
The Life Insurance Industry: Financially Strong Today and Tomorrow

With over \$5 trillion in assets and a conservative investment and underwriting profile, the life insurance industry is one of America's strongest business sectors. The life insurance industry has an unparalleled record of honoring its obligations to policyholders and is well positioned to continue this proud tradition.

At the end of 2007, life insurers held a surplus of over \$281 billion.¹ This surplus represents assets above and beyond what is required to pay expected claims.

The financial strength of the life insurance industry is further supported by independent ratings agencies. According to a September 2008 Fitch Ratings report², the life insurance industry's balance sheet remains strong. Fitch believes the industry is well capitalized, with aggregate risk-based capital (RBC) levels in excess of the 'AAA' threshold, and has the capacity to absorb potential losses as the credit crunch plays out.

In addition to the industry's solid asset base, insurance consumers enjoy the protection of state insurance guaranty associations, which provide protection to insurance policyholders for their guaranteed contract benefits. These associations ensure policyholders receive their benefits in the event of a major financial loss of an insurer.

Assets and Investments

Life insurance is currently regulated by the states, which place strict limits on the types of investments that insurers can hold in their general accounts. It is from these general accounts that insurers cover their financial obligations to policyholders for payments of death claims and annuity payments, for example.

Bonds: Life insurers mainly invest in bond holdings, an investment with a history of long-term strength. At the end of 2007, the last year for which data is available, life insurers remained one of the largest sources of corporate bond financing, with over \$1.8 trillion invested in their general accounts.³ Additionally, life insurers' general accounts held \$462 billion in government bonds at the end of 2007.⁴ These combined holdings account for 71.5 percent of industry general account assets.⁵ Some 94 percent of total bond holdings were considered "investment grade," meaning they are among the highest rated bonds on the market.⁶ Only 0.1 percent of life insurance bond holdings were classified as in or near default. Total general account bond holdings at year-end 2007 amounted to nearly \$2.3 trillion.⁷

Mortgage: In recent years, life insurers have reduced the relative size of their mortgage holdings. At the end of 2007, life insurers' general accounts held \$302 billion in commercial mortgages, which account for only 9.5 percent of general account assets.⁸ Additionally, life insurers held \$5 billion in residential mortgages, accounting for 0.2 percent of general account assets.⁹

Real Estate: Real estate holdings totaled nearly \$20 billion at year-end 2007, less than one percent of general account assets.¹⁰ The remainder of industry assets includes policy loans and "miscellaneous assets."

¹ 2008 Life Insurers Fact Book, forthcoming.

² [Fitch Ratings: 2008 First Half Results Review-U.S. Life Insurers.](#)

³ 2008 Life Insurers Fact Book, forthcoming.

⁴ Id.

⁵ Id.

⁶ Id.

⁷ Id.

⁸ Id.

⁹ Id.

¹⁰ Id.

Stock: Additionally, life insurers' general accounts have little exposure to publicly traded stocks. They represent only 4.7 percent of life insurers' general accounts.¹¹ Most of the industry's stock holdings are in separate accounts, which are walled off from general accounts. These holdings support investment-oriented products such as variable life and variable annuities, which policyholders purchase with the intent of assuming investment risk. In these separate accounts, insurers also hold a variety of assets, but they too are walled off from insurers' general accounts.

Guaranty Associations

Life insurance consumers enjoy a financial safety net provided by the state insurance guaranty associations. Each state has its own life and health guaranty association whose goal is to resolve policyholder claims (up to specified limits), or assume or transfer policies on the rare occasion an insurance company has insufficient assets to pay benefits claims. State laws require insurance companies to be members of the guaranty associations in every state in which they are licensed to do business.

For more information on guaranty associations, see ACLI's [Insurance Guaranty Association FAQ](#).

Conclusion

The life insurance industry has a long history of financial strength, and despite the current economic uncertainties, remains strong and able to meet its obligation to policyholders. Consumers can be confident that their life insurance provider will continue to remain strong and dedicated to serving the family protection and retirement security needs of all Americans.

¹¹ Id.

Impact of Current Markets on Life Insurance and Annuity Consumers: Your Questions Answered

Q: What does the market turmoil mean to me as the owner of a life insurance policy or annuity?

A: Life insurance policy and annuity owners should remain fully confident in the ability of their insurance companies to honor all their obligations. Insurance companies are required to invest premiums conservatively so they can withstand economic fluctuations or sudden and numerous claims for benefits.

With \$5 trillion in assets and more than \$281 billion in surplus -- representing assets above and beyond what they are required to have to meet their obligations -- the industry is among the strongest financially in the nation. Life insurers are ready to meet their obligations to life insurance and annuity owners despite the current market turmoil.

Q: How can I determine the financial strength of my insurer?

A: You can check any company's financial condition by looking at its rating. Rating agencies, including A.M. Best Company, Fitch Ratings, Moody's Investor Services, Standard and Poor's Insurance Rating Service, and Weiss Ratings, assess the financial strength of companies. Rating information is available online or in publications usually found in the business section of your public library.

Q: What happens in an insolvency?

A: Insolvencies of life insurance companies are rare. When an insurer's financial condition deteriorates to the point where it may have trouble meeting its obligations, it is placed into receivership (e.g., conservation, rehabilitation, liquidation). In effect, the company is taken over by the insurance commissioner of the state where the insurer is domiciled. Acting in the best interest of policyholders, the commissioner may need to establish a plan to ensure policyholders receive coverage and/or benefits. For example, the commissioner may allow other insurers to purchase parts of the troubled insurer's business. In this case, the life insurance policy and annuity owners will simply become customers of the new insurer, with no change in their coverage or benefits. If a company is liquidated, a state guaranty association may need to assume or reinsure policies of a failed insurer.

Q: What exactly are guaranty associations?

A: Guaranty associations are financial safety nets established for each line of insurance (life/health and property/casualty, respectively). In the rare instance where an insurer fails and an insurance commissioner decides to liquidate the company, state guaranty associations become involved to provide continuing coverage and benefits to their resident policyholders. State laws require insurance companies to be members of the guaranty associations in every state in which they are licensed to do business. Guaranty association coverage includes both group and individual policies. For more information, see ACLI's [Insurance Guaranty Association FAQ](#).

Q: Are variable annuities and variable life insurance covered by guaranty associations?

A: Variable annuities and variable life have two components, guaranteed benefits and investments. Guaranteed benefits are those that the insurer is obligated to provide regardless of financial conditions or market trends. Investments, on the other hand, are tied to the ups and downs in the financial markets. Because guaranty associations are involved in the business of insurance, they only cover guaranteed benefits. A guaranteed death benefit offered in a variable annuity would be covered by a guaranty association, as well as a death benefit guarantee in a life insurance policy. However, the investment portions of these products would not be covered. But there is a separate guaranty mechanism for investments, called the Securities Investor Protection Corporation (SIPC). Members of the SIPC are

brokerage firms. SIPC helps restore funds to investors with assets in bankrupt and otherwise financially troubled brokerage firms. To learn more about the SIPC, please visit their website.

Q: Are my retirement savings, provided by a life insurer, covered by guaranty associations?

A: Guaranteed features of insurance products offered by life insurers, even those in tax-qualified retirement savings plans like 401(k)s, 403(b)s and IRAs, are covered by guaranty associations. For example, savings in a "guaranteed interest contract" offered in an employer-sponsored plan is covered by guaranty associations.

Q: Who should I contact with insurance-related questions fueled by the market turmoil?

A: If you have questions relating to an individual policy, your agent or life insurance company is a good place to turn to. Life insurance companies and agents understand the concerns raised by the current market turmoil and are ready to respond to all questions from their customers. If your questions relate to your retirement savings, your employer's benefits officer could be helpful. Or, the insurer providing your plan is a good source for information.

Insurance Guaranty Associations: Frequently Asked Questions

What is an insurance guaranty association?

Insurance guaranty associations offer a safety net that provides protection to insurance policyholders for their guaranteed contract benefits. All states, the District of Columbia, and Puerto Rico have insurance guaranty associations. Insurance companies are required by law to be members of the guaranty association in states in which they are licensed to do business.

Do state guaranty associations cover all types of insurance?

Most states have two types of guaranty associations: a life and health guaranty association and a property and casualty insurance guaranty association. This document focuses on the life and health guaranty association system.

Who oversees the guaranty association?

A guaranty association is generally governed by a board of directors and the state's insurance regulator.

How does the association work?

When an insurance company has insufficient assets to pay policyholder claims, a guaranty association first obtains funds by assessing member insurers that write the same kind of business as the insolvent insurer. These assessments are then used to pay, up to statutory limits, the covered claims of policyholders of the insolvent company. An association may also provide continued coverage for the policyholder or transfer policies to healthy insurers.

What are the statutory limits on covered claims?

The amount of coverage provided by the guaranty association is set by state statute. Although states' laws differ as to dollar amounts covered by their guaranty associations, nearly all states have enacted a version of the National Association of Insurance Commissioners' (NAIC) Life and Health Insurance Guaranty Association Model Law, and provide coverage for life, annuity, and health insurance with limits of at least:

- \$300,000 in life insurance death benefits
- \$100,000 in net cash surrender or withdrawal values for life insurance
- \$100,000 in present value fixed annuity benefits, including cash surrender and withdrawal values
- \$100,000 for health insurance benefits

There also is an overall cap for any one individual of \$300,000.

How are the assessments on companies determined?

The guaranty association's coverage of insurance company insolvencies is funded by post-insolvency assessments of the other guaranty association members and are based on each member's share of premium. However, the assessed insurers are granted—in a majority of states—an offset on state premium taxes as a way to recover, over time, all or a portion of the assessment.

Continued

How are guaranty association activities coordinated when an insolvent company does business in multiple states?

All state guaranty associations are members of the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA). In the case of an insolvent life insurer that has policyholders in multiple states, the activities of the various guaranty associations are coordinated by NOLHGA. NOLHGA provides resources and technical expertise to the state guaranty associations, as well as a national forum for discussion of state guaranty association issues.

Does the guaranty association system work?

Yes. Throughout its history, the state guaranty association system has performed as it was designed to do, namely to protect policyholders of insolvent insurers. The system is efficient and has performed extremely well. Preservation of this proven system of protection is vital to both insurance companies and their policyholders.

As Congress considers federal insurance charter proposals, it is worth noting that all such current proposals preserve the current guaranty association system model. A proven record of efficient, relative policyholder protection speaks for itself.

September 2008: C15-08