

U.S. Life, A&H Insurance Industries

Industry Overview

Table 1 provides the life insurance industry’s aggregate financial results for insurers filing with the NAIC on the life, accident & health annual statement blank.

- The life insurance industry reported a decrease in overall profitability from year-end 2017 of 25.7% to \$28.0 billion.
- Direct written premiums increased 6.0% to \$898.5 billion largely due to a \$30.0 billion (12.4%) increase in annuities to \$271.7 billion.
- The industry’s total capital and surplus increased 1.4% to \$399.2 billion compared to prior year-end.
- Total separate account assets decreased 9.2% to \$2.5 trillion compared to prior year-end.

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Table 1—Financial Synopsis: December 31, 2018-2009
Life and Accident & Health Insurance Industry

(\$ In Billions)	Change	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operations											
Direct Written Premium	6.0%	\$898.5	\$848.0	\$824.4	\$815.0	\$777.4	\$771.1	\$818.6	\$774.4	\$721.3	\$722.1
Life Direct Written Premium	(0.9)%	\$181.0	\$182.5	\$175.0	\$173.7	\$166.9	\$165.1	\$174.0	\$166.4	\$158.4	\$152.4
A&H Direct Written Premium	3.2%	\$197.0	\$190.8	\$179.7	\$172.0	\$168.3	\$182.8	\$179.6	\$178.4	\$176.6	\$172.1
Annuities	12.4%	\$271.7	\$241.7	\$248.1	\$258.7	\$255.4	\$243.0	\$267.0	\$249.3	\$230.3	\$240.2
Other Considerations	11.5%	\$82.2	\$73.8	\$78.2	\$75.3	\$70.5	\$77.1	\$90.3	\$85.8	\$68.3	\$64.4
Deposits	4.7%	\$166.7	\$159.2	\$143.3	\$135.5	\$116.4	\$103.2	\$107.7	\$94.4	\$87.7	\$93.0
Assumed Premium	32.2%	\$167.9	\$127.0	\$115.6	\$147.0	\$82.0	\$99.5	\$89.7	\$79.5	\$66.9	\$70.9
Ceded Premium	26.2%	\$282.0	\$223.5	\$192.8	\$190.7	\$103.2	\$199.0	\$151.1	\$135.3	\$122.0	\$184.2
Net Earned Premium	1.0%	\$603.8	\$597.8	\$601.8	\$640.5	\$647.6	\$580.7	\$642.9	\$621.7	\$581.4	\$511.5
Net Investment Income	2.0%	\$180.4	\$176.9	\$170.2	\$167.1	\$169.3	\$165.0	\$164.1	\$164.7	\$161.4	\$154.4
Benefits	3.5%	\$290.2	\$280.4	\$270.4	\$262.6	\$249.9	\$265.5	\$255.7	\$252.4	\$246.7	\$244.6
Commissions & Gen. Expenses	0.2%	\$124.9	\$124.6	\$129.6	\$116.2	\$111.4	\$114.3	\$112.2	\$109.9	\$106.3	\$103.5
Operating Income	(25.7)%	\$32.7	\$44.0	\$45.4	\$39.2	\$33.9	\$52.8	\$47.5	\$20.2	\$41.3	\$48.2
Realized Gains/(Losses)	25.7%	(\$4.7)	(\$6.4)	(\$11.4)	(\$3.5)	(\$1.3)	(\$12.0)	(\$9.4)	(\$8.5)	(\$16.0)	(\$28.7)
Net Income/(Loss)	(25.7)%	\$28.0	\$37.7	\$34.0	\$35.7	\$32.6	\$40.7	\$38.1	\$11.6	\$25.3	\$19.5
Net Cash From Operations	1.8%	\$171.0	\$168.0	\$179.9	\$160.8	\$133.3	\$141.2	\$130.5	\$152.0	\$130.4	\$132.7
Number of Filers	(0.4)%	722	725	738	745	763	771	787	812	830	855
Capital and Surplus											
Unrealized Gains/(Losses)	(209.7)%	(\$4.0)	\$3.6	(\$2.8)	(\$10.2)	\$22.9	(\$4.3)	\$5.0	\$14.0	\$8.0	(\$19.1)
Capital and Surplus	1.4%	\$399.2	\$393.5	\$380.7	\$367.0	\$352.2	\$329.4	\$323.4	\$305.2	\$303.8	\$287.1
Stockholder Dividends	21.4%	(\$44.3)	(\$36.5)	(\$43.7)	(\$33.1)	(\$39.1)	(\$31.0)	(\$22.2)	(\$27.2)	(\$24.1)	(\$9.4)
ROE	(2.6)pts.	7.0%	9.6%	8.9%	9.7%	9.2%	12.4%	11.8%	3.8%	8.3%	6.8%
Assets											
Cash & Invested Assets	1.2%	\$4,130.6	\$4,080.2	\$3,902.3	\$3,712.3	\$3,636.2	\$3,481.4	\$3,401.9	\$3,357.3	\$3,194.1	\$3,069.3
Net Adm. Assets (excl. S. A.)	1.4%	\$4,390.4	\$4,329.4	\$4,154.7	\$3,942.0	\$3,858.5	\$3,678.3	\$3,587.7	\$3,531.2	\$3,354.6	\$3,228.2
Separate Account Assets	(9.2)%	\$2,462.9	\$2,712.2	\$2,492.8	\$2,413.1	\$2,423.5	\$2,328.9	\$2,053.2	\$1,835.6	\$1,840.2	\$1,623.8
Total Net Admitted Assets	(2.7)%	\$6,853.4	\$7,041.5	\$6,647.5	\$6,355.0	\$6,282.0	\$6,007.2	\$5,640.9	\$5,366.8	\$5,194.8	\$4,851.9
Net Investment Yield	0.0 pts.	4.4%	4.4%	4.5%	4.5%	4.8%	4.8%	4.9%	5.0%	5.2%	5.1%
ROA	(0.3) pts.	0.6%	0.9%	0.8%	0.9%	0.9%	1.1%	1.1%	0.3%	0.8%	0.6%

Note: Adjustments to exclude affiliated amounts were made where appropriate.

Filings

As shown in **Figure 1**, for year-end 2018, a total of 722 companies filed with the NAIC on the life, accident & health annual statement blank. There were 10 companies that reported to be party to a merger, four more than reported in 2017.

Premium

Table 2 shows total direct written, assumed, ceded and net premium by line of business for the last two years. The life industry reported an increase of 6.0% (\$50.6 billion) in total direct written premium and deposits to \$898.5 billion in 2018. Total net written premium and deposits increased 4.4% (\$32.9 billion) to \$784.4 billion. While on an aggregate basis, the life industry only saw a small increase in premiums, there were many companies that experienced significant changes in assumed and ceded premiums.

Reinsurance

Ceded premium increased 26.2% (\$58.5 billion), of which the largest increase was seen in the annuities line of business with an increase of 131.4% or \$65.3 billion to \$115.1 billion for 2018. There were five companies that reported increases from 2017 greater than \$10 billion and two companies that reported a decrease greater than \$10 billion.

Assumed premium increased 32.2%, or \$40.9 billion, primarily driven by the annuities line of business, which increased \$38.8 billion for 2018. There were four companies that reported increases from 2017 greater than \$8 billion and one company that reported declines of greater than \$8 billion.

Of the 406 companies that reported assumed premiums, 20 companies with over \$100.0 million in assumed premium reported changes of over 25% from 2017. Of the 585 companies that reported ceded premiums, 37 companies with over \$100.0 million in ceded premiums reported changes of over 25% from 2017.

Life Insurance

The life insurance line of business reported a 6.7% or \$9.2 million increase to \$148.2 million on a net basis due to the \$16.2 million decrease in ceded premium partially offset by a \$5.4 million decrease in assumed premiums for 2017.

Deposit-type Contracts

Deposit-type contracts of \$164.5 million experienced a 5.7%, or \$8.9 million, increase over what was reported in 2017, and a 63.1% increase over the \$100.9 million reported in 2009.

Figure 1

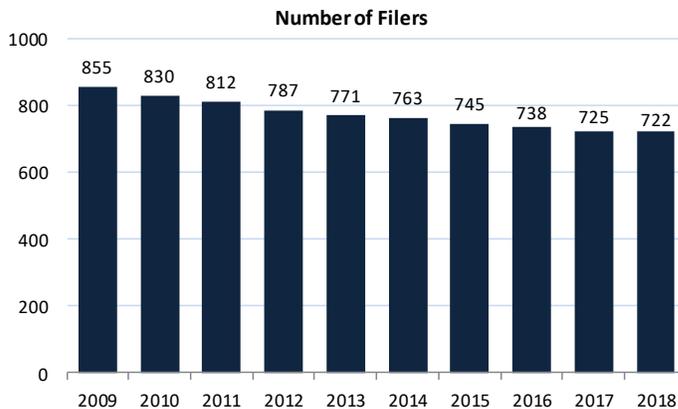


Table 2—Total Written Premium by LOB

<i>(\$ in Billions)</i>				
Life Insurance	% Chg.	\$ Chg.	2018	2017
Direct Premium	(0.9)%	(\$1.6)	\$181.0	\$182.5
Assumed Premium	(7.3)%	(\$5.4)	\$68.2	\$73.6
Gross Premium	(2.7)%	(\$7.0)	\$249.2	\$256.2
Ceded Premiums	(13.8)%	(\$16.2)	\$101.0	\$117.2
Net Premium	6.7%	\$9.2	\$148.2	\$138.9
Annuity Considerations				
Direct Premium	12.4%	\$30.0	\$271.7	\$241.7
Assumed Premium	167.3%	\$38.8	\$62.0	\$23.2
Gross Premium	26.0%	\$68.8	\$333.7	\$264.9
Ceded Premiums	131.4%	\$65.3	\$115.1	\$49.7
Net Premium	1.6%	\$3.5	\$218.6	\$215.1
A&H Insurance				
Direct Premium	3.2%	\$6.2	\$197.0	\$190.8
Assumed Premium	28.5%	\$7.6	\$34.3	\$26.7
Gross Premium	6.3%	\$13.8	\$231.3	\$217.5
Ceded Premiums	(0.4)%	(\$0.2)	\$47.4	\$47.6
Net Premium	8.2%	\$14.0	\$183.9	\$169.9
Other				
Direct Premium	11.5%	\$8.5	\$82.2	\$73.8
Assumed Premium	(0.8)%	(\$0.0)	\$1.4	\$1.4
Gross Premium	11.2%	\$8.4	\$83.6	\$75.1
Ceded Premiums	349.0%	\$11.2	\$14.4	\$3.2
Net Premium	(3.8)%	(\$2.7)	\$69.2	\$71.9
Deposit-type Contracts				
Direct Premium	4.7%	\$7.5	\$166.7	\$159.2
Assumed Premium	(6.2)%	(\$0.1)	\$2.0	\$2.2
Gross Premium	4.6%	\$7.4	\$168.7	\$161.3
Ceded Premiums	(27.5)%	(\$1.6)	\$4.1	\$5.7
Net Premium	5.7%	\$8.9	\$164.5	\$155.6

Annuities

Table 3 shows the distribution of annuity considerations for the past five years. There has been an overall downward trend in net annuity considerations over the past five years, largely driven by individual variable annuities in both general and separate accounts. Individual variable annuities accounted for 43.7% of total net annuity considerations in 2014 and have declined to 29.8% of total annuity considerations in 2018.

Table 3
5-Year Annuity Considerations Distribution

<i>\$ In Billions</i>	% Change	2018	2017	2016	2015	2014
Total Net Annuity Considerations	(6.1)%	\$269.6	\$287.2	\$318.5	\$324.1	\$352.7
Individual Fixed Annuities	(37.8)%	\$24.6	\$39.6	\$47.7	\$39.2	\$40.4
Individual Indexed Annuities	(2.8)%	\$44.5	\$45.8	\$49.5	\$48.9	\$43.3
Individual Variable Annuities General Account	18.7%	\$16.5	\$13.9	\$26.3	\$19.1	\$58.6
Individual Variable Annuities Separate Account	(1.6)%	\$63.7	\$64.7	\$69.5	\$90.9	\$95.6
Group Fixed Annuities	(6.1)%	\$38.7	\$41.2	\$36.3	\$29.2	\$28.0
Group Variable Annuities General Account	63.5%	\$16.7	\$10.2	\$13.2	\$12.0	\$11.4
Group Variable Annuities Separate Account	(37.5)%	\$29.0	\$46.5	\$53.6	\$57.5	\$56.0
Other Annuities	41.9%	\$35.8	\$25.2	\$22.4	\$27.3	\$19.4

Source: As filed on the Analysis of Annuity Operations by Line of Business supplement.

Annuity reserves increased 4.5% to \$1.7 trillion compared to \$1.6 trillion for 2017. Compared to 2014, total annuity reserves have increased 19.6%, or \$270.0 billion. The largest increase was seen in the individual indexed annuities line of business, which increased \$156.3 billion compared to 2014.

On an earned basis, the industry reported a 1.0% (\$5.9 billion) increase in direct earned premium to \$603.8 billion. **Figure 2** illustrates the industry’s 2018 direct earned premium allocation by sector. Individual annuities accounted for 53.8% of total annuity premiums, group A&H accounted for 66.7% of total A&H premiums, and ordinary life insurance accounted for 79.0% of total life premiums.

Figure 2
2018 Direct Earned Premium by Sector

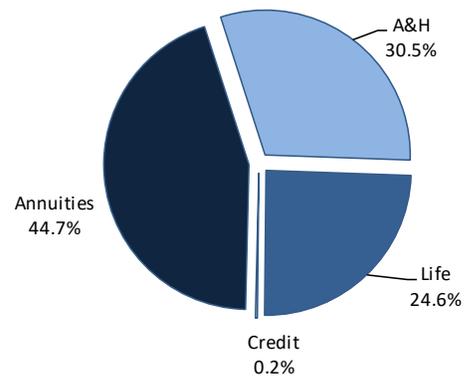


Table 4, on the next page, illustrates state detail for 2018 and 2017 by premium type with the three largest states for each premium type highlighted. As you can see in the table, California has the largest percentage of premiums in life insurance, annuity considerations, and other considerations. Texas has the largest percentage of premiums in A&H insurance and Delaware has the largest percentage of deposit-type contract funds.

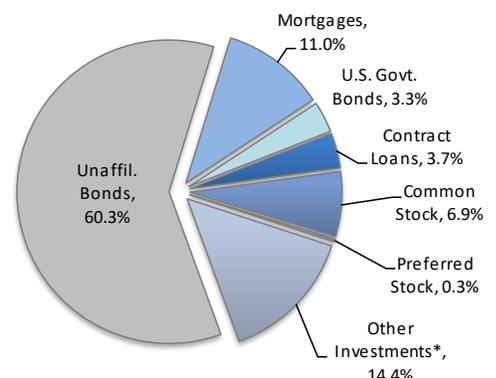
Investment Income

Net investment income increased 2.0% (\$3.5 billion), to \$180.4 billion in 2018 compared to \$176.9 billion in 2017. The increase was driven by the following:

- Unaffiliated other bonds increased \$1.6 billion to \$124.8 billion
- Other (BA) invested assets increased \$1.5 billion to \$16.1 billion
- Mortgage loans increased \$1.4 billion to \$22.8 billion

The industry’s invested asset portfolio increased 1.2% to \$4.1 trillion at year-end 2018. **Figure 3** illustrates net investment income by asset class.

Figure 3
Net Investment Income Allocation



* Includes: affiliated bonds, real estate, cash, short-term investments, derivatives, BA Assets, and write-ins.

Table 4 - Premiums by State

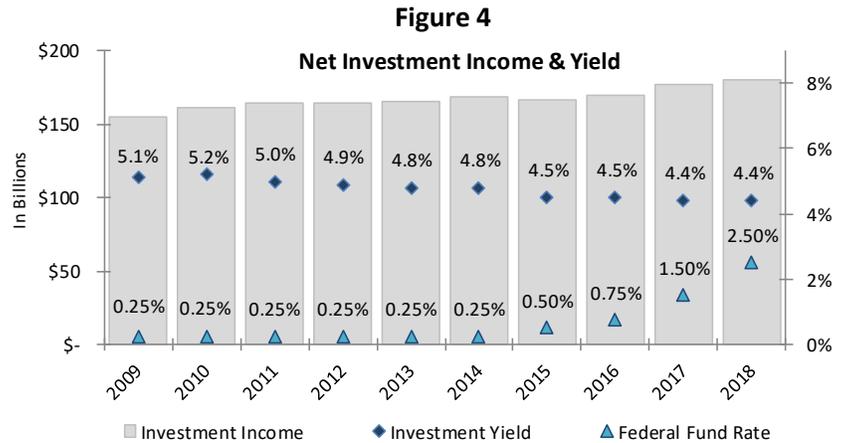
(\$ in Millions) State	Life Insurance Premiums			Annuity Considerations			A&H Insurance Premiums			Other Considerations			Deposit-Type Contracts		
	% Chg	2018	2017	% Chg	2018	2017	% Chg	2018	2017	% Chg	2018	2017	% Chg	2018	2017
Alabama	0%	\$2,192	\$2,191	12%	\$2,992	\$2,667	7%	\$1,835	\$1,723	(0%)	\$512	\$514	(20%)	\$257	\$322
Alaska	4%	\$447	\$429	0%	\$395	\$394	(4%)	\$322	\$336	(12%)	\$239	\$270	(12%)	\$23	\$26
Arizona	4%	\$2,471	\$2,384	20%	\$5,468	\$4,564	6%	\$4,050	\$3,836	20%	\$1,846	\$1,537	(8%)	\$317	\$345
Arkansas	1%	\$1,118	\$1,106	17%	\$1,576	\$1,346	6%	\$1,041	\$986	(10%)	\$297	\$331	(12%)	\$73	\$84
California	1%	\$17,576	\$17,454	16%	\$25,873	\$22,286	4%	\$14,901	\$14,371	17%	\$10,248	\$8,738	15%	\$2,753	\$2,385
Colorado	3%	\$2,745	\$2,678	12%	\$5,600	\$4,982	11%	\$4,184	\$3,770	3%	\$1,025	\$999	14%	\$1,217	\$1,069
Connecticut	(2%)	\$2,542	\$2,599	21%	\$5,331	\$4,409	10%	\$3,073	\$2,781	8%	\$2,268	\$2,092	(8%)	\$9,214	\$9,978
Delaware	(4%)	\$1,346	\$1,406	(20%)	\$2,606	\$3,274	5%	\$773	\$736	50%	\$553	\$370	(9%)	\$56,272	\$61,910
Dist. Columbia	1%	\$434	\$430	1%	\$687	\$680	25%	\$1,039	\$828	43%	\$789	\$550	12%	\$1,433	\$1,275
Florida	(2%)	\$9,638	\$9,867	15%	\$19,451	\$16,959	9%	\$14,917	\$13,702	15%	\$4,679	\$4,076	1%	\$1,468	\$1,456
Georgia	(1%)	\$5,043	\$5,098	13%	\$5,650	\$4,987	12%	\$8,577	\$7,642	(1%)	\$3,092	\$3,122	36%	\$2,026	\$1,486
Hawaii	6%	\$840	\$793	11%	\$1,496	\$1,348	(8%)	\$1,227	\$1,328	39%	\$449	\$323	10%	\$76	\$69
Idaho	4%	\$596	\$576	34%	\$1,200	\$895	15%	\$829	\$721	6%	\$293	\$277	9%	\$72	\$66
Illinois	3%	\$7,059	\$6,841	(0%)	\$9,872	\$9,882	0%	\$6,191	\$6,163	8%	\$2,873	\$2,670	(27%)	\$1,344	\$1,837
Indiana	8%	\$3,060	\$2,835	13%	\$5,628	\$4,965	12%	\$4,809	\$4,280	3%	\$1,054	\$1,026	(25%)	\$2,341	\$3,132
Iowa	36%	\$2,426	\$1,783	12%	\$3,213	\$2,869	8%	\$1,529	\$1,421	38%	\$3,219	\$2,324	(42%)	\$8,011	\$13,853
Kansas	(1%)	\$1,361	\$1,369	8%	\$2,299	\$2,126	17%	\$3,984	\$3,391	(2%)	\$412	\$419	(53%)	\$1,289	\$2,751
Kentucky	2%	\$1,606	\$1,582	(0%)	\$2,647	\$2,660	5%	\$1,779	\$1,701	23%	\$890	\$724	14%	\$268	\$236
Louisiana	4%	\$2,441	\$2,336	15%	\$3,570	\$3,102	6%	\$2,170	\$2,047	(6%)	\$595	\$631	(9%)	\$266	\$292
Maine	2%	\$451	\$442	19%	\$1,252	\$1,055	9%	\$926	\$847	14%	\$223	\$195	10%	\$67	\$61
Maryland	1%	\$3,071	\$3,047	11%	\$5,299	\$4,773	4%	\$3,763	\$3,625	11%	\$1,351	\$1,218	4%	\$679	\$653
Massachusetts	0%	\$3,805	\$3,788	12%	\$7,798	\$6,970	5%	\$3,586	\$3,413	5%	\$3,438	\$3,268	196%	\$1,771	\$599
Michigan	0%	\$4,630	\$4,626	10%	\$10,796	\$9,804	5%	\$3,633	\$3,467	6%	\$1,868	\$1,761	11%	\$1,194	\$1,072
Minnesota	(3%)	\$4,755	\$4,889	10%	\$4,950	\$4,515	5%	\$1,715	\$1,640	16%	\$2,158	\$1,861	8%	\$917	\$848
Mississippi	2%	\$1,272	\$1,246	28%	\$1,748	\$1,368	2%	\$1,500	\$1,474	8%	\$206	\$191	98%	\$278	\$141
Missouri	0%	\$2,778	\$2,767	6%	\$6,069	\$5,716	14%	\$4,853	\$4,256	94%	\$2,079	\$1,070	8%	\$736	\$683
Montana	(0%)	\$374	\$374	(1%)	\$492	\$495	12%	\$416	\$371	31%	\$177	\$135	(31%)	\$35	\$50
Nebraska	3%	\$1,086	\$1,049	22%	\$1,841	\$1,506	10%	\$1,566	\$1,418	24%	\$486	\$392	33%	\$487	\$365
Nevada	(2%)	\$1,174	\$1,200	19%	\$1,665	\$1,402	10%	\$1,334	\$1,210	33%	\$512	\$384	77%	\$309	\$174
New Hampshire	(3%)	\$619	\$642	32%	\$2,263	\$1,710	6%	\$716	\$677	228%	\$861	\$262	(34%)	\$145	\$219
New Jersey	(3%)	\$6,471	\$6,700	20%	\$12,022	\$10,045	0%	\$6,906	\$6,887	16%	\$2,724	\$2,355	4%	\$1,494	\$1,431
New Mexico	(3%)	\$659	\$677	17%	\$1,053	\$902	3%	\$1,146	\$1,107	3%	\$447	\$435	(4%)	\$80	\$83
New York	(2%)	\$12,382	\$12,696	9%	\$19,016	\$17,402	5%	\$10,157	\$9,702	12%	\$9,140	\$8,192	30%	\$41,063	\$31,666
North Carolina	(12%)	\$4,805	\$5,469	9%	\$7,581	\$6,939	11%	\$6,365	\$5,731	(5%)	\$2,774	\$2,915	(26%)	\$664	\$893
North Dakota	(0%)	\$436	\$437	22%	\$663	\$543	12%	\$340	\$302	4%	\$186	\$178	22%	\$80	\$65
Ohio	0%	\$5,125	\$5,108	5%	\$11,307	\$10,724	6%	\$7,933	\$7,474	(2%)	\$2,334	\$2,379	100%	\$14,931	\$7,451
Oklahoma	5%	\$1,480	\$1,411	25%	\$2,183	\$1,750	8%	\$1,832	\$1,699	(4%)	\$556	\$581	(17%)	\$239	\$289
Oregon	3%	\$1,290	\$1,257	19%	\$2,672	\$2,254	11%	\$2,148	\$1,932	16%	\$1,130	\$970	24%	\$246	\$198
Pennsylvania	(1%)	\$6,476	\$6,571	10%	\$13,889	\$12,611	8%	\$7,694	\$7,101	25%	\$3,160	\$2,532	23%	\$2,899	\$2,363
Rhode Island	2%	\$459	\$451	11%	\$1,258	\$1,131	12%	\$540	\$480	(17%)	\$206	\$249	92%	\$135	\$70
South Carolina	(0%)	\$2,261	\$2,268	14%	\$3,950	\$3,457	12%	\$4,092	\$3,642	(23%)	\$504	\$653	10%	\$238	\$216
South Dakota	(26%)	\$853	\$1,153	8%	\$570	\$528	6%	\$414	\$390	(2%)	\$122	\$124	11%	\$260	\$235
Tennessee	3%	\$3,237	\$3,152	28%	\$5,545	\$4,328	11%	\$3,837	\$3,469	5%	\$1,226	\$1,164	5%	\$935	\$888
Texas	3%	\$12,244	\$11,891	17%	\$17,441	\$14,898	4%	\$18,006	\$17,366	(12%)	\$3,190	\$3,610	55%	\$5,112	\$3,294
Utah	1%	\$1,490	\$1,482	26%	\$2,498	\$1,983	9%	\$1,437	\$1,322	33%	\$618	\$466	13%	\$361	\$319
Vermont	(1%)	\$255	\$258	(3%)	\$590	\$612	4%	\$385	\$371	(14%)	\$155	\$181	(23%)	\$81	\$105
Virginia	(5%)	\$4,314	\$4,544	10%	\$6,319	\$5,755	31%	\$5,939	\$4,529	(12%)	\$1,394	\$1,580	(0%)	\$742	\$744
Washington	0%	\$2,606	\$2,593	11%	\$4,812	\$4,336	15%	\$4,095	\$3,561	4%	\$1,667	\$1,606	39%	\$561	\$403
West Virginia	(1%)	\$633	\$640	16%	\$1,210	\$1,046	13%	\$860	\$758	10%	\$161	\$146	2%	\$95	\$93
Wisconsin	(1%)	\$2,673	\$2,699	10%	\$5,211	\$4,738	8%	\$3,819	\$3,550	1%	\$1,197	\$1,183	20%	\$698	\$580
Wyoming	(2%)	\$273	\$277	38%	\$500	\$362	7%	\$376	\$350	38%	\$76	\$55	19%	\$30	\$25
American Samoa	(2%)	\$3	\$3	65%	\$0	\$0	1,032%	\$0	\$0	0%	-	\$0	0%	-	\$0
Guam	13%	\$58	\$51	137%	\$11	\$5	86%	\$53	\$29	55%	\$4	\$3	(20%)	\$0	\$0
Puerto Rico	6%	\$534	\$502	24%	\$690	\$557	(1%)	\$847	\$860	32%	\$132	\$100	17%	\$20	\$17
U.S. Virgin Islands	1%	\$21	\$21	0%	\$7	\$7	5%	\$265	\$252	(21%)	\$5	\$7	(75%)	\$0	\$0
Northern Mariana Islands	28%	\$10	\$8	(38%)	\$0	\$0	19%	\$35	\$29	0%	-	\$0	0%	-	\$0
Canada	5%	\$363	\$346	9%	\$20	\$18	6%	\$432	\$409	63%	\$23	\$14	26%	\$2	\$2
Aggregate other alien	(40%)	\$2,547	\$4,250	(50%)	\$214	\$432	(64%)	\$4,064	\$11,338	62%	\$124	\$77	(83%)	\$16	\$95

The Other Investments Category, seen in **Figure 3**, increased to 14.4% of total investment income, from 11.9% at year-end 2014, primarily from the following:

- BA invested assets increased 1.7 points to 7.8%
- Cash and short-term investments increased 0.8 points to 1.1%

The industry’s net investment yield was essentially flat at 4.4% as seen in **Figure 4**. In 2018, the Federal Reserve increased the federal funds interest rate as follows:

- March 21st—to 1.75% from 1.50%
- June 13th—to 2.00% from 1.75%
- September 26th—to 2.25% from 2.00%
- December 19th—to 2.50% from 2.25%



Operations

The industry reported profitability of \$28.0 billion in 2018 compared to \$37.7 billion for 2017, a \$9.7 billion decrease. The largest increase was seen in benefits, which increased \$9.7 billion to \$290.1 billion for year-end 2018. The increases changes are shown below on **Table 5**.

Realized losses in unaffiliated other bonds were \$397.9 million for 2018 compared to realized gains of \$6.5 billion for 2017. Concurrently, derivatives reported realized losses of \$4.5 billion compared to losses of \$14.3 billion for 2017. The impact realized losses have had on net income over the past ten years is depicted in **Figure 5**. As illustrated in **Figure 5**, the industry’s return on assets has dropped since 2012 by 45.5%.

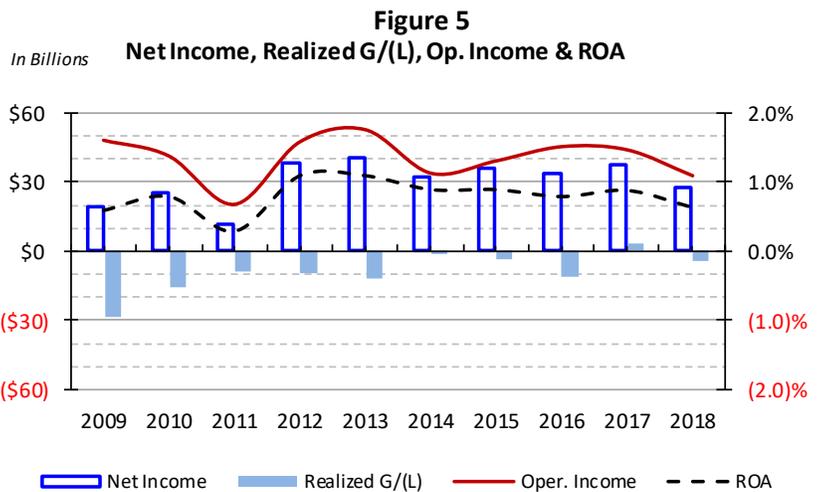
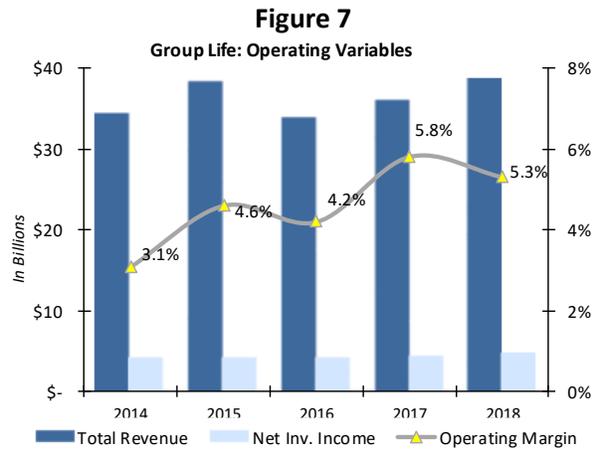
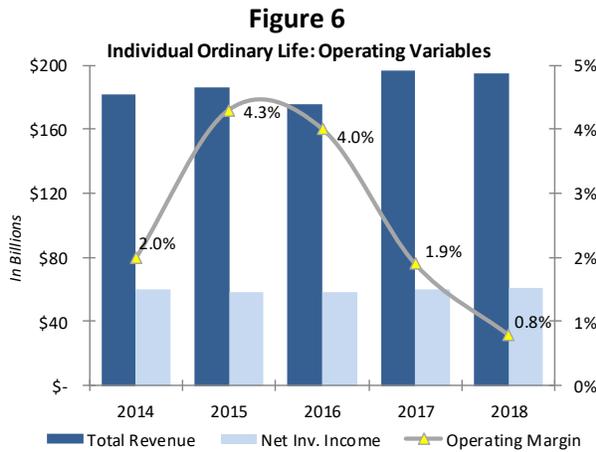


Table 5 - Changes in Net Income / (Loss)

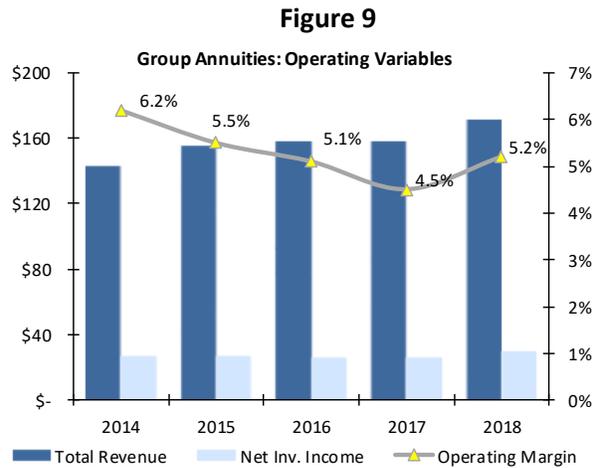
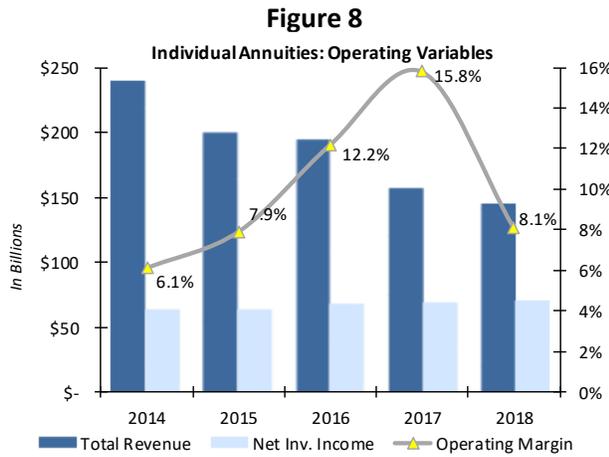
<i>\$ In Billions</i>	% Change	\$ Change	2018	2017
Premiums	0.9%	\$5.5	\$603.8	\$598.3
Net Investment Income	2.1%	\$3.9	\$193.7	\$189.7
Reserve Adjustments on Reins Ceded	227.9%	\$57.1	\$32.0	(\$25.1)
Total Revenues	7.6%	\$64.7	\$915.0	\$850.3
Surrender Benefits & Withdrawals for Life Contracts	13.1%	\$40.7	\$350.5	\$309.8
Increase in Agg Reserves for Life and A&H Contracts	39.1%	\$38.7	\$137.8	\$99.1
Commissions & Exp Allowances on Reins Assumed	-5.3%	(\$0.8)	\$14.2	\$15.0
Net Transfers To or (From) S.A. Net of Reins	-35.2%	(\$23.3)	(\$89.6)	(\$66.3)
Total Expenses	11.0%	\$84.0	\$847.4	\$763.5
Federal and Foreign Income Taxes Incurred	-71.1%	(\$8.4)	\$3.4	\$11.8
Net Realized Capital Gains/(Losses)	31.6%	\$2.2	(\$4.7)	(\$6.9)
Net Income/(Loss)	-18.6%	(\$9.4)	\$41.2	\$50.6

** unadjusted basis

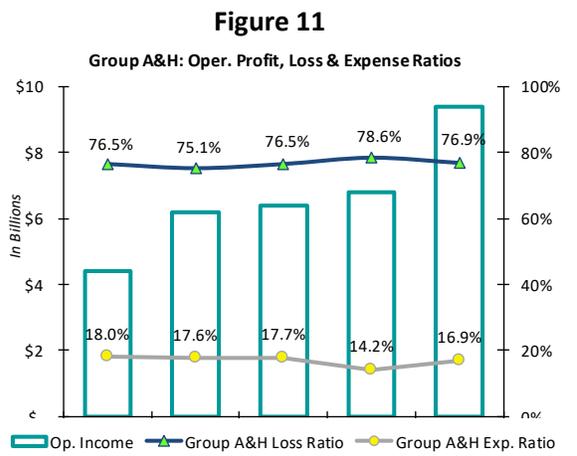
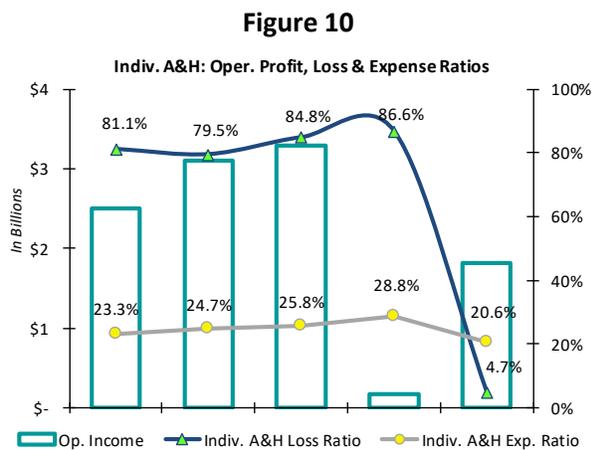
Figures 6-9 show the total revenue, net investment income, and operating margin for the individual and group life sectors and the individual and group annuities sectors over the past five years.



As illustrated in Figures 8 and 9, the operating margins for individual annuities sector have experienced significantly more change than for the group annuities line.



Figures 10 and 11 show the operating profit, loss ratio, and expense ratio for the individual and group A&H sectors over the past five years. The large decline in Individual A&H loss ratio was due to a \$39.7 billion decrease in reserves compared to an \$8.7 billion increase in 2017.



Assets

The life industry reported a 2.7% decline in total net admitted assets at Dec. 31, 2018 to \$6.9 trillion. The decrease was primarily in separate accounts, which decreased 9.2% to \$2.5 trillion and accounted for 35.9% of total net admitted assets. Over the past five years, the industry has seen significant increases in several asset classes as shown in the 5-year change column in **Table 6**. See page 9 for discussion of separate accounts.

Table 6 - Invested Assets

(\$ In Billions)	2018 % of Total	2014 % of Total	5-Yr % Chg	1-Yr % Chg	2018	2017	2014
Bonds	72.6%	74.1%	11.4%	0.6%	\$2,999.8	\$2,983.3	\$2,693.9
Common Stock	1.8%	2.0%	4.7%	(17.8)%	\$74.7	\$90.9	\$71.3
Preferred Stock	0.3%	0.3%	34.2%	17.2%	\$12.3	\$10.5	\$9.1
Mortgage Loans	12.6%	10.3%	39.8%	9.3%	\$521.5	\$477.0	\$373.0
Real Estate	0.5%	0.6%	(6.6)%	(13.2)%	\$20.4	\$23.5	\$21.9
Cash & S/T Investments	2.5%	2.8%	4.3%	(0.0)%	\$105.1	\$105.1	\$100.7
Derivatives	1.4%	1.6%	(0.1)%	(3.8)%	\$56.4	\$58.7	\$56.5
BA Assets	4.5%	4.5%	15.7%	7.1%	\$187.8	\$175.3	\$162.3
Other Invested Assets	3.7%	4.1%	3.6%	(2.1)%	\$152.7	\$156.0	\$147.3
Total Invested Assets	100.0%	100.0%	13.6%	1.2%	\$4,130.6	\$4,080.2	\$3,636.2

As seen in **Figure 12**, the industry has seen an increase in affiliated investments over the past ten years. Affiliated common stock, affiliated bonds, and other affiliated assets account for 96.9% of affiliated investments and also experienced the largest increases over the last ten years. Affiliated preferred stock has increased 60.8% to \$902.6 million at Dec. 31, 2018 but has declined 38.5% from \$1.5 billion at Dec. 31, 2009.

As seen in **Figure 13**, the majority of the industry’s bond portfolio is comprised of industrial and miscellaneous bonds, 76.6%.

Figure 12—Affiliated Investments

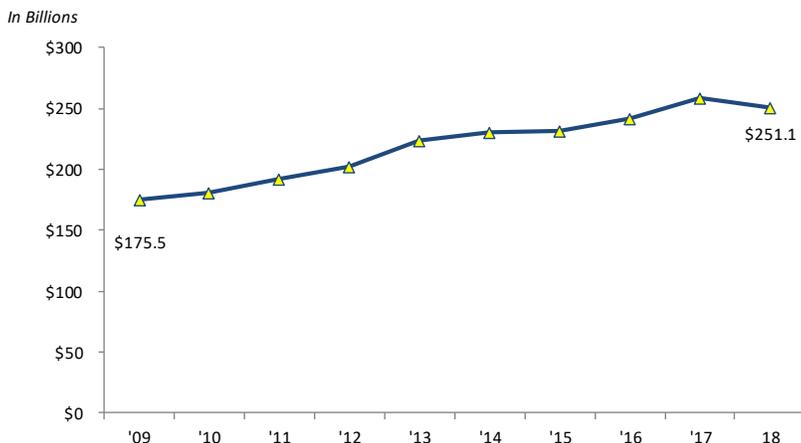
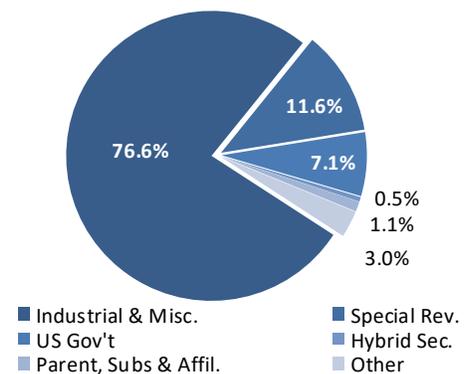


Figure 13—Bonds Distribution



The industry’s allocation of long-term bonds is shown in **Figure 14**, with the majority (76.1%) being issuer obligations. The industry’s holdings of noninvestment-grade bonds decreased 6.1% (\$10.5 billion) and represented 5.3% of total bonds at Dec. 31, 2018. The distribution of bonds between class NAIC 1 through class NAIC 6 has been essentially flat for the last five years.

The life insurance industry maintains a portfolio where bond durations have increased with 31.9% of the holdings at year-end 2018 due to mature in five years or less compared with 33.0% at year-end 2013. Bonds with a maturity of ten years or later represented 37.9% of total bonds. **Figure 15** illustrates bond distribution by duration.

Liabilities

The life industry reported a 3.1% (\$203.5 billion) decrease in total liabilities to \$6.5 trillion at year-end 2018. The largest decreases were in the following:

- 9.2% (\$250.3 billion) decrease in separate account liabilities to \$2.5 trillion
- 11.8% (\$31.2 billion) decrease in reserves for A&H contracts to \$233.6 billion
- 20.4% (\$6.6 billion) decrease in derivatives to \$25.9 billion
- 67.4% (\$5.9 billion) decrease in premiums and annuity considerations for life and A&H contracts received in advance, less discounts to \$2.9 billion

These items were partially offset by a 3.1% (\$84.8 billion) increase in aggregate reserve for life contracts to \$2.8 trillion and a 3.6% (\$10.9 billion) increase in liability for deposit type contracts to \$318.0 billion.

Capital and Surplus

The life industry’s capital and surplus increased by 1.4% to \$399.2 billion compared to \$393.5 billion at Dec. 31, 2017 due primarily to the \$41 billion net income discussed on page 5, mostly offset by dividends paid to stockholders of \$44.3 billion.

As seen in **Figure 16**, the industry’s return on equity decreased to 7.0% from 9.6% in 2017 due mainly to the industry’s decrease in net income.

Liquidity

The life industry reported operating cash flow of \$171.0 billion in 2018, up 1.8% (\$3.0 billion) from \$168.0 billion in the prior year. The increase was primarily from an increase in miscellaneous income of 29.5% (\$21.6 billion) and an increase in net premiums of 2.1% (\$12.8 billion). Concurrently, benefits and loss payments increased 9.2% (\$56.4 billion). Transfers to separate accounts was \$(91.0) billion compared to \$(69.6) billion for 2017, partially offsetting the increase.

Figure 14—Bond Distribution

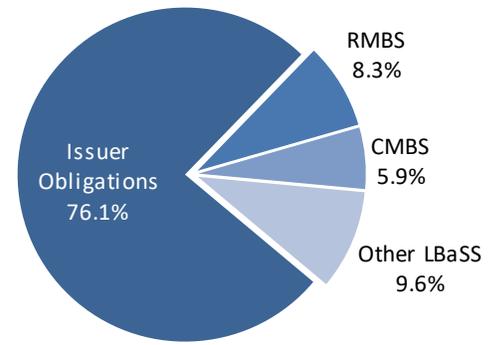


Figure 15

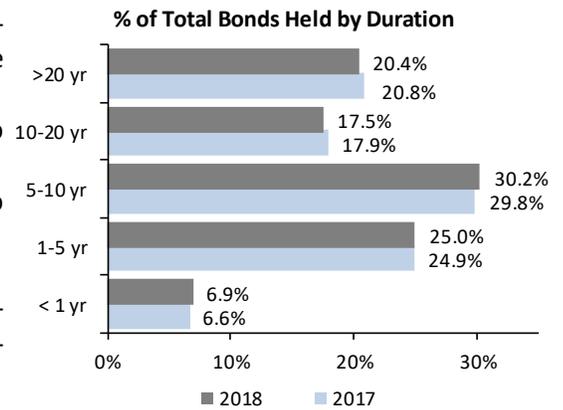


Figure 16—Industry C&S and ROE

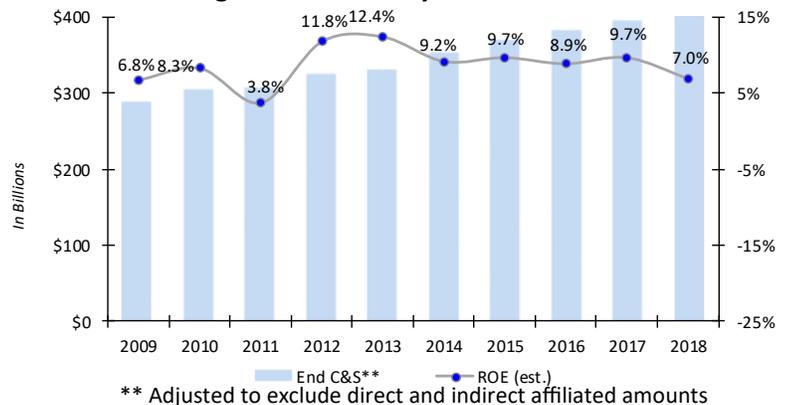
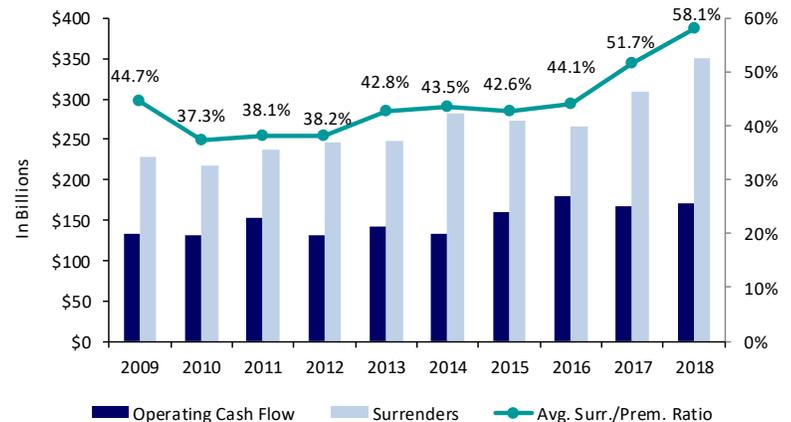


Figure 17—Operating Cash Flow & Surrenders



The industry saw a 13.4% (\$41.4 billion) rise in surrender benefits to \$350.5 billion primarily from a 14.0% (\$21.2 billion) increase in individual annuities and a 14.6% (\$18.2 billion) increase in group annuities. **Figure 17**, on the previous page, shows the industry's operating cash flow and surrender activity over the past ten years.

The life industry reported \$(157.2) billion in net cash from investment activity as total investment proceeds of \$778.2 billion were surpassed by \$935.0 billion in total investments acquired. The largest increase in investments acquired was \$11.4 billion in mortgage loans to \$102.9 billion and \$9.4 billion in bonds to \$713.6 billion. Net cash from financing activity decreased 219.3% (\$10.2 billion) to \$(14.9) billion mostly from an \$8.6 billion decrease in other cash applied to \$(6.7) billion and a \$5.1 billion decrease in capital and paid-in surplus to \$2.8 billion.

Separate Accounts

The life industry reported an 9.2% decrease in separate account assets to \$2.5 trillion at Dec. 31, 2017. Likewise, total separate account liabilities decreased 9.2% to \$2.5 trillion. Aggregate separate account reserves for life, annuity and A&H products decreased 9.3% (\$225.4 billion) to \$2.2 trillion and liability for deposit-type contracts decreased 8.4% (\$17.8 billion) to \$193.8 billion.

Net investment income and capital gains and losses decreased to \$(107.1) billion compared to \$334.3 billion for 2017. Net gain from operations increased 40.0% (\$378.6) million to \$1.3 billion.

Separate account fees increased 1.7% to \$37.0 billion from \$6.5 billion at Dec. 31, 2017. The ratio of separate account fees to separate account assets increased to 1.5% from 1.3% and the industry's CARVM allowance increased 10.5% to \$(26.0) billion. Separate account surplus increased 54.6% (\$1.1 billion) to \$3.2 billion compared to year-end 2017.

Table 7 - Separate Accounts

<i>\$ In Millions</i>	% Change	2017	2016
Totals Revenue	(86.1%)	\$70,779	\$510,570
Net premiums	2.0%	\$178,368	\$174,803
Net investment income and capital gains and losses	(132.0%)	(\$107,077)	\$334,252
Total Benefits and Expenses	9.3%	\$272,215	\$249,005
Death benefits	8.3%	\$7,836	\$7,235
Annuity benefits	1.3%	\$26,356	\$26,027
Surrender benefits and withdrawals for life contracts	12.4%	\$231,633	\$206,149
Fees for charges for investment mgt, admin and guarantees	1.7%	\$37,086	\$36,471
Increase in aggregate reserve for life and A&H contracts	(207.0%)	(\$221,022)	\$206,495
Increase in liability for deposit-type contracts	(189.2%)	(\$16,949)	\$19,000
Net gain from operations	40.0%	\$1,324	\$946
Surplus	54.6%	\$3,151	\$2,039
Assets	(9.2%)	\$2,462,922	\$2,712,153
Liabilities	(9.2%)	\$2,462,966	\$2,712,626
CARVM Allowance	10.5%	(\$25,963)	(\$29,025)

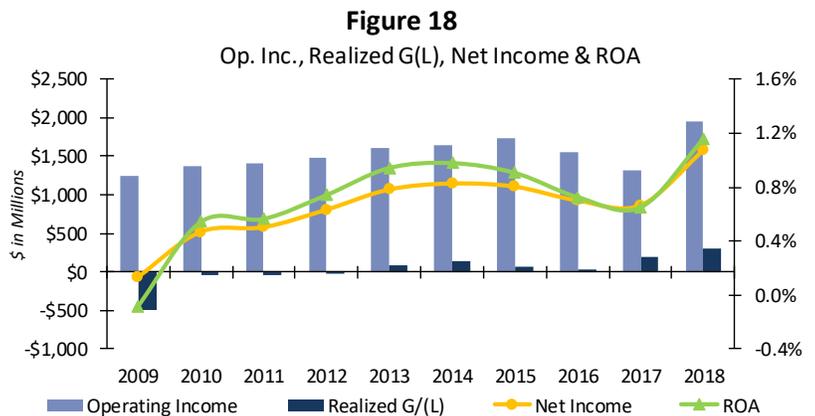
2018 Fraternal Industry Results

Table 8—Financial Synopsis: December 31, 2018-2009
Fraternal Societies

(\$ in Millions)	Chg.	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operations											
Direct Written Premium	0.7%	\$11,101	\$11,023	\$11,852	\$11,603	\$11,206	\$11,024	\$11,218	\$10,964	\$10,972	\$9,752
Life Direct Written Premium	1.4%	\$4,468	\$4,407	\$4,256	\$4,034	\$3,996	\$4,030	\$4,238	\$4,039	\$3,781	\$3,484
A&H Direct Written Premium	3.7%	\$662	\$638	\$623	\$623	\$631	\$652	\$670	\$688	\$716	\$696
Annuities	0.0%	\$5,348	\$5,346	\$6,195	\$6,278	\$5,955	\$5,590	\$5,560	\$5,435	\$5,552	\$4,702
Other Considerations	(45.0)%	\$0	\$1	\$1	\$2	\$0	\$2	\$2	\$2	\$2	\$17
Deposits	(1.4)%	\$622	\$631	\$777	\$667	\$623	\$751	\$747	\$800	\$921	\$854
Ceded Premium	(1.5)%	\$438	\$445	\$972	\$347	\$339	\$355	\$383	\$418	\$441	\$379
Net Earned Premium	1.0%	\$10,048	\$9,953	\$10,105	\$10,590	\$10,247	\$9,919	\$10,086	\$9,759	\$9,641	\$8,476
Net Investment Income	1.3%	\$5,816	\$5,742	\$5,758	\$5,737	\$5,595	\$5,430	\$5,387	\$5,292	\$5,035	\$4,822
Benefits	0.3%	\$12,472	\$12,432	\$11,898	\$11,634	\$11,087	\$10,600	\$11,272	\$11,236	\$11,197	\$10,194
Commissions & General Exp.	3.2%	\$2,529	\$2,451	\$2,417	\$2,344	\$2,244	\$2,253	\$2,218	\$2,158	\$2,035	\$1,952
Operating Inc. (before refunds)	47.7%	\$1,959	\$1,326	\$1,546	\$1,733	\$1,643	\$1,613	\$1,478	\$1,415	\$1,381	\$1,248
Refunds to Members	1.9%	\$679	\$666	\$661	\$695	\$640	\$633	\$662	\$795	\$816	\$821
Realized Gains/(Losses)	48.5%	\$302	\$203	\$39	\$67	\$143	\$87	(\$12)	(\$44)	(\$48)	(\$502)
Net Income/(Loss)	83.1%	\$1,582	\$864	\$924	\$1,105	\$1,146	\$1,068	\$804	\$576	\$517	(\$75)
Net Cash From Operations	(7.8)%	\$3,469	\$3,762	\$4,134	\$4,380	\$4,114	\$3,860	\$4,721	\$4,797	\$5,099	\$4,580
Number of Filers	0.0%	73	73	76	78	78	78	79	81	86	85
Surplus											
Unrealized Gains/(Losses)	(278.8)%	(\$638)	\$357	\$111	(\$328)	\$118	\$397	\$151	(\$125)	\$395	\$627
Surplus	6.6%	\$16,666	\$15,639	\$14,522	\$13,469	\$12,560	\$11,828	\$9,838	\$9,165	\$1,310	\$1,226
Assets											
Cash & Invested Assets	2.3%	\$138,076	\$134,927	\$129,633	\$124,305	\$119,284	\$114,711	\$111,727	\$104,801	\$98,590	\$91,711
Net Admitted Assets (excl. S. A.)	2.3%	\$139,557	\$136,400	\$131,070	\$125,741	\$120,696	\$116,071	\$113,056	\$106,083	\$99,819	\$92,865
Separate Account Assets	(6.4)%	\$29,578	\$31,598	\$27,584	\$24,793	\$23,794	\$21,007	\$16,580	\$13,746	\$13,073	\$10,886
Total Net Admitted Assets	0.7%	\$169,136	\$167,999	\$158,654	\$150,534	\$144,490	\$137,078	\$129,637	\$119,829	\$112,892	\$103,751
Net Investment Yield	0.0 pts.	4.3%	4.3%	4.5%	4.7%	4.8%	4.8%	5.0%	5.2%	5.3%	5.3%
ROA	0.5 pts.	1.2%	0.7%	0.7%	0.9%	1.0%	0.9%	0.7%	0.6%	0.5%	(0.1)%

Table 8 illustrates the fraternal insurance industry’s aggregate financial results for societies which file on the fraternal annual statement blank. The number of filers over the previous ten years has decreased from 85 in 2009 to 73 in 2018. Total direct written premium and deposits increased 0.7% (\$78.1 million) to \$11.1 billion compared to year-end 2017. This was primarily due to a 1.4% (\$60.8 million) increase in life insurance and a 3.7% (\$23.7 million) increase in deposit-type contracts.

The fraternal industry reported an 83.1% (\$717.9 million) increase in net income to \$1.6 billion and reported a 47.7% (\$632.2 million) increase in operating income before refunds to members to \$2.0 billion for 2018. The increase in net income was mostly attributed to a \$2.3 billion increase in aggregate reserve for life and A&H contracts compared to a \$3.2 billion increase in 2017, and a \$95.7 million increase in premiums and annuity considerations. **Figure 18** shows the industry’s operating income and realized gains (losses) activity to net income and return on assets. Net investment income increased 1.3% to \$5.8 billion and the industry’s net investment yield was unchanged at 4.3% in 2018.



The industry reported a 2.3% (\$3.1 billion) increase in cash and invested assets to \$138.1 billion mostly in long-term bonds, which were up 1.6% (\$1.7 billion). Separate account assets, segregated accounts, and protected cell accounts decreased 6.4% to \$29.6 billion compared to \$31.6 billion at year-end 2017. Surplus increased 6.6% (\$1.0 billion) to \$16.7 billion primarily due to the \$1.6 billion net income, partially offset by a \$638 million decrease in realized capital gains.

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