2015

Mid-Year

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

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2015 Mid-Year Life, A&H and Fraternal Insurance Industry Report

Industry Highlights

Table 1 provides the industry's aggregate financial results for the life insurers that file with the NAIC on the Life/A&H blue blank for the first six months of 2015. Overall, the life industry reported a 14.6% increase in profitability to $28.2 billion as a $36.6 billion decrease in revenues to $413.0 billion was surpassed by a $41.4 billion decrease in commissions, benefits, and expenses to $370.3 billion. The improvement was primarily due to a $1.5 billion increase in reserves reported for second quarter 2015 compared to a $42.6 billion increase reported second quarter 2014, in addition to a $59.7 billion decrease in write-in for deductions, a majority of which were adjustments due to reinsurance. Additional items of note include the following:

- Net realized capital gains improved 180.3% to $765.6 million over the comparable period in 2014;
- Direct written premiums increased 1.7% primarily due to a $3.7 billion increase in deposit-type contracts and $2.9 million increase in life premium. Ceded premium increased 322.5% to $111.8 billion mostly due to a 101.9% increase in life premium and a 108.4% increase in other annuity considerations driven mostly by increases reported by two companies. Assumed premium increased 165.2% to $83.7 million;
- Operating cash flow improved 11.4% as in-flows increased 2.8% and out-flows increased 1.3%;
- Capital and surplus increased 3.5% to $362.6 billion primarily due to the following:
    - Net income of $28.2 billion.
    - $7.4 billion in contributions.
    - Unrealized losses of $6.1 billion deteriorated 154.2% largely due to losses reported by two companies.
    - Dividends paid to stockholders of $17.3 billion.

Table 1

Financial Synopsis: June 30, 2015-2011

Life and Accident & Health Entities						
($ In Millions)	**Chg**	**2Q 2015**	**2Q 2014**	**2Q 2013**	**2Q 2012**	**2Q 2011**
Direct Written Premium and Deposits	1.7%	$389,567	$383,124	$377,149	$399,023	$383,403
Life Direct Written Premium	3.5%	$84,717	$81,862	$82,327	$86,138	$80,592
A&H Direct Written Premium	2.0%	$84,739	$83,095	$90,299	$92,931	$88,957
Annuities	(0.3)%	$124,458	$124,882	$114,456	$118,270	$126,147
Deposits & Other DPW	2.5%	$95,653	$93,285	$90,067	$101,683	$87,708
Net Earned Premium	(8.6)%	$305,634	$334,497	$289,253	$316,442	$314,606
Net Investment Income	(0.5)%	$87,866	$88,288	$85,227	$84,025	$85,331
General Expenses	1.8%	$29,187	$28,666	$29,119	$29,228	$28,387
Operating Income	8.8%	$27,434	$25,221	$31,267	$24,680	$20,999
Realized Gains/(Losses)	226.7%	$766	($604)	($5,940)	($4,175)	($5,225)
Net Income/(Loss)	14.6%	$28,199	$24,617	$25,327	$20,505	$15,774
Unrealized Gains/(Losses)	(154.2)%	($6,093)	$11,242	($634)	$3,065	$6,513
ROA (Annualized)	0.1 pts	0.9%	0.8%	0.9%	0.8%	0.6%
Net Investment Yield (Annualized)	(0.2) pts	5.1%	5.3%	5.2%	5.3%	5.1%
	6-mo. Chg	**2Q 2015**	**YE 2014**	**YE 2013**	**YE 2012**	**YE 2011**
Capital & Surplus	3.5%	$362,608	$350,438	$329,446	$323,409	$305,120

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

The life industry reported a 1.7% ($6.4 billion) increase in direct written premiums and deposits to $389.6 billion for the first six months of 2015. Conversely, net written premiums and deposits decreased 6.9% ($26.8 billion) to $361.4 billion. **Table 2** shows, in total and by line of business, the top five states reporting the greatest dollar amount of increases and decreases in total direct written premiums and deposits for the first half of 2015 when compared to the same period in 2014.

Ceded premiums and deposits increased 322.5% ($85.3 billion) to $111.8 billion. Two companies accounted for $92.2 billion (82.4%) of the increase of which $51.3 billion was life premium and $40.9 billion was other annuity considerations. Assumed premium increased 165.2% to $83.7 billion largely due to the reinsurance transactions of one company.

On an earned basis, the industry reported an 8.6% ($28.9 billion) decrease in net premiums to $305.6 billion. As shown in **Figure 1** on the following page, there were no significant changes in the industry's direct earned premium allocation by sector from mid-year 2014 to 2015. Compared to second quarter 2011, total direct earned premium has decreased 2.9% from $314.6 billion. Over the same time period, A&H premium decreased 8.7% to $78.7 billion while deposit-type funds and life premium has increased 30.9% to $60.1 billion and 3.2% to $67.5 billion, respectively.

Table 3 on the following page illustrates total direct, assumed, ceded, and net written premiums broken out by line of business for the first six months of each of the past five years. Additionally, a chart is provided to show trending for each of the premium segments.

Table 2

Top Five States - Change in Direct Written Premiums by Line of Business

(Based on $ Change in Millions)

TOTAL

Increases				Decreases			
	% Chg	$ Chg	2Q'15		% Chg	$ Chg	2Q'15
DE	7.1%	$1,810.9	$27,205.9	PA	(13.8)%	($2,480.4)	$15,547.5
CA	4.4%	$1,329.5	$31,695.5	OT	(17.2)%	($1,636.2)	$7,853.0
TX	5.0%	$1,114.9	$23,576.1	IL	(5.1)%	($671.5)	$12,417.0
OH	8.5%	$1,106.9	$14,204.6	CT	(4.4)%	($406.5)	$8,910.3
TN	15.7%	$929.5	$6,835.5	MO	(4.9)%	($381.9)	$7,364.6

LIFE

Increases				Decreases			
	% Chg	$ Chg	2Q'15		% Chg	$ Chg	2Q'15
MA	28.1%	$482.4	$2,199.1	AN	(14.1)%	($402.0)	$163.8
FL	5.8%	$239.7	$4,351.6	HI	(17.4)%	($212.9)	$345.4
CA	3.2%	$237.7	$7,593.2	MT	(13.9)%	($28.2)	$175.3
TX	4.0%	$205.3	$5,388.2	AL	(6.8)%	($25.3)	$1,010.9
AK	153.2%	$203.7	$336.6	OT	(6.5)%	($11.4)	$2,442.6

ANNUITIES

Increases				Decreases			
	% Chg	$ Chg	2Q'15		% Chg	$ Chg	2Q'15
NV	73.7%	$540.8	$1,274.8	OT	(73.8)%	($894.8)	$318.4
WI	14.4%	$355.7	$2,824.4	MO	(10.6)%	($394.2)	$3,325.6
TX	4.2%	$323.2	$8,095.1	NY	(2.2)%	($193.0)	$8,478.2
SC	16.1%	$273.9	$1,970.0	IN	(5.7)%	($144.8)	$2,401.8
OH	5.1%	$255.0	$5,263.6	OR	(11.0)%	($135.6)	$1,092.4

A&H

Increases				Decreases			
	% Chg	$ Chg	2Q'15		% Chg	$ Chg	2Q'15
TX	12.3%	$872.6	$7,980.5	OT	(11.3)%	($635.4)	$4,991.3
FL	6.4%	$365.1	$6,074.7	NJ	(13.7)%	($439.3)	$2,760.1
NY	8.4%	$351.5	$4,549.1	IL	(13.5)%	($420.4)	$2,690.9
CA	4.2%	$288.6	$7,172.5	NC	(7.1)%	($181.4)	$2,364.4
GA	8.8%	$205.1	$2,539.5	MS	(14.9)%	($124.5)	$713.4

OTHER

Increases				Decreases			
	% Chg	$ Chg	2Q'15		% Chg	$ Chg	2Q'15
CA	16.1%	$565.4	$4,068.0	PA	(69.8)%	($3,198.8)	$1,384.0
IA	32.6%	$347.2	$1,412.6	GA	(21.8)%	($333.9)	$1,195.8
CT	55.3%	$338.2	$950.0	WA	(29.0)%	($255.7)	$626.7
NJ	26.6%	$332.2	$1,578.9	FL	(10.2)%	($196.3)	$1,727.3
OR	85.6%	$323.0	$700.2	DC	(32.0)%	($105.3)	$223.4

DEPOSIT-TYPE CONTRACTS

Increases				Decreases			
	% Chg	$ Chg	2Q'15		% Chg	$ Chg	2Q'15
DE	7.9%	$1,822.1	$24,916.6	CT	(17.0)%	($676.1)	$3,305.2
TN	530.0%	$1,009.8	$1,200.4	MA	(68.9)%	($582.5)	$262.5
OH	35.9%	$552.6	$2,091.4	NY	(3.0)%	($370.6)	$12,129.3
KS	479.7%	$541.4	$654.2	TX	(30.3)%	($293.1)	$674.9
OT	128.2%	$285.2	$62.8	IA	(7.6)%	($258.5)	$3,122.0

2Q'15 **Figure 1** **2Q'14**

Direct Earned Premiums & Deposits by Sector

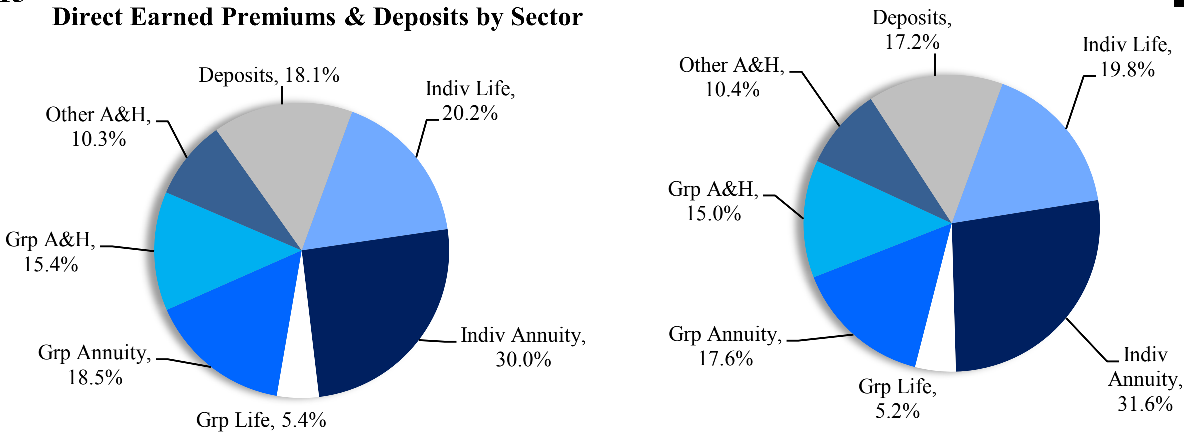
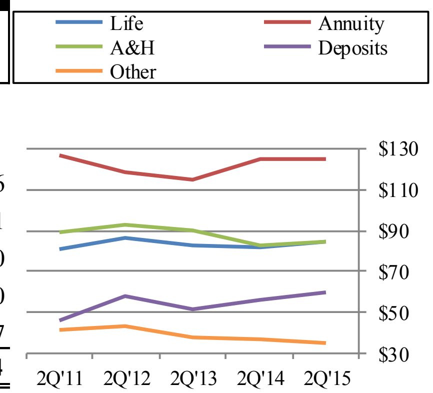


Table 3

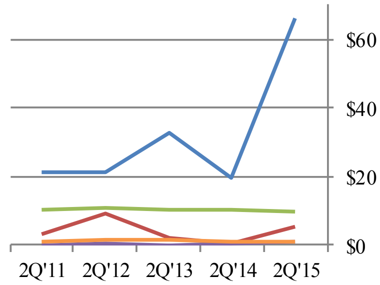
Total Written Premium by LOB

($ in Billions)

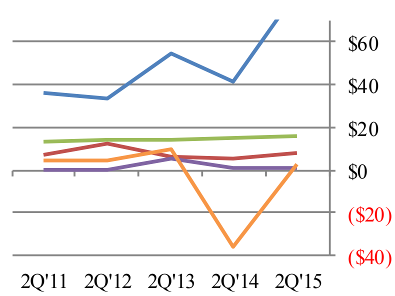
Direct Premiums	% Chg.	2Q'15	2Q'14	2Q'13	2Q'12	2Q'11
Life Insurance	3.5%	$84.7	$81.9	$82.3	$86.1	$80.6
Annuity Considerations	(0.3)%	$124.5	$124.9	$114.5	$118.3	$126.1
A&H Insurance	2.0%	$84.7	$83.1	$90.3	$92.9	$89.0
Deposit-type Contracts	6.5%	$60.1	$56.4	$51.7	$58.1	$46.0
Other Considerations	(3.5)%	$35.6	$36.9	$38.4	$43.5	$41.7
Total	**1.7%**	**$389.6**	**$383.1**	**$377.1**	**$399.0**	**$383.4**



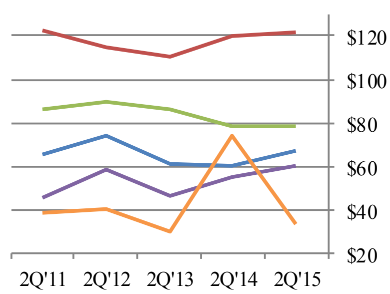
Assumed Premium	% Chg.	2Q'15	2Q'14	2Q'13	2Q'12	2Q'11
Life Insurance	233.7%	$66.1	$19.8	$33.0	$21.4	$21.1
Annuity Considerations	1,875.5%	$5.5	$0.3	$2.3	$9.0	$3.2
A&H Insurance	(1.0)%	$10.0	$10.1	$10.3	$10.6	$10.5
Deposit-type Contracts	273.5%	$1.3	$0.3	$0.2	$0.3	$0.1
Other Considerations	(20.1)%	$0.8	$1.1	$1.6	$1.5	$1.2
Total	**165.2%**	**$83.7**	**$31.6**	**$47.5**	**$42.8**	**$36.1**



Ceded Premium	% Chg.	2Q'15	2Q'14	2Q'13	2Q'12	2Q'11
Life Insurance	101.9%	$83.3	$41.3	$54.6	$33.2	$36.3
Annuity Considerations	59.3%	$8.1	$5.1	$6.7	$12.2	$7.3
A&H Insurance	8.1%	$16.1	$14.9	$14.5	$14.2	$13.4
Deposit-type Contracts	(8.7)%	$1.3	$1.4	$5.8	$0.3	$0.2
Other Considerations	(108.4)%	$3.0	($36.2)	$10.1	$4.4	$4.2
Total	**322.5%**	**$111.8**	**$26.5**	**$91.8**	**$64.4**	**$61.4**



Net Premium	% Chg.	2Q'15	2Q'14	2Q'13	2Q'12	2Q'11
Life Insurance	11.7%	$67.5	$60.4	$60.7	$74.3	$65.4
Annuity Considerations	1.5%	$121.9	$120.1	$110.1	$115.0	$122.1
A&H Insurance	0.4%	$78.6	$78.2	$86.1	$89.3	$86.0
Deposit-type Contracts	8.5%	$60.1	$55.4	$46.1	$58.2	$45.9
Other Considerations	(54.9)%	$33.4	$74.1	$29.9	$40.6	$38.8
Total	**(6.9)%**	**$361.4**	**$388.2**	**$332.8**	**$377.4**	**$358.1**



Investment Income

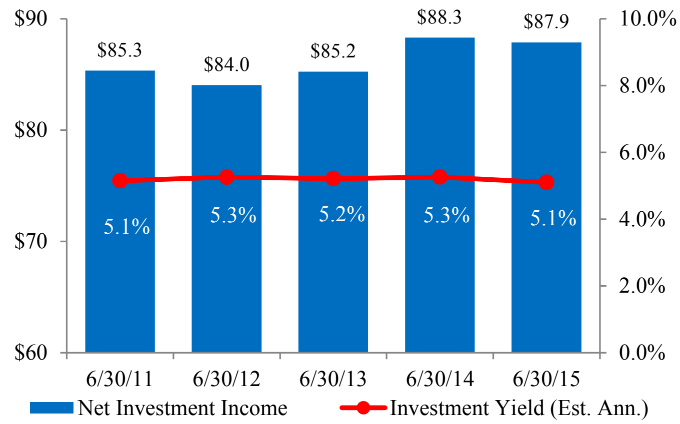
Net investment income decreased 0.5% ($422.7 million) to $87.9 billion in the first half of 2015. Concurrently, the industry's annualized net investment yield decreased 0.2 percentage point to 5.1% as seen in **Figure 2**. The industry's cash and adjusted invested asset portfolio has increased steadily over the past ten years, however it decreased 0.4% from the prior year-end to $3.5 trillion at June 30, 2015. The decrease was due primarily to a 15.2% decrease in cash and short-term investments partially offset by a 1.7% increase in mortgage loans.

The Federal Reserve maintained the fed funds interest rate at 0.25% which has resulted in a continued low short-term interest rate environment.

Table 4 provides a breakdown of the industry's asset concentration and trending over the previous five years.

Figure 2

Net Investment Income and Yield



$ in Billions

Table 4

Asset Concentration

(Based on $ Change in Billions)

	% Chg. Over 5 Years	% Chg from PYQ	2Q'15	2Q'14	2Q'13	2Q'12	2Q'11
Bonds*	8.0%	1.0%	$2,663.7	$2,637.3	$2,555.2	$2,497.6	$2,466.6
Preferred Stock*	15.9%	7.1%	$9.0	$8.4	$7.2	$6.9	$7.7
Common Stock*	7.0%	(7.9)%	$30.4	$33.0	$28.3	$24.0	$28.5
Mortgages*	21.7%	5.6%	$377.1	$357.1	$337.7	$328.5	$310.0
Real Estate	22.5%	10.4%	$24.3	$22.0	$21.7	$20.2	$19.9
BA Assets	37.1%	7.8%	$162.4	$150.7	$142.3	$131.3	$118.5
Cash	(6.4)%	(18.7)%	$27.6	$33.9	$28.1	$37.7	$29.4
Short-term Investments	7.4%	5.8%	$57.9	$54.7	$51.8	$66.1	$53.9

**adjusted to exclude affiliated amounts*

Operations

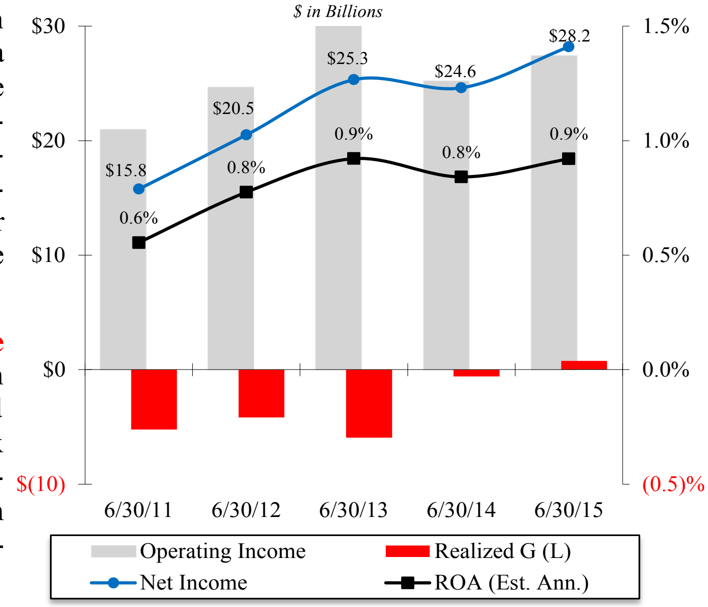
Net earnings increased 14.6% as the industry reported net income of $28.2 billion for the first six months of 2015. The improvement was due to an 8.8% increase in operating income to $27.4 billion in addition to a 226.7% increase in realized gains to $765.6 million. The industry reported an 8.6% decrease in net earned premiums as previously stated, and benefits and expenses decreased 11.4% to $273.8 billion resulting in the improvement. Aggregate write-ins decreased 120.3%, or $59.7 billion, to $(10.1) billion primarily due to one company transaction (Modco reserve adjustment).

The increase in operating income is illustrated in **Figure 3** to the right. Additionally, the various fluctuations in realized capital gains/losses, net income and estimated annualized return on assets (ROA) for the first six months of each of the past five years is shown. The industry's ROA increased to 0.9% at June 30, 2015, from 0.8% at the prior mid-year date, influenced by the aforementioned changes.

Figure 3

Operating Income, Realized G/(L), Net Income & ROA

$ in Billions



Liquidity

The life industry reported a 11.4% ($6.9 billion) increase in operating cash flow to $67.8 billion in the first half of 2015 from $60.8 billion in the comparable period of 2014. The improvement resulted from cash in-flows of $417.1 billion outpacing out-flows of $349.3 billion. Premiums collected net of reinsurance increased 3.8% ($11.0 billion) to $302.4 billion. Benefit and loss related payments increased 2.6% ($7.2 billion) and the aggregate of commissions, expenses paid and write-ins for deductions decreased 4.1% ($2.7 billion) to $64.5 billion.

Surrender benefits through June 30, 2015, decreased slightly to $136.0 billion compared to $136.4 billion in the prior mid-year date. Surrenders have continually increased over the past five years from $117.7 billion for the same period in 2011, a 15.5% change.

Figure 4
Operating Cash Flow & Surrenders
$ in Billions

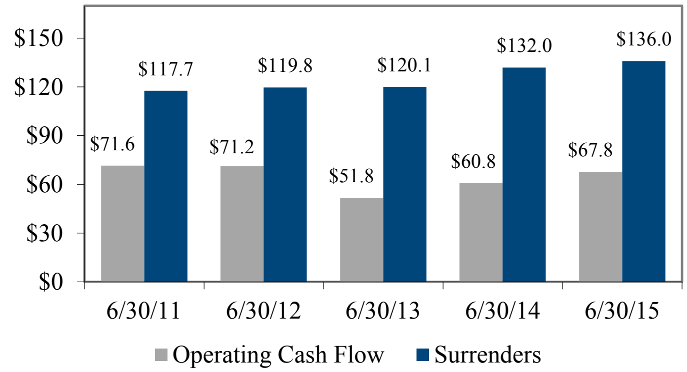


Figure 4 shows the industry's operating cash flow and surrenders activity through the first half of each of the past five years.

Net cash from investments decreased 8.6% ($5.0 billion) to $63.7 billion compared to $58.6 billion in the same period of 2014. The increase was attributed to an 11.9% ($45.4 billion) increase in investment proceeds to $425.8 billion offset by an 11.4% ($50.1 billion) increase in investment acquisition to $488.9 billion. The increase in investment proceeds came primarily from a 15.7% increase in bonds to $335.7 billion. Similarly, bond acquisitions increased 7.9% to $371.9 billion and mortgage loan acquisitions increased $36.9 billion to $41.7 billion.

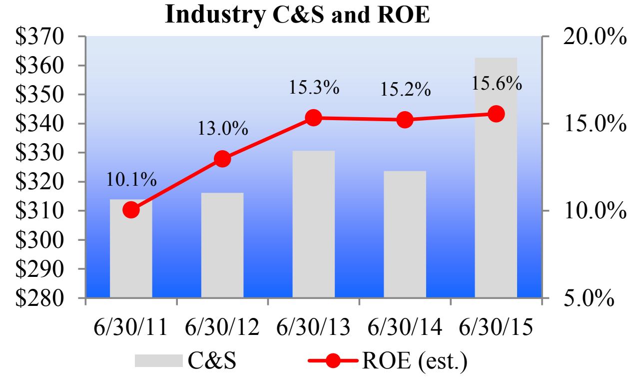
The life industry reported a net cash out-flow from financing activities of $19.3 billion in the first half of 2015 compared to a net out-flow of $8.6 billion in the first six months of 2014. The 125.0% decrease was mainly due to a $12.5 billion decrease in other cash provided to $(5.6) billion.

Capital and Surplus

The life industry's capital and surplus increased 3.5% ($12.2 billion) to $362.6 billion at June 30, 2015, from $350.4 billion at December 31, 2014, due primarily to net income of $28.2 billion and $7.4 billion in paid-in capital and surplus. The improvement was partially offset by $17.3 billion in stockholder dividends, and $6.1 billion in unrealized capital gains, previously stated.

As illustrated in **Figure 5**, estimated annualized return on equity (ROE) improved 0.4 percentage point to 15.6% through the second quarter of 2015 compared to 15.2% for the same period of 2014. ROE has continued to grow over the previous 5 years from 10.1% in the same period of 2011.

Figure 5
Industry C&S and ROE



$ in Billions

Separate Accounts

The industry's separate account assets increased 3.7% ($90.0 billion) to approximately $2.5 trillion through the first half of 2015 compared to year-end 2014. The increase can be attributed to a moderate increase in asset values, as well as an improvement in the equity markets. Separate account assets have steadily climbed over the past five years from $1.8 trillion at year-end 2011, a 36.9% increase.

CARVM

An insurer's CARVM allowance is generally negative as it represents primarily the difference between the fund balance and the CARVM reserve. The CARVM allowance is generally an indicator of how the market is performing. As the market deteriorates or becomes stagnant, fund balances decline, thereby decreasing the CARVM allowance and vice versa. This degree of negative impact generally results in losses on the general account.

Separate account fee income increased 3.8% ($628.1 million) to nearly $17.3 billion in the first six months of 2015 compared to the prior-year period. The ratio of separate account fee income to separate account assets remained constant at 1.4%.

The life industry's CARVM allowance decreased by 7.6% from negative $30.3 billion at second quarter 2014 to negative $32.6 billion at June 30, 2015.

Table 5
Financial Synopsis: June 30, 2015-2011

Fraternal Societies						
(In Millions)	Chg.	2Q 2015	2Q 2014	2Q 2013	2Q 2012	2Q 2011
Total Direct Written Premium	(0.1)%	$5,399	$5,405	$5,140	$5,272	$5,080
Life Direct Written Premium	(0.1)%	$2,008	$2,010	$2,041	$2,118	$1,990
A&H Direct Written Premium	(1.2)%	$314	$318	$329	$340	$347
Annuities Direct Written Premium	(0.0)%	$3,075	$3,077	$2,769	$2,812	$2,744
Deposits & Other DPW	(1.7)%	$320	$326	$407	$392	$395
Net Earned Premium	(0.1)%	$5,224	$5,231	$4,959	$5,074	$4,879
Net Investment Income	2.0%	$2,801	$2,746	$2,674	$2,676	$2,558
Benefits	4.3%	$5,722	$5,486	$5,322	$5,757	$5,520
General Expenses	6.4%	$808	$759	$760	$738	$723
Operating Income ***(before refunds to members)***	(11.0)%	$754	$847	$730	$722	$695
Refunds to Members	(4.8)%	$319	$335	$330	$406	$418
Realized Gains/(Losses)	8.0%	$83	$77	$45	$56	$70
Net Income/(Loss)	(12.1)%	$518	$589	$444	$372	$347
ROA (Annualized)	(0.2) pt	0.7%	0.9%	0.7%	0.6%	0.6%
Investment Yield (Annualized)	0.0 pt	4.7%	4.7%	4.8%	5.1%	5.2%
	6-mo. Chg.					
Surplus	4.5%	$13,034	$12,477	$10,033	$9,309	$9,631

Table 5 illustrates the fraternal insurance industry's aggregate financial results for societies which file on the fraternal annual statement blank. The fraternal industry exhibited a 12.1% decrease in net income to $518.2 million in the first six months of 2014 compared to $589.3 million for the prior year period. As seen in **Figure 6**, the industry reported a 11.0% decrease in operating income to $754.3 million compared to $847.4 million for the first half of 2014. Conversely, the industry reported a 8.0% increase in realized capital gains to $82.8 million for the first six months of 2015 from $76.7 million in the prior-year period. The decline in income was primarily in five fraternals, however 20 fraternals reported net income declines of 50% or more from prior-year period.

Year-to-date direct written premium slightly decreased 0.1% ($5.4 million) to $5.4 billion which was due primarily to an 1.2% ($3.8 million) decrease in A&H premiums. **Figure 7** illustrates the premium concentration for fraternal societies by business type.

Net investment income increased 2.0% to $2.8 billion while the industry's annualized net investment yield was unchanged at 4.7% for the period ended June 30, 2015. The industry reported a 4.1% ($4.8 billion) increase in cash and invested assets from prior year-end to $122.4 billion mostly in long-term bonds, which increased 4.3% ($4.0 billion).

Surplus increased 4.5% to $13.0 billion from Dec. 31, 2014, due primarily to the aforementioned net income partially offset by unrealized foreign exchange capital losses of $29.1 million and unrealized capital losses of $23.2 million.

Figure 6
Operating Income, Realized G(L), Net Income & ROA

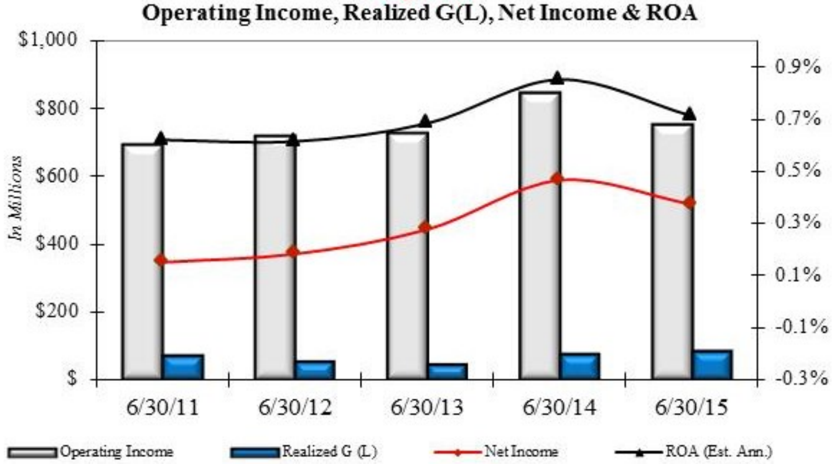


Figure 7
Direct Premium Written