LIFE INSURER ASSETS

Life insurers remain an important source of stability for families, businesses and communities. Life insurer assets define our industry's strength. They can be broken down into amounts held for **reserves and surplus/capital.** Surplus includes the **capital** that is required to be held for unexpected events a life insurer may face.

RESERVES

Reserves are foundational to the insurance business and are the financial liabilities established to pay policyholders when claims come due. They are established when life insurers collect taxable premiums, are increased as insurers invest those premiums in assets, such as corporate bonds, and reflect an amount due to policyholders in the future.

State insurance regulators **require life insurers to hold reserves.**

Reserves are required by state insurance regulators so policyholders can be confident they will receive benefits promised by insurers. By comparison, Social Security fails to hold reserves to match liabilities in the same way life insurers do. Life insurer reserves can be thought of as the equivalent to raw materials that other industries use to create their products and therefore deduct against taxable sales income. For life insurers, reserves are deducted as an offset to taxable premium and investment income.

SURPLUS/CAPITAL

In addition to reserves, life insurers hold additional assets, called surplus or capital (collectively "capital,") that are used when life insurers encounter unexpected events, such as the larger than expected death benefit payments during the COVID pandemic. These uncertain events can require insurers to use capital to pay benefit obligations that arise sooner than is reflected in reserves. Insurers accumulate capital as a result of prudently managing their businesses over time. Capital is accumulated on an after-tax basis.

As noted, a life insurance company's capital generally refers to the assets it holds to make sure it can make good on all its guarantees in turbulent and unexpected times, including years when benefit claims are unexpectedly high. Capital is invested in a variety of ways to grow the company: in bonds issued by local and state governments as well as in bonds issued by corporations, for example, and in new company products and services. The returns on such investments help keep the cost of financial protection affordable to individuals and families.

Community Investments

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