

2017 Life, A&H and Fraternal Insurance Industry Analysis Report

Industry Overview

Table 1 illustrates 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 an increase in overall profitability from year-end 2016 of 12.7% to \$38.3 billion from 34.0 billion in 2016 as the decrease in revenues to \$850.0 billion were surpassed the decrease in benefits and expenses to \$762.6 billion. Additional items of note include the following:

- Ceded premium increased 15.9% (\$30.7 billion) to \$223.5 billion and assumed premium increased 9.4% (\$10.8 billion) to \$126.5 billion from 2016
- Several categories of net annuity considerations reported declines from 2016
- Capital and surplus increased 3.3% to \$393.2 billion from \$380.8 billion at year-end 2016
 - net income of \$38.3 billion
 - unrealized capital gains of \$3.7 billion
- Realized losses of \$6.4 billion were an improvement over losses of \$11.4 billion reported in 2016

Table 1—Financial Synopsis: December 31, 2017-2008
Life and Accident & Health Insurance Industry

(\$ In Billions)	Change	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operations											
Direct Written Premium	2.9%	\$848.1	\$824.4	\$815.0	\$777.4	\$771.1	\$818.6	\$774.4	\$721.3	\$722.1	\$802.8
Life Direct Written Premium	4.3%	\$182.5	\$175.0	\$173.7	\$166.9	\$165.1	\$174.0	\$166.4	\$158.4	\$152.4	\$169.8
A&H Direct Written Premium	6.1%	\$190.8	\$179.7	\$172.0	\$168.3	\$182.8	\$179.6	\$178.4	\$176.6	\$172.1	\$167.8
Annuities	(2.6)%	\$241.7	\$248.1	\$258.7	\$255.4	\$243.0	\$267.0	\$249.3	\$230.3	\$240.2	\$260.6
Other Considerations	(5.6)%	\$73.9	\$78.2	\$75.3	\$70.5	\$77.1	\$90.3	\$85.8	\$68.3	\$64.4	\$84.2
Deposits	11.1%	\$159.2	\$143.3	\$135.5	\$116.4	\$103.2	\$107.7	\$94.4	\$87.7	\$93.0	\$120.5
Assumed Premium	9.4%	\$126.5	\$115.6	\$147.0	\$82.0	\$99.5	\$89.7	\$79.5	\$66.9	\$70.9	\$70.3
Ceded Premium	15.9%	\$223.5	\$192.8	\$190.7	\$103.2	\$199.0	\$151.1	\$135.3	\$122.0	\$184.2	\$129.1
Net Earned Premium	(0.8)%	\$597.1	\$601.8	\$640.5	\$647.6	\$580.7	\$642.9	\$621.7	\$581.4	\$511.5	\$631.3
Net Investment Income	3.9%	\$176.9	\$170.2	\$167.1	\$169.3	\$165.0	\$164.1	\$164.7	\$161.4	\$154.4	\$161.2
Benefits	3.7%	\$280.3	\$270.4	\$262.6	\$249.9	\$265.5	\$255.7	\$252.4	\$246.7	\$244.6	\$244.1
Commissions & General Expenses	(4.0)%	\$124.4	\$129.6	\$116.2	\$111.4	\$114.3	\$112.2	\$109.9	\$106.3	\$103.5	\$106.2
Operating Income	(1.5)%	\$44.7	\$45.4	\$39.2	\$33.9	\$52.8	\$47.5	\$20.2	\$41.3	\$48.2	(\$2.0)
Realized Gains/(Losses)	44.0%	(\$6.4)	(\$11.4)	(\$3.5)	(\$1.3)	(\$12.0)	(\$9.4)	(\$8.5)	(\$16.0)	(\$28.7)	(\$51.1)
Net Income/(Loss)	12.7%	\$38.3	\$34.0	\$35.7	\$32.6	\$40.7	\$38.1	\$11.6	\$25.3	\$19.5	(\$53.1)
Net Cash From Operations	(7.7)%	\$166.1	\$179.9	\$160.8	\$133.3	\$141.2	\$130.5	\$152.0	\$130.4	\$132.7	\$136.7
Number of Filers	(1.8)%	725	738	745	763	771	787	812	830	855	883
Capital and Surplus											
Unrealized Gains/(Losses)	233.0%	\$3.7	(\$2.8)	(\$10.2)	\$22.9	(\$4.3)	\$5.0	\$14.0	\$8.0	(\$19.1)	(\$47.8)
Capital and Surplus	3.3%	\$393.2	\$380.7	\$367.0	\$352.2	\$329.4	\$323.4	\$305.2	\$303.8	\$287.1	\$250.2
Stockholder Dividends	(16.6)%	(\$36.5)	(\$43.7)	(\$33.1)	(\$39.1)	(\$31.0)	(\$22.2)	(\$27.2)	(\$24.1)	(\$9.4)	(\$24.4)
ROE	0.8 pts.	9.7%	8.9%	9.7%	9.2%	12.4%	11.8%	3.8%	8.3%	6.8%	(21.2)%
Assets											
Cash & Invested Assets	4.5%	\$4,079.7	\$3,902.3	\$3,712.3	\$3,636.2	\$3,481.4	\$3,401.9	\$3,357.3	\$3,194.1	\$3,069.3	\$3,018.5
Net Admitted Assets (excl. S. A.)	4.1%	\$4,326.6	\$4,154.7	\$3,942.0	\$3,858.5	\$3,678.3	\$3,587.7	\$3,531.2	\$3,354.6	\$3,228.2	\$3,179.9
Separate Account Assets	8.8%	\$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	\$1,369.0
Total Net Admitted Assets	5.9%	\$7,038.8	\$6,647.5	\$6,355.0	\$6,282.0	\$6,007.2	\$5,640.9	\$5,366.8	\$5,194.8	\$4,851.9	\$4,548.9
Net Investment Yield	(0.1) pts.	4.4%	4.5%	4.5%	4.8%	4.8%	4.9%	5.0%	5.2%	5.1%	5.4%
ROA	0.1 pts.	0.9%	0.8%	0.9%	0.9%	1.1%	1.1%	0.3%	0.8%	0.6%	(1.7)%

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

Note: Figures reflect filings received as of April 18, 2018, and may change due to additional filings or amendments.

Filings

As shown in **Figure 1**, for year-end 2017, a total of 725 companies filed with the NAIC on the life, accident & health annual statement blank. The continued decline in filings over the years is largely from mergers. There were 6 companies that reported to be party to a merger, half of what was reported for 2016 and the lowest number in over ten years.

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 2.9% (\$23.7 billion) in direct written premium and deposits to \$848.1 billion in 2017. Net written premium and deposits were relatively flat with an increase of 0.5% (\$3.8 billion) to \$751.0 billion. While on an aggregate basis, the life industry did not see much movement in premiums, there were many companies that experienced significant changes in assumed and ceded premiums.

Reinsurance

Ceded premium increased 15.9% (\$30.7 billion), of which the largest increase was seen in the annuities line of business with an increase of 136.9% or \$28.7 billion to \$49.7 billion for 2017. There were 3 companies that reported increases from 2016 greater than \$10 billion and 1 company that reported a decrease greater than \$15 billion. Assumed premium increased 9.4%, or \$10.8 billion which was in the life line of business with an increase of \$5.8 billion to \$73.1 billion and annuities with an increase of \$4.6 billion to \$23.2 billion for 2017. There were two companies that reported increases from 2016 greater than \$10 billion and two companies that reported declines of greater than \$7 billion.

Of the 414 companies that reported assumed premiums, 39 companies with over \$100.0 million in assumed premium reported changes of over 25% from 2016. Of the 597 companies that reported ceded premiums, 63 companies with over \$100.0 million in ceded premiums reported changes of over 25% from 2016.

Life Insurance

The life insurance line of business reported a 16.6% or \$19.7 million to \$138.3 million on a net basis due to the \$5.8 million increase in assumed premium and the \$6.4 million decline in ceded premiums for 2017.

Deposit-type Contracts

Deposit-type contracts of \$159.2 million experienced an

Figure 1
Number of Filers

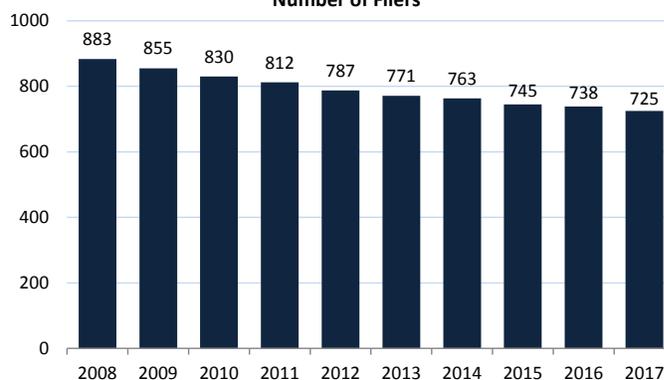


Table 2—Total Written Premium by LOB

(\$ in Billions)

Life Insurance	% Chg.	\$ Chg.	2017	2016
Direct Premium	4.3%	\$7.5	\$182.5	\$175.0
Assumed Premium	8.7%	\$5.8	\$73.1	\$67.2
Gross Premium	5.5%	\$13.3	\$255.6	\$242.3
Ceded Premiums	(5.1)%	(\$6.4)	\$117.3	\$123.7
Net Premium	16.6%	\$19.7	\$138.3	\$118.6
Annuity Considerations	% Chg.	\$ Chg.	2017	2016
Direct Premium	(2.6)%	(\$6.5)	\$241.7	\$248.1
Assumed Premium	24.7%	\$4.6	\$23.2	\$18.6
Gross Premium	(0.7)%	(\$1.9)	\$264.8	\$266.7
Ceded Premiums	136.9%	\$28.7	\$49.7	\$21.0
Net Premium	(12.4)%	(\$30.6)	\$215.2	\$245.7
A&H Insurance	% Chg.	\$ Chg.	2017	2016
Direct Premium	6.1%	\$11.0	\$190.8	\$179.7
Assumed Premium	2.1%	\$0.5	\$26.7	\$26.2
Gross Premium	5.6%	\$11.6	\$217.5	\$205.9
Ceded Premiums	15.3%	\$6.3	\$47.6	\$41.2
Net Premium	3.2%	\$5.3	\$169.9	\$164.6
Other	% Chg.	\$ Chg.	2017	2016
Direct Premium	(5.6)%	(\$4.4)	\$73.9	\$78.2
Assumed Premium	(0.3)%	(\$0.0)	\$1.4	\$1.4
Gross Premium	(5.5)%	(\$4.4)	\$75.2	\$79.6
Ceded Premiums	(40.7)%	(\$2.2)	\$3.2	\$5.4
Net Premium	(3.0)%	(\$2.2)	\$72.0	\$74.2
Deposit-type Contracts	% Chg.	\$ Chg.	2017	2016
Direct Premium	11.1%	\$15.9	\$159.2	\$143.3
Assumed Premium	(5.4)%	(\$0.1)	\$2.2	\$2.3
Gross Premium	10.9%	\$15.8	\$161.4	\$145.6
Ceded Premiums	275.0%	\$4.2	\$5.7	\$1.5
Net Premium	8.1%	\$11.6	\$155.7	\$144.1

11.1% or \$15.9 million increase over what was reported in 2016, a 54.3% increase over the \$103.2 million reported in 2013, and an 81.5% increase over its 10-year low of \$87.8 million reported in 2010, illustrated in **Figure 2**. Out of 106 insurance groups, 1 group accounted for 41.9% of direct premiums for 2017 and the top 3 groups accounted for 66.9%. There were 8 groups that accounted for the majority of the increase in deposit-type contracts.

Figure 2
Deposit-type Contracts

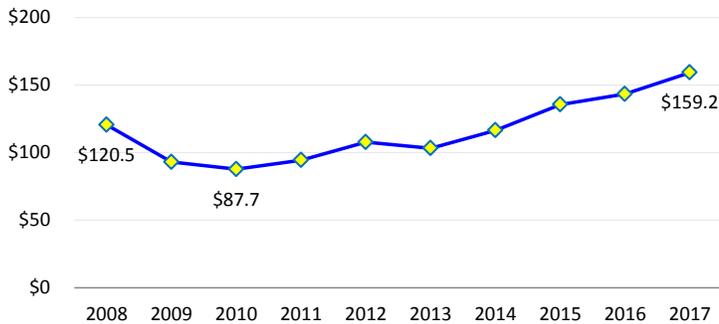
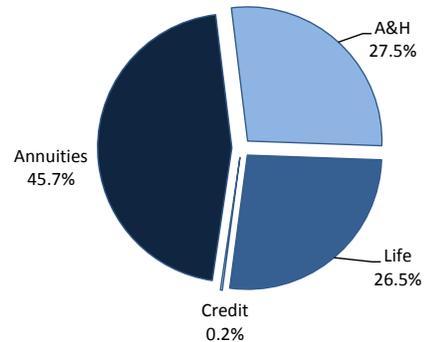


Figure 3
2017 Direct Earned Premium by Sector



On an earned basis, the industry reported a 1.2% (\$8.0 billion) increase in direct earned premium to \$691.3 billion. **Figure 3** illustrates the industry's 2017 direct earned premium allocation by sector. Individual annuities accounted for 57.1% of annuity premiums, group A&H accounted for 66.5% of A&H premiums, and ordinary life insurance accounted for 78.2% of life premiums.

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 the separate account and group variable annuities in the separate account. Annuity reserves increased 2.8% to \$1.6 trillion compared to \$1.5 trillion for 2016. Until 2017, individual fixed and indexed annuities had experienced an upward trend over the same time period. Group fixed annuities has continued its upward trend. The annuities market may continue to experience a downward trend going forward. What interest rates do in 2018 will have an impact on movement in the market.

Table 3—Annuity Considerations Distribution

<i>\$ In Billions</i>	% Change	2017	2016	2015	2014	2013
Total Net Annuity Considerations	(9.8)%	\$287.2	\$318.5	\$324.1	\$352.7	\$278.8
Individual Fixed Annuities	(16.9)%	\$39.6	\$47.7	\$39.2	\$40.4	\$32.5
Individual Indexed Annuities	(7.6)%	\$45.8	\$49.5	\$48.9	\$43.3	\$19.5
Individual Variable Annuities General Account	(47.0)%	\$13.9	\$26.3	\$19.1	\$58.6	\$19.0
Individual Variable Annuities Separate Account	(6.9)%	\$64.7	\$69.5	\$90.9	\$95.6	\$98.5
Group Fixed Annuities	13.4%	\$41.2	\$36.3	\$29.2	\$28.0	\$19.0
Group Variable Annuities General Account	(21.2)%	\$10.4	\$13.2	\$12.0	\$11.4	\$11.0
Group Variable Annuities Separate Account	(13.5)%	\$46.3	\$53.6	\$57.5	\$56.0	\$52.6
Other Annuities	12.5%	\$25.2	\$22.4	\$27.3	\$19.4	\$26.6

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

Table 4 illustrates state detail for 2017 and 2016 by premium type with the three largest states for each premium type highlighted. 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. Delaware has the largest percentage of premiums in deposit-type contracts.

Table 4—Premiums by State

State	Life Insurance Premiums			Annuity Considerations			A&H Insurance Premiums			Other Considerations			Deposit-Type Contracts		
	% Chg	2017	2016	% Chg	2017	2016	% Chg	2017	2016	% Chg	2017	2016	% Chg	2017	2016
Alabama	(2%)	\$2,191	\$2,237	(5%)	\$2,667	\$2,813	13%	\$1,723	\$1,527	17%	\$514	\$441	14%	\$322	\$284
Alaska	1%	\$429	\$423	7%	\$394	\$367	4%	\$336	\$322	28%	\$270	\$211	(31%)	\$26	\$37
Arizona	3%	\$2,384	\$2,312	(1%)	\$4,564	\$4,617	(6%)	\$3,836	\$4,078	(8%)	\$1,537	\$1,676	2%	\$345	\$340
Arkansas	(6%)	\$1,106	\$1,182	(5%)	\$1,346	\$1,417	(1%)	\$986	\$993	8%	\$331	\$306	1%	\$84	\$83
California	8%	\$17,455	\$16,158	(6%)	\$22,286	\$23,614	4%	\$14,371	\$13,754	(0%)	\$8,738	\$8,744	(15%)	\$2,385	\$2,800
Colorado	8%	\$2,678	\$2,489	9%	\$4,982	\$4,584	7%	\$3,770	\$3,517	25%	\$999	\$797	(17%)	\$1,069	\$1,287
Connecticut	4%	\$2,599	\$2,490	4%	\$4,409	\$4,225	(1%)	\$2,781	\$2,822	0%	\$2,092	\$2,083	27%	\$9,978	\$7,838
Delaware	19%	\$1,406	\$1,179	21%	\$3,274	\$2,703	19%	\$736	\$616	(6%)	\$370	\$394	18%	\$61,910	\$52,358
Dist. Columbia	1%	\$430	\$426	(2%)	\$680	\$691	(6%)	\$828	\$879	21,808%	\$550	-\$3	(6%)	\$1,275	\$1,355
Florida	6%	\$9,867	\$9,343	(6%)	\$16,959	\$17,990	6%	\$13,702	\$12,924	(16%)	\$4,076	\$4,835	(1%)	\$1,456	\$1,467
Georgia	8%	\$5,098	\$4,726	(7%)	\$4,987	\$5,383	33%	\$7,642	\$5,728	(2%)	\$3,122	\$3,175	52%	\$1,486	\$975
Hawaii	7%	\$788	\$734	4%	\$1,348	\$1,296	31%	\$1,328	\$1,013	(11%)	\$323	\$363	3%	\$69	\$67
Idaho	2%	\$576	\$567	1%	\$895	\$883	17%	\$721	\$616	26%	\$277	\$220	8%	\$66	\$61
Illinois	1%	\$6,842	\$6,783	5%	\$9,882	\$9,413	12%	\$6,169	\$5,511	(16%)	\$2,670	\$3,176	6%	\$1,837	\$1,728
Indiana	4%	\$2,835	\$2,738	(15%)	\$4,965	\$5,808	3%	\$4,275	\$4,156	12%	\$1,026	\$913	96%	\$3,132	\$1,595
Iowa	2%	\$1,783	\$1,742	(2%)	\$2,869	\$2,917	5%	\$1,421	\$1,360	16%	\$2,324	\$2,012	23%	\$13,853	\$11,303
Kansas	(2%)	\$1,369	\$1,398	(1%)	\$2,126	\$2,148	0%	\$3,391	\$3,375	(5%)	\$419	\$442	80%	\$2,751	\$1,528
Kentucky	1%	\$1,582	\$1,570	9%	\$2,660	\$2,435	3%	\$1,701	\$1,654	(45%)	\$724	\$1,306	(17%)	\$236	\$286
Louisiana	(1%)	\$2,336	\$2,357	(8%)	\$3,102	\$3,368	1%	\$2,047	\$2,033	6%	\$631	\$598	19%	\$292	\$246
Maine	(6%)	\$439	\$466	2%	\$1,055	\$1,033	(5%)	\$847	\$895	(10%)	\$195	\$218	(35%)	\$61	\$94
Maryland	4%	\$3,047	\$2,942	(8%)	\$4,773	\$5,182	7%	\$3,625	\$3,398	(25%)	\$1,218	\$1,623	(13%)	\$653	\$750
Massachusetts	5%	\$3,798	\$3,632	(7%)	\$6,970	\$7,462	6%	\$3,413	\$3,227	1%	\$3,268	\$3,235	(30%)	\$599	\$853
Michigan	3%	\$4,645	\$4,491	6%	\$9,804	\$9,286	1%	\$3,467	\$3,420	14%	\$1,761	\$1,542	6%	\$1,072	\$1,010
Minnesota	7%	\$4,889	\$4,570	(6%)	\$4,515	\$4,785	7%	\$1,640	\$1,528	2%	\$1,861	\$1,829	15%	\$848	\$739
Mississippi	2%	\$1,246	\$1,216	(3%)	\$1,368	\$1,416	4%	\$1,474	\$1,420	(4%)	\$191	\$199	19%	\$141	\$119
Missouri	2%	\$2,767	\$2,717	(7%)	\$5,716	\$6,152	8%	\$4,256	\$3,957	(5%)	\$1,070	\$1,132	(21%)	\$683	\$867
Montana	6%	\$374	\$351	(3%)	\$495	\$510	7%	\$371	\$346	3%	\$135	\$132	35%	\$50	\$37
Nebraska	(3%)	\$1,049	\$1,087	(5%)	\$1,506	\$1,582	7%	\$1,418	\$1,324	(14%)	\$392	\$455	23%	\$365	\$297
Nevada	16%	\$1,200	\$1,030	(7%)	\$1,402	\$1,500	6%	\$1,210	\$1,144	7%	\$384	\$359	(46%)	\$174	\$320
New Hampshire	5%	\$642	\$610	(14%)	\$1,710	\$1,987	1%	\$677	\$668	(78%)	\$262	\$1,216	(25%)	\$219	\$293
New Jersey	9%	\$6,700	\$6,133	(5%)	\$10,045	\$10,532	12%	\$6,887	\$6,154	(12%)	\$2,355	\$2,684	(12%)	\$1,431	\$1,625
New Mexico	(0%)	\$677	\$679	(8%)	\$902	\$984	33%	\$1,107	\$830	2%	\$435	\$425	0%	\$83	\$83
New York	6%	\$12,697	\$11,976	1%	\$17,402	\$17,151	1%	\$9,702	\$9,576	(4%)	\$8,192	\$8,571	6%	\$31,666	\$29,817
North Carolina	20%	\$5,469	\$4,557	2%	\$6,939	\$6,781	11%	\$5,731	\$5,178	(11%)	\$2,915	\$3,278	19%	\$893	\$749
North Dakota	9%	\$437	\$402	(9%)	\$543	\$595	2%	\$302	\$295	(5%)	\$178	\$188	(17%)	\$65	\$79
Ohio	1%	\$5,108	\$5,033	10%	\$10,724	\$9,773	4%	\$7,474	\$7,154	(4%)	\$2,379	\$2,486	76%	\$7,451	\$4,230
Oklahoma	(13%)	\$1,411	\$1,621	(6%)	\$1,750	\$1,863	4%	\$1,699	\$1,627	10%	\$581	\$526	40%	\$289	\$207
Oregon	2%	\$1,257	\$1,232	(7%)	\$2,254	\$2,431	6%	\$1,932	\$1,815	(16%)	\$970	\$1,158	(31%)	\$198	\$286
Pennsylvania	3%	\$6,571	\$6,368	(1%)	\$12,611	\$12,736	7%	\$7,101	\$6,624	(41%)	\$2,532	\$4,285	(69%)	\$2,363	\$7,639
Rhode Island	(0%)	\$451	\$453	3%	\$1,131	\$1,102	0%	\$480	\$478	8%	\$249	\$230	(42%)	\$70	\$121
South Carolina	8%	\$2,268	\$2,093	(4%)	\$3,457	\$3,615	78%	\$3,642	\$2,044	21%	\$653	\$542	13%	\$216	\$191
South Dakota	43%	\$1,153	\$808	(6%)	\$528	\$560	3%	\$390	\$377	12%	\$124	\$111	213%	\$235	\$75
Tennessee	7%	\$3,152	\$2,949	(4%)	\$4,328	\$4,516	10%	\$3,469	\$3,141	(7%)	\$1,164	\$1,256	(0%)	\$888	\$888
Texas	6%	\$11,895	\$11,212	(6%)	\$14,898	\$15,836	(1%)	\$17,366	\$17,596	13%	\$3,610	\$3,208	(0%)	\$3,294	\$3,299
Utah	11%	\$1,482	\$1,331	(10%)	\$1,983	\$2,196	14%	\$1,322	\$1,164	(5%)	\$466	\$492	(11%)	\$319	\$358
Vermont	2%	\$258	\$254	9%	\$612	\$560	3%	\$371	\$359	6%	\$181	\$171	99%	\$105	\$53
Virginia	7%	\$4,545	\$4,251	(11%)	\$5,755	\$6,482	7%	\$4,529	\$4,248	12%	\$1,580	\$1,408	(22%)	\$744	\$949
Washington	2%	\$2,593	\$2,547	2%	\$4,336	\$4,272	11%	\$3,561	\$3,222	8%	\$1,606	\$1,480	(15%)	\$403	\$473
West Virginia	6%	\$640	\$606	(21%)	\$1,046	\$1,330	4%	\$758	\$727	(11%)	\$146	\$165	(13%)	\$93	\$107
Wisconsin	5%	\$2,700	\$2,574	(0%)	\$4,738	\$4,752	(1%)	\$3,549	\$3,570	(6%)	\$1,183	\$1,253	(17%)	\$580	\$701
Wyoming	2%	\$277	\$271	(16%)	\$362	\$433	3%	\$350	\$340	(9%)	\$55	\$60	18%	\$25	\$21
American Samoa	(1%)	\$3	\$3	14%	\$0	\$0	(95%)	\$0	\$0	0%	\$0	\$0	0%	\$0	\$0
Guam	(6%)	\$51	\$54	(41%)	\$5	\$8	(35%)	\$29	\$44	(1%)	\$3	\$3	99%	\$0	\$0
Puerto Rico	(7%)	\$472	\$509	(19%)	\$537	\$659	(2%)	\$841	\$859	(27%)	\$100	\$137	(50%)	\$9	\$19
U.S. Virgin Islands	(5%)	\$21	\$22	(42%)	\$7	\$12	2%	\$252	\$249	51%	\$7	\$4	219%	\$0	\$0
Northern Mariana Islands	(9%)	\$8	\$8	47%	\$0	\$0	3%	\$29	\$28	0%	\$0	\$0	0%	\$0	\$0
Canada	9%	\$346	\$318	20%	\$18	\$15	20%	\$409	\$342	(2%)	\$14	\$14	(16%)	\$2	\$2
Aggregate other alien	(9%)	\$4,250	\$4,654	(14%)	\$432	\$500	0%	\$11,338	\$11,311	(48%)	\$77	\$148	(7%)	\$95	\$102

Investment Income

Net investment income increased 3.9% (\$6.7 billion), to \$176.9 billion in 2017 compared to \$170.2 billion in 2016.

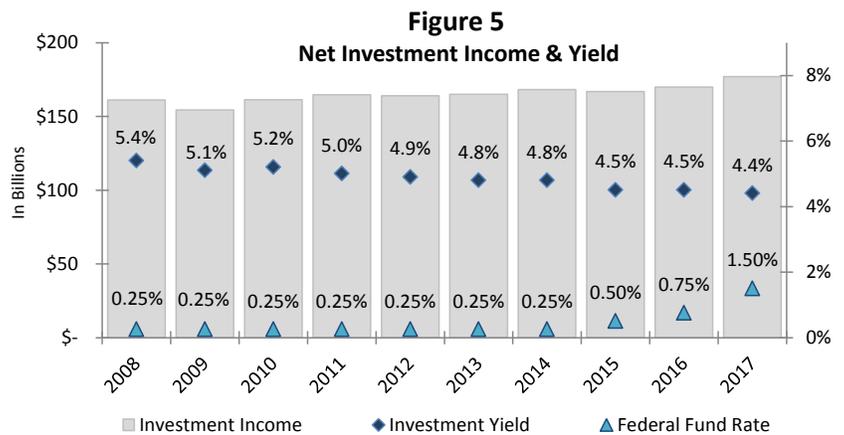
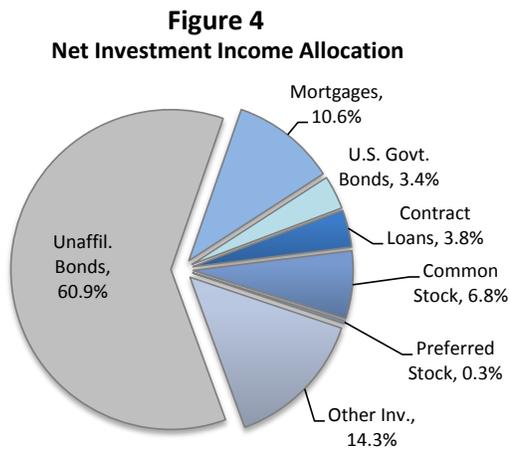
- Derivatives increased \$3.9 billion to \$7.6 billion
- Other invested assets increased \$2.3 billion to \$14.7 billion
- Unaffiliated other bonds increased \$1.5 billion to \$123.2 billion

The industry's invested asset portfolio increased 4.5% to \$4.1 trillion at year-end 2017. **Figure 4** illustrates net investment income by asset class. The Other Inv. Category increased to 14.3% from 11.7% at year-end 2016, primarily from the following:

- Derivatives asset class increased 0.9 points to 7.2%
- Other invested assets increased 1.8 points to 3.7%

The industry's net investment yield was essentially flat at 4.4% as seen in **Figure 5**. In 2017, the Federal Reserve increased the federal funds interest rate as follows:

- March 16th—to 1.00% from 0.75%
- June 15th—to 1.25% from 1.00%
- December 14th—to 1.50% from 1.25%
- Increased again March 22, 2018 to 1.75% (not reflected in 10-year historical chart below)



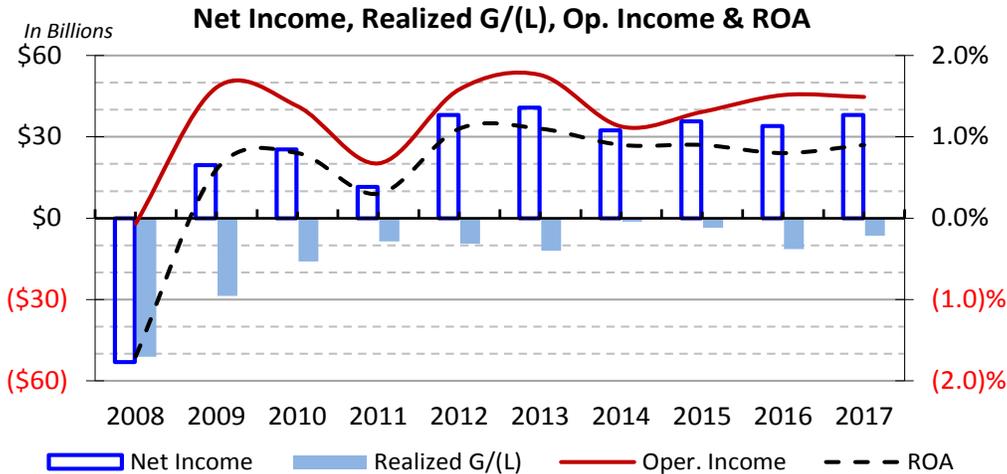
Operations

The industry reported profitability of \$38.3 billion in 2017 compared to \$34.0 billion for 2016, an increase of \$4.3 billion. The largest increases and decreases are shown in **Table 5** (unadjusted basis). Federal and foreign income taxes incurred decreased largely from the Tax Cuts and Jobs Act. The 43.9% improvement in net realized losses was mainly from realized gains in unaffiliated other bonds of \$6.5 billion compared to \$480.9 million for 2016. Concurrently, U.S. government bonds reported realized gains of \$382.0 million compared to \$2.2 billion for 2016. The impact realized losses have had on net income over the past ten years is depicted in **Figure 6** on the following page. As illustrated in **Figure 6**, the industry's return on assets has been relatively static since 2012, with only a slight downward trend.

Table 5—Changes in Net Income/(Loss)

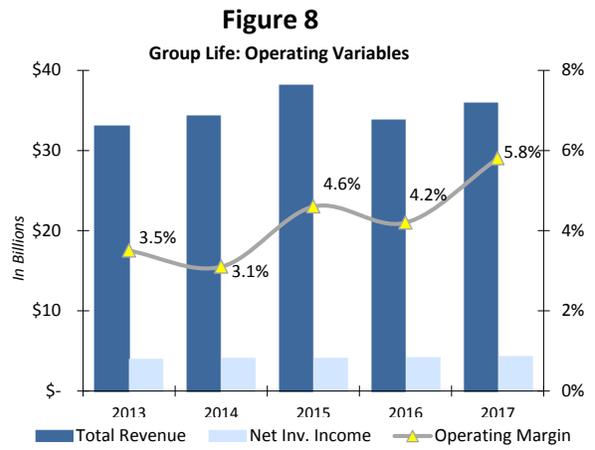
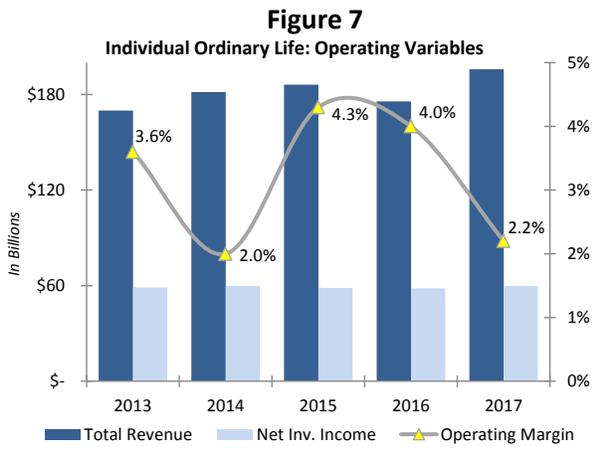
<i>\$ In Billions</i>	% Change	\$ Change	2017	2016
Net Investment Income	3.5%	\$6.3	\$189.8	\$183.5
Commissions & Exp Allowances on Reins Ceded	-38.1%	(\$15.3)	\$24.9	\$40.2
Reserve Adjustments on Reins Ceded	-47.9%	(\$8.1)	(\$25.1)	(\$17.0)
Total Revenues	-2.0%	(\$16.9)	\$850.7	\$867.6
Surrender Benefits & Withdrawals for Life Contracts	16.6%	\$44.0	\$309.1	\$265.1
Increase in Agg Reserves for Life and A&H Contracts	-21.2%	(\$27.1)	\$100.5	\$127.6
Commissions & Exp Allowances on Reins Assumed	-37.1%	(\$8.9)	\$15.0	\$23.9
Net Transfers To or (From) S.A. Net of Reins	-72.8%	(\$27.7)	(\$65.8)	(\$38.0)
Total Expenses	-1.3%	(\$10.3)	\$764.3	\$774.5
Federal and Foreign Income Taxes Incurred	-26.3%	(\$4.2)	\$11.9	\$16.1
Net Realized Capital Gains/(Losses)	43.9%	\$5.0	(\$6.4)	(\$11.4)
Net Income/(Loss)	7.0%	\$3.3	\$50.6	\$47.3

Figure 6

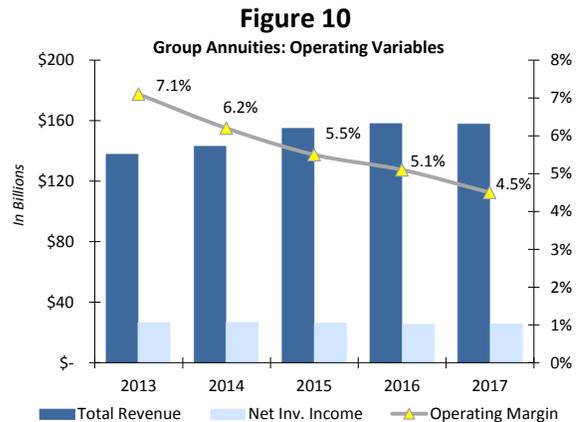
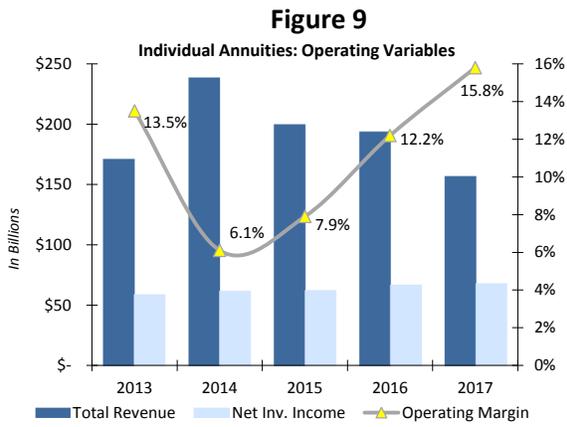


\$ In Billions	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Income	-\$53.1	\$19.5	\$25.3	\$11.6	\$38.1	\$40.7	\$32.4	\$35.7	\$34.0	\$38.0
Realized G/(L)	-\$51.1	-\$28.7	-\$16.0	-\$8.5	-\$9.4	-\$12.0	-\$1.3	-\$3.5	-\$11.4	-\$6.4
Oper. Income	-\$2.0	\$48.2	\$41.3	\$20.2	\$47.5	\$52.8	\$33.8	\$39.2	\$45.4	\$44.7
ROA	-1.7%	0.6%	0.8%	0.3%	1.1%	1.1%	0.9%	0.9%	0.8%	0.9%

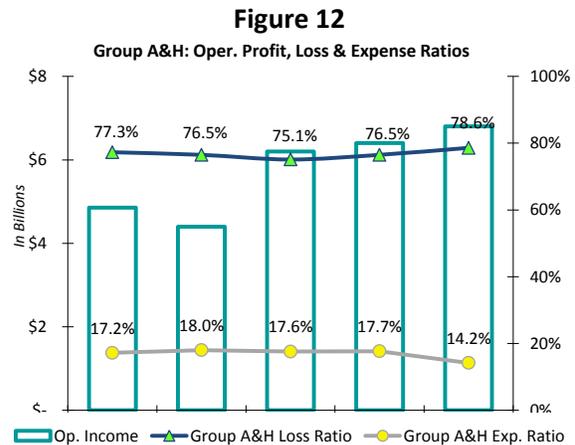
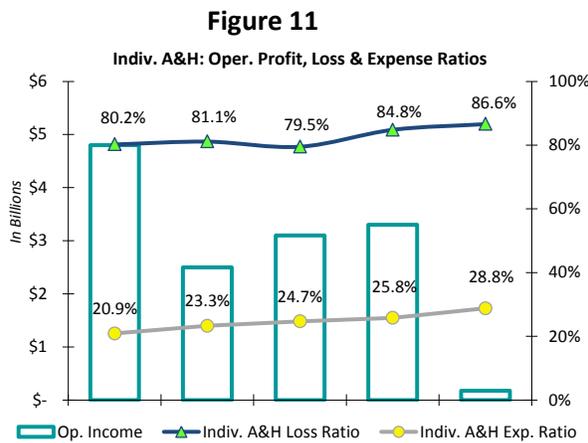
Figures 7-10 show the total revenue, net investment income, and operating margin for the individual and group life sectors and the individual and group annuities sectors over the past five years.



As illustrated in Figures 9 and 10, the operating margins for the annuities sector have experienced significantly more change than for the life sector.



Figures 11 and 12 show the operating profit, loss ratio, and expense ratio for the individual and group A&H sectors over the past five years.



Assets

The life industry reported a 5.9% increase in total net admitted assets at Dec. 31, 2017 to \$7.0 trillion. The increase was primarily in bonds, which increased 3.8% (\$108.6 billion) to \$3.0 trillion and mortgages, which increased 9.0% (\$39.4 billion) to \$477.0 million. Separate accounts increased 8.8% to \$2.7 trillion and accounted for 38.5% 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 10 for discussion of separate accounts.

Table 6—Invested Assets

(\$ In Billions)	2017 % of		2013 % of		5-Yr % Chg	1-Yr % Chg	2017	2016	2013
	Total	Total	Total	Total					
Bonds	73.1%	74.8%	14.5%	3.8%	\$2,982.7	\$2,874.1	\$2,605.1		
Common Stock	2.2%	1.9%	34.9%	7.9%	\$91.0	\$84.4	\$67.4		
Preferred Stock	0.3%	0.2%	26.6%	8.6%	\$10.5	\$9.6	\$8.3		
Mortgage Loans	11.7%	10.1%	35.1%	9.0%	\$477.0	\$437.7	\$353.2		
Real Estate	0.6%	0.6%	5.1%	(3.9)%	\$23.5	\$24.5	\$22.4		
Cash & S/T Investments	2.6%	2.7%	10.9%	3.1%	\$105.0	\$101.9	\$94.7		
Derivatives	1.4%	1.2%	46.4%	(5.4)%	\$58.7	\$62.0	\$40.1		
BA Assets	4.3%	4.2%	21.1%	10.5%	\$175.3	\$158.8	\$144.8		
Other Invested Assets	3.8%	4.2%	7.2%	4.4%	\$156.0	\$149.4	\$145.5		
Total Invested Assets	100.0%	100.0%	17.2%	4.5%	\$4,079.7	\$3,902.3	\$3,481.4		

As seen in Figure 13, the industry has seen a significant increase in affiliated investments over the past ten years. Affiliated common stock, affiliated bonds, and other affiliated assets account for 96.5% of affiliated investments and also experienced the largest increases over the last ten years. Affiliated preferred stock has declined 14% to \$561.4 million at Dec. 31, 2017 and declined 81.4% from \$2.9 billion at Dec. 31, 2008.

As seen in Figure 14, the majority of the industry's bond portfolio is comprised of industrial and miscellaneous bonds, 74.7%.

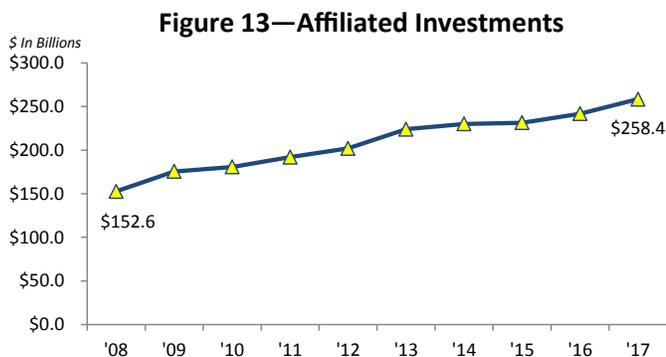
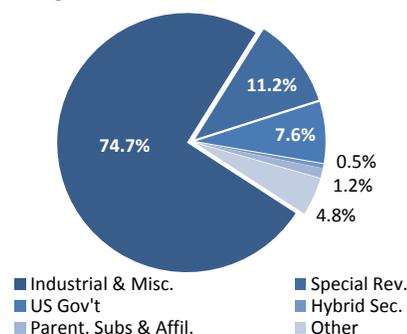
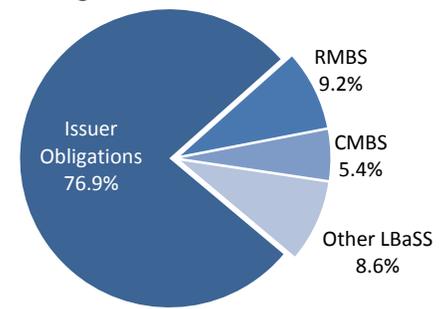


Figure 14—Bond Distribution



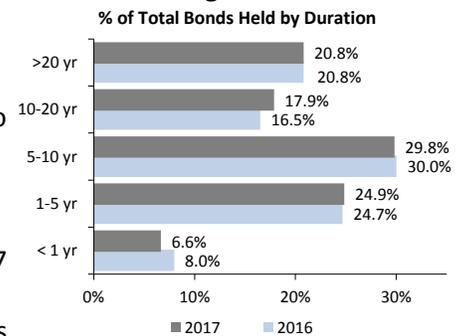
The industry's allocation of long-term bonds is shown in **Figure 15**, with the majority being 76.9% issuer obligations. The industry's holdings of noninvestment-grade bonds decreased 3.2% (\$5.7 billion) and represented 5.7% of total bonds at Dec. 31, 2017, of which 3.6% were class NAIC 3. The distribution of bonds between class NAIC 1 through class NAIC 6 has been essentially flat for the last five years. The bond portfolio was also 68.7% publicly-traded securities and 31.3% private placements.

Figure 15—Bond Allocation



The life insurance industry maintains a portfolio where bond durations have increased with 31.5% of the holdings at year-end 2017 due to mature in five years or less compared with 33.8% at year-end 2013. Bonds with a maturity of ten years or later represented 38.7% of total bonds. **Figure 16** illustrates bond distribution by duration.

Figure 16



Liabilities

The life industry reported a 6.1% (\$380.8 billion) increase in total liabilities to \$6.6 trillion at year-end 2017. The largest increases were in the following: the following:

- 8.8% (\$219.5 billion) increase in separate account liabilities to \$2.7 trillion
- 2.8% (\$76.0 billion) increase in aggregate reserves for life contracts to \$2.7 trillion
- 19.2% (\$17.9 billion) increase in funds held under reinsurance treaties with unauthorized reinsurers to \$111.2 billion
- 20.7% (\$17.4 billion) increase in funds held under coinsurance to \$101.3 billion
- 5.2% (\$15.1 billion) increase in liability for deposit-type contracts to \$306.6 billion
- 4.8% (\$12.2 billion) increase in aggregate reserves for A&H contracts to \$264.9 billion

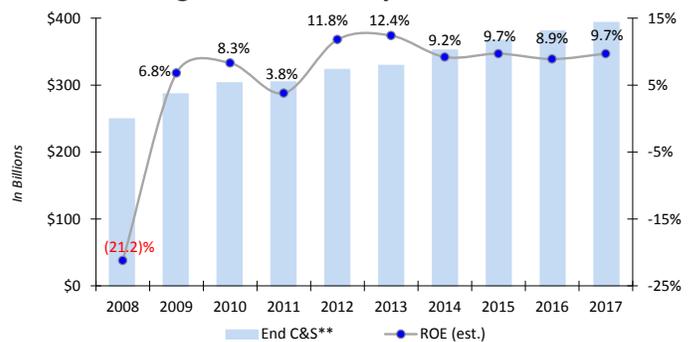
These items were partially offset by a 6.5% (\$2.3 billion) decrease in derivatives to \$32.5 billion and a 16.7% (\$1.8 billion) decrease in premiums and annuity considerations received in advance to \$8.8 billion.

Capital and Surplus

The life industry's capital and surplus increased by 3.3% to \$393.2 billion compared to \$380.8 billion at Dec. 31, 2016 due primarily to net income of \$38.3 billion and unrealized capital gains of \$3.7 billion.

As seen in **Figure 17**, the industry's return on equity increased to 9.7% from 8.9% in 2016 due mainly to the industry's increase in net income.

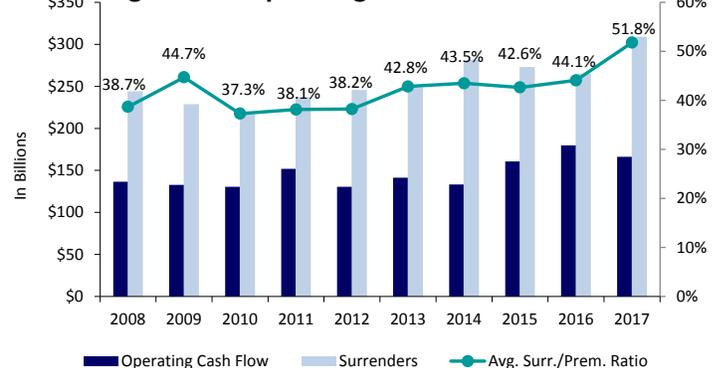
Figure 17—Industry C&S and ROE



Liquidity

The life industry reported operating cash flow of \$166.1 billion in 2017, down 7.7% (\$13.8 billion) from \$179.9 billion in the prior year. The decline was primarily from a 5.2% (\$4.0 billion) decrease in miscellaneous income and a 0.3% (\$2.0 billion) decrease in premiums collected net of reinsurance. Concurrently, benefits and loss-related payments increased 10.7% (\$59.4 billion). Transfers to separate accounts was \$(69.3) billion compared to \$(40.8) billion for 2016, partially offsetting the decline.

Figure 18—Operating Cash Flow & Surrenders



The industry saw a 16.5% (\$43.9 billion) rise in surrender benefits to \$309.1 billion primarily from a 15.1% (\$20.0 billion) increase in individual annuities, a 20.2% (\$20.9 billion) increase in group annuities, and a 34.7% (\$19.7 billion)

increase in individual life. **Figure 18** on the previous page, shows the industry's operating cash flow and surrenders activity over the past ten years.

The life industry reported \$(158.2) billion in net cash from investment activity as total investment proceeds of \$753.7 billion were surpassed by \$910.5 billion in total investments acquired. The largest increase in investments acquired was \$7.4 billion in miscellaneous to \$29.2 billion and \$5.3 billion in other invested assets to \$59.1 billion. Net cash from financing activity decreased 216.8% (\$8.6 billion) to \$(4.6) billion mostly from a \$4.0 billion decrease in net deposits on deposit-type contracts to \$7.2 billion, a \$2.9 billion decrease in borrowed funds to \$763.1 million and an increase in other cash applied to \$1.8 billion.

Separate Accounts

The life industry reported an 8.8% increase in separate account assets to \$2.7 trillion at Dec. 31, 2017. Likewise, total separate account liabilities increased 8.8% to \$2.7 trillion. Aggregate separate account reserves for life, annuity and A&H products increased 3.3% (\$71.5 billion) to \$2.2 trillion and liability for deposit-type contracts increased 10.4% (\$19.9 billion) to \$211.5 billion.

Net investment income and capital gains and losses increased to \$334.2 billion compared to \$154.9 billion for 2016. Net gain from operations increased 127.5% (\$540.5) million to \$965 million. Individual annuities increased \$1.1 billion to \$1.0 billion.

Separate account fees increased 5.5% to \$36.6 billion from \$34.7 billion at Dec. 31, 2016. The ratio of separate account fees to separate account assets decreased to 1.3% from 1.4% and the industry's CARVM allowance decreased 7.9% to \$(29.0) billion. Separate account surplus decreased 9.6% (\$216.8 million) to \$2.0 billion compared to year-end 2016.

Table 7—Separate Accounts

<i>\$ In Millions</i>	% Change	2017	2016
Totals Revenue	58.8%	\$510,476	\$321,527
Net premiums	3.2%	\$174,775	\$169,321
Net investment income and capital gains and losses	115.7%	\$334,183	\$154,925
Total Benefits and Expenses	16.9%	\$248,952	\$212,975
Death benefits	5.2%	\$7,234	\$6,873
Annuity benefits	14.4%	\$26,014	\$22,732
Surrender benefits and withdrawals for life contracts	20.8%	\$206,119	\$170,579
Fees for charges for investment mgt, admin and guarantees	3.4%	\$36,458	\$35,250
Increase in aggregate reserve for life and A&H contracts	190.6%	\$206,448	\$71,040
Increase in liability for deposit-type contracts	719.8%	\$19,000	\$2,318
Net gain from operations	127.5%	\$965	\$424
Surplus	(9.6%)	\$2,039	\$2,255
Assets	8.8%	\$2,712,153	\$2,492,838
Liabilities	8.8%	\$2,712,207	\$2,493,305
CARVM Allowance	(7.9%)	(\$29,025)	(\$26,892)

2017 Fraternal Industry Results

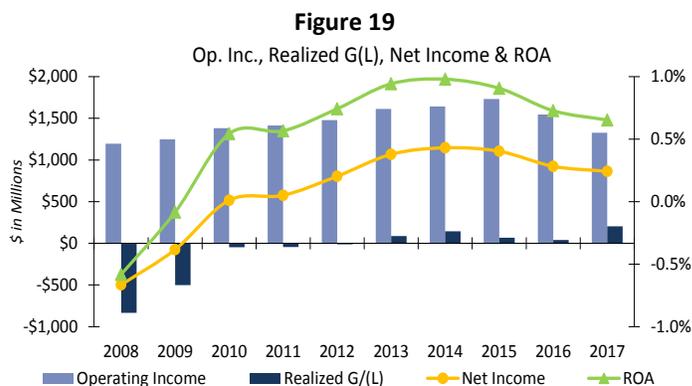
Table 8—Financial Synopsis: December 31, 2017-2008

Fraternal Societies											
(\$ in Millions)	Chg.	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operations											
Direct Written Premium	(7.0)%	\$11,023	\$11,852	\$11,603	\$11,206	\$11,024	\$11,218	\$10,964	\$10,972	\$9,752	\$8,541
Life Direct Written Premium	3.6%	\$4,407	\$4,256	\$4,034	\$3,996	\$4,030	\$4,238	\$4,039	\$3,781	\$3,484	\$3,409
A&H Direct Written Premium	2.4%	\$638	\$623	\$623	\$631	\$652	\$670	\$688	\$716	\$696	\$656
Annuities	(13.7)%	\$5,346	\$6,195	\$6,278	\$5,955	\$5,590	\$5,560	\$5,435	\$5,552	\$4,702	\$3,768
Other Considerations	(34.0)%	\$1	\$1	\$2	\$0	\$2	\$2	\$2	\$2	\$17	\$0
Deposits	(18.8)%	\$631	\$777	\$667	\$623	\$751	\$747	\$800	\$921	\$854	\$707
Ceded Premium	(54.2)%	\$445	\$972	\$347	\$339	\$355	\$383	\$418	\$441	\$379	\$324
Net Earned Premium	(1.5)%	\$9,953	\$10,105	\$10,590	\$10,247	\$9,919	\$10,086	\$9,759	\$9,641	\$8,476	\$7,514
Net Investment Income	(0.3)%	\$5,742	\$5,758	\$5,737	\$5,595	\$5,430	\$5,387	\$5,292	\$5,035	\$4,822	\$4,817
Benefits	4.5%	\$12,432	\$11,898	\$11,634	\$11,087	\$10,600	\$11,272	\$11,236	\$11,197	\$10,194	\$9,670
Commissions & General Exp.	1.4%	\$2,451	\$2,417	\$2,344	\$2,244	\$2,253	\$2,218	\$2,158	\$2,035	\$1,952	\$1,834
Operating Inc. (before refunds)	(14.2)%	\$1,326	\$1,546	\$1,733	\$1,643	\$1,613	\$1,478	\$1,415	\$1,381	\$1,248	\$1,195
Refunds to Members	0.7%	\$666	\$661	\$695	\$640	\$633	\$662	\$795	\$816	\$821	\$857
Realized Gains/(Losses)	419.5%	\$203	\$39	\$67	\$143	\$87	(\$12)	(\$44)	(\$48)	(\$502)	(\$835)
Net Income/(Loss)	(6.5)%	\$864	\$924	\$1,105	\$1,146	\$1,068	\$804	\$576	\$517	(\$75)	(\$499)
Net Cash From Operations	(9.0)%	\$3,762	\$4,134	\$4,380	\$4,114	\$3,860	\$4,721	\$4,797	\$5,099	\$4,580	\$3,366
Number of Filers	(3.9)%	73	76	78	78	78	79	81	86	85	93
Surplus											
Unrealized Gains/(Losses)	221.8%	\$357	\$111	(\$328)	\$118	\$397	\$151	(\$125)	\$395	\$627	(\$1,247)
Surplus	7.7%	\$15,639	\$14,522	\$13,469	\$12,560	\$11,828	\$9,838	\$9,165	\$9,464	\$9,149	\$8,709
Assets											
Cash & Invested Assets	4.1%	\$134,927	\$129,633	\$124,305	\$119,284	\$114,711	\$111,727	\$104,801	\$98,590	\$91,711	\$85,510
Net Admitted Assets (excl. S. A.)	4.1%	\$136,400	\$131,070	\$125,741	\$120,696	\$116,071	\$113,056	\$106,083	\$99,819	\$92,865	\$86,582
Separate Account Assets	14.6%	\$31,598	\$27,584	\$24,793	\$23,794	\$21,007	\$16,580	\$13,746	\$13,073	\$10,886	\$8,408
Total Net Admitted Assets	5.9%	\$167,999	\$158,654	\$150,534	\$144,490	\$137,078	\$129,637	\$119,829	\$112,892	\$103,751	\$94,990
Net Investment Yield	(0.2) pts.	4.3%	4.5%	4.7%	4.8%	4.8%	5.0%	5.2%	5.3%	5.4%	5.6%
ROA	(0.2) pts.	0.7%	0.7%	0.9%	1.0%	0.9%	0.7%	0.6%	0.5%	(0.1)%	(0.6)%

Note: Figures reflect filings received as of April 19, 2018, and may change due to additional filings or amendments.

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 93 in 2008 to 73 in 2017. Total direct written premium and deposits decreased 7.0% (\$829.4 million) to \$11.0 billion. This was primarily due to a 13.7% (\$849.0 million) decrease in annuities and an 18.8% (\$146.4 million) decrease in deposits.

The fraternal industry reported a 6.5% (\$60.0 million) decrease in net income to \$863.6 million and reported a 14.2% (\$219.5 million) decrease in operating income before refunds to members to \$1.3 billion for 2017. The deterioration in net income was mostly attributed to a \$541.2 million increase in surrender benefits and a \$217.4 million increase in annuity benefits. **Figure 19** shows the industry’s operating income and realized gains (losses) activity to net income and return on assets. Net investment income decreased 0.3% to \$5.7 billion and the industry’s net investment yield slightly decreased to 4.3% from 4.5% in 2016.



The industry reported a 4.1% (\$5.3 billion) increase in cash and invested assets to \$134.9 billion mostly in long-term bonds, which were up 3.6% (\$3.7 billion). Separate account assets, segregated accounts, and protected cell accounts increased 14.6% to \$31.6 billion compared to \$27.6 billion at year-end 2016. Surplus increased 7.7% (\$1.1 billion) to \$15.6 billion primarily due to unrealized capital gains of \$356.8 million.

**NAIC Financial Regulatory Services
Financial Analysis and Examination Department**

Contacts:

Bruce Jensen, Sr. Manager II Solvency Monitoring

BJensen@naic.org

816.783.8348

Jane Koenigsman, Senior Manager I

JKoenigsman@naic.org

816.783.8145

Ralph Villegas, Manager I

RVillegas@naic.org

816.783.8411

Contributors:

Ann Farr, Senior Financial Analyst



**National Association of
Insurance Commissioners**

& The **CENTER**
for **INSURANCE**
POLICY
and **RESEARCH**

DISCLAIMER

The NAIC year-end 2017 Life, A&H and Fraternal Insurance Industry Analysis Report is a limited scope analysis based on the aggregated information filed to the NAIC's Financial Data Repository as of Dec. 31, 2017, and written by the Financial Regulatory Services Department staff. This report does not constitute the official opinion or views of the NAIC membership or any particular state insurance department.