namely by borrowing, underscores the connection between access to insurance and access to credit, and suggests that financial intermediaries may have a role in providing information or access to insurance to lower-income customers.

The remainder of the study is organized into the following sections. Section II provides a brief overview of the asset-development field and its current treatment of insurance topics, as well as an overview of the insurance field’s support of asset-building strategies and community reinvestment. Section III uses national data sets to show coverage rates for various types of insurance. Section IV presents a scan of the literature related to asset development/preservation and insurance. Section V summarizes the results of the focus groups on insurance and asset ownership. Section VI discusses these results in relation to our original hypotheses, and Section VII provides a brief conclusion.

## II. Asset Development and Insurance: Basic Definitions

### The Asset Development Field and Insurance

Asset development links different programmatic activities to the conceptual framework of capital formation and wealth creation.<sup>2</sup> The asset-development field consists of a variety of programs and service delivery organizations that focus on savings, home ownership, small business development and continuing education for low- to middle-income individuals. The field coalesced around the proliferation of Individual Development Accounts (IDAs) in the 1990s,<sup>3</sup> but asset-development organizations represent a diverse group that also offer financial literacy training, home ownership counseling, home purchase assistance, Earned Income Tax Credit (EITC) filing services, microenterprise development, and child savings accounts, among other services.<sup>4</sup> These programs share a common principle that the ability to accumulate assets – to buy a home, pay for higher education, start a business, or save for retirement – is critical to a person's economic advancement, along with a job and income. The asset preservation field has traditionally been somewhat distinct from asset builders. Asset-preservation programs focus on delinquency counseling, debt elimination, and asset protection.<sup>5</sup>

Given the decentralized network of service providers, it is difficult to generalize about their treatment of insurance. Our conversations with a handful of program operators suggest that many focus on entry-level asset building tools or work with public assistance recipients, and thus do not give much attention to insurance topics. When insurance information is included, the information varies with the specifics of a program's goal. In financial education programs, information tends to focus on how insurance fits in with other financial

practices like maintaining a bank account or managing credit and saving to buy a home or start a business.<sup>6</sup>

Information provided at IDA programs may focus more narrowly on home ownership, since eligible uses of matched funds tend to be for home ownership, business development, or post-secondary education. The information provided by microenterprise programs tends to focus on health care for self-employed individuals and insurance for business ownership (e.g., workers compensation or liability insurance). The information about insurance provided at EITC-filing sites is more limited. According to one recent review of the field, no EITC site offers information on life insurance as part of its asset building services.<sup>7</sup>

It is unclear how much information is provided by home ownership education counseling programs as well, since most providers develop their own curricula and educational materials.<sup>8</sup>

companies to provide insurance education, home maintenance workshops, and other services to residents so they can qualify for insurance.

### The Insurance Industry and Community Reinvestment

The responsibility of insurance companies to support community reinvestment (community assets) is also decentralized. The insurance industry is regulated solely at the state level. For each state in which an insurance company operates, the company must seek and receive approval of rates and policies by line of business (automobile, home owners, life, health, etc.).

#### Three main types of insurance:

Personal property/casualty consists mainly of insurance for automobiles, homes, and rental unit contents. At a minimum, auto insurance provides liability coverage. Coverage for property and medical costs may also be added to

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Insurance is not specifically cited in papers that review home ownership counseling programs, although the topics that are mentioned, such as improving creditworthiness, understanding the closing process, and recognizing the importance of maintenance after home purchase<sup>9</sup> all relate to the topic of insurance. The one program that stands out is the NeighborWorks® Insurance Alliance (NIA). NIA, originally called the National Insurance Task Force, was created in 1994 to develop partnerships between the insurance industry and NeighborWorks® organizations. The purpose of these partnerships is to assist local nonprofits and insurance

the auto policy. Property coverage pays for damage to, or theft of, the vehicle. Liability coverage pays for the policyholder's legal responsibility to others for bodily injury or property damage. Medical coverage pays for the cost of treating injuries, rehabilitation, and sometimes lost wages and funeral expenses. Home owners insurance is sold only as a package policy. It covers damage to property, as well as liability or legal responsibility for any injuries and property damage policyholders or their families cause to other people on the premises. Renters insurance provides coverage on behalf of the party renting for damage or theft of their

belongings. Property/casualty insurance is typically distributed through either captive or independent agents. Captive agents represent a single insurance carrier for a given type of policy; independent agents may represent several different carriers.

Life/health insurance includes life and health insurance, long-term care coverage, and annuities and other pension and retirement services. Generally, products are distributed through agents, but also through financial planners, advisors, or similar professionals who hold agent licenses. In addition, large employers frequently offer some limited free or subsidized coverage, as well as options to purchase additional coverage and/or policy limits.

Health insurance includes products from private health insurers as well as products offered through government programs. Private insurance is provided through the sale of individual and group policies. Large employers, trade associations, and other affinity groups are often able to negotiate preferred rates and guarantee member acceptance through the elimination of individual underwriting. While property/casualty policies carry medical coverage, such coverage is conditioned on the occurrence of a covered accident. Health insurance covers the insured's medical care regardless of cause.

Although state insurance departments generally do not set firm community development requirements for insurers, insurance companies, agents, and other insurance intermediaries have long recognized the mutually advantageous benefits of community involvement. The industry press contains several examples of support for community asset building. Activities include financing nonprofits to develop residential and commercial real estate in lower-income neighborhoods, establishing a mortgage loan guarantee pool, and sponsoring local events and public education forums. The property

casualty insurance industry has formed partnerships with local community development corporations nationwide.

Despite this support, many insurance companies have been criticized for their low rates of coverage in certain lower-income and minority areas and their use of credit scores to set premiums (see Regan, 2007; Birnbaum, 2007; The Federal Trade Commission, 2007; Squires, 2006; Klein and Grace, 2001; and Wissoker, Zimmermann and Galster, 1997). In recent years, community organizations, some members of Congress, and state legislators have proposed applying the Community Reinvestment Act more broadly to cover some insurance companies and other non-depository financial firms that are becoming increasingly involved in small business lending.<sup>11</sup> Insurers have tended to resist government attempts to institute further regulatory controls.

Two states have taken steps to require insurance companies to set aside a pool of money for community investment. The Massachusetts legislature passed the first act of its kind in 1998 requiring that the insurance industry establish investment funds for community development projects throughout the state, in exchange for relief from certain state taxes.<sup>12</sup> In California, the California Organized Investment Network (COIN) was established in 1996 to provide an alternative to state legislation that would have mandated insurance company investments in low-income communities. COIN serves as a liaison between insurers and community organizations, working to identify investment opportunities with community organizations that are seeking investment capital. Also in California, Impact Community Capital is a for-profit insurance industry effort founded in 1999 to increase investments in underserved markets of the state. Impact purchases single-family and multi-family rental housing mortgages.

### III. Survey Data

Many of the same groups who are less likely to have a bank account are also less likely to have various types of insurance. Table 1 shows coverage rates for health, life and home owners insurance for various income groups. We report data from several sources since no one survey collects information on each type of insurance.<sup>13</sup> (No national survey collects information on automobile insurance.) We also report on pension plan coverage because a number of focus group participants talked about relying on their pension assets; i.e., used these resources as a type of insurance, when they faced unexpected expenses. Each of these surveys is based on a different sample of the national population and thus the underlying income distribution of the surveyed population varies somewhat across the surveys.

Across different lines of insurance, the common trend is that lower-income households are significantly less likely to have coverage than higher income households, with the exception of Private Mortgage Insurance.<sup>14</sup> In terms of health insurance, about 70 percent of those in the lowest quintile (incomes up to \$27,000) have health insurance, compared with about 90 percent of people in the top 20 percent of the income distribution – and the majority of those covered at the lowest end have government-funded coverage. Ownership of life insurance also rises with income. About 34 percent of households at the lowest end of the distribution (incomes up to \$18,000) have a member with life insurance, while 51 percent of those in the \$19,000 to \$33,000 range have life insurance. This compares to 84 percent of households with incomes in the top quintile. Of note, about 43 percent of the lowest-income households who have life insurance report having cash value policies, representing a higher proportion with cash-value policies than any other income group except that at the highest

**Table 1 – Insurance Coverage by Income Quintile**

	1 <sup>ST</sup> QUINTILE	2 <sup>ND</sup> QUINTILE	3 <sup>RD</sup> QUINTILE	4 <sup>TH</sup> QUINTILE	5 <sup>TH</sup> QUINTILE
<b>(a) Health Insurance</b>	\$16,275†	\$37,248	\$59,793	\$88,500	\$148,307
Health Insurance (%)	72.9	77.3	84.9	90.1	92.9
Private Health insurance (%)	21.2	46.6	66.7	77.2	81.6
Public Health insurance (%)	51.7	30.7	18.2	12.9	11.3
Observations	29,985	29,286	28,687	29,104	28,861

**SOURCE:** Health insurance: Census Current Population Survey, March 2007 Supplement. (Sample: Age 18 and over)

	1 <sup>ST</sup> QUINTILE	2 <sup>ND</sup> QUINTILE	3 <sup>RD</sup> QUINTILE	4 <sup>TH</sup> QUINTILE	5 <sup>TH</sup> QUINTILE
<b>(b) Life insurance</b>	\$11,000†	\$25,000	\$42,000	\$67,000	\$287,000
Life Insurance (%)*	34.4	51.4	72.1	77.9	83.9
Term insurance (%)	66.4	73.7	78.3	82.4	75.3
Cash value (%)	42.9	37.2	37.2	39.0	51.6
<b>(c) Pension coverage</b>					
Included in employer pension plan** (%)	54.3	67.9	77.2	80.8	82.0
Defined benefit plan (%)	48.8	39.9	42.2	48.6	35.6
401K or similar plan (%)	50.6	62.7	58.5	64.0	70.0
Observations	3,357	3,406	3,456	3,181	8,775

**SOURCE:** Life insurance: Survey of Consumer Finances, 2004.

	1 <sup>ST</sup> QUINTILE	2 <sup>ND</sup> QUINTILE	3 <sup>RD</sup> QUINTILE	4 <sup>TH</sup> QUINTILE	5 <sup>TH</sup> QUINTILE
<b>(d) Home owners insurance</b>	\$8,500†	\$24,000	\$41,000	\$65,500	\$116,000
Own home	44.5	55.8	68.0	82.0	91.6
Home owners insurance (%)***	84.0	91.2	94.3	96.4	97.6
Private mortgage insurance (%)***	11.7	13.8	16.8	16.8	12.6
Observations	8,625	8,624	8,745	8,511	8,616

**SOURCE:** Home owners insurance: American Housing Survey, 2005. (Sample: Heads of households)

**NOTES:** \*Someone in family has life insurance. Coverage rates for term and cash value insurance are conditioned on having life insurance.  
 \*\*Respondent or spouse. Defined benefit or defined contribution plans are conditioned on being included in the employer pension plan.  
 \*\*\*Coverage rates for home owners and PMI insurance are conditioned on owning a home.

end of the income distribution. (Some respondents have both term and cash value policies). As with other financial products, access to an employer-based retirement or pension plan differs significantly across income groups. About 54 percent of survey respondents (or their spouses) at the lowest end of the income distribution are included in employer-sponsored pension plans, as are about 68 percent of respondents/spouses in households with incomes between \$19,000 and \$33,000. Of these, roughly 40 percent are enrolled in defined benefit plans and 60 percent are in defined contribution plans. The difference in home owners' coverage is also significant between households in different income quintiles. However,

since home owners insurance is mandatory for home owners with a mortgage, the more relevant contrast is in the underlying home ownership rates. These range from 45 to 55 percent for households in the first and second quintiles, to upwards of 90 percent for those in the highest income quintile.

#### **IV. Asset Building and Insurance – A Scan of the Literature**

A handful of research, policy, and practitioner studies have begun to outline the various connections between insurance and asset development, or conversely, the relationship between the lack of insurance and the erosion of assets. The Center for Financial

Services Innovation (CFSI, 2007) has written perhaps the only previous study that focuses specifically on the topic of asset building and insurance. Reviewing the opportunities for the insurance industry to serve traditionally underserved households, CFSI describes insurance as providing: (1) asset protection, protecting the specific assets that are insured as well as providing financial stability that lessens risks to other household assets; (2) indirect asset building, such as enabling home ownership; (3) direct asset building, like savings through life insurance; and (4) the potential for asset stripping from mispriced insurance products.<sup>15</sup> CFSI also recommends a number of strategies to address these

market opportunities, including offering insurance through check cashing outlets; partnering with community organizations for education and referrals; adding insurance features to transactions such as international remittances; and cross-selling financial services at key opportunities, such as during tax preparation.

In another paper looking at the financial practices of lower-income households, Seidman et al. (2005) find a correlation between asset and insurance ownership among low- and moderate-income households. They find that savers are more likely (than people who do not report saving) to own homes and cars, as well as have more insurance coverage, especially with respect to the “optional” insurance categories of life, health, and renters insurance. In a discussion dealing with the process of asset building in general, Collins and Baker (2004) advise that the purchase of insurance should be one of the first steps in the course of accumulating and maintaining assets, along with building financial literacy skills and saving. They note that the process for asset building and preservation is often approached from the other direction, where people borrow for homes or businesses with little if any of these tools.

The basic wealth-building/wealth-preserving functions of insurance are also recognized by insurance industry associations and ratings agencies, such as the Insurance Information Institute, the Life and Health Insurance Foundation for Education, and A.M. Best, as well as by individual state insurance departments. Publications and Web sites by these entities note that the basic principle of insurance is to protect and hence to preserve assets, and that insurance can assist people more directly in building their assets. For example, “whole life” insurance policies provide a payout upon death, but also accumulate a tax-deferred cash value based on policy interest rate parameters. Policyholders may be able

to borrow against or withdraw the cash value for retirement income or to pay college tuition or mortgages.

Studies that examine the impact on assets and debt of not having adequate insurance coverage tend to focus on health coverage. For example, researchers of the American Dream Demonstration<sup>16</sup> found that people with health insurance were significantly more likely to save in their IDAs than people without insurance; and that many participants withdrew (unmatched) savings from their IDA during the course of the demonstration to pay for health emergencies as well as cover regular expenses.<sup>17</sup> Medical issues were also identified as a leading contributor to bankruptcies in studies by Himmelstein et al. (2005) and Warren et al. (2000) (although Warren et al. found that those who had insurance and those who did not were about equally distributed among those who identified a medical problem).<sup>18</sup> Using 2001 data, Himmelstein et al. (2005) also found that 15 percent of all home owners who took out a second or third mortgage cited medical expenses as a reason.

tool used by insurers to evaluate risk for both home and car ownership.<sup>19</sup> Consumers with lower credit scores often pay higher insurance premiums or may be denied coverage entirely.

A few studies also examine whether low-income and minority consumers systematically face barriers that lead to lower rates of coverage, making both insurance and asset ownership more difficult to access or more costly for them than for other groups. In the case of automobiles, Ong and Stoll (2006) find that people pay higher auto insurance premiums in poor and minority areas than elsewhere, even after accounting for individual characteristics, driving history, and coverage. Fellowes (2006) finds that families in lower-income neighborhoods pay up to thousands of dollars more than higher-income consumers every year not only for car insurance, but also for car loans, home insurance, and home loans.<sup>20</sup> Ong (2002) shows that differences in average insurance costs across neighborhoods within a metropolitan area have large and negative impacts on car ownership rates. Raphael and Rice (2002) also show that differences

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across states in average insurance costs affect car ownership rates. The evidence on home ownership pricing is more anecdotal. Numerous complaints have been filed by consumer groups across the country charging various insurance companies with restricting or denying home owners insurance coverage in predominantly minority neighborhoods (see HUD, 2006, Jones, 1997, and Galster, 2006).

A variety of sources discuss challenges from the distribution system as well. As CFSI (2007) describes it, once insurance agents have built up a "book of business" (i.e., servicing and receiving commissions from existing policies), the compensation structure creates a disincentive to pursue new opportunities, particularly from less-well-off customers. Agents have to balance the rewards of developing new customers against the time and cost it takes to pursue them. In a report of underserved communities, the California Department of Insurance (2004) notes that minority communities are not only being underserved, but minority customers are purchasing insurance that offers less coverage. A related issue involves under-representation by minority agents. A 2004 study by the Independent Insurance Agents and Brokers of America's showed that minorities, particularly African-Americans, are underrepresented among agency principals and managers.<sup>21</sup> A 2005 survey by A.M. Best found that African Americans comprise about 14 percent of the U.S. population, but less than 3 percent of licensed insurance agents. This under representation may at some level discourage potential customers in minority communities.

Despite these obstacles, several studies present evidence that lower-income and minority consumers tend to have positive views about insurance. A 2005 survey by the market research and consulting firm The Polling Company, Inc. found that the lower one's income, the higher the priority he or she assigns to life insurance. Seventy-nine percent of households earning between \$30,000 and \$50,000 per year said that life insurance is among the most important type of insurance coverage to own. In addition, 92 percent of African Americans and 82 percent of Hispanics said they believe life insurance is essential, compared with 72 percent of Whites. As reported by Stegman et al. (2006), other research has also found that African American households favor

life insurance (and real estate assets) over corporate debt and equity securities across all levels of household income and educational attainment; and Hispanic households are significantly more risk averse than non-Hispanic Whites. Focusing on auto, life, and home/renters insurance among Hispanic households in Los Angeles, the Tomas Rivera Policy Institute (2005) also found that lower-income Latino consumers tend to hold an "affirmative attitude" about insurance and the insurance industry, even though a majority of respondents did not have either life insurance or home or renters insurance, and one-quarter of Latinos did not have auto insurance. A series of focus groups sponsored by the Center for Economic Progress (Research Support Services, 2007) similarly found that focus group participants view insurance as a good investment, not a luxury, and that participants felt that no age is too young to have life insurance.

## V. Focus Group Results

To better understand people's perceptions of the relationship between insurance and asset-development, and whether offering information or access to insurance in conjunction with other asset building strategies makes sense from the perspective of a (potential) client of an asset-development organization, we held four focus groups in Chicago in August 2007 to discuss the types of financial setbacks low- and moderate-income households have confronted, the types of savings they have, how they protect their valuables, how they obtain information about insurance, and what insurance issues they would like to know more about.

The main selection criterion of all four focus groups was that households had low- or moderate incomes. The income limit reflected the eligibility threshold at many asset building programs.<sup>22</sup> The annual incomes of the participants across all groups ranged from approximately \$15,000 to \$40,000, and the modal income range was \$15,000 to

\$25,000.<sup>23</sup> (See Appendix B for charts related to participant characteristics.) For three of the four groups, an additional criterion was that a dependent child was living at home. (See Appendix A for a complete list of our screening questions.) Parents were invited to join the groups as they might have more incentive to consider insurance than people without children. The fourth focus group consisted of participants who were more than 50 years old, and the purpose was to capture the perspective of people whose longer life experiences might lead to a different set of concerns or plans with respect to insurance. Respondents who indicated on the screener that they had some type of insurance (including government health insurance) were chosen to participate.

Recruitment and facilitation for the focus groups were carried out by Research Support Services, a research firm specializing in focus group facilitation and qualitative survey methods. Thirty-five focus group attendees were asked approximately 20 questions during the two-hour sessions. (A complete list of the focus group questions appears in Appendix C.) After each focus group discussion, participants were also asked to complete a brief questionnaire regarding their educational attainment, employment, amount of savings, life insurance coverage, and previous interaction with a community-based nonprofit. (These results are summarized in Appendix B.) We organized the responses to the focus group questions into five categories presented below:

### **(1) Do people use insurance to cope with emergencies? Has insurance made a difference in the financial crises that people face?**

We asked people to talk about the kinds of financial setbacks they have faced and how they have coped with those setbacks. We wanted to obtain anecdotes from participants that would show whether or how insurance makes, or could make, a difference in terms of their financial stability and asset

preservation. Our focus group participants cited numerous and wide-ranging financial setbacks. The two most common types of financial setbacks were those that reduced one's income, such as a job loss or a reduction in work-hours; and unexpected changes to family structure (divorce, adoption, death, and births) that require households to have higher incomes.

*"When I first got those kids I worked two jobs... My savings account was for something that comes up. I had like \$18,000. But when I got those kids they had all of those hospital needs and stuff... I went through that money in less than four months."*

In addition to these issues, people mentioned health emergencies, medical expenses, and dental bills as contributing to various financial crises. A few also discussed loss or damage to physical property, such as a fire or flood and the cost of repairs. People also talked about spending beyond their means during Christmas time.

The magnitude of these setbacks ran from the hundreds of dollars to the thousands. In general, participants were only able to pay out of pocket for unexpected expenses that ran in the hundreds of dollars.

*"Once I got into the house that is what I wasn't prepared for. Because I had the expense of the child, the lights, the gas, the water bill, the phone, repairs, taxes, repairs... I'm going to keep saying repairs because that is what has gotten me in the situation that I'm in now."*

In general, participants did not rely on savings from their bank accounts to cope with their most significant financial setbacks. Most of the people we talked to had savings, but these savings were quite small (see Appendix B). About one-third of the respondents had savings of less than \$100, and a little more than one-half had total savings under \$500. Many respondents also reported living from paycheck to paycheck.

As a response to losing a job or a pay cut, participants talked about finding a new job, getting temporary work, prioritizing their bill payments, or in a few cases relying temporarily on a second earner in the household. To cover immediate expenses, people also turned to credit cards, payday lenders, pawn shops, and car title loans, although these were described as one-time experiences that people vowed not to repeat. A number of participants talked about borrowing on their home equity when they fell behind in their bill payments. They were not able to obtain unsecured bank loans. To the extent that people had cash-value insurance or annuities (or pension assets), many had borrowed against these resources to deal with their financial emergencies. They had withdrawn the money from their 401k accounts or cashed out their life insurance policies.

*"I had an annuity through the Board of Education. I put \$50 into the annuity every paycheck. It turned out it was maybe \$1,200 and the root canal was \$1,000 and so I borrowed the money."*

*"I had a 401K. At the age of 59 I was able to withdraw from it. I had like \$15,000 in there. So, when I found out at 59 I could withdraw from there I was using that to help pay my bills. Now I'm down to like about \$700."*

*"My husband was a nut about life insurance. It really helped me in later years. I was able to cash it in when I needed it."*

Everybody selected for the focus group had some type of insurance. For three of the participants (out of a total of 35), their only type of insurance was public health insurance. Among those who had other types of (private) insurance (see Appendix B), several described buying this insurance "after-the-fact"—after their homes had been broken into, after their vehicles had been stolen, or after a funeral expense had to be paid.

People also applied for government benefits like Medicaid and food stamps, mainly for their children. Older focus group participants used low-cost transportation and other services provided by city agencies. One woman relied upon a government disability insurance policy following an accident when she was living in California. No one felt they could count on unemployment insurance, and no one mentioned Social Security as a safety net. Other social insurance programs were not discussed. People also talked about using church charities for temporary financial shortfalls. A few people mentioned family as a last resort.

When asked about the amount of money people feel they need to cope with financial crises, most people gave a number that ranged from a couple of thousand dollars to tens of thousands of dollars. They thought either health emergencies or significant repairs to their homes would require at least this much.

## **(2) Why do people have (or not have) insurance? What are the ways in which participants currently protect their valuables and why?**

Focus group participants readily described the types of material assets that they would want to protect. These included their houses, cars, electronics, jewelry, family heirlooms, and artwork.

Everyone acknowledged that insurance was not a matter of choice for home and vehicle owners. When participants had to make a decision to buy insurance, many did so because they had a sense of the imminent risk to themselves and their children of not having insurance, based on recent adverse events experienced either by themselves or by someone close to them. This sentiment affected purchases of property/casualty insurance, health insurance, and life insurance.

*"I paid for full-coverage on the car which I probably wouldn't have done...if the van had not been stolen. It wouldn't have been one of the priorities."*

*"I buried my parents who didn't have life insurance, and the cost of burial... you are talking \$10,000 just to bury somebody now."*

*"If you got sick and you had to pay the costs out-of-pocket you'd be bankrupt overnight. It's ridiculous the cost of medical care, hospital costs."*

*"In the transition of moving almost all of my stuff was gone. ... Then I moved into the neighborhood that I live in now... I got robbed in the parking lot before. So, it was like okay, I need renters insurance."*

In addition to insurance, participants said they protected their valuables with safety deposit boxes, alarm systems, storage in someone else's insured home, an unactivated credit card, and even a gun.

Overall, participants had positive views about insurance and understood its purpose.

Most reported being able to purchase insurance when they wanted it, with the exception of health insurance in the case of a pre-existing condition or the lack of a Social Security number. People also understood that insurance companies consider one's credit score when setting (or re-setting) prices, and "higher end" companies may deny someone based on their credit score. Perhaps the greatest dissatisfaction mentioned involved health insurance, where people were not sure about what expenses were covered in their policies. Some were also skeptical about whether their creditors would be first to receive a life insurance payout rather than their beneficiaries. One respondent felt policyholders were owed a rebate when no claim is filed.

The two main answers as to why people did not have various types of insurance were money and information. Many of the people without (optional) insurance cited the cost as a deterrent. Participants listed the various demands on their money that come before paying an insurance bill, including credit card

debt, laundry, gasoline, child care, tuition, and cell phones. Some of those without health coverage said they have not needed health insurance because their families were healthy, and some count on free medical treatment at public hospitals. Some said they just cross their fingers. With the exception of life insurance – some of the older adults contended that life insurance is not necessary for people without children or grandchildren – no one said insurance was unimportant. Those without optional insurance said they did not have the money to pay for insurance. This applied to the purchase of insurance in general, as well as to situations where insurance policies lapsed due to respondents' inability to sustain periodic payments during fluctuations in household income or expenses.

*"I think we are forced to be at risk, some of us. I can't afford to pay renters insurance or pay all of those extra things. So, I live at risk."*

*"I think that most people would have coverage if cost wasn't an issue. I know somebody who went to the dentist and he told them if you'd been taking care of their teeth you won't have this problem. They didn't have money for dental work. To me the dentist was wrong to say that."*

### **(3) Do people see a tradeoff between buying insurance and saving for precautionary purposes?**

This question was included to get at whether savings and purchasing insurance "compete" for the marginal dollar among focus group participants. We wanted to understand whether people see savings and insurance as complements, substitutes, or not related. We also wanted to understand whether participants' priorities about savings and insurance shift given the presence of one or the other.

Overall, respondents indicated that they do not make decisions about insurance based on savings, nor about savings based on insurance. People described the fundamental difference between the two in various ways. They said that "one is short-term and one is long term;" that "savings is having a pot of money on hand, whereas term insurance is building a pot of money;" and "savings are more flexible in the sense they help in case of any emergency, while insurance protects the material wealth that one already has."

*"If something happens, the insurance is going to pay that amount right away, [whereas] me taking a long time to save it, I may not have saved up to that."*

To the extent that participants saw a relationship between the two, they tended to agree that insurance would be even more important if one had savings. Insurance was described as a way to protect the money that one has.

While participants did not see savings and insurance as substitutes, some have used their insurance (or annuities and pensions) for emergencies in ways that resemble short-term savings. In addition, participants talked about purchasing life insurance as an alternative to long-term saving, for people who do not expect to be able to save large amounts of money.

*"The \$112 a month I pay on life insurance is on a \$200,000 policy. Me saving a \$100 a month in the bank is not going to leave that kind of money if I die."*

*"We have a lot of life insurance to leave [our daughter] to basically give her wealth. When people get life insurance in lump sums you know six figures or whatever it can change your lifestyle. If you have good life insurance when you do go, the kids can be set."*

#### (4) How do people get information about insurance?

The purpose of questions related to distribution was to investigate the channels that participants currently go through to access insurance, and to gauge respondents' willingness to obtain insurance (or related information) through a community organization, such as those involved in asset building, or through a financial institution.

In general, most participants said they looked for information about insurance over the Internet. People said they also received information from employee unions or from friends and relatives who already had bought a particular type of insurance. Older respondents also referred to advertisements, direct mail, and *Consumer Reports* magazine.

While many said they used the Internet to get information, many preferred to purchase insurance face-to-face. The source that participants said they were most likely to go to was insurance agents. Many had long histories with their agents, although many also believed that an insurance agent could "stick you with anything" just to earn a commission. A few people said they buy insurance over the phone, but some people expressed suspicion about the credibility of telemarketers.

On the other hand, respondents did not think immediately of community organizations as trustworthy sources of information about insurance, with perhaps the exception of churches. Participants had the impression that the community organizations they knew would not have the answers to their insurance questions, mainly because staff from these organizations had been unable to answer other inquiries in the past. Yet some participants also believed that advice from an impartial, nonprofit organization that was not trying to sell a particular product would theoretically make a good source to answer people's questions about insurance.

"It would be really nice to be able to call somebody on the phone and not have them be trying to sell me something. It could even be a non profit or somebody that didn't have a vested interest in it that I could talk to."

In addition, a handful of participants indicated (on the end-of-session questionnaire) that they had been in contact at some point with a community organization regarding medical insurance, home repairs, or home purchase information.

Participants also gave mixed answers about whether they would use a bank either to get information about or purchase insurance. Some said they did not know that banks offer these products, while others said they had found out by visiting a bank branch or receiving information in the mail.

*"They walk around advertising insurance [because] they are trying to sell you this product. They've got mortgage, life insurance, and car [insurance]. They actually take time to break it down. I just didn't have the time."*

The reasons given for not wanting to receive insurance advice from bankers ranged from not trusting banks to thinking that banks were not the right place to get information about insurance.

*"Why would I go for car insurance to my bank? No. I would go to where it belongs...I would go to the agencies."*

*"There are a lot of people in the community that don't trust [banks]. ...That is why we have so many currency exchanges. People pay those high rates rather than get a bank account, because that is what they know. That is what they trust."*

On the other hand, respondents did note that they would be open to working with a bank if they trusted the institution.

*"[If] we know this bank is here to serve the community and they are talking about*

*insurance for the area, then yeah I would probably go to that because I want to know what is going on to keep up with what is going on in my neighborhood."*

The other condition that participants thought might change their view of banks was if banks acted more like brokers for various insurance companies rather than offering the products of a single company.

*"If there were many different providers or programs or whatever that the bank was going to give me, that would make me feel like that was mutually a service to me and a service to the bank."*

#### (5) What additional information would participants like to know about insurance?

One of the basic goals of the focus groups was to get an understanding of the type of information that people feel they need to know about insurance. The discussion revealed that at least a few participants had a fair amount of knowledge about the topic. They could talk about the tradeoffs between required liability-only and full auto coverage policies that insure one's vehicle. They understood the role of credit scores in the sale of insurance. And many could explain or talk about their personal experiences with term versus whole-life policies.

A number of people had less experience with insurance and were eager to have their questions answered. For those who expressed confusion, their questions related to insurance vocabulary, the exclusions to their policies that appeared "in the fine print," and other conditions that hinder their making comparisons between different companies' policies.

*"I remember like when I was calling [my insurance company] and they were asking me all of these questions: How much do you want for your deductible? And I was like my what? I don't know ... just give me a quote. I'm just guessing."*

*"You'll call up a place and you say I'd like to have some insurance. They say well what kind? Well, I really don't know, what kind do I need? I don't know what kind I need. It would be nice to know what kind you need."*

Participants also expressed confusion about the different types of insurance available and their costs. While some people swore by renters insurance, others said they had never heard of it. Others thought of it as "a little luxury" that was "unaffordable." Participants also appreciated the complexity of life insurance and often felt self-conscious about asking someone to take the time to "break it down" for them. Many agreed that they could use help figuring out what policy to get, how much coverage they needed, and what would be a "good or bad deal." Participants had very different perspectives about the comparative advantages of term, whole life, and burial (small face amount life) insurance. Participants wanted to know about choosing term or whole-life policies, they wanted to understand the value of life insurance as a savings instrument compared to other vehicles, they wanted to know whether life insurance should be bought to leave children an inheritance, and if they would be wasting money by paying for (or signing up for) a certain type of policy.

Participants also felt uninformed about the supply of quality information that may already be available to consumers with similar incomes as theirs. Their sense was that information and guidance about lowering premiums or purchasing lower-cost insurance may be available from city government or other sources, but they did not know about it.

*"There are so many different types of programs out there that could help you and you don't know about it. ..."*

*"They should have public service announcements on anyway that you can plan out your life. They should have them on the bus."*

By the same token, the message came through that participants would be more likely to take advantage of information and other assistance at exactly the times they needed the information most.

*"I would only want the information when I needed it, basically. Like the week that I was making that decision."*

*"If there were workshops at your bank or your community center that there was a person that you could go to on an as-needed basis just to ask questions."*

Finally, participants thought it would be helpful to receive information about insurance as part of a conversation about financial planning more generally. Some thought the information could be integrated with teaching about money management and budgeting. This was in keeping with the point that participants could use customized, timely information.

*"...A lot of people don't have information [because they don't have] access to the research to go from one policy to another in a short period of time. I think that what is lacking in the industry is the personalization of different types—car insurance, renters insurance—so you kind of know which direction to go."*

*"There are so many different ways of saving that we don't know about that might be easier for some people... Not just take their money, but give them more knowledge on how to handle it."*

## **VI. Review of Hypotheses**

The findings from the literature scan and focus group discussions offer substantial support to three of the four hypotheses stated at the outset of this paper. First, information or more direct access to insurance would seem to complement the strategies and goals of asset-development/preservation programs. Insurance has helped some participants cope with some of the financial setbacks they have faced. In addition, focus group participants did

not view buying insurance as a substitute for savings goals, and participants made a distinction between the purpose of insurance and that of precautionary savings. This suggests that asset building/preservation programs would not upset their existing goals by encouraging people to set aside money to buy insurance. Many asset-development/preservation organizations may also be in a good position to address many of the basic questions about insurance that participants raised. Although participants did not think of community-based organizations as places to obtain insurance information (keeping in mind focus groups participants were not already enrolled in asset-development programs), they did think an "impartial source" that could take the time to answer their questions could be a valuable resource. Many asset-development organizations already help clients sort through their basic expenses. Many already help job seekers compare the benefits offered by different employers as well. There is also a precedent for asset building organizations to provide comprehensive financial planning, including information about insurance.<sup>24</sup> For example, the San Francisco-based EARN has begun a pilot program to match graduates of its IDA program with financial advisors to help them evaluate their property/casualty and life insurance options and other investments.

In terms of the second hypothesis, both the literature and focus group discussions give support to the idea that low- and moderate-income households have reason to need insurance and want to know more about insurance. Participants clearly saw insurance as a relevant topic. They had assets that they wanted to protect. They thought about their children's futures and their own futures. While participants did not rely on insurance as the only solution, or even the most often-used solution to their financial difficulties, the magnitude

of their financial setbacks tended to call for responses in excess of the few hundred dollars they held in a bank account. The “emergency funds” needed were more consistent with insurance payouts than with balances from saving. Even respondents who did not have insurance thought insurance was a good idea. Many participants also had a range of questions about insurance. In addition to those identified by participants themselves, participants seemed to need more information about the pros and cons of using long-term insurance and retirement vehicles for short-term emergencies; they needed to know about less well-known insurance products like long-term care and renters insurance; and they expressed an interest in learning how to compare insurance products based on price and coverage. To be sure, these results were related to the design of the focus groups. Most participants were parents, and they indicated on the screening instrument that they had at least some type of insurance coverage. People also came with a mindset to learn, and the more insurance was discussed, the more people were persuaded of its importance. Even so, the results suggest that talking about insurance in the context of asset ownership is a sensible discussion for people whose incomes are low, including the population that qualifies for asset-development and asset-protection programs.

These results relate to our third hypothesis as well, that households who qualify for asset building services represent a potential market for insurance companies. Participants were not only open to receiving information about insurance from representatives of the insurance sector, but they anticipated using an insurance agent to purchase insurance. Even those who were not already buying insurance saw themselves as part of the potential insurance customer base. With few respondents suggesting otherwise, participants who wanted insurance were generally able to find a property/

casualty or life insurance policy (although participants did not necessarily know if the policy was offered through the preferred, standard or sub standard markets, or even if they received a FAIR plan or forced-place policy).<sup>25</sup> The significantly lower rates of coverage among lower-income households and their positive views about insurance also suggest that there may be an unmet demand for insurance among this population.

The hypothesis for which we did not find as much direct support has to do with using the banking system as a way to obtain information or purchase insurance. Many respondents indicated they would not readily use a bank to buy insurance. While this response downplays the potential synergies between purchasing insurance and using the mainstream financial system, participants did give some feedback to suggest that asset building organizations should not dismiss the banking system as a source to provide information and access to insurance for their clients. First, borrowing, even more than insurance, was the main method for dealing with emergencies. Borrowing on one's home, annuities or other investment assets was only possible for those who had access to either the credit system or investment vehicles. In addition, some participants agreed at the end of the discussions that they would want more information about the insurance services that banks offer. And banks may already be addressing some of the concerns that participants expressed about obtaining insurance through a bank. For example, participants did not like the idea of a bank offering the products of one particular carrier, when in fact banks often own independent insurance brokerages, offering customers the chance (in theory) to compare policies and choose from a variety of companies. Participants also expressed concerns about the credibility of some insurance agents, while purchasing insurance through a bank has the advantage of

dealing with a “vetted” insurer. Finally, participants expressed an interest in financial planning as part of the overall purchase of life insurance. Another advantage of working with banks is their ability to provide more comprehensive financial advice. As CFSI (2007) notes, insurance transactions typically involve much more advice than individuals who do not otherwise avail of mainstream financial services generally have access to. Since the passage of the Gramm–Leach–Bliley Financial Modernization Act of 1999, insurance companies, banks, mortgage companies, and securities firms have been allowed to merge with and acquire one another for the first time since the Great Depression. Somewhere between 2,000 and 3,000 U.S. banks now offer insurance products, including virtually all of the largest institutions.

## VII. Conclusion

While a number of studies have examined the topic of savings and asset ownership among low- and moderate-income individuals, few have looked at the role of insurance in the acquisition or protection of assets among this population. The findings of this study give support to the idea that information about or additional access to insurance complements the strategies and goals of asset-development and asset-preservation organizations. Many low- and moderate-income households have reason to need insurance and want to know more about it. Focus groups revealed that people often used savings as insurance vehicles, and cashed-in life insurance policies or spent down their long-term financial assets when faced with unexpected expenses. They also revealed that households who qualify for asset building services see themselves as part of the market of insurance companies, and people are interested in products or services that help integrate the purchase of insurance with other financial decisions. The findings of this study build a case for asset-development

organizations to consider the benefits and challenges of incorporating more information and access to insurance into their programs. This study also creates a framework for a collaborative discussion between asset development organizations and insurance professionals, with the potential to draw a greater number of financial companies into the conversation about financial access and inclusion.

## NOTES

- 1 Formerly known as the Corporation for Enterprise Development.
- 2 Merced and Colon, 2006.
- 3 IDAs are matched savings accounts held by mainstream depositories that are set up to receive publicly or privately funded matching grants for accountholders who regularly deposit money into these accounts.
- 4 Venner, 2006.
- 5 Woodstock Institute and National Community Reinvestment Coalition, 2006.
- 6 An example of a financial literacy curriculum that teaches about insurance is the "Your Money and Your Life" curriculum from Illinois Extension. This curriculum devotes a chapter to insurance, including health insurance, disability insurance, auto insurance, home/renters insurance, and life insurance.
- 7 Collins and Baker, 2007.
- 8 McCarthy and Quercia, 2000.
- 9 Ibid.
- 10 For examples, see LISC and the Insurance Information Institute.
- 11 Yago, Zeidman, and Abuyuan, 2007.
- 12 Hettinger, 2002.
- 13 Little information is available from the insurance industry or (state)

departments of insurance regarding insurance usage by income or race, because these criteria are expressly excluded from the determination of premiums.

- 14 Coverage rates do not control for employment or demographic factors.
- 15 Schneider and Gartner, 2007.
- 16 The American Dream Demonstration was the first systematic study of Individual Development Account programs.
- 17 See Schreiner and Sherraden M., 2002.
- 18 Warren, Sullivan,-- and Jacoby, 2000.
- 19 Information Policy Institute, 2005.
- 20 A sample of auto insurance quotes in Chicago found drivers in lower-income neighborhoods in the metropolitan area paid an average annual premium of \$628, while drivers in the highest-income neighborhoods paid an average of \$500.
- 21 Kertesa, 2006.
- 22 Most IDA programs stipulate that clients cannot earn more than twice the federal poverty level (about \$21,000 for a family of four), since the main sources of funding are the Assets for Independence Act and Temporary Assistance for Needy Families. Asset programs funded with money from the Department of Housing and Urban Development (HUD) may serve people at 80 percent of median income (in Chicago, incomes up to \$60,000). The maximum income to qualify for the Earned Income Tax Credit was about \$38,000 in 2007.
- 23 Low-income households are defined as those at 80 percent of median or below; moderate-income households are those between 81 percent and 95 percent of median income.

24 See Collins et al., 2007.

25 Fair Access to Insurance Requirements (FAIR) plans are insurance pools that sell property insurance to people who cannot obtain coverage in the voluntary market. FAIR plan policies may cost more than private insurance and may offer less coverage. Forced place insurance is home owners insurance assigned by mortgage servicers to borrowers whom they believe do not otherwise have insurance.

Appendices available at [www.chicagofed.org/community\\_development/files/pnv\\_may08\\_spd\\_appendix.pdf](http://www.chicagofed.org/community_development/files/pnv_may08_spd_appendix.pdf)

## BIOGRAPHIES

### Robin Newberger

Robin Newberger is a business economist in the Consumer Issues Research unit of the Federal Reserve Bank of Chicago. In her role, she has researched, written, and published numerous articles on topics including immigrant financial market participation, Islamic finance, and individual development accounts. Ms. Newberger holds a Bachelor of Arts from Columbia University, and a master's degree in public policy from the John F. Kennedy School of Government at Harvard University. Ms. Newberger holds a Chartered Financial Analyst Designation.

### Michelle Coussens

Michelle Coussens, A.R.M, C.P.C.U, R.P.L.U., is a senior budget, planning, and controls administrator working in the Research Department of the Federal Reserve Bank of Chicago. In addition, she conducts applied research in the area of financial literacy and also retains an interest in insurance topics. She previously worked in the insurance industry for over 15 years.