New study finds credit life insurance affordable, provides strong return to consumer

For Immediate Release

ATLANTA, June 16, 2016 – A newly-released study by a noted national actuarial firm demonstrates both the cost effectiveness and superior policyholder return of credit life insurance compared to individual term life insurance.

Credit life insurance is a life insurance policy that allows a borrower to insure repayment of a debt if he or she dies. It is highly accessible and scalable, allowing consumers to buy only the coverage they need for the debt they are incurring. For example, the face amount—the sum for which a credit life insurance policy is purchased—is significantly smaller than that of term life insurance policies, averaging less than $6,000 per policy. The average face amount of level term life insurance policies purchased during 2014, the last year for which statistics are available, is more than $300,000.

Term life insurance was used for comparison in the study because it is the most widely used life insurance product in the United States, accounting for nearly 66 percent of all U.S. individual life insurance purchases in 2014, according to the American Council of Life Insurers.

The comparison showed that the average cost of credit life insurance is approximately 14 percent lower per $100 of coverage than the average cost of term life insurance. The actuaries who performed the study arrived at the finding by comparing the cost per $100 of coverage per year of each using the average rate for a credit life insurance policy and the published premiums for 15 providers of $10,000 10-year, level term life insurance policies.

“This new study shows that credit life is less expensive than term life when the risk classes of credit life and term life, and coverage amounts are equalized to provide a fair comparison,” said Christopher H. Hause, president of Hause Actuarial Solutions Inc. and the study’s author. Mr. Hause is a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries and a Chartered Life Underwriter. “The study also demonstrates that credit life rates compare more favorably to term life rates as the age of the insured increases because rates for term life typically increase as those seeking coverage get older. Overall, credit life is an efficient way of providing small face amount coverage at a low cost to the consumer.”

The study also demonstrated that credit life insurance policyholders earn a higher return or receive better value on their premiums than term life insurance policyholders. This return is measured by the loss ratio, which is the total losses or claims paid to policyholders divided by the total premiums paid by policyholders. The average loss ratio for credit life is 47.5 percent compared to an estimated average term life loss ratio for a $50,000 policy of 19.8 percent, a difference of more than 25 percentage points. Credit life loss data from the years 2013-14 was used to make the loss ratio comparison.

“The return to a consumer on a credit life insurance policy is significantly higher than that for level term life insurance,” said Tom Keepers, executive director & executive vice president of the Consumer Credit Industry Association, the national trade association that commissioned the study. “This higher return can be seen across all ages, genders and underwriting classes, confirming that credit life is a better consumer value than term life. Arguments that term life provide superior policyholder value based upon loss ratio are not supported by the facts.”

Hause Actuarial Solutions Inc., Overland Park, Kansas, is a nationally-recognized firm specializing in credit and life insurance actuarial consulting and other services. The full study report is available at the company’s website, www.hauseactuarial.com.