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The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published NAIC Capital Markets Bureau Special Reports are available via its web page and the NAIC archives (for reports published prior to 2016).

Decrease in U.S. Insurers' Municipal Bond Investments at Year-End 2024

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Executive Summary

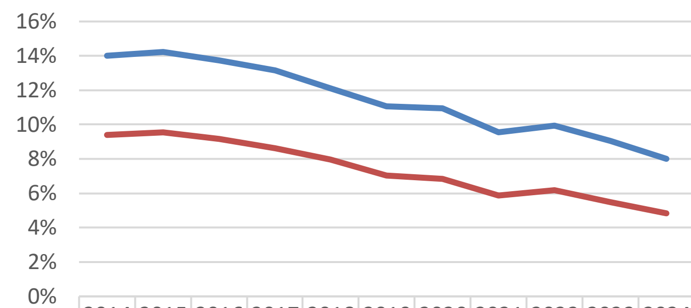
- At year-end 2024, U.S. insurers' exposure to municipal bonds decreased by about 7% to $434.3 billion from $467.5 billion at year-end 2023.
- U.S. insurers' municipal bond investments have been gradually declining over the last decade and were 8% of total bonds at year-end 2024, down from 14% in 2014.
- Municipal bonds are the third-largest bond type for U.S. insurers, having been surpassed by asset-backed securities (ABS) and other structured securities as the second-largest bond type in 2022, where they have since remained.
- Similar to the overall municipal bond market, revenue bonds comprised about 70% of U.S. insurers' municipal bond investments, with the remainder in general obligation bonds.
- Property/casualty (P/C) insurers continue to account for half of U.S. insurers' exposure to municipal bonds, followed by 44% with life insurers.
- Almost all municipal bonds held by U.S. insurers were of the highest credit quality, evidenced by NAIC 1 designations.
- Similar to the previous year, large insurers, or those with more than $10 billion in assets under management, accounted for about 60% of U.S. insurers' municipal bond investments in 2024.

As a percentage of total cash and invested assets, U.S. insurers' investment in municipal bonds has been steadily declining over the last decade ending in 2024 (refer to Chart 1), and it has also been declining as a percentage of U.S. insurers' total bonds. At year-end 2024, municipal bonds were 8% of U.S. insurers' total bonds and 5% of total cash and invested assets.[1] In comparison, municipal bonds were 14% of total bonds and 9% of total cash and invested assets at year-end 2014. From 2010 until 2021, municipal bonds were the second-largest bond type for U.S. insurers. In the second half of 2019, the Federal Reserve (Fed) began to lower interest rates due to concerns about global economic growth and low

[1] U.S. insurer investments data utilized in this special report is based on the annual statement filings submitted by insurers to the NAIC, unless otherwise noted.

inflation. In March of 2020 and into 2021, the Fed began to lower interest rates more aggressively, approaching 0%, to address the economic stresses that commenced due to the COVID-19 pandemic. During these years, insurers' exposure to municipal bonds continued to decline, perhaps as they sought higher yields in less traditional investment types and away from traditionally perceived 'safe' investments with lower yields. Coincidentally, at year-end 2022, municipal bonds dropped to the third-largest bond type for U.S. insurers, surpassed by asset-backed securities (ABS) and other structured securities as the second-largest bond type (with corporate bonds consistently the largest), where they have since remained through year-end 2024.

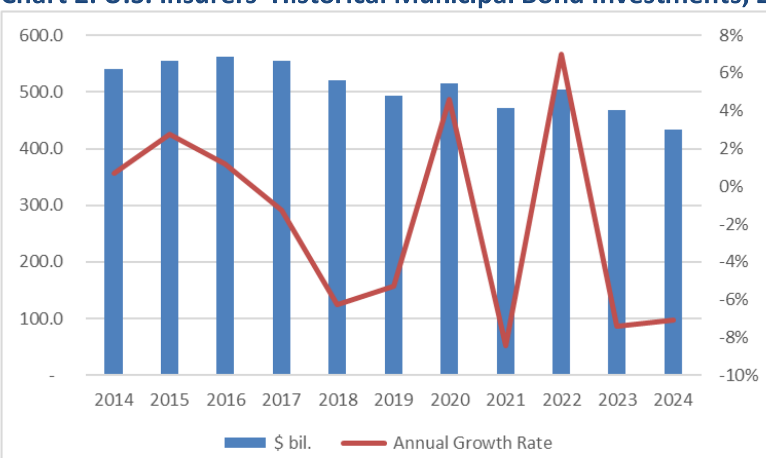
Chart 1: U.S. Insurers' Municipal Bond Investments as a Percent of Total Bonds and Total Cash and Invested Assets, 2014–2024



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
% of Total Bonds	14%	14%	14%	13%	12%	11%	11%	10%	10%	9%	8%
% of Total Cash and Invested Assets	9%	10%	9%	9%	8%	7%	7%	6%	6%	5%	5%

At year-end 2024, U.S. insurers' total investment in municipal bonds was $434.3 billion in book/adjusted carrying value (BACV), down 7% from $467.5 billion at year-end 2023. (Refer to Chart 2.) Over the last decade ending in 2024, U.S. insurers' exposure to municipal bonds decreased by approximately 20%, from $540.6 billion in 2014.

Chart 2: U.S. Insurers' Historical Municipal Bond Investments, 2014–2024 ($bil. BACV)



Property/casualty (P/C) insurers have consistently been the largest holders of municipal bonds among all U.S. insurer types due to the tax-exempt status of most municipal bonds and the attractiveness of that feature, as they offer a more appealing after-tax return than taxable bonds. Even though life insurers are not excluded from the tax benefits of municipal bonds, they typically have lower taxable income than P/C insurers because of tax benefits on policyholder accounts. As a result, P/C insurers are more attracted to the tax benefits of municipal bonds than life insurers. In addition, the after-tax yield of tax-exempt municipal bonds is generally not high enough for life insurers to find them competitive with taxable investments.

At year-end 2024, about 70% of U.S. insurers' municipal bonds were revenue bonds, or those that finance specific municipality projects or services, such as airports and toll roads. The remaining 30% were general obligation (GO) bonds, which are issued by a government entity such as a state, city, or county. The ability of GO bonds to generate debt service payments relies on the "full faith and credit" of the issuing entity, including its ability to generate tax and other revenues, and, therefore, its creditworthiness.

At year-end 2024, P/C insurers accounted for $222.6 billion of U.S. insurers' municipal bonds, a 5.7% decrease from $236 billion at year-end 2023. (Refer to Table 1.) However, P/C insurers' exposure increased slightly in proportion to 51% of total municipal bonds in 2024 from 50% in 2023. Life insurers accounted for 44% of the exposure, followed by health and title companies at 4%. As in the previous three years, almost all of U.S. insurers' municipal bond investments carried NAIC 1 designations, or 97% of the total, with the remainder carrying NAIC 2 designations, implying investment-grade credit quality.

Table 1: U.S. Insurers' Municipal Bond Investments by Industry Type ($bil. BACV)

Industry Type	2024	% of 2024 Total	2023	% of 2023 Total
P/C	222.6	51%	236.1	50%
Life	192.6	44%	207.9	44%
Title	0.8	0%	0.9	0%
Health	18.4	4%	22.7	5%
Total	**434.3**	100%	**467.5**	100%

Large insurers, or those with more than $10 billion in assets under management, accounted for approximately 60% of U.S. insurers' municipal bond investments at year-end 2024, which was the same as the prior year. Among large insurers, life companies had the largest exposure at 35% of the total. Similar to year-end 2023, 20 insurer groups accounted for about half of U.S. insurers' municipal bond investments at year-end 2024, with the largest insurer group responsible for 11% of the total.

Table 2: U.S. Insurers' Municipal Bond Investments by Assets Under Management ($bil. BACV)

Asset Under Management	Life	P/C	Title	Health	Total	% of Total
Less Than $250 million	2.0	14.0	0.1	2.1	18.3	4%
Between $250 million and $500 million	1.8	9.8	0.1	2.7	14.5	3%
Between $500 million and $1 billion	3.0	14.6	0.0	3.7	21.3	5%
Between $1 billion and $2.5 billion	6.8	28.7	0.1	4.9	40.5	9%
Between $2.5 billion and $5 billion	12.0	18.8	0.5	3.4	34.7	8%
Between $5 billion and $10 billion	14.0	26.0	-	0.8	40.9	9%
More Than $10 billion	152.8	110.6	-	0.8	264.1	61%
Total	**192.6**	**222.6**	**0.8**	**18.4**	**434.3**	100%

Record New Issuance for Municipal Bonds in 2024

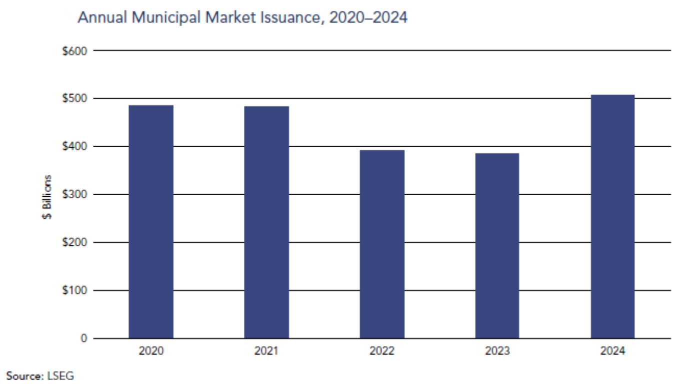
The municipal bond market consists of revenue bonds and GO bonds. In 2024, revenue bonds comprised 67% of total new issuance, while GO bonds comprised the remaining 33% according to the Securities Industry and Financial Markets Association (SIFMA).[2] This proportion is also similar to U.S. insurers' municipal bond investments in 2024. Municipal bonds are considered attractive investments due primarily to historically low default rates and tax-free income.

According to the Municipal Securities Rulemaking Board's (MSRB's) 2024 Municipal Market Year in Review, the municipal bond market experienced its third record year of trading volume and record new issuance of $513 billion in 2024, exceeding $500 billion for the first time. This represented a 33% increase from $384 billion in new issuance in 2023. (Refer to Chart 3.) The newly issued municipal bonds in 2024 consisted primarily of tax-exempt debt, including issuers utilizing the remainder of their pandemic-related relief funds, along with refunded outstanding Build America Bonds (BABs).[3] Tax-exempt bonds, which were approximately 88% of new issuance, increased 36% year-over-year (YOY) in 2024. MSRB also cites individuals as the largest holders of municipal bonds through various types of accounts and funds, accounting for approximately 66% of the overall market. U.S. insurers' municipal bond exposure at year-end 2024 represented about 10% of the outstanding municipal debt market. U.S. insurers' municipal bond holdings may not have been influenced by the aforementioned market record issuance and trading levels, due in part to a shift into less traditional bond types over the years.

[2] SIFMA, U.S. Municipal Bond Statistics.

[3] Municipal Securities Rulemaking Board, *2024 Municipal Market Year in Review*, January 2025.

Chart 3:



Municipal bonds outstanding at year-end 2024 totaled $4.2 trillion, according to SIFMA, which was a 3% increase from year-end 2023.[4] Through the first quarter of 2025, outstanding municipal bonds remained mostly unchanged at about $4.2 trillion.

The NAIC Capital Markets Bureau will continue to monitor trends with municipal bond investments and report as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at *CapitalMarkets@naic.org*.

[4] SIFMA, U.S. Municipal Bond Statistics.