

## PROTECTORS & INVESTORS: America's Life Insurers

The life insurance industry protects American families against financial loss, promotes long-term saving, and offers guarantees in retirement. We also fuel growth and national development through substantial capital investment.

With more than 5 trillion in total assets at the end of 2007, our industry has more 4.7 trillion invested in the U.S. economy alone.<sup>1</sup> This makes the life insurance industry one of the largest sources of investment capital in the nation.<sup>2</sup> From 2003 to 2007, life insurers provided \$1.2 trillion in new net investments—approximately 7 percent of total net investments made by all other financial intermediaries.<sup>3</sup>

Our capital contribution is manifested in many ways. In 2004, one company committed more than \$285 million to affordable housing and historic redevelopment projects. Another played a key role in the construction of an electric transmission line in California—eliminating a transmission bottleneck and saving California consumers up to an estimated \$300 million a year.

Because the industry offers long-term financial products to our customers, we look for and are able to make long-term capital commitments with a lasting impact on the nation's economic growth. Thus, the life insurance industry supports the economy in two important ways:

- We offer products that provide retirement security and financial protection to individuals and businesses;
- We provide long-term investment capital to businesses and governments.

Through our focus on both the long-term financial well being of American families and the long-term financial growth of the nation's economy, life insurers play a unique role in supporting the American dream.



Frank Keating  
President & CEO

A handwritten signature in black ink that reads "Frank Keating". The signature is stylized and written in a cursive-like font.

## RETIREMENT SECURITY AND FINANCIAL PROTECTION

For most Americans, financial security isn't a one-time stroke of luck, but a lifelong commitment requiring preparation and vigilance. Life insurance companies help people address that commitment by offering products and services to help them save for and secure a guaranteed income in retirement, and protect against a life crisis such as the premature death of a family wage earner, a disability, or old-age infirmity.

Among the products life insurers provide that help Americans protect their assets, accumulate long-term savings, and guarantee a secure retirement are life insurance, annuities, workplace savings plans, disability income and long-term care insurance.

### Life insurance

Life insurance acts both as protection against the premature death of a wage earner and as a financial tool for retirement planning. Life insurance protects American families by providing benefits to survivors when a primary wage earner dies. The money from a life insurance policy can be used for mortgage payments, monthly bills, or sending children to college. Often the benefits from a life insurance policy can keep a family from poverty and welfare.

The financial plans of 65 percent of American families include life insurance.<sup>4</sup> These families are covered by life insurance policies and group certificates that provide more than \$19 trillion worth of protection.<sup>5</sup> In 2007, beneficiaries of life insurance policies received \$58 billion in death benefits from life insurance companies.<sup>6</sup>

Businesses use life insurance to protect against financial uncertainty and secure employees' futures. Life insurance on key employees enables businesses to create a secure funding source to pay for important employee and retiree benefits and to protect jobs and families from financial hardships that can result from the death of an owner or key employee.

### Annuities

Since half of Americans who reach age 65 today are expected to live to age 83, and more than one-fifth are expected to reach age 90,<sup>7</sup> long-term thinking is essential. Many are turning to annuities to bridge the gap between savings and the prospects of a long life: Annuities are the only financial product that can turn a sum of retirement savings into guaranteed income for life.

Deferred annuities allow an individual to accumulate savings while deferring taxes on earnings until payouts begin. They

often are used by individuals who may not have access to workplace retirement plans or by those who want to supplement those plans. Immediate annuities can turn savings—money received from the sale of home or business, or a lump-sum payment from a retirement plan—into a guaranteed stream of retirement income. Annuities also provide guaranteed income for a surviving spouse or dependent.

Life insurance companies hold \$2.5 trillion in annuity assets,<sup>8</sup> providing retirement savings for millions of Americans. In 2007, life insurers paid \$72 billion in annuity benefits.

### Workplace savings plans

The life insurance industry is one of the largest providers of pensions, 401(k) plans, and other workplace retirement products essential to the well being of millions of current and future retirees. Life insurers manage 22 percent of the assets in employer-based retirement plans in America. In short, the life insurance industry offers myriad private-sector solutions for millions of American workers saving for retirement.

### Disability income and long-term care insurance

Disability income insurance serves as paycheck protection for workers by replacing a portion of earnings when an insured person is unable to work due to accident or illness. The likelihood of long-term disability for persons between ages 35 and 65 is quite high—about 45 percent.<sup>10</sup> In 2001, life insurers paid out \$6.3 billion in disability benefits to replace lost income.<sup>11</sup>

Many Americans will require long-term care in a nursing home or by an in-home provider. Such care can easily deplete savings or impoverish a family. Long-term care insurance provides money to pay long-term care needs, and often makes it possible for beneficiaries to live at home. In 2007, life insurers paid \$7.2 billion in long-term care insurance benefits.<sup>12</sup>

## LONG-TERM INVESTMENT CAPITAL

The fluid movement of money from lenders to borrowers is vital to any economy: Businesses, governments, and individuals need capital to invest in plants, equipment, roads, schools, and homes; other businesses, individuals, and governments have savings from which they want to earn a return. Institutions—including life insurers—acting as financial intermediaries move money efficiently from savers to borrowers and pay a return to the savers for the use of the capital. Among the specific needs life insurance companies satisfy directly or indirectly are long-term bonds, private placements, commercial mortgages, liquidity in secondary (residential) mortgage markets, and infrastructure.

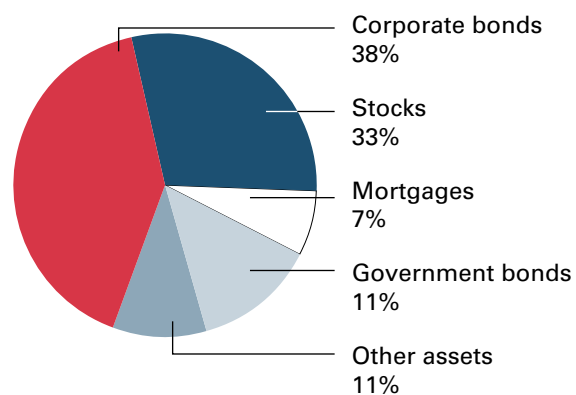
### Long-term bonds

Life insurers are uniquely suited for investment in the long-term market because their own products involve long-term commitments: Life insurance customers hold policies for years, sometimes decades. Most large capital investments require financing for at least 10 years, and long-term, fixed-rate bonds are the primary means through which medium and large businesses satisfy their (non-equity) capital needs.

**Corporate bonds:** Life insurers are the largest source of bond financing for corporate America and have been since the 1930s.<sup>13</sup> Thirty-eight percent of all the investment capital supplied by life insurance companies is provided to corporations in the form of bonds<sup>14</sup> (Figure 1). Life insurers invest three times as much as any other financial intermediary in debt financing. In 2007, the industry owned \$2 trillion in corporate bond financing.<sup>15</sup>

Figure 1

### Distribution of Life Insurance Industry Assets



**Government bonds:** At the end of 2007, life insurers held more than \$512 billion in local, state, GSE and federal government bonds.<sup>16</sup> These bonds help to fund construction of roads, bridges, and infrastructure crucial for the long-term health and growth of the U.S. economy. The long-term nature of the industry's liabilities means that life insurers are an important component of how government funds on-going operations, minor construction projects, and major civil works projects.

### Private placements

Very large corporations can borrow efficiently from the public bond market because the costs of direct access are comparatively small. However, since the cost of a public bond sale is often prohibitive for small and medium-sized companies, they often turn to private placement bonds. These bonds, placed among life insurers and other buyers, offer a more cost-efficient way of borrowing. Life insurer holdings in private placement bonds total \$527 billion.<sup>17</sup> In 2007 alone, the life insurance industry provided \$111 billion in new private placements.<sup>18</sup>

### Commercial mortgages

Life insurers are an important source of financing for commercial office buildings, apartment buildings, and shopping centers. The life insurance industry holds about \$313 billion in commercial mortgages<sup>19</sup> with new commitment loan terms averaging about 9 ½ years.<sup>20</sup> In 2007, the life insurance industry provided \$58 billion in new financing to the commercial mortgage market.<sup>21</sup>

### Secondary markets

The packaging of individual mortgages into mortgage-backed securities by government-sponsored enterprises and others has made more capital available for mortgages—ensuring home ownership for many more families. Mortgage-backed bonds can also be backed by commercial mortgages, which depend on well-financed buyers like life insurers. As purchasers of mortgage-backed securities, the life insurance industry promotes liquidity in the home mortgage market—in short, giving more people a better chance of owning a home. The life insurance industry holds \$545 billion in mortgage-backed securities.<sup>22</sup>

### Infrastructure

Life insurers help build the nation's infrastructure through bonds, private placements, and direct loans. For example, the industry finances projects to help America meet its energy needs. In the last century we helped build Boulder

Dam; today we are focusing on projects ranging from traditional generating plants to wind power systems and other renewable energy. Each year life insurers invest hundreds of millions of dollars helping America become less dependent on outside energy sources.

## SUMMARY

The life insurance industry is the only industry uniquely focused on both the long-term financial well being of Americans and the long-term financial growth of the U.S. economy.

We provide the products that protect against life's uncertainties—helping individuals and families manage the financial risks of premature death, disability, and long-term care. We enable employers to provide employees with critical retirement savings programs like pensions and 401(k) plans. And through annuities, life insurers guarantee retirees an income for life, no matter how long they live.

Our investments help fuel America's economic growth. We're the largest holder of corporate bonds in the country, and with our long-term focus, life insurers provide businesses and governments the long-term capital they need to invest in roads, schools and homes, and in plants and equipment that create jobs.

America's life insurers. We fuel economic growth, enable families to plan for the future, and guarantee a retirement income that lasts a lifetime.

## ENDNOTES

1. ACLI tabulation of 2007 NAIC data. Total life insurance industry assets are \$5.1 trillion of which \$377 billion are invested in foreign bonds.
2. Federal Reserve Board, *Flow of Funds Accounts of the United States*.
3. Ibid.
4. "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," *Federal Reserve Bulletin*, 2007.
5. ACLI tabulation of 2007 NAIC data.
6. Ibid.
7. ACLI tabulation of 2004 Social Security Administration data.
8. ACLI tabulation of 2005 NAIC data.
9. "Assets in Qualified Retirement Plans, 1985–2002: Revised," *Facts from EBRI*, September 2004.
10. *JHA Disability Fact Book*, 2003/2004.
11. ACLI Product Line Report: Disability, 2003.
12. NAIC Long-term Care Insurance Experience Reports 2008.
13. Federal Reserve Board, *Flow of Funds Accounts of the United States*.
14. ACLI tabulation of 2007 NAIC data.
15. Ibid.
16. Ibid.
17. Ibid.
18. Based on calculations from *Private Placements*, ACLI Investment Bulletin IB08–003.
19. ACLI tabulation of 2007 NAIC data.
20. Average life of new commitments is 6 years, 11 months; average loan term of new commitments is 8 years, 3 months. "Commercial Mortgage Commitments Fourth Quarter, Year-End 2005," ACLI Investment Bulletin, IB06–002.
21. ACLI tabulation of 2007 NAIC data.
22. Ibid.

The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association whose 353 member companies account for 93 percent of the life insurance industry's total assets in the United States, 93 percent of life insurance premiums and 94 percent of annuity considerations. In addition to life insurance and annuities, ACLI member companies offer pensions, including 401(k)s, long-term care insurance, disability income insurance and other retirement and financial protection products, as well as reinsurance.

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**AMERICAN COUNCIL OF LIFE INSURERS**

101 Constitution Avenue, NW, Suite 700

Washington, DC 20001-2133

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