Public Abstract

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This thesis aims to examine both the type and amount of life insurance purchased by households. To this end, comprehensive models of householdsÃ¢â‚¬â„¢ demand for life insurance were developed, which included demographic variables, economic and assets variables, and psychographic variables. The effects of these factors on either term or cash value life insurance purchased by households were examined separately. The data was obtained from the 2004 Survey of Consumer Finances. A heckman two-step selection model was used for the data analysis in order to investigate two different household life insurance purchasing behaviors: the type of life insurance purchased and the amount of life insurance purchased. The descriptive statistics indicated that, in 2004, 40% of households owned term life insurance, 14% held cash value life insurance, and 35% of households did not have any life insurance. Compared to term life insurance holders, cash value life insurance holders were older, more educated, less risk-taking, more likely to own a home, expected to live longer, and having more positive attitude towards leaving bequest. Households who held term life insurance reported better health and were more likely to be employed than those holding cash value life insurance. Households without any life insurance, however, were relatively young, less educated, unemployed, not married, renters, expecting to die in their 70s, with low income, were not concerned on leaving bequest, and preferred not to take risks. The results of the two-stage model showed that some variables in the likelihood of purchasing life insurance model and the amount of life insurance model differed in their significances. In addition to race, life expectancy, CDs, and annuities, all other hypothesized factors had significantly positive or negative impacts on term life insurance demand of households. Employment of head, race, and life expectancy did not significantly affect cash value life insurance demand of households, while other factors were shown to be significant contributors. This study provides three contributions. First, the results proved that most of assets categories associate with the purchase of life insurance by households. Second, using Heckman two-stage selection model is supported in this study because factors influenced the probability of owning life insurance and the amount life insurance held were different. Finally, the fact that variables associated with the demand for term life insurance and the demand for cash value life insurance were different support the view that term life and cash value life insurance should be examined separately.