

# Observer

## Study Cites Gap in Mortality Protection



A recent Swiss Re study says many American households lack adequate financial protection in the event the family breadwinner dies. In an article published by *Life & Health Advisor*, Neil Sprackling, president of Swiss Re's Life & Health U.S. Business, said the growing protection gap is a worrisome trend. The article said life insurance ownership is now at a 50-year low, citing LIMRA statistics that indicate three out of every 10 households have no life insurance at all.

The mortality protection gap is the difference between the resources surviving dependents need for income replacement, debt repayments, and other major expenses, compared to the resources actually available to

those surviving dependents from financial assets, Social Security, and life insurance coverage. The aggregate protection gap is the overall gap for all households whose primary breadwinners are under age 55. In 2010, that aggregate gap was estimated at \$20 trillion. The estimated gap for the average family with an under-55 breadwinner was \$378,000.

Based on LIMRA data, in 2004 nearly 80 percent of U.S. households headed by a breadwinner under age 55 were covered by individual or group life insurance policies. By 2010, that number had shrunk to approximately 70 percent. The article said the economic environment, including two recessions in the last 10 years, contributed to the widening protection gap. Besides leaner family budgets, other factors included cutbacks in employer-provided benefit packages and the fact that consumers seem to be placing a lesser priority on life insurance compared to their other financial needs.

## Investment Advice Leads Services to Millionaires

A recent Spectrem Group study concluded that millionaires are more likely to receive investment advice from their primary advisers than any other type of financial service. More than half of the millionaire investors studied claimed to have worked with an adviser to create an investment plan. An equal number (56 percent) said they've relied on their advisers to provide advice on stock and bond selections, and portfolio diversification.

According to the study, which examined relationships between affluent investors and financial professionals,

millionaires are not as inclined to work with their advisers regarding retirement advice. Slightly less than half of the affluent individuals studied said they have obtained advice on creating a retirement plan or managing investments to create a cash flow. Approximately the same number of millionaires have worked with their advisers to create a written financial plan or develop tax strategies.

The millionaire investors listed risk, diversification, and tax consequences as their top-ranking investment criteria, the study reported.

“My fellow Americans, we are made for this moment, and we will seize it—so long as we seize it together. For we, the people, understand that our country cannot succeed when a shrinking few do very well and a growing many barely make it.”

—President Obama in his inaugural address, January 21 (*New York Times*)

# STAT BANK



**13...**Percentage points gained by the S&P 500 in 2012 (not including dividends), adding almost \$1.9 trillion to the value of stocks in the largest increase since 2009. Total annual returns for the S&P 500 were up 16 percent. (Bloomberg)

**16.35...**Percentage points gained by the Russell 2000 Index in 2012, after posting a 4.18 percent loss in 2011 (including price changes and dividends). A seemingly nice recovery; however, not as impressive as the 26.85 percent gain recorded for 2010. (Bloomberg)

**4.21...**Percentage points gained by the Barclays U.S. Aggregate Bond Index in 2012, compared to the 7.84 percent gain realized in 2011. (Morningstar)

**6...**Percentage increase of the Dow Jones Industrial Average from December 31, 2011, to January 25, 2012—the best start to a near year since 1987. (Wall Street Journal)

**9.2...**Percentage increase of total annual existing-home sales in 2012 (4.65 million), compared to 4.26 million in 2011. This is the highest volume since 2007, when

existing-home sales reached 5.03 million, and it is the strongest increase since 2004. (National Association of Realtors)

**72...**Percentage of Americans who say that reducing the budget deficit should be a top priority, up 19 points from four years ago. (Pew Research Center)

**70...**Percentage of retirement plan participants who say they would be more likely to read and to save (73 percent) retirement plan documents if they were delivered on paper versus online. (AARP)

**\$943...**Median usual weekly earnings of union member full-time wage and salary workers in 2012, compared to median weekly earnings of \$742 for non-union members.

(U.S. Bureau of Labor Statistics)

**4.6...**Percentage increase of orders for durable goods in December 2012, while a gauge of future business spending also rose, a sign that corporate worries over tighter fiscal policy at the end of 2012 may not have held back investment plans as much as feared.

(Reuters/New York Times)

## Ford Edges Competition as Cheapest Car to Insure

Insure.com has released its annual ranking of the most and least expensive vehicles to insure. The least expensive 2013 vehicle to insure is the 4-cylinder Ford Edge SE, with an average annual premium of \$1,128. Next best are the 6-cylinder Jeep Grand Cherokee Laredo (\$1,148 per year) and the 4-cylinder Subaru Outback 2.5i Premium (\$1,150 per year).

Mercedes-Benz makes 11 of the 20 most costly 2013 vehicles to insure, topping other luxury car manufacturers such as Porsche, Jaguar, and BMW. The three most expensive 2013 vehicles to insure are the 12-cylinder Mercedes-Benz CL600 (average annual premium of \$3,357), the 12-cylinder Mercedes-Benz CL65 AMG (\$3,330), and the 8-cylinder Mercedes-Benz S65 AMG (\$3,221).

In past years, minivans dominated the list of least expensive vehicles to insure. This year's report indicated that SUVs and crossovers are now among the most affordable vehicles to insure.

Annual rates were based on insurance for a single, 40-year-old male with a daily commute of 12 miles to work, and policy limits of \$100,000 for injury liability for one person, \$300,000 for all injuries, and \$50,000 for property damage in an accident, as well as a \$500 deductible on collision and comprehensive coverage. Motorists were assumed to have clean driving records and good credit.

Insure.com provides an online tool to help consumers find the average rate (national or state) for more than 750 models.

“Take what yield the market is offering you. The minute you try to manufacture more yield than the market is giving you, you are probably taking too much risk.”

—Francis Kinniry, CFA, a principal at Vanguard Investment Strategy Group (Wall Street Journal)



## Median Job Tenure in U.S. Is 5.4 Years

Americans who have jobs are staying in them longer as overall job tenure in the United States ticked up in 2012, but U.S. job tenure is still shorter than many assume. The median length of time on the job for American workers in 2012 was just 5.4 years, according to new research from the nonpartisan Employee Benefit Research Institute (EBRI).

“Career-long jobs never existed for most workers,” said Craig Copeland, EBRI senior research associate and the research report’s author. “Historically, most workers have repeatedly changed jobs during their working careers, and all evidence suggests that

they will continue to do so in the future.”

Among the EBRI report’s findings:

- The overall median tenure of wage and salary workers’ length of employment in their current jobs was slightly higher in 2012, at 5.4 years, compared with 5.2 years in 2010.
- The median tenure for male wage and salary workers was lower in 2012 at 5.5 years, compared with 5.9 years in 1983.
- In contrast, the median tenure for female wage and salary workers increased from 4.2 years in 1983 to 5.4 years in 2012.

## Older Americans Relying More on Work Income

After analyzing the sources of income for the nation’s 65-and-older population, researchers at the Brookings Institution discovered that while some things stay the same, others change.

Although the percentage of mature Americans’ income from Social Security, employer pensions, and government aid (such as welfare) has not noticeably changed from 1990 to 2010, other areas have. For example, in 1990, 24.5 percent of income for those 65 and older was generated by income from investments. In 2010, that figure dropped to 11.3 percent. Meanwhile, income generated from employment increased

from 18.4 percent in 1990 to 31.2 percent in 2010.

This research was the subject of a January 24 post on the Financial Security Project’s Squared Away Blog ([fsp.bc.edu/squared-away-blog](http://fsp.bc.edu/squared-away-blog)), which partially credited the steep decline in reliance on investment income to the simple fact that in the early 1990s, interest on bank CDs was in the teens, compared to around 1 percent today.

Although those 65 and older may be financially obligated to work longer, many older Americans may also choose to continue working because they like their jobs and the social and intellectual outlets that remaining in the workforce can provide.

“Republicans will have to concede that while it is arithmetically possible to do the entire job on the spending side, it is politically impossible. Democrats will have to concede that the majority of deficit reduction must come on the spending side, including entitlements like Medicare.”

—Alan Blinder, former Fed vice chairman, professor of economics at Princeton University, and author of *After the Music Stopped: The Financial Crisis, the Response, and the Work Ahead* (Yahoo! Finance)