Insurance Analysis and Information Services Department

2010 Life and A&H, Fraternal and Health 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 an increase in profitability as market conditions improved and insurers reported a significant decrease in realized capital losses. More specifically, the overall profitability in the life industry increased 29.8% to net income of $25.3 billion in 2010, up from net income of $19.5 billion in 2009. Notable items include the following:

- Operating earnings decreased 14.3% to $41.3 billion due primarily to a slight decrease in revenues and increases in both policyholder benefits and administrative expenses.
- Direct written premium and deposits decreased 0.3% due primarily to a 4.2% decline in annuity considerations and a 5.7% drop in deposit-type contract revenues.
- Net investment income increased 4.3% as the industry reported no change in the net investment yield of 5.1% and an increase in invested assets.
- Cash and invested assets increased 3.9% due primarily to a 5.7% ($130.2 billion) increase in long-term bonds. The industry also reported a 13.3% increase in separate account assets.
- Capital and surplus increased 5.6% to $303.1 billion due primarily to net income of $25.3 billion and change in unrealized capital gains of $8.1 billion, partially offset by stockholder dividends of $24.0 billion.

Insurance Analysis & Information Services Department

David Vacca, Assistant Director
816-783-8134
dvacca@naic.org

Jane Koenigsman, Manager
816-783-8145
Jkoenigs@naic.org

Bill Rivers, Sr. Financial Analyst
816-783-8142
wrivers@naic.org

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Table 1
Financial Synopsis: 2010-2006

Life, Accident & Health as of December 31, 2010

(In Millions)	Chg.	2010	2009	2008	2007	2006
Operations						
Direct Written Premium	(0.3)%	$720,208	$722,104	$802,799	$772,370	$709,356
Life Direct Written Premium	3.7%	$158,104	$152,435	$169,785	$183,634	$166,000
A&H Direct Written Premium	2.3%	$176,041	$172,093	$167,756	$154,563	$143,857
Annuities, Dep. & Other DWP	(2.9)%	$386,063	$397,577	$465,259	$434,172	$399,500
Assumed Premium	(6.7)%	$66,114	$70,857	$70,314	$68,153	$63,768
Ceded Premium	(34.2)%	$121,218	$184,193	$129,108	$122,010	$107,696
Net Earned Premium	13.5%	$580,299	$511,463	$631,303	$616,771	$583,606
Net Investment Income	4.3%	$161,073	$154,445	$161,218	$165,037	$160,151
Benefits	0.5%	$245,770	$244,563	$244,133	$231,127	$218,339
Commissions & General Expenses	2.2%	$105,776	$103,452	$106,192	$103,620	$100,099
Operating Income	(14.3)%	$41,307	$48,225	$(1,991)	$30,523	$29,484
Realized Gains/(Losses)	44.3%	$(16,015)	$(28,741)	$(51,086)	$(1,498)	$6,534
Net Income/(Loss)	29.8%	$25,292	$19,484	$(53,077)	$29,025	$36,017
Net Cash From Operations	(1.6)%	$130,561	$132,743	$136,665	$66,412	$84,757
Capital & Surplus						
Unrealized Gains/(Losses)	142.3%	$8,096	$(19,143)	$(47,800)	$930	$3,759
Capital and Surplus	5.6%	$303,123	$287,141	$250,222	$265,616	$250,003
Assets						
Invested Assets	3.9%	$3,188,244	$3,069,295	$3,018,501	$2,950,696	$2,870,737
Net Admitted Assets (excl S.A.)	3.7%	$3,348,222	$3,228,178	$3,179,934	$3,087,559	$3,004,950
Separate Account Assets	13.3%	$1,840,038	$1,623,769	$1,369,015	$1,899,460	$1,714,967
Total Net Admitted Assets	6.9%	$5,188,260	$4,851,946	$4,548,949	$4,987,019	$4,719,917
Net Investment Yield	0.0 pts.	5.1%	5.1%	5.4%	5.7%	5.7%
ROA	0.2 pts.	0.8%	0.6%	(1.7)%	1.0%	1.2%

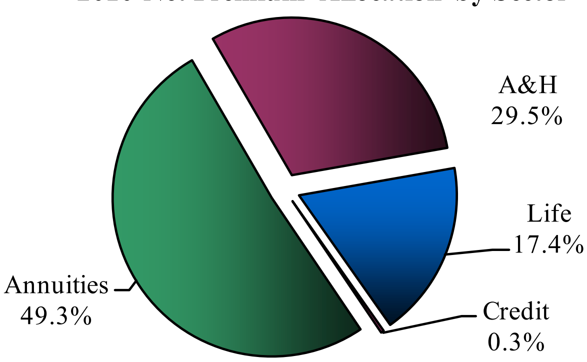
Note: Adjustments to exclude affiliated amounts were made where appropriate.

Premium Growth

The life industry reported a 0.3% ($1.9 billion) decrease in direct written premium to $720.2 billion in 2010. However, net written premium increased 9.3% ($56.3 billion) to $665.1 billion in 2010 due primarily to a 34.2% ($63.0 billion) decrease in ceded written premium. **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 2009.

On an earned basis, the industry reported a 13.5% ($68.8 billion) increase in premium to $580.3 billion. The individual lines of business, which represents 44.6% of earned premium, reported a 16.1% ($47.1 billion) increase. The increase is primarily on the individual annuity line of business, 49.0% ($60.0 billion), and the individual A&H, 7.6% ($5.7 billion). However, individual life premium decreased 19.5% ($18.6 billion). Net earned premium on group business, which represents 22% of earned premium, increased moderately by 0.13% ($293.5 million) due to a combination of an increase in group annuities and group A&H, partially offset by a decrease in group life. **Figure 1** illustrates the industry's 2010 net earned premium allocation by sector.

Figure 1
2010 Net Premium Allocation by Sector



Accident & Health

The industry reported a 3.3% ($5.5 billion) increase in net written A&H premium to $172.1 billion in 2010, with the increase most evident on the individual line of business. Net earned individual A&H premium increased 7.6% to $80.6 billion, while group A&H premium increased moderately by 0.4% to $90.4 billion.

Table 2.
Top Five States - Change in Direct Premiums Written by Line of Business
(based on $ change in Billions)

	Increases				Decreases			
Total	% Chg	2010	2009		% Chg	2010	2009
DE	101.7%	$6.5	$3.2	CA	(5.0)%	$54.5	$57.4
NY	4.3%	$45.4	$43.6	MO	(12.4)%	$12.3	$14.0
PA	3.4%	$27.4	$26.5	MN	(12.8)%	$11.1	$12.7
SC	12.1%	$8.2	$7.3	IL	(4.6)%	$23.8	$25.0
GA	5.7%	$15.7	$14.9	NC	(5.7)%	$17.2	$18.3
A&H	% Chg	2010	2009		% Chg	2010	2009
GA	18.1%	$5.9	$5.0	MO	(30.0)%	$3.7	$5.3
GL	5.4%	$11.5	$10.9	IL	(3.5)%	$6.4	$6.7
TX	4.1%	$14.4	$13.9	WI	(3.7)%	$4.7	$4.9
OH	7.7%	$7.6	$7.1	MN	(8.2)%	$1.8	$2.0
KY	19.8%	$2.5	$2.1	NY	(0.8)%	$6.9	$7.0
Life	% Chg	2010	2009		% Chg	2010	2009
DE	129.8%	$2.0	$0.9	NJ	(2.2)%	$5.5	$5.6
CA	7.1%	$14.0	$13.1	MO	(4.3)%	$2.4	$2.5
NY	3.9%	$10.7	$10.3	MI	(1.4)%	$3.6	$3.7
FL	4.4%	$7.6	$7.3	ME	(8.2)%	$0.4	$0.4
TX	3.2%	$9.0	$8.7	MS	(3.3)%	$1.0	$1.1
Annuities	% Chg	2010	2009		% Chg	2010	2009
DE	66.6%	$2.8	$1.7	CA	(12.0)%	$20.7	$23.5
SC	27.0%	$3.9	$3.1	NY	(10.7)%	$16.2	$18.1
CO	4.5%	$4.5	$4.3	TX	(8.5)%	$13.5	$14.8
UT	6.3%	$1.8	$1.7	MI	(11.1)%	$8.8	$9.9
NV	5.3%	$1.4	$1.3	FL	(6.4)%	$15.9	$16.9
Deposit-type Contracts	% Chg	2010	2009		% Chg	2010	2009
DE	19.1%	$31.9	$26.8	NY	(14.2)%	$22.1	$25.8
IA	51.7%	$3.2	$2.1	CT	(30.4)%	$7.3	$10.5
IL	69.4%	$1.8	$1.1	NC	(65.1)%	$1.0	$2.9
PA	32.7%	$1.6	$1.2	NH	(94.6)%	$0.1	$1.8
MD	38.3%	$1.0	$0.7	KS	(53.8)%	$1.1	$2.3

Life

The industry reported a moderate decrease in premiums from life insurance products as net written premium decreased 2.8% ($3.4 billion) to $119.8 billion. The decrease can be attributed to a 7.2% ($5.1 billion) increase in ceded written premium and a 9.4% ($3.9

Premium Growth (Cont'd.)

billion) decrease in assumed written premium, partially offset by a 3.7% increase in direct written premium.

Net earned premium decreased 16.3%. This decrease is most evident in the individual line of business, down 19.5% ($18.6 billion) to $76.6 billion, while net earned premium on group life decreased 4.0% ($1.0 billion) to $24.1 billion.

Annuities

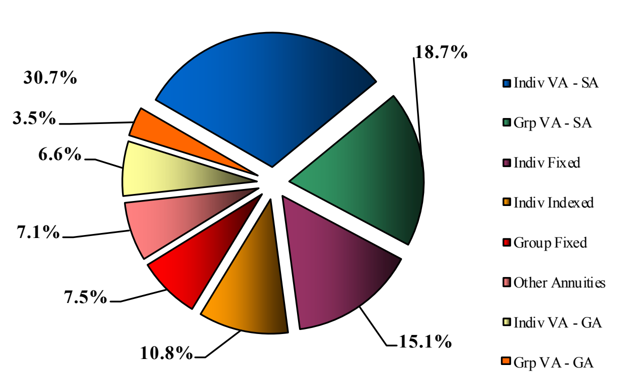
The industry reported a 2.6% ($5.9 billion) decrease in net written annuity considerations in 2010 to $223.5 billion. Direct annuity considerations decreased 4.2% ($10.1 billion) to $230.0 billion, while assumed annuities decreased 21.6% to $5.6 billion. Ceded annuity considerations also dropped off significantly by 32.1% ($5.8 billion) to $12.2 billion. However, on a net earned basis, the individual annuity line of business reported a 49.0% ($60.0 billion) increase to $182.5 billion in 2010, while net earned premium from group annuities increased moderately by 0.9% to $103.7 billion. **Figure 2** illustrates the distribution of considerations on annuities in 2010.

In comparison, in 2009 the industry reported a 7.8% ($20.4 billion) decrease in direct annuity considerations to $240.2 billion and a 30.5% ($3.1 billion) decrease in assumed annuity considerations to $7.2 billion, while ceded considerations decreased considerably by 28.7% to $17.9 billion. This decline was reflected in both the individual annuity line of business, down 40.0% ($81.6 billion) to $122.4 billion and group annuities down 13.6% ($16.2 billion) to $102.7 billion.

Deposit-type Contracts

The life insurance industry reported a 5.7% decrease in net deposit-type contracts to $87.7 billion from $93.0 billion in 2009.

Figure 2
2010 Annuity Consideration Distribution



Investment Income

Net investment income increased 4.3% to $161.1 billion in 2010, while the industry's net investment yield remained unchanged at 5.1%, as seen in **Figure 3.** Life insurers' invested asset portfolio increased 3.9% ($118.9 billion) to approximately $3.2 trillion. Insurers reported increases in net investment income of 3.5% ($4.2 billion) for unaffiliated bonds; 125.5% ($3.5 billion) for derivatives; 58.8% ($1.8 billion) on affiliated common stock; and 24.5% ($1.2 billion) on other invested assets. **Figure 4** illustrates income by asset class.

As shown in **Figure 5,** as the Federal Reserve maintained the fed funds interest rate at 0.25%, which has resulted in a low short-term interest rate environment, the 10-year bond yield curve decreased to 3.3% from 3.8% at December 31, 2009. The 30-year Treasury bond yield also decreased to 4.3% from 4.6% at prior year-end. **Figure 5** also illustrates an increase in the S&P 500 through 2010.

Life insurers' holdings in short-term investments decreased 29.2% ($25.8 billion) to $62.6 billion at December 31, 2010, from $88.4 billion at the prior year-end.

Figure 3
Net Investment Income & Yield

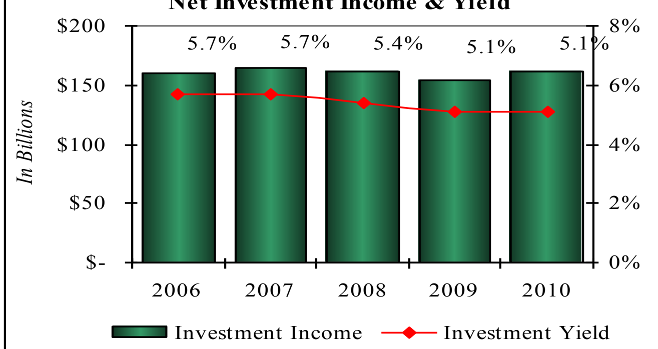


Figure 4
2010 Net Investment Income Allocation

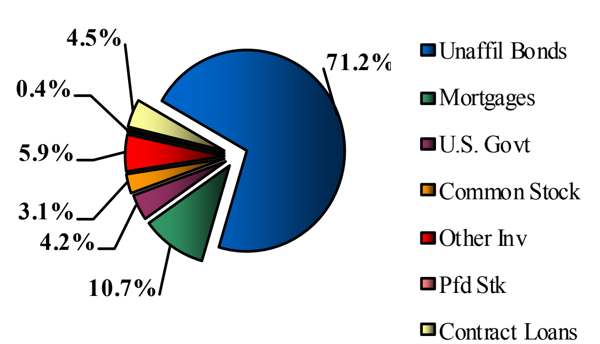


Figure 5
Market Indices Dec. 2006-2010

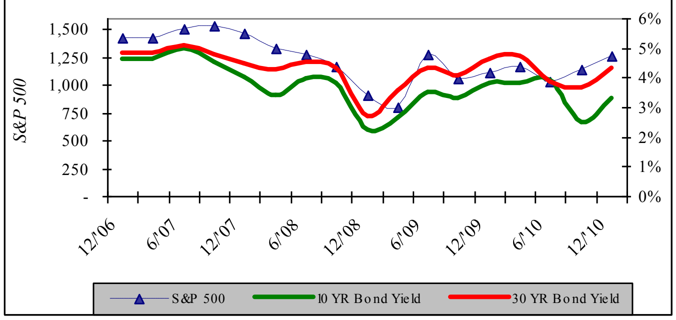
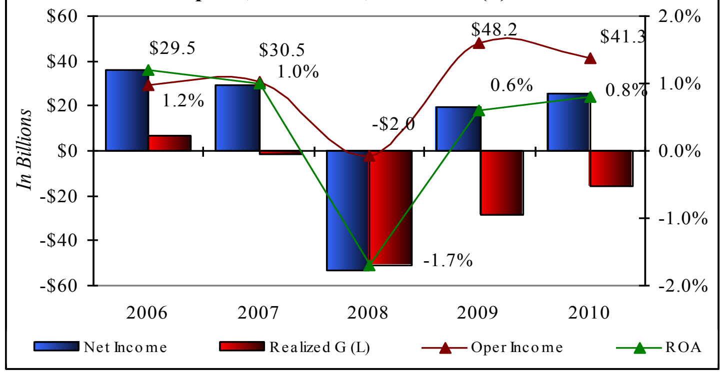


Figure 6
Op Inc., Net Income, Realized G(L) & ROA



Operating Income

Net earnings increased considerably as the industry reported net income of $25.3 billion in 2010 despite a 14.3% decrease in operating income to $41.3 billion. The industry reported a 44.3% drop in realized capital losses to $16.0 billion compared to realized losses of $28.7 billion in 2009. The decline in realized losses can be attributed to a significant drop in other-than-temporary impairments on long-term bonds and the improvement in the equity markets and the credit quality environment. This has allowed life insurers to recognize lower realized capital losses on disposals of long-term bonds, derivatives and other invested assets. It should be noted that 15 insurance groups accounted for 85.6% ($13.7 billion) of the industry's total realized capital loss for 2010.

The industry reported a 14.3% decrease in operating income to $41.3 billion in 2010 down from $48.2 billion in 2009. Impacting operating income were:

- $90.8 billion in reserve adjustments on reinsurance ceded
- $69.0 billion increase in premium revenue driven largely by a decrease in ceded premium
- Net transfers to the separate account of $18.1 billion
- $13.4 billion decrease in claims and benefits incurred
- $8.3 billion increase in net investment income
- $4.4 billion increase in miscellaneous income

As illustrated in **Figure 6**, the industry's ROA improved to 0.8% by year-end 2010 from 0.6% at prior year-end, influenced by the aforementioned decline in realized capital losses.

Accident & Health

Insurers continued to report profitable individual and group A&H lines of business. As seen in **Figure 7**, operating earnings for individual A&H continued to rise, increasing 3.4% to $5.2 billion in 2010. The upward trend is due primarily to a 7.6% ($5.7 billion) increase in net earned premium partially offset by a 6.0% ($3.0 billion) increase in A&H benefits. The A&H loss ratio was 77.7%. General insurance expenses increased 6.9%, yet due to the increase in earned premium, the industry experienced a 1.0 percentage point decrease in the A&H expense ratio to 21.2%.

Figure 7
Ind. A&H: Oper. Profit, Loss & Exp. Ratios

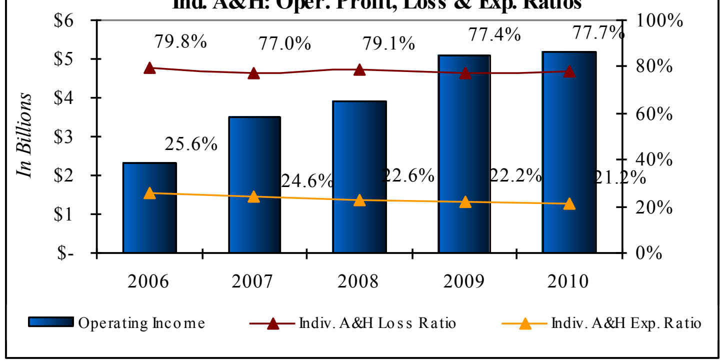
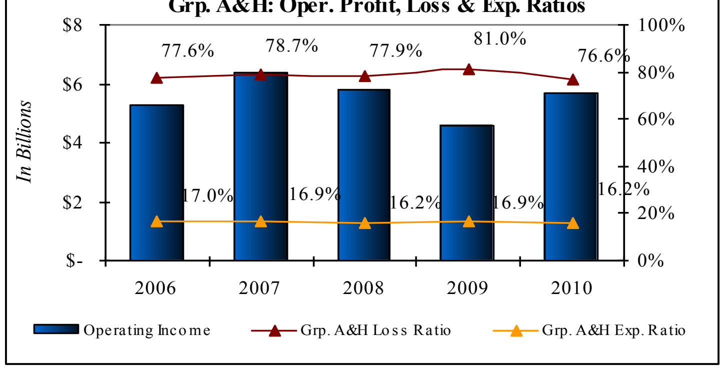
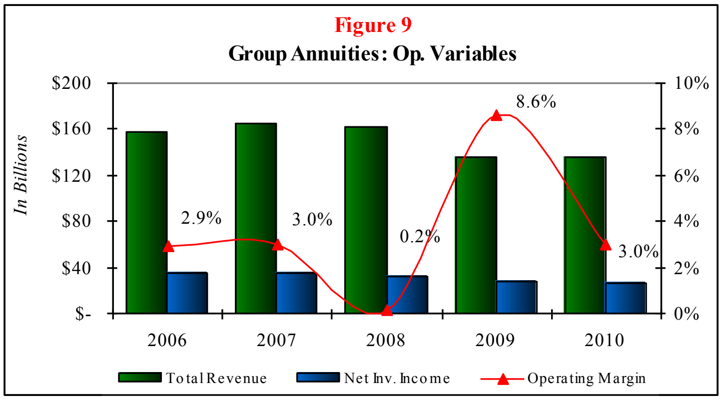


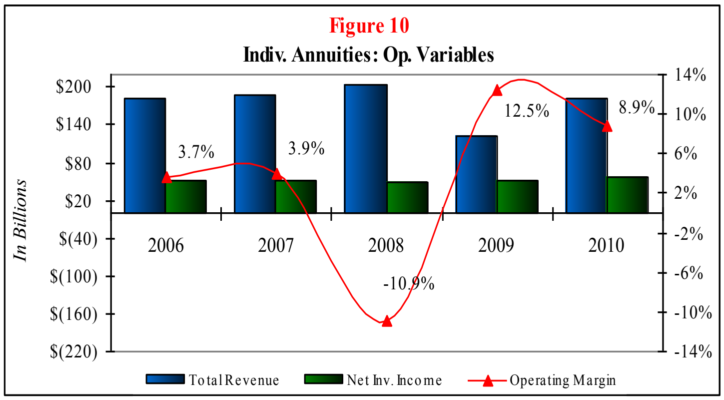
Figure 8
Grp. A&H: Oper. Profit, Loss & Exp. Ratios



As seen in **Figure 8**, operating earnings from group A&H increased 23.7% to $5.7 billion in 2010, due primarily to a 4.2% ($3.0 billion) decrease in A&H benefits. The A&H loss ratio was 76.6%. A moderate increase in earned premi-

Operating Income (Cont'd.)





um combined with a 3.0% decrease in total incurred expenses led to a 0.66 percentage point decrease in the A&H expense ratio to 16.2%.

Life

Pretax operating income for the group life line of business increased 12.0% in 2010 due primarily to an 18.7% ($5.1 billion) decrease in claims and benefits incurred to $22.4 billion. This was partially offset by a 76.2% ($2.6 billion) decrease in net transfers from the separate account, a $1.3 billion reserve adjustment on reinsurance ceded and a 4.0% decrease in net earned premium revenue. Operating income net of taxes decreased 6.4% to $2.1 billion in 2010.

Pretax operating income for the individual life line of business decreased 5.8% ($1.3 billion) to $20.5 billion in 2010 due primarily to a 19.5% ($18.6 billion) decrease in net premium revenue and a significant increase of $4.5 billion in net transfers to the separate account. These items were partially offset by a 3.9% ($4.3 billion) decrease in claims and benefits incurred and a significant drop in aggregate write-ins for deductions. Operating income net of taxes decreased 5.2% to $7.0 billion from $7.4 billion in 2009.

Annuities

Profitability from annuities dropped significantly during 2010, primarily on the group annuity line of business. Operating earnings from group annuities decreased significantly to $4.1 billion from $11.7 billion in 2009, reflecting a sharp drop in the operating margin to 3.0% from 8.6% in 2009 as seen in **Figure 9**. The considerable decrease in profitability can be attributed to a 3.7% ($4.2 billion) increase in claims and benefits incurred and a significant increase of $2.3 billion in net transfers to the separate account. By comparison, in 2009, the group annuity claims and benefits decreased 23.1% ($34.0 billion); annuity considerations decreased 13.8% ($16.4 billion); and net investment income dropped 16.7% ($5.4 billion).

The individual annuity line reported a 6.3% increase in operating income to $16.3 billion from $15.3 billion in 2009, resulting in an operating margin of 8.9%, down from 12.5% in 2009 as seen in **Figure 10**. The increase in profitability can be attributed to a smaller increase in aggregate reserves as a result of a drop in business written. However, the industry reported a 49.0% ($60.0 billion) increase in individual annuity considerations during 2010. By comparison, in 2009, the industry reported a significant decline in claims and benefits incurred of 27.3% and a 41.9% ($85.4 billion) decrease in in annuity considerations.

Assets

The life industry reported a 6.9% increase in total net admitted assets to $5.2 trillion at December 31, 2010. The increase is due primarily to a 13.3% ($216.3 billion) increase in separate account assets to $1.8 trillion. Cash and invested assets increased 3.9% ($121.6 billion) to approximately $3.3 trillion at year-end 2010. **Table 3** illustrates the change in invested assets during 2010.

The industry's holdings of non-investment grade bonds decreased to 7.0% of total bonds at year-end 2010 from 7.5% at year-end 2009. The bond portfolio is also represented by 74.3% publicly traded securities and 25.7% private placements. **Figures 11, 12 and 13** illustrate bond distribution by type and duration.

Assets (Cont'd.)

Table 3
Invested Assets

(In Millions)

	% Change	12/31/10	12/31/09
Bonds	5.7%	$2,422,366	$2,292,163
Common Stock	9.7%	66,430	60,568
Preferred Stock	(22.2)%	9,087	11,684
Mortgage Loans	(2.9)%	306,825	315,954
Real Estate	0.8%	19,609	19,469
Cash & Cash Equivalents	(22.6)%	94,832	122,500
Derivatives	17.3%	21,534	18,359
BA Assets	6.6%	112,622	105,694
Other Invested Assets	8.8%	136,336	125,301
Total Invested Assets	3.9%	$3,188,244	$3,069,295

Subprime Exposure

The direct exposure to subprime investments for the life industry appears to be minimal. The majority of subprime exposure is related to residential mortgage-backed securities (RMBS). As of December 31, 2010, life insurers' reported exposure to subprime mortgage-related risk at $30.0 billion book-adjusted carrying value, including other-than-temporary-impairments recognized to date of $4.9 billion. However, it should be noted that within the industry, the level of direct exposure varies considerably by individual company. In addition, there may be indirect exposure to subprime that is not disclosed within the statutory annual statement as insurers may have exposure through affiliated entities and off-balance sheet risk.

Commercial Real Estate & Mortgage Exposure

The industry reported significant exposure to commercial mortgages, real estate and commercial mortgage-backed securities of $548.4 billion and recognized other-than-temporary-impairments of $4.3 billion. Total commercial real estate-related exposure represents 164.7% of capital and surplus plus AVR and represents 10.6% of total net admitted assets.

Figure 11
2010 Bond Allocation

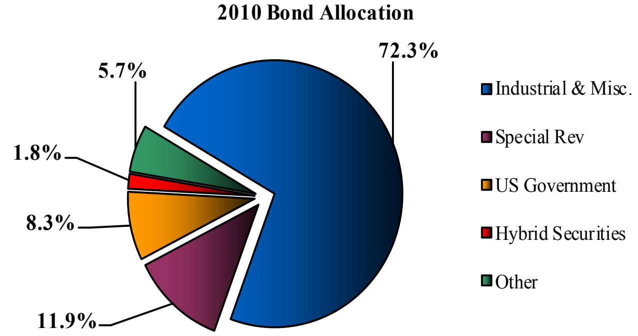


Figure 12
2010 Bond Distribution

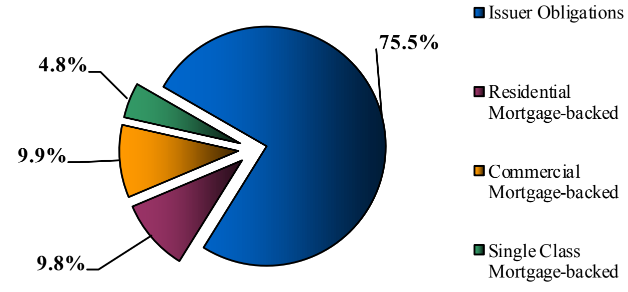
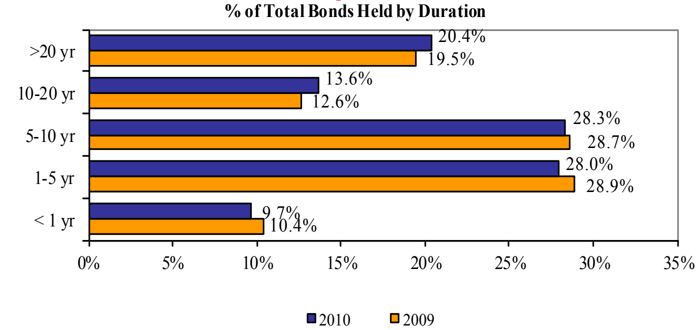


Figure 13
% of Total Bonds Held by Duration



Liabilities

The life industry reported a 7.2% ($326.3 billion) increase in total liabilities to $4.9 trillion at year-end 2010. The increase is due largely to a 13.3% ($215.9 billion) increase in separate account liabilities.

The industry also reported a 3.7% ($78.2 billion) increase in aggregate reserves for life policies to approximately $2.2 trillion; a 9.0% ($17.0 billion) increase in aggregate reserves for A&H policies to $207.1 billion; and a 50.4% ($10.0 billion) increase in asset valuation reserve to $30.0 billion.

These items were partially offset by a 2.7% ($7.7 billion) decrease in liability for deposit-type contracts; a 23.8% ($4.9 billion) decrease in borrowed money; and a 5.0% ($2.4 billion) decrease in aggregate write-ins for liabilities.

Capital and Surplus

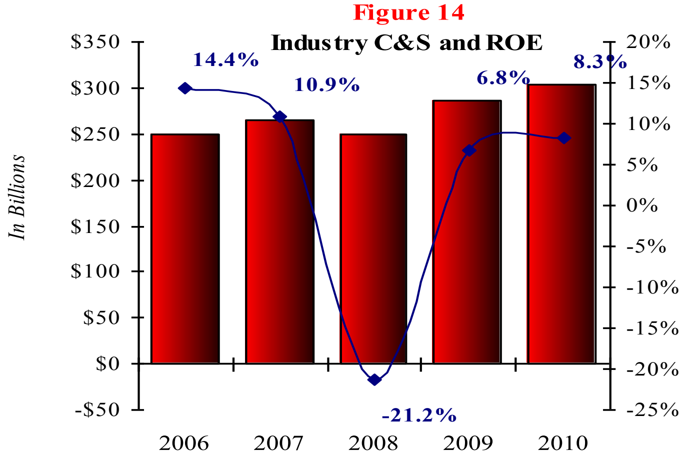
The life industry's capital and surplus increased 5.6% to $303.1 billion at year-end 2010, due primarily to net income of $25.3 billion, aggregate write-ins for gains and losses in surplus of $44.7 billion and changes in net unrealized capital gains of $10.7 billion. However, these items

Capital and Surplus (Cont'd.)

were partially offset by surplus adjustments of $41.8 billion and stockholder dividends of $24.0 billion.

Changes in unrealized capital gains reflect a significant improvement from unrealized capital losses of $19.1 billion in 2009. The unrealized gains can be attributed to an improved equity market that allowed insurers to report increased invested asset values. The majority of the industry's unrealized gains was derived from unaffiliated common stock, other invested assets (Schedule BA) as well as affiliated common stock. Approximately 23% of the total unrealized gain is attributable to one large insurance group. As seen in **Figure 14,** the industry's ROE improved to 8.3% from 6.8% in 2009, as the industry's operating earnings overwhelmingly outpaced realized losses.

Figure 14



Liquidity

The life industry reported a 1.6% ($2.2 billion), decrease in operating cash flow to $130.6 billion in 2010 from $132.7 billion in 2009. The decrease is due primarily to:

- 61.9% ($65.8 billion) decrease in miscellaneous income
- 49.3% ($10.4 billion) increase in amounts transferred to the separate account
- 1.5% ($7.3 billion) increase in benefits and loss-related payments

These items were partially offset by:

- 14.1% ($72.6 billion) increase in net premium revenues
- 6.9% ($8.5 billion) decrease in commissions and general insurance expenses paid
- 3.2% ($4.9 billion) increase in net investment income.

Surrender benefits decreased 5.3% ($12.1 billion) to $216.6 billion primarily due to an 18.7% ($7.5 billion) decrease on individual life business; a 68.0% ($4.8 billion) decrease on group life insurance; and, a 1.5% ($1.6 billion) decrease on individual annuities. However, these items were partially offset by a 3.2% ($2.5 billion) increase on group annuities.

The life industry reported a 14.9% ($18.0 billion) increase in cash outflow from investments to $138.7 billion in 2010 compared to $120.7 billion in 2009. The increase can be attributed primarily to an increase in turnover in the long-term bond portfolio.

The life industry reported a 47.1% ($17.4 billion) decrease in net cash outflow from financing to $19.5 billion in 2010 compared to net cash outflow from financing of $36.9 billion in 2009. The decrease was due primarily to a significant increase of $49.3 billion in net deposits on deposit-type contracts and a $10.0 billion increase in dividends to stockholders partially offset by an 85.9% decrease in capital and paid-in surplus.

Separate Accounts

The life industry reported a 13.3% increase in separate account assets to $1.8 trillion at year-end 2010. The increase can be attributed to an increase in business transferred to the separate account during 2010. The total maximum guarantee the general account would provide the separate account is $178.5 billion.

Aggregate separate account reserves for life, annuity and A&H products increased 12.9% to $1.6 trillion, while total liabilities for deposit-type contracts increased 8.6% to $138.9 billion.

The industry recorded a gross realized capital loss of $9.8 billion in 2010 compared to a gross realized capital loss of $74.2 billion in 2009. As a result of an increase in separate account assets, the industry reported a 14.7% increase in separate account fee income to $23.4 billion in 2010. Despite the increase in assets, net investment income decreased 14.7% to $38.7 billion from $45.4 billion in 2009.

Due to the increase in fee income, the ratio of separate account fees to separate account assets remained at 1.3% in 2010. At year-end 2010, the industry's CARVM allowance decreased 14.0% to negative $26.9 billion narrowing the difference between the fund balance and the CARVM reserve.

Fraternal Societies at a Glance

Table 4 illustrates the fraternal insurance industry's aggregate financial results for societies who file on the fraternal annual statement blank. The fraternal insurance industry showed dramatic improvement as it reported net income of $515.3 million in 2010 compared to a net loss of $740.8 million in 2009.

The industry reported a 10.6% increase in operating income to $1.4 billion before refunds to members. The significant improvement in profitability can be attributed to an increase in net earned premium partially offset by an increase in benefits. Overall, direct written premium jumped 12.5% ($1.2 billion) due primarily to an 18.1% ($849.9 million) increase in annuity considerations and an 8.5% ($297.5 billion) increase in premiums from life insurance products. Net earned premium revenue increased 13.7% ($1.2 billion) in 2010. Total benefits increased 9.9% ($1.0 billion) as the industry wrote an increased amount of life insurance and annuity business which resulted in increased reserves. Fraternal societies also reported a 90.4% decrease in realized capital losses to $48.2 million in 2010 from a realized loss of $501.9 million in 2009.

Net investment income increased 4.4% to $5.0 billion while the industry's net investment yield decreased moderately, down 15 basis points to 5.3%. The industry reported a 7.5% ($6.9 billion) increase in invested assets to $98.6 billion mostly in long-term bonds, up 8.9% ($6.3 billion). Total net admitted assets increased 8.8% ($9.1 billion) to $112.9 billion, and separate account assets increased 20.1% ($2.2 billion).

Direct exposure to subprime investments for fraternal societies appears to be minimal. The majority of subprime exposure is related to residential mortgage-backed securities (RMBS). As of December 31, 2010, fraternal societies' reported exposure to subprime mortgage-backed securities on the balance sheet was reported at $426.9 million book-adjusted carrying value including other-than-temporary impairments recognized to date of $19.9 billion. This exposure represents 3.9% of surplus plus AVR and less than 1% of both net invested assets and total admitted assets.

Surplus increased 3.4% to $9.5 billion as net income of $515.3 million and a change in net unrealized capital gains of $395.5 million were partially offset by an increase in AVR. The unrealized gain is a 36.9% decrease from an unrealized gain of $627.2 million in 2009.

Table 4
Financial Synopsis: 2010-2006

Fraternal Societies as of December 31, 2010

(In Millions)	Chg.	2010	2009	2008	2007	2006
Operations						
Direct Written Premium	12.5%	$10,972	$9,752	$8,541	$7,098	$7,246
Life Direct Written Premium	8.5%	$3,781	$3,484	$3,409	$3,201	$3,174
A&H Direct Written Premium	2.9%	$716	$696	$656	$612	$562
Annuities, Dep. & Other DWP	16.2%	$6,474	$5,572	$4,476	$3,284	$3,510
Ceded Premium	16.2%	$441	$379	$326	$259	$215
Net Earned Premium	13.7%	$9,641	$8,476	$7,514	$6,373	$6,602
Net Investment Income	4.4%	$5,035	$4,822	$4,817	$4,701	$4,576
Benefits	9.9%	$11,198	$10,194	$9,670	$7,775	$8,028
Commissions & General Expenses	4.2%	$2,035	$1,952	$1,834	$1,763	$1,800
Operating Income (before refunds to members)	10.6%	$1,380	$1,248	$1,195	$1,418	$1,360
Refunds to Members	(0.6)%	$816	$821	$857	$902	$819
Realized Gains/(Losses)	90.4%	$(48)	$(502)	$(835)	$229	$233
Net Income/(Loss)	789.2%	$515	$(75)	$(499)	$745	$774
Net Cash From Operations	11.3%	$5,099	$4,580	$3,366	$1,242	$1,812
Surplus						
Unrealized Gains/(Losses)	(36.9)%	$396	$627	$(1,247)	$(78)	$143
Surplus	3.4%	$9,461	$9,149	$8,709	$9,907	$9,392
Assets						
Invested Assets	7.5%	$98,589	$91,711	$85,510	$85,795	$84,477
Net Admitted Assets (excl S.A.)	7.5%	$99,817	$92,865	$86,582	$86,876	$85,559
Separate Account Assets	20.1%	$13,073	$10,886	$8,408	$11,978	$10,520
Total Net Admitted Assets	8.8%	$112,890	$103,751	$94,990	$98,854	$96,079
Net Investment Yield	(0.1) pts.	5.3%	5.4%	5.6%	5.5%	5.5%
ROA	0.6 pts.	0.5%	(0.1)%	(0.6)%	0.9%	0.9%

Health Insurance Industry at a Glance

Table 5 illustrates the U.S. health insurance industry's aggregate financial results for health entities who file with the NAIC on the health annual statement blank. The health insurance industry experienced a significant increase in net earnings of 37.1% to $12.7 billion and a profit margin of 3.3% in 2010 compared to net earnings of $9.3 billion and a profit margin of 2.5% in 2009. The combined ratio decreased to 96.7% from 98.4%. Despite the increase in net earnings, health entities reported a 23.1% decrease in net investment income to $3.4 billion with a decline in the yield to 2.6%. **Figure 15** illustrates the increase in both net earnings and profit margin.

The considerable increase in the industry's underwriting results can be attributed to a 1.5% increase in net earned premium to $378.9 billion and a moderate decrease in total hospital and medical expenses to $321.2 billion. The industry also recorded realized capital gains of $1.4 billion in 2010. **Figure 16** illustrates a slight decrease in hospital and medical benefits and the 1.8 percentage point decrease in the medical loss ratio to 84.9% in 2010. Until the current year, the industry reported incremental increases in hospital and medical benefits and the medical loss ratio. In addition, as indicated on **Table 5**, the industry reported a marginal increase in the administrative expense ratio to 11.9%.

Enrollment decreased 2.2% to 162.0 million due primarily to an 8.0% ($3.9 million) decrease in the group comprehensive line of business. Health insurers reported premium per member per month (PMPM) of $194 and claims PMPM of $165. Direct written premium increased moderately to $387.8 billion. **Figure 17** illustrates the mix of direct written premium for 2010. During the last five years, there has been a gradual shift in the allocation of premium between the lines of business. In comparison to 2009, direct comprehensive medical dropped to 50.2% of total premium from 53.2%, while Medicare increased to 20.8% from 18.2% and Medicaid increased to 14.0% from 13.3%. It appears that the shift in business concentration is due to an increase in the number of insureds becoming eligible for either Medicare and/or Medicaid as evidenced by increases in enrollment in these lines.

Health entities reported a 13.7% increase in capital and surplus to $87.7 billion and paid dividends of $5.3 billion to stockholders in 2010.

Table 5
Financial Synopsis: 2010-2006

Health Entities as of December 31, 2010

(In Millions, Except PMPM)	Chg.	2010	2009	2008	2007	2006
Operations						
Direct Written Premium	1.4%	$387,775	$382,376	$354,646	$331,029	$303,735
Net Earned Premium	1.5%	$378,912	$373,192	$346,161	$324,602	$298,146
Net Investment Income Earned	(23.1)%	$3,394	$4,414	$4,759	$5,249	$4,452
Underwriting Gain/(Loss)	108.8%	$12,481	$5,978	$9,092	$10,086	$11,807
Net Income/(Loss)	37.1%	$12,738	$9,292	$8,417	$12,279	$12,551
Total Hospital & Medical Exp	(0.7)%	$321,165	$323,400	$297,746	$278,212	$252,297
Loss Ratio	(1.8) Pts.	84.9%	86.7%	86.0%	85.4%	84.4%
Admin Expense Ratio	0.2 Pts.	11.9%	11.7%	11.4%	11.6%	11.7%
Combined Ratio	(1.7) Pts.	96.7%	98.4%	97.4%	96.9%	96.1%
Profit Margin	0.8 Pts.	3.3%	2.5%	2.4%	3.7%	4.1%
Net Premium PMPM	2.4%	$194	$189	$186	$177	$169
Claims PMPM	0.2%	$165	$165	$161	$152	$144
Cash Flow from Operations	37.2%	$11,820	$8,618	$10,177	$13,546	$16,128
Enrollment	(2.2)%	162	166	157	153	150
Capital and Surplus						
Capital & Surplus	13.7%	$87,747	$77,147	$71,404	$76,025	$68,311
Assets						
Net Invested Assets	9.2%	$133,784	$122,473	$113,443	$119,524	$109,914
Net Admitted Assets	8.5%	$171,925	$158,503	$146,866	$148,285	$137,279
Net Inv Inc & Realized Gain/(Loss)	(27.8)%	$4,777	$6,614	$1,980	$6,103	$4,827
Investment Yield	(1.1) Pts.	2.6%	3.7%	4.1%	4.6%	4.3%

Note: Aggregate results include only health entities who file annual statements with the NAIC. As of April 4, 2011, approximately 98% of expected health entities reported.

Health Industry Disclosure: In some states the health industry is regulated by a Department other than the Department of Insurance. Therefore, not all health entities may be required to file financial statements with the NAIC.

Health Insurance Industry (Cont'd.)

Figure 15

Net Income & Profit Margin (ROR)

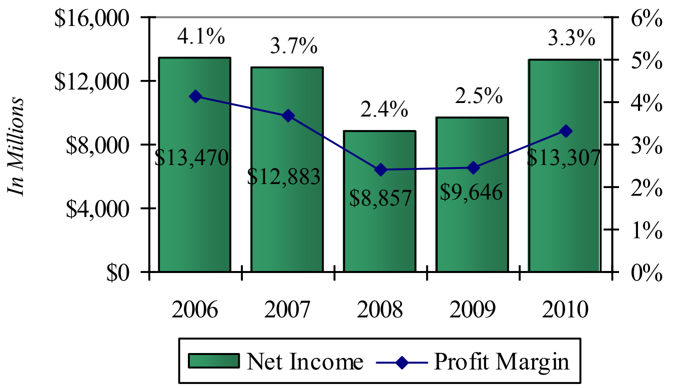


Figure 17

2010 Direct Health Premium Written

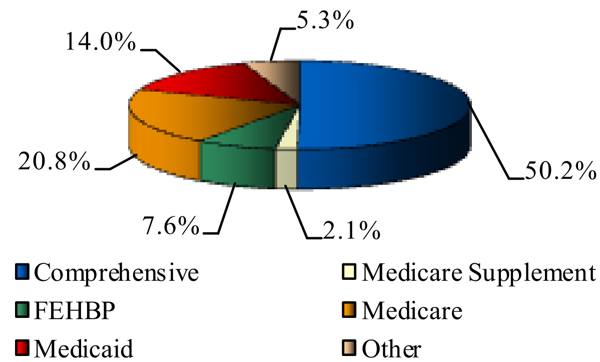
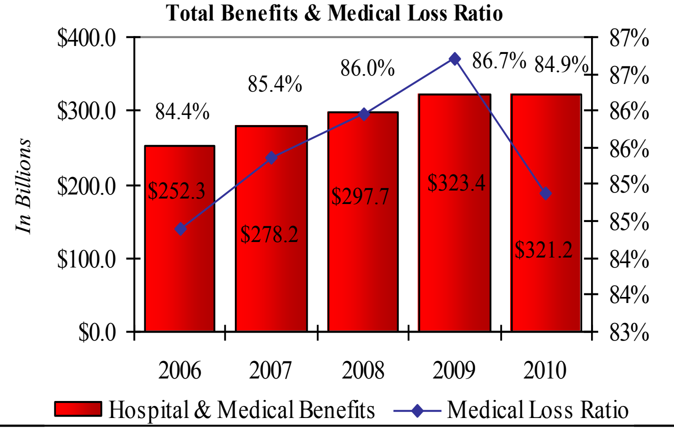


Figure 16

Total Benefits & Medical Loss Ratio



Accident & Health

Table 6 illustrates the insurance industry's aggregate direct A&H insurance experience for insurers filing the A&H Policy Experience Exhibit on the life, A&H, health, fraternal and property/casualty financial statements. The insurance industry reported a 9.4% ($51.1 billion) decrease in earned premium to $494.4 billion and an 11.0% ($49.3 billion) decrease in incurred claims in 2010. These decreases are most evident on the group comprehensive major medical line of business which represents 35.5% of total earned premium. This line of business reported a 16.9% ($35.7 billion) decrease in earned premium to $175.5 billion and an

Table 6

Accident and Health

($ In Millions)	Line of Business % of Total	% Chg.	2010 Premium Earned	2009 Premium Earned	% Chg.	2010 Claims	2009 Claims	% Chg.	Covered Lives CY	Covered Lives PY
Comp - Individual	4.1%	(5.9)%	$20,223	$21,497	(6.6)%	$16,311	$17,456	(9.1)%	7,926,644	8,720,558
Comp - Group	35.5%	(16.9)%	$175,472	$211,124	(19.4)%	$145,649	$180,631	(23.5)%	45,369,634	59,335,126
Medicare	18.6%	(7.7)%	$92,084	$99,820	(7.8)%	$77,673	$84,220	(48.9)%	8,463,679	16,550,512
Medicaid	10.5%	12.2%	$51,727	$46,093	9.2%	$44,290	$40,565	0.5%	16,956,447	16,864,879
FEHBP	4.9%	(11.5)%	$24,299	$27,461	(11.1)%	$22,793	$25,649	(28.0)%	5,722,362	7,953,158
Disability Income	3.9%	(6.4)%	$19,052	$20,352	(2.6)%	$15,577	$15,987	(7.4)%	59,006,261	63,737,347
Dental	3.2%	2.9%	$16,049	$15,603	2.1%	$12,514	$12,254	(6.3)%	50,831,064	54,250,146
Medicare Supplement	2.6%	(38.0)%	$13,029	$21,026	(39.6)%	$10,090	$16,710	(35.5)%	6,138,067	9,522,879
Medicare Part D	2.6%	23.3%	$12,911	$10,468	17.6%	$10,690	$9,089	45.2%	10,551,614	7,268,968
Other Group Care	2.1%	(26.0)%	$10,488	$14,168	(29.5)%	$7,504	$10,651	17.9%	33,344,065	28,275,490
Stop Loss	1.5%	8.2%	$7,240	$6,689	(4.8)%	$5,260	$5,523	(11.6)%	24,282,392	27,480,248
Non-U.S. Policy Forms	3.3%	14.0%	$16,399	$14,382	12.6%	$7,521	$6,678	2.0%	35,125,955	34,436,394
Other Business	7.2%	(3.7)%	$35,461	$36,831	1.0%	$23,305	$23,081	(5.1)%	327,440,037	345,198,039
Total A&H Business	**100.0%**	**(9.4)%**	**$494,433**	**$545,512**	**(11.0)%**	**$399,176**	**$448,493**	**(7.1)%**	**631,158,221**	**679,593,744**

Note: Includes statement types Life, Fraternal, Health and Property & Casualty

Accident & Health (Cont'd.)

11.0% ($49.3 billion) decrease in incurred claims to $399.2 billion. Additionally, the number of covered lives decreased 7.1% (48.4 million) to 631.2 million as reflected in a 23.5% (14.0 million) drop on the group comprehensive medical line of business.

Long-term Care

Table 7 illustrates the insurance industry's aggregate long-term care experience for insurers filing the Long-term Care Experience Reporting Form on the life, A&H, health, fraternal and property/casualty financial statements.

The insurance industry reported a 32.4% ($24.0 billion) increase in earned premium to $98.0 billion and a 33.2% ($10.2 billion) increase in incurred claims in 2010. On an individual basis, the industry reported a 23.7% ($16.3 billion) increase in earned premium to $84.9 million and a 26.5% ($7.6 billion) increase in incurred claims to $36.4 billion. On a group basis, the industry reported a $7.7 billion increase in earned premium to $13.1 billion and a $2.6 billion increase in incurred claims to $4.6 billion in 2010.

Table 7
Long-term Care

($ In Millions)	Line of Business % of Total	% Chg.	2010 Premium Earned	2009 Premium Earned	% Chg.	2010 Incurred Claims	2009 Incurred Claims
Individual	86.6%	23.7%	$84,870	$68,594	26.5%	$36,438	$28,814
Group	13.4%	141.6%	$13,122	$5,431	131.7%	$4,551	$1,964
Total Long-term Care	**100.0%**	**32.4%**	**$97,992**	**$74,024**	**33.2%**	**$40,989**	**$30,778**