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Resolute Connections

In this month's newsletter, *Growth Here, Not There* contrasts the stark economic differences between the U.S. and Europe as we come out of the pandemic, and might provide some lessons for any future crisis. C*ensus Winners and Losers* reviews the demographic changes the country is undergoing and the potential impact on the composition of the U.S. Congress.

Life Insurance in the Age of COVID concerns one aspect of the current pandemic that nobody seems to be talking about - the impact of those hundreds of thousands of COVID deaths on the life insurance industry, and on policyholders. And *Dogs and Insurance* brings up a topic that we encounter periodically - homeowners insurance companies' refusal to insure certain dog breeds – and is worthy of consideration if you are in the market for a COVID puppy.

Please be safe and we wish you continued health. If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

Growth Here, Not There

You aren't likely to find a bigger contrast in economic fortunes than the one between the U.S. and Europe as we finally come out of the pandemic crisis. In the U.S., the real gross domestic product—the sum of all goods and services produced in America—grew by an annualized rate of 6.4% in the first quarter of the year, and that's on top of a 4.3% growth rate in the fourth quarter of 2020. The first quarter statistic represents the second-fastest pace of growth since the second quarter of 2003.

The U.S. government's Bureau of Economic Analysis noted that personal consumption expenditures, business investment and federal, state and local government spending were all contributors to the growth. The most eye-popping number: disposable personal income increased 67% in the first quarter, compared with a decrease of 6.9% in the fourth quarter of last year. The stimulus checks apparently had their intended effect.

Meanwhile, the European zone economy saw its gross domestic product decline by 0.6% in the first quarter, and in sharp contrast to the U.S., this was the second consecutive quarter of contractions. Germany's economy fell by 1.7% in the first three months of the year, Italy showed a contraction of 0.4%, and Spain and Portugal saw their economic activity shrink by 0.5% and 3.3%, respectively.

Although it is leading the world back to recovery, the U.S. economy has not totally returned to pre-COVID levels yet. The Federal Reserve estimates that some 8.4 million fewer Americans hold jobs now than prior to the pandemic; the unemployment rate stands currently at 6.0, above the 3.5% low in February of 2020.

Census Winners and Losers

The U.S. Census Bureau has released its official 2020 state population counts, a labor-intensive exercise it undergoes every 10 years. This data will be used in Congressional redistricting efforts this fall, but for now we can see which states are net gainers of seats in the U.S. House of Representatives, and which states have lost seats.

The biggest gain was in Texas, which will receive two extra seats, giving it 38 in total for the next election. Colorado (now 8), Florida (28), Montana (2), North Carolina (14) and Oregon (6) each gained a seat. Losing seats are California (52), Illinois (17), Michigan (13), Ohio (15), West Virginia (2), Pennsylvania (17) and New York (26). In some cases, there is a trend; after the 2000 census, New York and Pennsylvania each lost two seats, and each lost another one after the 2010 population tally. Over the last 20 years, so-called "frost belt" states including Michigan, Illinois, and Ohio have lost seats, while Florida and Texas have seen the biggest gains.

In the latest census, Alabama, Rhode Island and Minnesota very narrowly averted a loss, while New York lost its seat by a total of 89 census forms not filled out.

Based on these changes, one might assume that there is an exodus from the states losing Congressional seats. In fact, New York and California increased their resident populations by 6.1% and 4.2% respectively. But Texas and Florida grew more rapidly, by 16% and 14.6% since the 2010 census count. If you're curious which states are gaining and losing population, you can go here: https://esrimedia.maps.arcgis.com/apps/instant/minimalist/index.html?appid=f2b8822244dc42b78b8245938340850e , and see different colored dots on each state on the map. The size of the dot indicates the total size of the state's population, and the color shows whether it is growing or shrinking: green (Texas, Florida, Colorado, Utah, North Dakota, Georgia and South Carolina) indicates rapid growth, pale orange indicates slower growth, and purple (Mississippi, Kansas, Illinois, West Virginia and Michigan) shows which states are losing population.

Life Insurance in the Age of COVID

One aspect of the current pandemic that nobody seems to be talking (or writing) about is the impact of those hundreds of thousands of COVID deaths on the life insurance industry—and on policyholders. A recent panel discussion using actuarial data estimated that if the current pandemic were to reach death rates equal to 1918, clearly a worst-case scenario now that vaccines are widely available, the increased insurance payouts would total $117 billion. A lower estimate, which is more in line with the existing coronavirus morbidity, would put that figure at $20 billion. In either case, the government-mandated reserves (money basically held in escrow to pay out to policyholders) of 70% of the total death benefit face amounts is more than sufficient to cover even the higher of these additional costs.

Another impact, which can be overlooked in this equation, is that life insurance sales have declined during the pandemic year, in part due to the slowdown throughout the economy, and partly due to the fact that life agents were forced to sell remotely rather than face-to-face. But, at the same time, fewer people with existing life insurance are cancelling their contracts or declining to pay premiums, almost certainly because the risk of dying has increased.

The full impact on the life insurance industry won't be known for another few months, but you can get a sense of it by looking at the decline in stock prices of the major life insurance companies (see chart). The blue line at the top is the S&P 500 index, which took a big hit in March of 2020 and has largely recovered since. The insurance companies, which were expected to be among the biggest losers as people realized the scope and severity of the pandemic, saw their stock values decline even more, but have since recovered, albeit to a lower level.

The first thing that people who currently have a life policy should know is that their policies will cover them if they pass away due to COVID-19. Life insurance companies are not allowed to change the terms of coverage for active policies. A more interesting question is whether rates will become more expensive in the future. It is probable that people who have survived a coronavirus infection will have to disclose this on their policy application, and will have to pay higher rates, due to the possibility of prolonged negative health effects.

A number of insurance companies are following the lead of other industries and offering grace periods on premiums for people who have suffered economic hardship as a result of the pandemic. People who have group coverage through their employer with MetLife, for example, can continue to receive coverage for 12 months after they are furloughed or laid off, provided they keep paying the premiums. Northwestern Mutual allows customers to suspend their premium payments for 90 days due to economic hardship and still remain covered, while MassMutual has gone so far as to offer free three-year term policies to people in some of the riskiest corners of the economy: frontline workers such as in-hospital personnel and first responders.

Dogs and Insurance

When you're buying homeowners insurance, and you're one of the 63 million U.S. households that owns a dog, you should know that many companies have lists of dog breeds that they will not cover on the liability portion of the policy. Why? Homeowners insurance typically pays the victim whenever a dog bites or causes other dog-related injuries (think: somebody falls because a dog jumps up on them or the dog causes a bicyclist to fall off the bike) with liability limits between $100,000 and $300,000. The average dog bite claim will cost the insurer around $44,760 in medical and legal expenses; in all, dog-related injuries cost homeowners insurance companies an estimated $854 million in 2020.

Recently, Forbes magazine compiled a list of banned dog breed lists from 42 different homeowners insurance companies—reviewing lists that are often hidden from consumers' view, though they are filed with state insurance departments. Basically, every company banned Doberman pinschers, Pit Bulls and Rottweilers, and more than 90% banned Chow Chows and any wolf hybrid. German Shepherds were banned by 45% of the company policies, and you might be surprised to know that Great Danes were banned on 17% of the them. Mixed breeds of these dogs and guard dogs were also frequently banned, and if your dog has any prior incident of biting another person or attacking people, then that could result in an amendment to the policy or a decline of coverage. Some insurance companies are now requiring dog owners of certain breeds to sign liability waivers for dog bites.

Of course, only a small number of members of these breeds actually act aggressively, something the Animal Defense League, the American Kennel Club and Best Friends Animal Society are all pointing out in lobbying efforts. They're asking for a moratorium on "banned breed lists," and instead suggesting that insurance companies treat dogs like they treat people: as unique individuals who each have their own temperament and risk factors.

Source:
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For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.