

2 ASSETS

Assets held by life insurers back the companies' life, annuity, and health liabilities. Accumulating these assets—via the collection of premiums from policyholders and earnings on investments—provides the U.S. economy with an important source of investment capital. Life insurers held \$4.3 trillion in assets in 2004 (Table 2.1). Assets of U.S. life insurers rose 9 percent during 2004 (Table 2.2).

Financial instruments comprise most life insurance company assets and can generally be classified into:

- Bonds, both corporate and government
- Stocks
- Mortgage and real estate holdings
- Policy loans

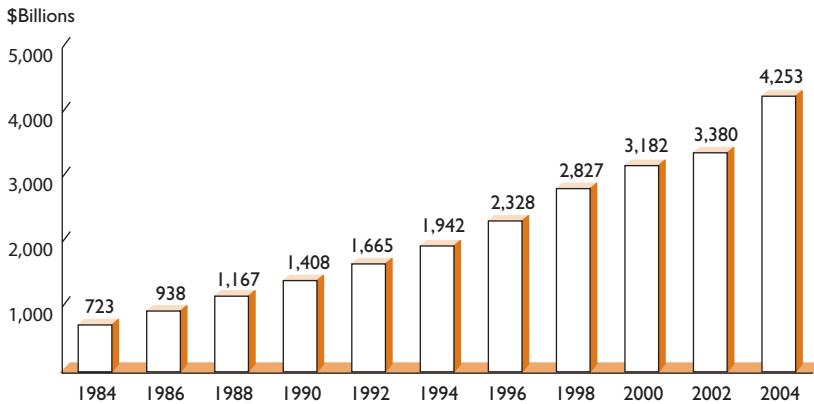
Table 2.1 **Distribution of Life Insurer Assets,
by Account Type, 2004 (millions)**

	General Account		Separate account		Combined accounts	
	Year's end	Percent distribution	Year's end	Percent distribution	Year's end	Percent distribution
Bonds						
Government						
Short-term	\$5,196	0.2	\$2,687	0.2	\$7,883	0.2
Long-term						
U.S.	425,430	14.7	65,624	4.9	491,053	11.5
Foreign	58,911	2.0	4,671	0.3	63,582	1.5
Total long-term	484,341	16.7	70,294	5.2	554,635	13.0
Total government	489,537	16.9	72,981	5.4	562,518	13.2
Corporate						
Short-term	37,899	1.3	11,483	0.9	49,382	1.2
Long-term						
U.S.	1,363,861	47.0	91,771	6.8	1,455,633	34.2
Foreign	261,997	9.0	17,791	1.3	279,789	6.6
Total long-term	1,625,859	56.0	109,563	8.1	1,735,422	40.8
Total corporate	1,663,758	57.3	121,046	9.0	1,784,803	42.0
Total bonds	2,153,294	74.2	194,028	14.4	2,347,322	55.2
Stocks						
Common	73,333	2.5	1,073,256	79.5	1,146,588	27.0
Preferred	32,449	1.1	820	0.1	33,269	0.8
Total	105,782	3.6	1,074,076	79.6	1,179,858	27.7
Mortgages						
Farm	13,797	0.5	59	0.0	13,855	0.3
Residential	5,663	0.2	41	0.0	5,704	0.1
Commercial	254,815	8.8	8,160	0.6	262,975	6.2
Total	274,275	9.4	8,259	0.6	282,534	6.6
Real estate						
	19,915	0.7	11,090	0.8	31,005	0.7
Policy loans						
	108,037	3.7	621	0.0	108,658	2.6
Cash						
	36,408	1.3	18,347	1.4	54,755	1.3
Other invested assets						
	85,419	2.9	33,380	2.5	118,799	2.8
Non-invested assets						
	119,672	4.1	10,243	0.8	129,915	3.1
Aggregate total	2,902,802	100.0	1,350,044	100.0	4,252,846	100.0

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and fraternal benefit societies.

Figure 2.1 Growth of Life Insurers' Assets



Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers, and, as of 2003, fraternal benefit societies.

A life insurer divides its assets between two accounts that differ largely in the nature of the liabilities or obligations for which the assets are being held and invested. The *general account* supports contractual obligations for guaranteed, fixed-dollar benefit payments, such as life insurance policies. The *separate account* supports liabilities associated with investment risk pass-through products or lines of business, such as variable annuities, variable life insurance, and pension products.

State laws allow assets in separate accounts to be invested without regard to the restrictions usually placed on the general account. A separate account portfolio might comprise only common stocks or bonds or mortgages, or some combination of these and other investments. Separate account assets totaled \$1.4 trillion at the end of 2004—up 14 percent from the previous year (Table 2.2). General account assets amounted to \$2.9 trillion in 2004, up 7 percent from 2003.

Table 2.2**Distribution of Life Insurer Assets,
by Account Type and Year**

	General account (millions)			Average annual percent change	
	1994	2003	2004	1994/2004	2003/2004
Bonds					
Government	\$350,483	\$466,452	\$489,537	3.4	4.9
Corporate	739,126	1,524,610	1,663,758	8.5	9.1
Total	1,089,609	1,991,062	2,153,294	7.0	8.1
Stocks					
Common	68,702	68,343	73,333	0.7	7.3
Preferred	9,817	29,418	32,449	12.7	10.3
Total	78,519	97,761	105,782	3.0	8.2
Mortgages	210,885	261,558	274,275	2.7	4.9
Real estate	42,124	20,336	19,915	-7.2	-2.1
Policy loans	84,659	106,392	108,037	2.5	1.5
Cash	4,979	35,397	36,408	22.0	2.9
Other invested assets	81,353	77,326	85,419	0.5	10.5
Non-invested assets	NA	112,271	119,672	NA	6.6
Aggregate total	1,592,128	2,702,103	2,902,802	6.2	7.4
	Separate account (millions)			Average annual percent change	
	1994	2003	2004	1994/2004	2003/2004
Bonds					
Government	45,097	71,139	72,981	4.9	2.6
Corporate	51,433	119,353	121,046	8.9	1.4
Total	96,530	190,492	194,028	7.2	1.9
Stocks					
Common	202,898	923,733	1,073,256	18.1	16.2
Preferred	399	694	820	7.5	18.2
Total	203,297	924,427	1,074,076	18.1	16.2
Mortgages	4,447	7,429	8,259	6.4	11.2
Real estate	11,689	10,336	11,090	-0.5	7.3
Policy loans	840	615	621	-3.0	1.0
Cash	667	14,646	18,347	39.3	25.3
Other invested assets	32,675	29,046	33,380	0.2	14.9
Non-invested assets	NA	7,605	10,243	NA	34.7
Aggregate total	350,145	1,184,596	1,350,044	14.4	14.0

Continued

Table 2.2 **Continued**

	Combined accounts (millions)			Average annual percent change	
	1994	2003	2004	1994/2004	2003/2004
Bonds					
Government	395,580	537,592	\$562,518	3.6	4.6
Corporate	790,559	1,643,963	1,784,803	8.5	8.6
Total	1,186,139	2,181,555	2,347,322	7.1	7.6
Stocks					
Common	271,600	992,075	1,146,588	15.5	15.6
Preferred	10,216	30,112	33,269	12.5	10.5
Total	281,816	1,022,188	1,179,858	15.4	15.4
Mortgages	215,332	268,986	282,534	2.8	5.0
Real estate	53,812	30,673	31,005	-5.4	1.1
Policy loans	85,499	107,007	108,658	2.4	1.5
Cash	5,646	50,044	54,755	25.5	9.4
Other invested assets	114,028	106,372	118,799	0.4	11.7
Non-invested assets	NA	119,876	129,915	NA	8.4
Aggregate total	1,942,272	3,886,699	4,252,846	8.2	9.4

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data reflect investments held at year's end. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

NA: Not available

Table 2.3**Distribution of Long-Term General Account Bond Investments**

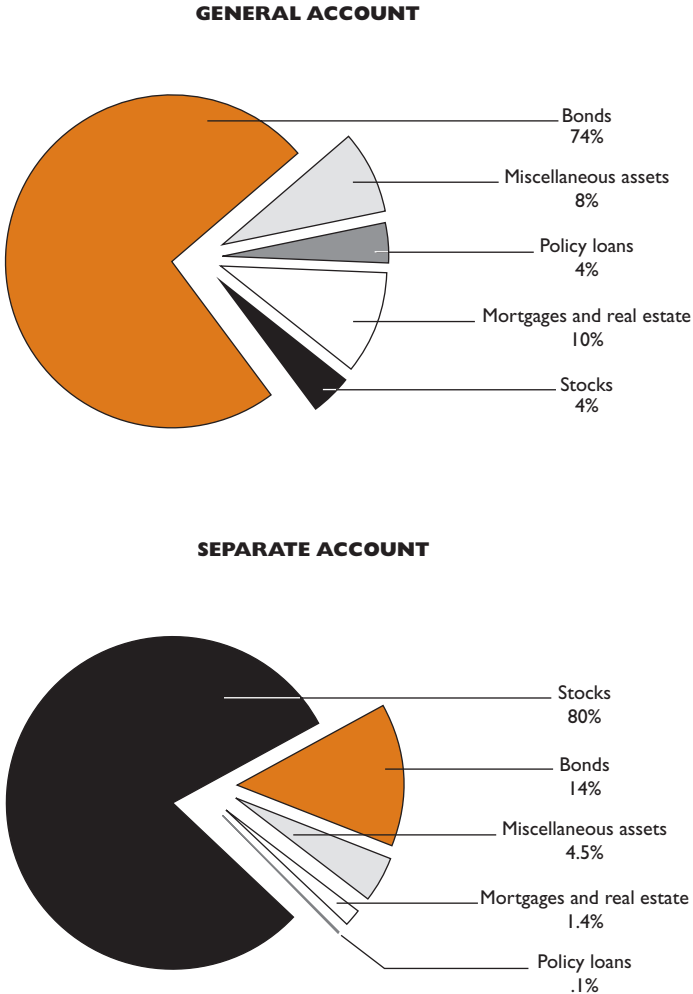
	2003		2004	
	Amount (millions)	Percent distribution	Amount (millions)	Percent distribution
U.S. Treasury securities	\$57,743	3.0	\$58,130	2.8
U.S. government obligations	61,668	3.1	69,868	3.3
Foreign government	41,557	2.2	48,940	2.3
U.S. states and territories	7,137	0.4	7,692	0.4
U.S. political subdivisions	4,617	0.2	5,586	0.3
Revenue and assessment	16,696	0.9	19,293	0.9
Industrial development	5,184	0.3	6,224	0.3
Mortgage-backed securities	421,191	21.5	430,436	20.4
Other				
Unaffiliated securities	1,311,540	67.5	1,443,650	68.4
Affiliated securities	18,716	1.0	20,380	1.0
Aggregate total	1,946,049	100.0	2,110,200	100.0

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

Figure 2.2

Asset Distribution of Life Insurers, 2004



Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.
Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and fraternal benefit societies.

Table 2.4**Distribution of General Account Bonds,
by Maturity, 2001–2004**

	Percentage of general account bonds held at year's end					Total
	1 Year or less	More than 1 year to 5 years	More Than 5 years to 10 years	More Than 10 years to 20 years	More Than 20 years	
Government						
2001	9.9	22.7	21.4	22.2	24.0	100.0
2002	12.4	24.3	19.9	21.5	21.8	100.0
2003	10.9	25.7	20.7	24.8	17.8	100.0
2004	8.5	24.3	23.5	24.9	18.8	100.0
Corporate						
2001	8.9	29.3	32.4	12.6	16.8	100.0
2002	9.6	28.4	33.0	12.3	16.7	100.0
2003	7.8	28.9	34.8	12.2	16.1	100.0
2004	8.3	29.0	35.1	12.0	15.6	100.0
Total						
2001	9.1	27.9	30.1	14.6	18.2	100.0
2002	10.2	27.5	29.9	14.5	17.9	100.0
2003	8.6	28.2	31.6	15.1	16.5	100.0
2004	8.4	27.9	32.5	14.9	16.3	100.0

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and fraternal benefit societies.

BOND HOLDINGS AND ACQUISITIONS

Bonds are publicly traded debt securities. Often referred to as fixed-income securities, bonds generally offer low risk and a greater certainty of rates of return. Not only does the borrower (seller of the bond) agree to pay a fixed amount of interest periodically and repay a fixed amount of principal at maturity, but the obligation to make payments on the bond takes precedence over other claims of lenders and stockholders.

At year-end 2004, 55 percent of life insurer assets were held in bonds. Total bond holdings of both general and separate accounts amounted to \$2.3 trillion, up \$166 billion from 2003 (Tables 2.1–2.2). Holdings of bonds in separate accounts increased 2 percent in 2004 to 194 billion. Bond holdings in general accounts rose 8 percent to \$2.2 trillion (Table 2.2).

Bonds are issued by a variety of borrowing organizations, including domestic and foreign corporations, the U.S. Treasury, various U.S. government agencies, and state, local, and foreign governments. Long-term U.S. Treasury securities in the general account totaled \$58 billion, U.S. government obligations \$70 billion, and foreign government bonds \$49 billion (Table 2.3). The largest portion of long-term bonds was in unaffiliated securities, with both U.S. and foreign investments totaling \$1.4 trillion, or two-thirds of all long-term general account bonds (68%). Long-term bonds issued by U.S. states, territories, and political subdivisions came to \$13 billion, while bonds issued for revenue, assessment, and industrial development totaled \$26 billion.

Types of Bonds

Corporate Bonds

Life insurers are significant investors in the corporate bond market, having been the largest institutional holder of corporate bonds issued in U.S. markets since the 1930s. Private or direct placements—where the financial institution negotiates directly with the corporation over the terms of the offering—account for a sizable share of life insurer investments in corporate bonds. Life insurance companies are the major lenders in the direct placement market.

Corporate debt issues in 2004 represented the largest component of life insurer assets at 42 percent (Table 2.1). Corporate debt issued totaled \$1.8 trillion by year's end, a 9 percent increase from 2003 (Table 2.2). These investments have increased steadily for many years and have grown at a 9 percent annual rate in the last decade.

Table 2.1 shows the greatest share of corporate bond holdings in 2004 was in long-term securities at \$1.7 trillion as opposed to short-term (\$49 billion). Most of the long-term securities were invested in U.S. corporations (\$1.5 trillion) rather than foreign (\$280 billion).

Table 2.5**Distribution of General Account Bonds,
by Quality Class**

PUBLIC BONDS	1995 ¹		2003		2004	
	Amount (millions)	Percentage of publicly traded bonds	Amount (millions)	Percentage of publicly traded bonds	Amount (millions)	Percentage of publicly traded bonds
NAIC quality class²						
High quality						
Class 1	\$734,776	79.1	\$1,067,470	69.1	\$1,186,809	71.2
Class 2	159,889	17.2	\$392,401	25.4	\$400,235	24.0
Medium quality						
Class 3	20,381	2.2	47,547	3.1	47,975	2.9
Low quality						
Class 4	12,691	1.4	28,425	1.8	24,066	1.4
Class 5	810	0.1	6,665	0.4	5,464	0.3
Class 6	193	0.0	2,987	0.2	2,166	0.1
Total	928,739	100.0	1,545,495	100.0	1,666,716	100.0
PRIVATE BONDS						
	1995		2003		2004	
	Amount (millions)	Percentage of privately traded bonds	Amount (millions)	Percentage of privately traded bonds	Amount (millions)	Percentage of privately traded bonds
NAIC quality class²						
High quality						
Class 1	124,733	48.0	187,704	42.1	223,662	46.0
Class 2	108,185	41.7	196,223	44.0	211,890	43.5
Medium quality						
Class 3	16,863	6.5	33,439	7.5	27,959	5.7
Low quality						
Class 4	7,331	2.8	16,807	3.8	15,705	3.2
Class 5	1,638	0.6	7,853	1.8	4,808	1.0
Class 6	847	0.3	3,542	0.8	2,555	0.5
Total	259,597	100.0	445,567	100.0	486,579	100.0

Table 2.5 **Continued**

TOTAL BONDS	1995		2003		2004	
	Amount (millions)	Percentage of general account bonds	Amount (millions)	Percentage of general account bonds	Amount (millions)	Percentage of general account bonds
NAIC quality class²						
High quality						
Class 1	859,509	72.3	1,255,173	63.0	1,410,471	65.5
Class 2	268,073	22.6	588,624	29.6	612,125	28.4
Medium quality						
Class 3	37,244	3.1	80,986	4.1	75,934	3.5
Low quality						
Class 4	20,023	1.7	45,232	2.3	39,771	1.8
Class 5	2,447	0.2	14,518	0.7	10,273	0.5
Class 6	1,040	0.1	6,529	0.3	4,721	0.2
Aggregate total	1,188,336	100.0	1,991,062	100.0	2,153,294	100.0

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Figures include both government and corporate bonds held in corporate general accounts of U.S. life insurers and, as of 2003, fraternal benefit societies.

¹Data for 1994 is not available.

²NAIC bond classes are: Class 1—highest quality; Class 2—high quality; Class 3—medium quality; Class 4—low quality; Class 5—lower quality; Class 6—in or near default. Class 1 and Class 2 bonds are investment grade.

Table 2.6 Distribution of Common Stock Held by Life Insurers (millions)

	1995 ¹			2003			2004			
	General account	Separate account	Percent-age of common stock	General account	Separate account	Percent-age of common stock	General account	Separate account	Percent-age of common stock	
Public utilities										
U.S.	\$845	\$2,422	1.0	\$278	\$2,107	2.385	\$357	\$3,314	3,672	0.3
Foreign	96	410	0.2	40	456	497	29	369	398	0.0
Total	941	2,832	1.2	318	2,563	2,881	386	3,683	4,069	0.4
Bank, trust, and insurance companies										
U.S.	1,189	7,842	2.9	2,818	60,629	63,447	3,371	38,143	41,514	3.6
Foreign	435	694	0.4	287	1,457	1,744	448	1,289	1,737	0.2
Total	1,624	8,536	3.2	3,105	62,086	65,191	3,819	39,432	43,251	3.8
Industrial/Miscellaneous										
U.S.	13,994	193,557	65.5	13,217	735,477	748,694	14,651	876,021	890,672	77.7
Foreign	2,421	5,073	2.4	2,084	11,148	13,232	2,889	21,480	24,369	2.1
Total	16,415	198,629	67.9	15,302	746,625	761,927	17,540	897,501	915,041	79.8
Parent subsidiaries/affiliates	53,501	34,231	27.7	49,617	112,459	162,076	51,587	132,640	184,227	16.1
Aggregate total	72,480	244,228	100.0	68,343	923,733	992,075	73,333	1,073,256	1,146,588	100.0

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.
 Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.
¹Data for 1994 are not available.

Table 2.7 **Quality of Mortgages Held by Life Insurers (millions)**

	1995 ¹		2003		2004	
	Amount	Percent distribution	Amount	Percent distribution	Amount	Percent distribution
Farm						
In good standing	\$9,293	97.6	\$13,618	96.8	\$13,480	97.3
Restructured	NA	0.0	271	1.9	278	2.0
Overdue	208	2.2	56	0.4	50	0.4
Foreclosed	25	0.3	116	0.8	47	0.3
Total	9,526	100.0	14,061	100.0	13,855	100.0
Residential						
In good standing	8,707	98.3	4,737	98.0	5,607	98.3
Restructured	NA	0.0	0	0.0	13	0.2
Overdue	90	1.0	48	1.0	70	1.2
Foreclosed	64	0.7	48	1.0	14	0.2
Total	8,861	100.0	4,833	100.0	5,704	100.0
Commercial						
In good standing	178,652	89.9	248,555	99.4	261,402	99.4
Restructured	16,179	8.1	1,128	0.5	1,120	0.4
Overdue	1,248	0.6	165	0.1	302	0.1
Foreclosed	2,614	1.3	245	0.1	151	0.1
Total	198,694	100.0	250,092	100.0	262,975	100.0
All categories						
In good standing	196,653	90.6	266,909	99.2	280,489	99.3
Restructured	16,179	7.5	1,400	0.5	1,411	0.5
Overdue	1,546	0.7	269	0.1	422	0.1
Foreclosed	2,703	1.2	409	0.2	211	0.1
Aggregate total	217,081	100.0	268,986	100.0	282,534	100.0

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

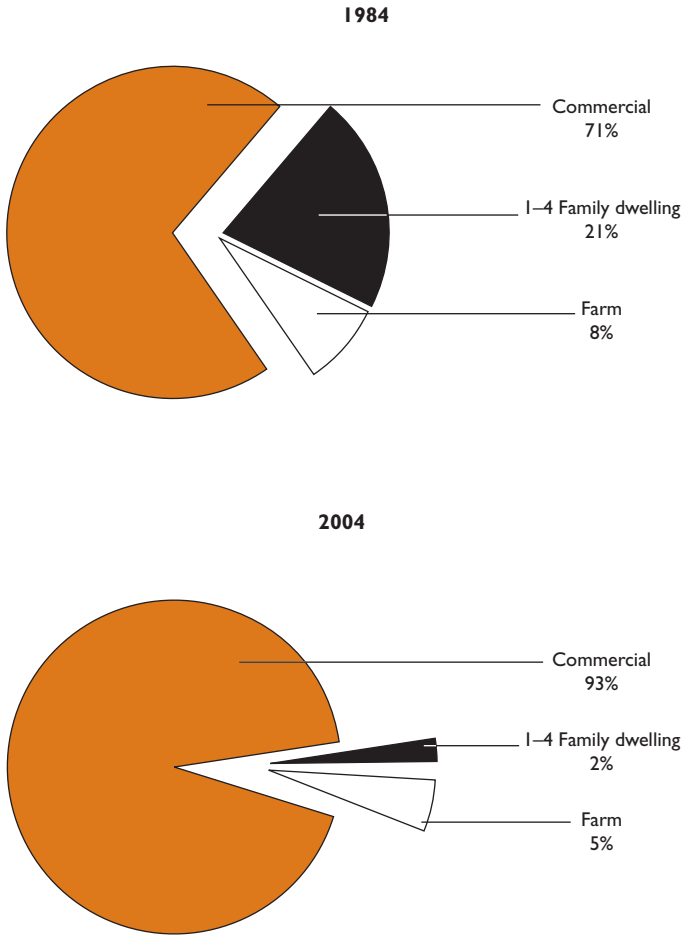
Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

NA: Not available

¹Data for 1994 is not available.

Figure 2.3

Mortgages Held by Life Insurers, by Type



Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.
Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

Table 2.8**Aggregate General Account Mortgage Loan-to-Value Ratios for Life Insurers, by Type, 2004 (millions)**

Loan-to-value ratio	Residential	Commercial	Agricultural	Total
Above 95%	\$2,645	\$4,630	\$150	\$7,425
91–95%	255	764	31	1,050
81–90%	71	6,301	64	6,437
71–80%	540	51,391	1,052	52,983
Below 71%	2,152	191,728	12,499	206,380
Total	5,663	254,815	13,797	274,275

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represents U.S. life insurers and fraternal benefit societies.

Government Bonds

Bonds of the U.S. government include U.S. Treasury securities and others issued by federal agencies or sponsored by the federal government, such as the Federal National Mortgage Association and the Federal Home Loan Banks. Government securities rose to \$563 billion at the end of 2004, up \$25 billion from the previous year (Tables 2.1–2.2). These holdings, in addition to U.S. Treasury and federal agency holdings, include guaranteed, special revenue, and other issues of the 50 states, District of Columbia, Puerto Rico, and U.S. territories and possessions and their political subdivisions.

Long-term securities (\$555 billion) captured the major share of government bond holdings in 2004 compared with short-term securities (\$8 billion). The vast majority of long-term securities were invested in U.S. government securities (\$491 billion) as opposed to those of foreign governments and international agencies (\$64 billion), such as the International Bank for Reconstruction and Development.

Characteristics of Bonds

Maturity

Bonds have limited lives and expire on a given date, called the issue's maturity date. Thirty-three percent of general account bonds held at year-end 2004 had a maturity between five and 10 years. Another 28 percent matured between one and five years, 16 percent had a maturity over 20 years, 15 percent matured between 10 and 20 years, and 8 percent had a maturity of one year or less (Table 2.4).

Quality

In purchasing a bond, investors examine its quality. The higher the quality of the bond, the lower the risk, and the higher the degree of assurance that investors will get their money back at maturity. Consequently, high-quality bonds are ideal for long-term capital accumulation.

Bond holdings can be categorized among six quality classes established by the National Association of Insurance Commissioners. At year-end 2004, 94 percent of total general account bonds were investment grade, Classes 1 and 2 (Table 2.5). The percentage of total bonds in or near default (Class 6) was 0.2 percent.

Of the \$2.2 trillion in general account bonds held by insurance companies in 2004, \$1.7 trillion was invested in publicly traded bonds and \$487 billion in privately traded bonds (Table 2.5). Ninety-five percent of the publicly traded bonds were investment grade (Classes 1 and 2) compared with 90 percent of the privately traded bonds. Only 0.1 percent of the publicly traded bonds were in or near default (Class 6) compared with 0.5 percent of the privately traded bonds.

STOCK HOLDINGS AND ACQUISITIONS

Life insurers' changing portfolios reflect long-term shifts in investment demand. Since the early 1990s, the share of assets held in stocks has been increasing. The average annual growth in equity holdings was 15 percent between 1994 and 2004 (Table 2.2).

Historically, stocks had been a small percentage of total assets for reasons rooted in both the investment philosophy of the industry and the laws regulating life insurance. Stocks had not been heavily used as a major investment medium for funds backing life insurance policies because of the policies' contractual guarantees for specified dollar amounts.

Part of the investment shift is due to changes in the relative yields of various investment types. Other factors are the introduction of variable life insurance and the growth in funding pension plans with equity securities of life insurers and variable annuities. State laws generally permit certain assets of these and other plans to be maintained in an account separate from a company's other assets, with up to 100 percent invested in stocks or other equities.

Life insurer holdings of corporate stock rose 15 percent between 2003 and 2004 to \$1.2 trillion, accounting for over one-quarter of total assets (28%). At year-end 2004, \$1.1 trillion, or 91 percent, of stock held by life insurance companies was in separate accounts (Table 2.2).

Common stock accounted for \$1.1 trillion, or 97 percent, of all stock held by life insurers in 2004 (Table 2.1). Holdings of common stock increased 16 percent in 2004 while preferred-stock holdings rose 11 percent (Tables 2.1–2.2). More than four fifths of the common stock was invested in industrial and miscellaneous sectors (80%), compared with 0.4 percent in public utilities; 4 percent in bank, trust, and insurance companies; and 16 percent in parent subsidiaries and affiliates (Table 2.6).

MORTGAGES

Mortgages generally are considered riskier fixed-income investments than bonds. Over the past decade, life insurers have slightly reduced the relative size of their mortgage portfolios in favor of other investments. In 2004, mortgages increased by 5 percent, rising to \$283 billion and accounting for 7 percent of combined account assets (Tables 2.1–2.2).

Loans on commercial properties, such as office buildings, shopping centers, manufacturing plants, and warehouses, rose \$13 billion to reach \$263 billion at the end of 2004 (Table 2.7). Mortgages for residential properties stood at \$6 billion, or 2 percent of total mortgages held by life insurers on U.S. properties. Farm mortgages remained at \$14 billion, accounting for 5 percent of total mortgages in 2004.

Properties underlying life insurer holdings of non-farm, nonresidential mortgages cover a broad range of commercial, industrial, and institutional uses. Among them are retail stores and shopping centers, office buildings and factories, hospitals and medical centers, and apartment buildings. Nonresidential mortgages have been growing in importance, representing 93 percent of U.S. mortgages held by life insurers in 2004 vs. 71 percent in 1984 (Figure 2.3).

Almost all of the mortgages held by life insurers were in good standing (99%) in 2004, up from 91 percent in 1995 (Table 2.7). Of industry-held mortgages, 0.5 percent was restructured in 2004, 0.1 percent was overdue, and 0.1 percent was in foreclosure vs. 1.2 percent in 1995. The farm mortgage sector has the highest foreclosure rate, 0.3 percent, while the commercial sector has the greatest share of mortgages rated in good standing (99%).

At year-end 2004, \$7 billion (3%) was held in general account mortgages with a loan-to-value ratio above 95 percent, compared with \$206 billion (75%) in mortgages with a loan-to-value ratio below 71 percent (Table 2.8).

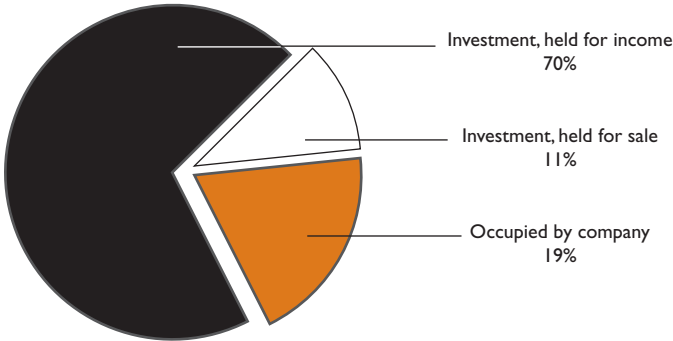
REAL ESTATE

U.S. life insurers' holdings of directly owned real estate were \$31 billion at the end of 2004. This represents a 1 percent increase from 2003 (Tables 2.9).

From 1988 to 1998, real estate acquired as investment accounted for much of the growth in holdings. In 1991 and 1992, however, growth resulted from the acquisition of properties through default. The 1997–99 drop in holdings can be attributed to the sale of these properties. By the end of 2004, real estate amounted to 1 percent of life insurers' assets (Table 2.1). Real estate holdings in separate accounts increased 7 percent during the year as real estate in general accounts decreased 2 percent (Table 2.2).

Figure 2.4

Real Estate Owned by Life Insurers, 2004



Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.
Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and fraternal benefit societies.

Real estate held to produce income totaled \$22 billion, or 70 percent of all real estate owned, while real estate held for sale amounted to \$3 billion (Table 2.9, Figure 2.4). The remaining \$6 billion was in land and property held for company use, primarily home and regional offices.

POLICY LOANS

Life insurance companies can loan money to policyholders up to the cash value of their life insurance. Life insurers must make these policy loans from funds that otherwise would be invested. Since premium rates are based in part on an anticipated investment return, interest must be charged on the loans. Because the amount of a policy's protection is reduced by the amount of the loan, life insurers advise policyholders that an outstanding loan can seriously impair a family's insurance planning. The policy loan amounts shown in Tables 2.1–2.2 do not include loans made to policyholders by banks or other lending institutions holding borrowers' life insurance policies as collateral.

Life insurer loans to policyholders against the cash value of their life insurance amounted to \$109 billion by year-end 2004, up from the loans outstanding a year earlier (Tables 2.1–2.2). Policy loans accounted for 3 percent of company assets at the end of 2004.

MISCELLANEOUS ASSETS

U.S. life insurers held \$303 billion at the end of 2004 in miscellaneous assets (Table 2.1), which has two major components. Due and deferred premiums refers to premiums not yet received at year's end for which life insurance companies have established reserves. Due and accrued investment income is income earned but not yet received by year's end, such as interest.

Another main item in this category is cash holdings. Relatively moderate amounts of cash are held for providing prompt payments to beneficiaries, policy loans, and other services.

Table 2.9**Real Estate Owned by Life Insurers, by Type**

	Millions			Average annual percent change	
	1994	2003	2004	1994/2004	2003/2004
Investment property					
Held for income	NA	20,668	21,632	NA	4.7
Held for sale	NA	3,953	3,327	NA	-15.8
Total ¹	47,796	24,621	24,959	-6.3	1.4
Occupied by company	6,016	6,052	6,046	0.0	-0.1
Aggregate total	53,812	30,673	31,005	-5.4	1.1

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

NA: Not available

¹Prior to 2001, includes properties acquired in the satisfaction of debt and investment real estate.

Table 2.10 Foreign-Controlled Assets of U.S. Life Insurers, by Year (millions)¹

	2000	2001	2002	2003	2004
Belgium	7,672	6,749	6,282	6,607	6,573
Bermuda	31	90	81	56	68
Canada	120,136	139,766	152,168	242,072	260,477
Cayman Islands	185	366	680	769	3,628
France	92,161	87,952	85,236	120,700	130,230
Germany	18,398	20,953	26,883	35,689	47,106
Ireland	4,148	267	286	—	—
Italy	—	—	23	622	635
Japan	655	731	568	589	605
Netherlands	206,006	272,572	281,485	312,466	335,486
South Africa	52	108	172	26	33
Spain	31	32	34	49	52
Sweden	30,149	26,477	22,466	1	1
Switzerland	42,177	48,246	50,651	48,003	53,245
United Kingdom	48,486	58,132	64,360	70,911	82,410
Total	570,287	662,440	691,374	838,560	920,549
Percentage of industry assets	17.9	20.3	20.5	21.6	21.6

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Companies are defined as foreign controlled if more than 50 percent of stock is owned by a foreign entity or entities.

¹Some companies report Belgium and Netherlands as ownership. Thus, their total assets were divided equally between the two foreign entities.

FOREIGN-CONTROLLED ASSETS

Foreign-controlled assets have increased since 1999 and reached \$921 billion, or 22 percent, of total industry assets in 2004, up from \$839 billion in 2003 (Table 2.10). The Netherlands, followed by Canada, France, and the United Kingdom, own the most foreign-controlled assets of U.S. life insurers.

Table 2.11 Asset Distribution of Life Insurers, by Year (millions)

Year	Government bonds	Corporate bonds	Stocks	Mortgages	Real estate	Policy loans	Miscellaneous assets	Total
1917	\$562	\$1,975	\$83	\$2,021	\$179	\$810	\$311	\$5,941
1920	1,349	1,949	75	2,442	172	859	474	7,320
1925	1,311	3,022	81	4,808	266	1,446	604	11,538
1930	1,502	4,929	519	7,598	548	2,807	977	18,880
1935	4,727	5,314	583	5,357	1,990	3,540	1,705	23,216
1940	8,447	8,645	605	5,972	2,065	3,091	1,977	30,802
1945	22,545	10,060	999	6,636	857	1,962	1,738	44,797
1950	16,118	23,248	2,103	16,102	1,445	2,413	2,591	64,020
1955	11,829	35,912	3,633	29,445	2,581	3,290	3,742	90,432
1960	11,815	46,740	4,981	41,771	3,765	5,231	5,273	119,576
1965	11,908	58,244	9,126	60,013	4,681	7,678	7,234	158,884
1970	11,068	73,098	15,420	74,375	6,320	16,064	10,909	207,254
1975	15,177	105,837	28,061	89,167	9,621	24,467	16,974	289,304
1980	33,015	179,603	47,366	131,080	15,033	41,411	31,702	479,210
1981	39,502	193,806	47,670	137,747	18,278	48,706	40,094	525,803
1982	55,516	212,772	55,730	141,989	20,624	52,961	48,571	588,163
1983	76,615	232,123	64,868	150,999	22,234	54,063	54,046	654,948
1984	99,769	259,128	63,335	156,699	25,767	54,505	63,776	722,979
1985	124,598	296,848	77,496	171,797	28,822	54,369	71,971	825,901
1986	144,616	341,967	90,864	193,842	31,615	54,055	80,592	937,551
1987	151,436	405,674	96,515	213,450	34,172	53,626	89,586	1,044,459
1988	159,781	480,313	104,373	232,863	37,371	54,236*	97,933	1,166,870
1989	178,141	538,063	125,614	254,215	39,908	57,439	106,376	1,299,756
1990	210,846	582,597	128,484	270,109	43,367	62,603	110,202	1,408,208
1991	269,490	623,515	164,515	265,258	46,711	66,364	115,348	1,551,201
1992	320,109	670,206	192,403	246,702	50,595	72,058	112,458	1,664,531
1993	384,124	729,729	251,885	229,061	54,249	77,725	112,354	1,839,127
1994	395,580	790,559	281,816	215,332	53,813	85,499	119,674	1,942,273
1995	409,304	869,112	371,867	211,815	52,437	95,939	133,070	2,143,544
1996	410,691	961,946	453,919	211,743	50,444	101,825	137,357	2,327,924
1997	391,311	1,059,978	598,358	209,898	46,076	104,549	168,908	2,579,078
1998	379,316	1,139,682	757,958	216,336	41,313	104,507	187,410	2,826,522
1999	361,643	1,189,976	989,762	229,797	38,186	98,757	162,533	3,070,653
2000	364,166	1,241,012	997,329	236,701	36,059	101,978	204,491	3,181,736
2001	377,491	1,354,301	909,026	243,596	32,368	104,273	247,966	3,269,019
2002	480,973	1,474,575	791,429	250,531	32,848	105,229	244,414	3,380,000
2003‡	537,592	1,643,963	1,022,188	268,986	30,673	107,007	276,291	3,886,699
2004‡	562,518	1,784,803	1,179,858	282,534	31,005	108,658	303,470	4,252,846

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Beginning with 1962, data include assets in separate accounts. Data represents U.S. life insurers and, as of 2003, fraternal benefit societies.

*Excludes an estimated \$600 million of securitized policy loans.

‡Includes fraternal benefit societies.