NAIC National Association of Insurance Commissioners

& The Center for Insurance Policy and Research

# 2012 Life, A&H and Fraternal Insurance Industry Analysis Report

## Life and A&H Industry at a Glance

**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 a significant increase in profitability. In the wake of improving market conditions and insurers reporting an increase in net earned premiums, the overall profitability in the life industry increased 227.4% to net income of $38.1 billion in 2012, up from $11.6 billion in 2011. Notable items include the following:

- Operating earnings increased 135.7% to $47.6 billion due primarily to increases in premiums across the board which were slightly offset by a minimal decrease in net investment income and increases in both benefits and expenses;
    - Direct written premium (excl. deposit-type funds) increased 4.4% due primarily to a 7.1% rise in annuity considerations and a 4.5% increase in life insurance premium revenues;
    - Net investment income decreased marginally by 0.4% and there was a related 0.1-percentage point drop in the net investment yield to 4.9% due to the following increase in invested assets;
- Cash and invested assets increased 1.3% due primarily to a 3.8% ($12.3 billion) increase in mortgages as well as 0.4% ($9.5 billion) increase in long-term bonds;
- Capital and surplus increased 5.8% to $323.0 billion due primarily to net income of $38.1 billion and surplus contributions of $9.5 billion. These were partially offset by stockholder dividends of $22.1 billion.

**Inside this issue:**



### Table 1

*Life and Accident & Health Entities*

| *(In Millions)* | Chg. | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| **Operations** | | | | | | |
| Direct Written Premium | 5.6% | $817,831 | $774,409 | $721,276 | $722,104 | $802,799 |
| Life Direct Written Premium | 4.5% | $173,914 | $166,418 | $158,418 | $152,435 | $169,785 |
| A&H Direct Written Premium | 0.3% | $179,001 | $178,437 | $176,594 | $172,093 | $167,756 |
| Annuities, Dep. & Other Consid. | 8.2% | $464,916 | $429,554 | $386,264 | $397,577 | $465,259 |
| Assumed Premium | 12.8% | $89,605 | $79,466 | $66,938 | $70,857 | $70,314 |
| Ceded Premium | 11.6% | $150,949 | $135,268 | $122,031 | $184,193 | $129,108 |
| Net Earned Premium | 3.3% | $641,939 | $621,717 | $581,368 | $511,463 | $631,303 |
| Net Investment Income | (0.4)% | $163,996 | $164,688 | $161,362 | $154,445 | $161,218 |
| Benefits | 1.3% | $255,689 | $252,378 | $246,698 | $244,563 | $244,133 |
| Commissions & General Expenses | 2.1% | $112,216 | $109,867 | $106,295 | $103,452 | $106,192 |
| Operating Income | 135.7% | $47,571 | $20,181 | $41,334 | $48,225 | ($1,991) |
| Realized Gains/(Losses) | (10.7)% | ($9,448) | ($8,536) | ($16,025) | ($28,741) | ($51,086) |
| Net Income/(Loss) | 227.4% | $38,123 | $11,645 | $25,309 | $19,484 | ($53,077) |
| Net Cash From Operations | (14.4)% | $130,092 | $151,984 | $130,432 | $132,743 | $136,665 |
| **Capital and Surplus** | | | | | | |
| Unrealized Gains/(Losses) | (63.9)% | $5,048 | $13,988 | $7,995 | ($19,143) | ($47,800) |
| Capital and Surplus | 5.8% | $322,995 | $305,170 | $303,834 | $287,141 | $250,222 |
| **Assets** | | | | | | |
| Invested Assets | 1.3% | $3,400,091 | $3,357,278 | $3,194,139 | $3,069,295 | $3,018,501 |
| Net Admitted Assets (excl. Sep. Accts.) | 1.6% | $3,585,977 | $3,531,185 | $3,354,615 | $3,228,178 | $3,179,934 |
| Separate Account Assets | 11.9% | $2,053,201 | $1,835,605 | $1,840,187 | $1,623,769 | $1,369,015 |
| Total Net Admitted Assets | 5.1% | $5,639,178 | $5,366,790 | $5,194,802 | $4,851,946 | $4,548,949 |
| Net Investment Yield | (0.1) pts. | 4.9% | 5.0% | 5.2% | 5.1% | 5.4% |
| ROA | 0.8 pts. | 1.1% | 0.3% | 0.8% | 0.6% | (1.7)% |

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

## Premium Growth

The life industry reported a 5.6% ($43.4 billion) increase in direct written premium and deposits to $817.8 billion in 2012. Similarly, net written premium and deposits increased 5.3% ($37.9 billion) to $756.5 billion. **Table 2** illustrates, in total and by line of business, the top five states reporting the greatest dollar amount of increases or decreases in total direct premium from 2011.

On an earned basis, the industry reported a 3.3% ($20.2 billion) increase in net premium to $641.9 billion. **Figure 1** below illustrates the industry's 2012 net earned premium allocation by sector while **Figure 2** shows the distribution of annuity considerations in 2012.

**Table 3** on page 3 shows total direct written, assumed and ceded premium over the past five years.

**Table 2**

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

(based on $ change in Billions)

| Total | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Increases** | | | | **Decreases** | | | |
| | % Chg | 2012 | 2011 | | % Chg | 2012 | 2011 |
| MI | 62.6% | $29.7 | $18.3 | CA | (1.3)% | $56.7 | $57.4 |
| MA | 21.4% | $19.8 | $16.3 | PR | (36.2)% | $1.1 | $1.7 |
| NY | 6.2% | $50.5 | $47.6 | DE | (9.5)% | $4.5 | $5.0 |
| IN | 15.1% | $13.8 | $12.0 | AK | (20.5)% | $1.2 | $1.5 |
| NC | 9.9% | $19.8 | $18.1 | MD | (2.4)% | $12.4 | $12.7 |
| **Life** | | | | | | | |
| | % Chg | 2012 | 2011 | | % Chg | 2012 | 2011 |
| MA | 46.7% | $4.9 | $3.3 | AK | (48.6)% | $0.4 | $0.7 |
| MN | 19.8% | $3.7 | $3.1 | PR | (19.6)% | $0.4 | $0.4 |
| NJ | 10.0% | $6.1 | $5.5 | DE | (5.8)% | $1.3 | $1.3 |
| TX | 3.6% | $9.9 | $9.5 | VT | (15.8)% | $0.2 | $0.3 |
| GA | 7.9% | $4.4 | $4.0 | WV | (1.1)% | $0.6 | $0.6 |
| **Annuities** | | | | | | | |
| | % Chg | 2012 | 2011 | | % Chg | 2012 | 2011 |
| MI | 118.3% | $20.3 | $9.3 | CA | (2.6)% | $21.9 | $22.5 |
| NY | 11.7% | $19.4 | $17.3 | MN | (6.2)% | $4.5 | $4.8 |
| IN | 32.7% | $6.4 | $4.8 | CO | (5.4)% | $4.8 | $5.1 |
| OH | 15.0% | $11.3 | $9.8 | LA | (5.1)% | $3.3 | $3.5 |
| FL | 8.2% | $19.2 | $17.8 | AL | (5.0)% | $2.7 | $2.8 |
| **A&H** | | | | | | | |
| | % Chg | 2012 | 2011 | | % Chg | 2012 | 2011 |
| NJ | 16.2% | $5.4 | $4.6 | PR | (68.9)% | $0.2 | $0.8 |
| TX | 4.8% | $14.8 | $14.2 | WI | (4.3)% | $4.4 | $4.6 |
| CA | 3.3% | $13.4 | $12.9 | FL | (1.6)% | $11.6 | $11.8 |
| NY | 5.1% | $7.3 | $7.0 | AR | (10.0)% | $1.2 | $1.4 |
| OH | 3.2% | $8.1 | $7.9 | TN | (2.8)% | $3.0 | $3.0 |
| **Deposit-type Contracts** | | | | | | | |
| | % Chg | 2012 | 2011 | | % Chg | 2012 | 2011 |
| NY | 67.7% | $29.3 | $17.5 | DE | (16.9)% | $31.5 | $37.9 |
| IA | 144.8% | $8.3 | $3.4 | MA | (57.4)% | $1.1 | $2.7 |
| PA | 141.6% | $3.0 | $1.2 | IN | (66.8)% | $0.7 | $2.2 |
| OH | 93.2% | $2.9 | $1.5 | CA | (16.2)% | $2.4 | $2.8 |
| NJ | 57.9% | $3.1 | $2.0 | KS | (32.9)% | $0.5 | $0.7 |

**Figure 1**

2012 Net Earned Premium Allocation by Sector

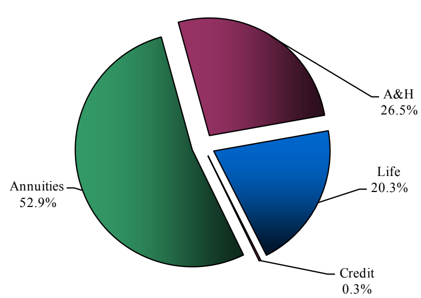
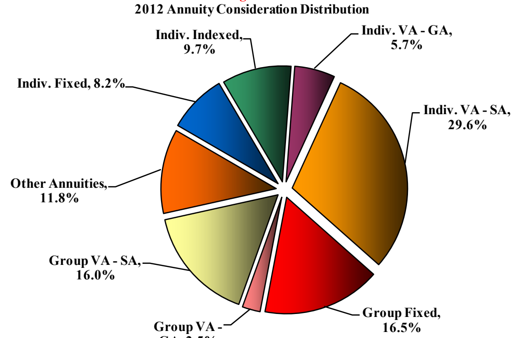



**Figure 2**

2012 Annuity Consideration Distribution




## Investment Income

Net investment income decreased marginally by 0.4% ($692 million) to $164.0 billion in 2012, while the industry's net investment yield decreased 0.1-percentage point to 4.9% as seen in **Figure 3** on page 4. Life insurers' invested asset portfolio increased 1.3% ($42.8 billion) to remain steady at $3.4 trillion. The increase in invested assets is due primarily to 3.8% ($12.3 billion) and 0.4% ($9.5 billion) increases in mortgages and long-term bonds, respectively. Insurers reported decreas-

**Table 3**

**Total Written Premium by LOB**

($ in Billions)

| Direct Premiums | % Chg. | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Life Insurance | 4.5% | $ 173.9 | $ 166.4 | $ 158.4 | $ 152.4 | $ 169.8 |
| Annuity Considerations | 7.1% | $ 267.0 | $ 249.3 | $ 230.3 | $ 240.2 | $ 260.6 |
| A&H Insurance | 0.3% | $ 179.0 | $ 178.4 | $ 176.6 | $ 172.1 | $ 167.8 |
| Deposit-type Contracts | 14.0% | $ 107.7 | $ 94.4 | $ 87.7 | $ 93.0 | $ 120.5 |
| Other | 5.2% | $ 90.3 | $ 85.8 | $ 68.3 | $ 64.4 | $ 84.2 |
| Total | **5.6%** | **$ 817.8** | **$ 774.4** | **$ 721.3** | **$ 722.1** | **$ 802.8** |

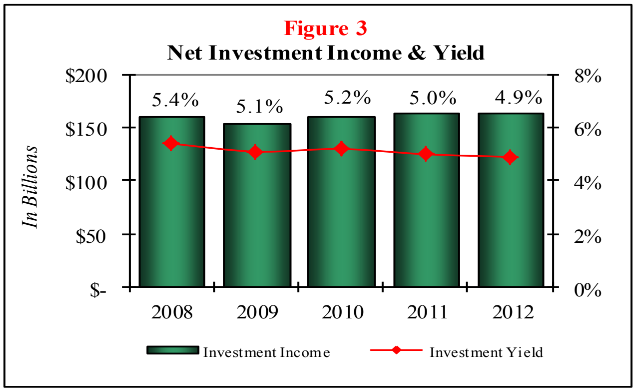
| Assumed Premium | % Chg. | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Life Insurance | -4.6% | $ 45.9 | $ 48.1 | $ 38.9 | $ 42.1 | $ 36.6 |
| Annuity Considerations | 101.4% | $ 17.6 | $ 8.7 | $ 5.7 | $ 7.2 | $ 10.3 |
| A&H Insurance | 7.2% | $ 21.4 | $ 19.9 | $ 21.5 | $ 21.0 | $ 19.4 |
| Deposit-type Contracts | 182.3% | $ 0.3 | $ 0.1 | $ 0.1 | $ 0.2 | $ 1.1 |
| Other | 72.7% | $ 4.4 | $ 2.5 | $ 0.8 | $ 0.4 | $ 2.9 |
| Total | **12.8%** | **$ 89.6** | **$ 79.5** | **$ 66.9** | **$ 70.9** | **$ 70.3** |

| Ceded Premium | % Chg. | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Life Insurance | -1.8% | $ 85.2 | $ 86.7 | $ 77.1 | $ 71.3 | $ 64.6 |
| Annuity Considerations | 97.9% | $ 25.2 | $ 12.8 | $ 12.3 | $ 17.9 | $ 25.1 |
| A&H Insurance | 11.4% | $ 29.6 | $ 26.6 | $ 25.5 | $ 26.5 | $ 23.6 |
| Deposit-type Contracts | 6.9% | $ 1.0 | $ 1.0 | $ 0.1 | $ 0.2 | $ 3.5 |
| Other | 19.7% | $ 9.8 | $ 8.2 | $ 7.1 | $ 68.3 | $ 12.3 |
| Total | **11.6%** | **$ 150.9** | **$ 135.3** | **$ 122.0** | **$ 184.2** | **$ 129.1** |

| Net Premium | % Chg. | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Life Insurance | 5.3% | $ 134.6 | $ 127.8 | $ 120.2 | $ 123.2 | $ 141.8 |
| Annuity Considerations | 5.7% | $ 259.3 | $ 245.3 | $ 223.7 | $ 229.4 | $ 245.7 |
| A&H Insurance | -0.6% | $ 170.8 | $ 171.8 | $ 172.6 | $ 166.6 | $ 163.5 |
| Deposit-type Contracts | 14.3% | $ 107.0 | $ 93.6 | $ 87.7 | $ 93.0 | $ 118.1 |
| Other | 5.8% | $ 84.8 | $ 80.1 | $ 62.0 | $ (3.5) | $ 74.8 |
| Total | **5.3%** | **$ 756.5** | **$ 718.6** | **$ 666.2** | **$ 608.8** | **$ 744.0** |

es in investment income of 21.7% ($2.4 billion) and 19.9% ($1.4 billion) on U.S. government bonds and affiliated common stock, respectively. **Figure 4** on the following page illustrates income by asset class.

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



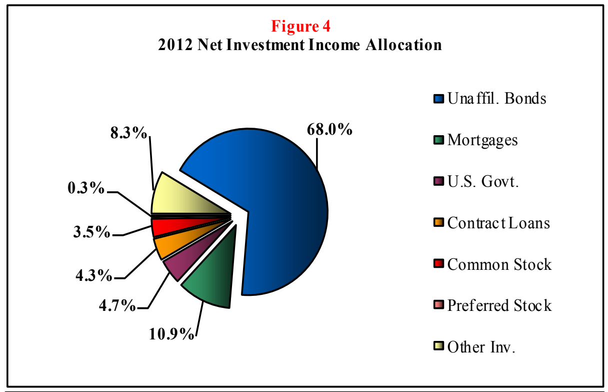
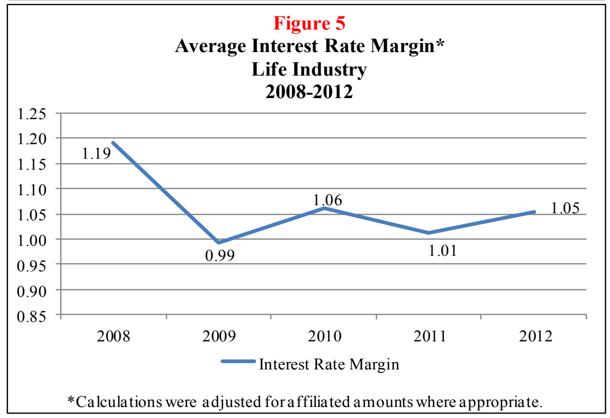
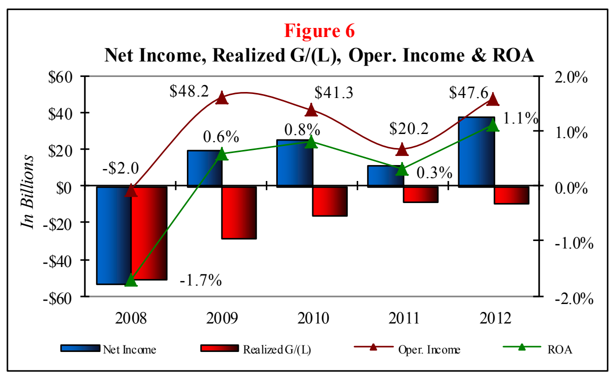




**Figure 5** shows the industry's average interest rate margin over the past five years. The interest rate margin represents the average return on investments compared to the tabular interest credited to reserves.

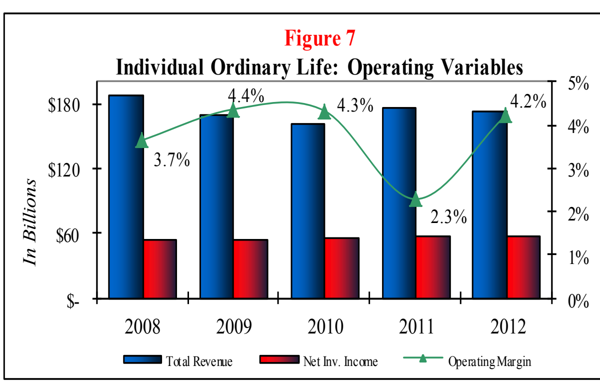


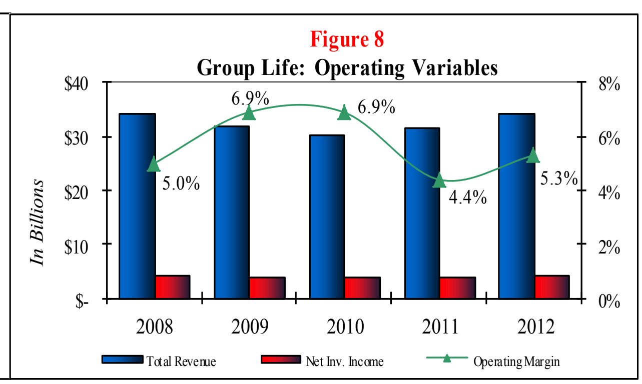

## Operations

Net earnings increased considerably as the industry reported net income of $38.1 billion in 2012. This was predominantly due to a 135.7% rise in operating income to $47.6 billion. The industry reported a 3.3% increase in net earned premiums as has been previously discussed. This was partially offset by marginal increases in benefits and expenses. Additionally, realized capital losses worsened 10.7% to $9.4 billion compared to $8.5 billion in 2011. It should be noted that seven insurance groups accounted for 93.9% ($8.9 billion) of the industry's total realized capital loss for 2012. As illustrated in **Figure 6**, the industry's ROA rose to 1.1% at Dec. 31, 2012 from 0.3% at the prior year-end, influenced by the aforementioned changes.




**Figures 7-12** show various key metrics for the life insurance, annuity considerations and A&H insurance sectors over the past five years.



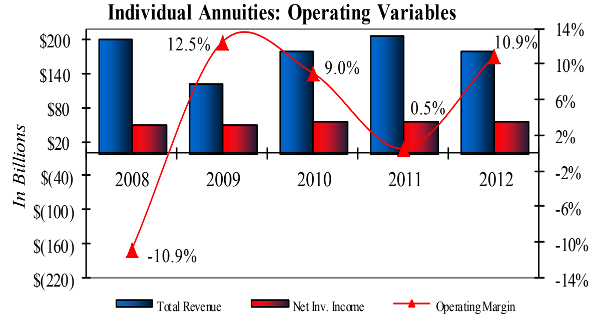



**Figure 9**
**Individual Annuities: Operating Variables**

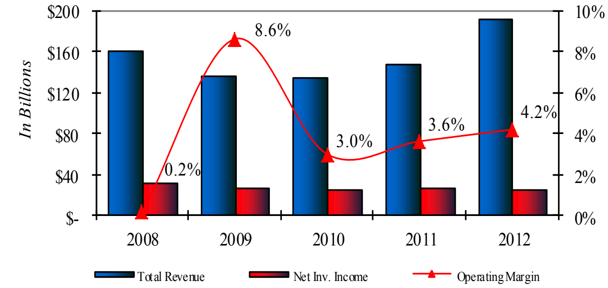



**Figure 10**
**Group Annuities: Operating Variables**

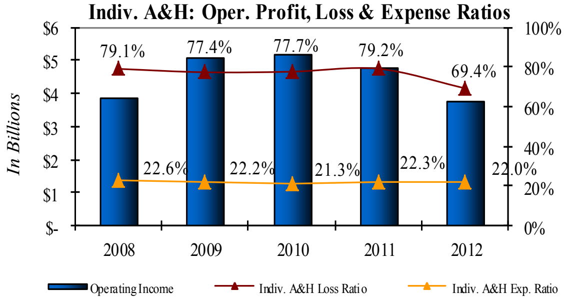



**Figure 11**
**Indiv. A&H: Oper. Profit, Loss & Expense Ratios**

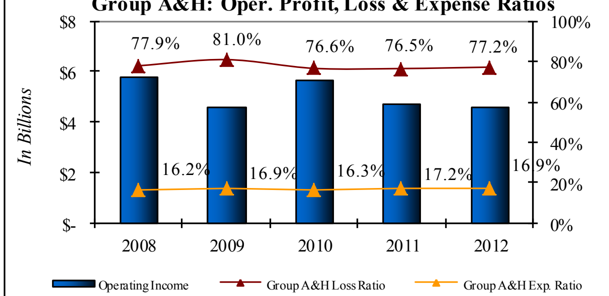



**Figure 12**
**Group A&H: Oper. Profit, Loss & Expense Ratios**

## Assets

The life industry reported a 5.1% increase in total net admitted assets to $5.6 trillion at Dec. 31, 2012. The increase is due primarily to 11.9% ($217.6 billion) and 1.3% ($42.8 billion) increases in separate account assets and total cash and invested assets of the general account, respectively. **Table 4** illustrates the change in invested assets during 2012. See page 7 for discussion of separate accounts. As seen in **Figure 13**, the majority of the industry's bond portfolio is comprised of industrial and miscellaneous bonds. The remainder is in special revenue, U.S. Government, hybrid and other bonds. **Figure 14** on page 6 shows that bonds are primarily allocated in issuer obligations, residential mortgage-backed securities (MBS), commercial MBS and other loan-backed and structured securities.

The industry's holdings of noninvestment-grade bonds decreased to 6.3% of total bonds at Dec. 31, 2012 from 6.6% at year-end 2011. The bond portfolio is also 72.4% publicly-traded securities and 27.6% private placements.

**Figure 13**
**2012 Bond Distribution**

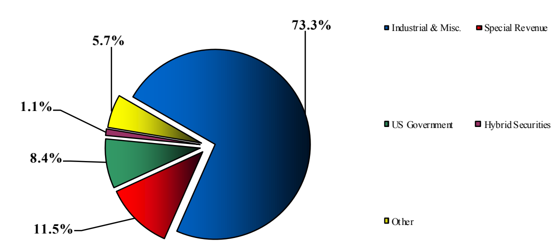
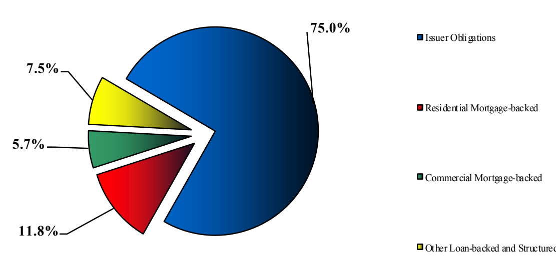


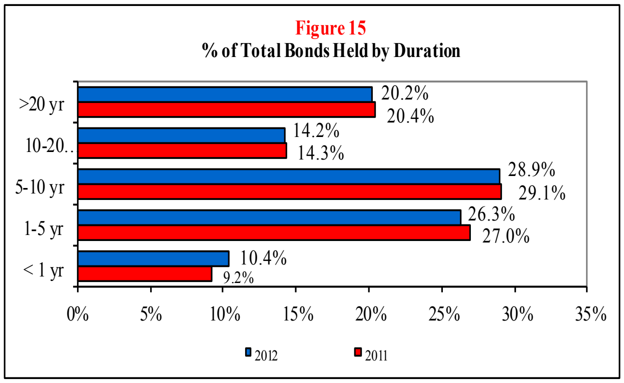

**Table 4**
**Invested Assets**

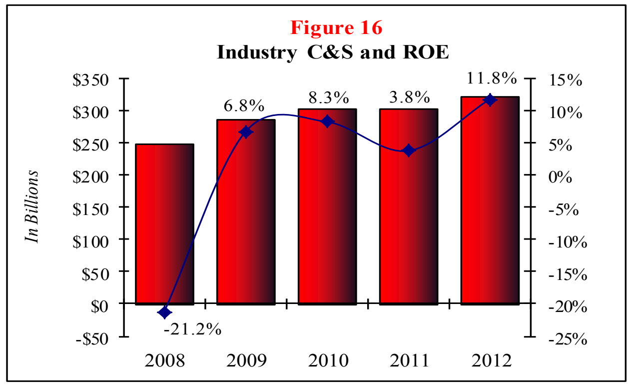
*($ in millions)*

| | % Change | 12/31/12 | 12/31/11 |
|---|---|---|---|
| Bonds | 0.4% | $2,545,795 | $2,536,312 |
| Common Stock | (5.6)% | 65,002 | 68,870 |
| Preferred Stock | (3.8)% | 7,776 | 8,086 |
| Mortgage Loans | 3.8% | 335,344 | 323,083 |
| Real Estate | 3.7% | 21,360 | 20,592 |
| Cash & S/T Investments | 9.9% | 106,403 | 96,832 |
| Derivatives | (6.4)% | 41,577 | 44,397 |
| BA Assets | 9.4% | 137,060 | 125,312 |
| Other Invested Assets | 4.5% | 139,774 | 133,794 |
| Total Invested Assets | 1.3% | $3,400,091 | $3,357,278 |

**Figure 14**
**2012 Bond Allocation**






The industry maintains a portfolio where bond durations have gradually increased with 36.7% of the holdings in 2012 due to mature in five years or less compared with 36.2% in the prior year. **Figure 15** illustrates bond distribution by duration.

## Liabilities

The life industry reported a 5.1% ($257.7 billion) increase in total liabilities to $5.3 trillion at year-end 2012. The increase is due largely to an 11.9% ($218.9 billion) increase in liabilities from separate accounts (see page 7).

The industry also reported a 26.0% ($10.7 billion) increase in funds held under coinsurance to $51.9 billion; a 27.2% ($10.2 billion) increase in payables for securities lending to $47.8 billion; a 7.9% ($6.4 billion) increase in funds held under reinsurance treaties with unauthorized reinsurers to $87.5 billion; and a 13.6% ($5.2 billion) increase in the asset valuation reserve to $43.1 billion.

These items were partially offset by 0.3% ($7.2 billion) and 1.5% ($3.4 billion) decreases in aggregate reserves for life and A&H contracts, respectively.

## Capital and Surplus

The life industry's capital and surplus increased by 5.8% to $323.0 billion at year-end 2012 due primarily to net income of $38.1 billion, surplus contributions of approximately $9.5 billion and changes in unrealized capital gains of $5.0 billion. However, these items were partially offset by total stockholder dividends of $22.1 billion.

The changes in unrealized capital gains reflect a 63.9% deterioration from $14.0 billion in 2011. The majority of the industry's unrealized gains stemmed from affiliated common stocks, other invested assets (Schedule BA) as well as other unaffiliated bonds. Roughly 58% of the total unrealized gain is attributable to three large insurance groups. As seen in **Figure 16**, the industry's ROE rose to 11.8% from 3.8% in 2011 due to the industry's significant increase in net income this year.

## Liquidity

The life industry reported a 14.4% ($21.9 billion) decrease in operating cash flow to $130.1 billion in 2012 from $152.0 billion in 2011. The decrease is due primarily to increases of:

- 3.6% ($18.2 billion) in benefits and loss-related payments; and
- 5.6% ($6.7 billion) in commissions and general insurance expenses paid.

These items were partially offset by increases of:

- 0.3% ($1.8 billion) in net premium revenues; and
- 0.8% ($1.2 billion) in net investment income.

Surrender benefits increased 3.6% ($8.4 billion) to $245.7 billion due to 9.7% ($8.7 billion) and 1.7% ($2.0 billion) increases on group and individual annuities, respectively. However, these items were partially offset by 5.8% ($1.8 billion) and 16.0% ($225 million) decreases on individual and group life business, respectively.

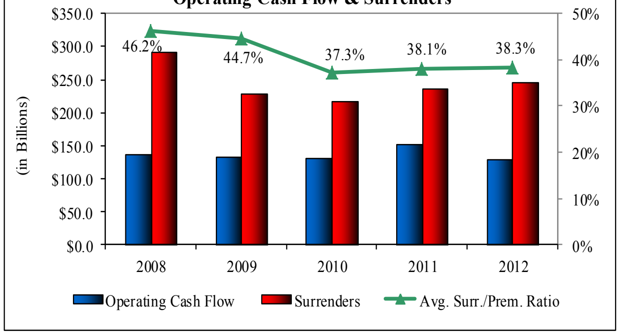
The life industry reported a 7.7% ($9.9 billion) decrease in net cash outflow from investing activities to $118.5 billion in 2012 from $128.4 billion in 2011. The decrease can be attributed primarily to a 2.2% rise in long-term bonds sold during 2012 compared to the prior year.

The industry also reported a 92.9% ($20.0 billion) decrease in net cash outflow from financing activities to $1.5 billion in 2012 compared to $21.5 billion in 2011. The decrease was due primarily to a significant increase of $12.7 billion in net deposits on deposit-type contracts and an $8.9 billion increase in other cash provided. These changes were partially offset by a $3.8 billion decrease in capital and paid-in surplus.

**Figure 17** shows the industry's operating cash flow and surrenders activity over the past five years.

Figure 17

Operating Cash Flow & Surrenders




## Separate Accounts

The life industry reported an 11.9% increase in separate account assets to approximately $2.1 trillion at Dec. 31, 2012, as seen in **Table 5**. The total maximum guarantee the general account would provide the separate account is $190.6 billion, compared to $254.0 billion in 2011.

Aggregate separate account reserves for life, annuity and A&H products increased 13.9% to $1.8 trillion. Similarly total liabilities for deposit -type contracts increased 9.7% to $150.0 billion.

The industry recorded a gross realized capital gain of $23.1 billion in 2012 compared to $17.6 billion in the prior year.

The industry also reported a 13.2% increase in separate account fee income to $29.5 billion in 2012. Likewise, net investment income increased 11.6% to $49.9 billion from $44.7 billion in 2011.

The ratio of separate account fees to separate account assets remained constant at 1.4%. At Dec. 31, 2012, the industry's CARVM allowance increased 13.6% to negative $27.9 billion, which led to a narrowing of the difference between the fund balance and the CARVM reserve.

**Table 5** provides a number of the various disclosures included in some of the general interrogatory questions in the Separate Accounts annual statement.

Table 5

**Separate Accounts Disclosures**

*($ in Millions)*

| | 2012 | 2011 |
|---|---|---|
| Companies with Separate Accounts | **173** | **185** |
| Separate Accounts (S.A.) Total Assets | $2,053,201 | $1,835,843 |
| **Separate Accounts Products with General Account Guarantees** | | |
| Companies having products with Guarantees provided by the G.A. | 119 | 122 |
| Percentage of total | 68.8% | 65.9% |
| Industry Aggregate -- Maximum Guarantees | $190,637 | $254,048 |
| Companies with G.A. paying Guarantees to the S.A. | 88 | 90 |
| Percentage of total | 50.9% | 48.6% |
| Industry Aggregate -- Guarantees Paid by G.A. | $1,486 | $1,567 |
| **Investment Directive of Separate Account Activity** | | |
| Companies with S.A. products for which investment directive is not determined by the contract holder | 56 | 63 |
| Percentage of total | 32.4% | 34.1% |
| Companies that would have exceeded G.A. investment limitations if above would have been included in the G.A. | 2 | 3 |
| Percentage of total | 1.2% | 1.6% |

## Table 6

| *Fraternal Societies* (In Millions) | Chg. | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| **Operations** | | | | | | |
| Direct Written Premium | 2.3% | $11,218 | $10,964 | $10,972 | $9,752 | $8,541 |
| Life Direct Written Premium | 4.9% | $4,238 | $4,039 | $3,781 | $3,484 | $3,409 |
| A&H Direct Written Premium | (2.6)% | $670 | $688 | $716 | $696 | $656 |
| Annuities, Dep. & Other DWP | 1.2% | $6,310 | $6,237 | $6,474 | $5,572 | $4,476 |
| Ceded Premium | (8.4)% | $383 | $418 | $441 | $379 | $326 |
| Net Earned Premium | 3.4% | $10,086 | $9,759 | $9,641 | $8,476 | $7,514 |
| Net Investment Income | 1.8% | $5,387 | $5,292 | $5,035 | $4,822 | $4,817 |
| Benefits | 0.3% | $11,272 | $11,236 | $11,197 | $10,194 | $9,670 |
| Commissions & General Expenses | 2.8% | $2,218 | $2,158 | $2,035 | $1,952 | $1,834 |
| Operating Income (before refunds to members) | 4.5% | $1,478 | $1,415 | $1,381 | $1,248 | $1,195 |
| Refunds to Members | (16.7)% | $662 | $795 | $816 | $821 | $857 |
| Realized Gains/(Losses) | 73.1% | ($12) | ($44) | ($48) | ($502) | ($835) |
| Net Income/(Loss) | 39.7% | $804 | $576 | $517 | ($75) | ($499) |
| Net Cash From Operations | (1.6)% | $4,721 | $4,797 | $5,099 | $4,580 | $3,366 |
| **Surplus** | | | | | | |
| Unrealized Gains/(Losses) | 221.3% | $151 | ($125) | $395 | $627 | ($1,247) |
| Surplus | 7.3% | $9,838 | $9,165 | $9,464 | $9,149 | $8,709 |
| **Assets** | | | | | | |
| Invested Assets | 6.6% | $111,727 | $104,801 | $98,590 | $91,711 | $85,510 |
| Net Admitted Assets (excl. Sep. Accts.) | 6.6% | $113,056 | $106,083 | $99,819 | $92,865 | $86,582 |
| Separate Account Assets | 20.6% | $16,580 | $13,746 | $13,073 | $10,886 | $8,408 |
| Total Net Admitted Assets | 8.2% | $129,637 | $119,829 | $112,892 | $103,751 | $94,990 |
| Net Investment Yield | (0.2) pts. | 5.0% | 5.2% | 5.3% | 5.4% | 5.6% |
| ROA | 0.1 pt. | 0.7% | 0.6% | 0.5% | (0.1)% | (0.6)% |

**Table 6** illustrates the fraternal insurance industry's aggregate financial results for societies which file on the fraternal annual statement blank. The fraternal industry continued to show improvement as it reported a 39.7% increase in net income to $804.4 million from $575.9 million in 2011.

The industry reported a 4.5% ($63.8 million) increase in operating income before refunds to members to $1.5 billion. The improvement in profitability can be attributed to an increase in net earned premium partially offset by an increase in commissions and general expenses.

Total direct written premium increased 2.3% ($254.0 million) to $11.2 billion. This was due to 4.9% ($198.8 million) and 2.3% ($125.4 million) increases in premiums from life insurance products and annuity considerations, respectively. These were mostly offset by 6.6% ($52.8 million) and 2.6% ($17.6 million) decreases in deposit-type contracts and A&H premiums, respectively.

Net earned premium revenue increased 3.4% ($327.2 million) in 2012. Similar to operating income, commissions and general expenses increased 2.8% ($60.1 million) in correlation with the increase in written insurance business during the year. Fraternal societies also reported a 73.1% decrease in realized capital losses to $11.7 million from $43.5 million in 2011.

Net investment income increased 1.8% to $5.4 billion while the industry's net investment yield decreased moderately, down two basis points to 5.0%. The industry reported a 6.6% ($6.9 billion) increase in invested assets to $111.7 billion mostly in long-term bonds, which were up 6.4% ($5.2 billion). Total net admitted assets (including separate accounts) increased 8.2% ($9.8 billion) to $129.6 billion; separate account assets increased 20.6% ($2.8 billion) to $16.6 billion.

Surplus increased 7.3% to $9.8 billion as net income of $804.4 million and a $151.3 million positive change in net unrealized capital gains/losses was partially offset by a $491.4 million increase in AVR. In 2011, the industry reported a negative change in net unrealized capital gains/losses of $124.7 million.



**Contributors**

**NAIC Financial Regulatory Services**
Dan Daveline, Assistant Director
Jane Koenigsman, Manager
Jeff Loomis, Senior Analyst