Way of life: Unemployment will remain high, but a rise in investment income will boost revenue


About this Industry

Industry Definition
Operators within this industry are primarily engaged in accepting liability under annuities and life, disability income and accidental death and dismemberment insurance policies. Enterprises within this industry include fraternal organizations, privately held insurers, publicly traded insurers and mutual insurance companies.

Main Activities
The primary activities of this industry are
- Underwriting annuities and life insurance policies
- Underwriting accidental death and dismemberment insurance policies
- Underwriting disability income insurance policies
- Investing insurance premiums

The major products and services in this industry are
- Group annuity considerations
- Group disability and LTC insurance
- Group life insurance
- Individual annuity considerations
- Individual disability and LTC insurance
- Individual life insurance
- Other

Similar Industries
S2413 Reinsurance Carriers in the US
Reinsurers assume all or part of the risk associated with existing insurance policies originally underwritten by other insurers. On occasion, life insurers will transfer risk to a reinsurer.

S2512 Health & Welfare Funds in the US
Industry funds provide health- and welfare-related employee benefits to a sponsor’s employees or members. Benefits include coverage for medical, dental, disability, life and dismemberment risks.

S2519 Workers’ Compensation & Other Insurance Funds in the US
Funds in this industry provide workers’ compensation coverage and other employee benefits for a sponsor’s employees or members.

Additional Resources
For additional information on this industry

www.acli.com
American Council of Life Insurers

www.naic.org
National Association of Insurance Commissioners

www.federalreserve.gov
The Federal Reserve
Industry at a Glance
Life Insurance & Annuities in 2013

Key Statistics Snapshot

Revenue $934.3bn Annual Growth 08-13 -1.7%
Profit $71.9bn Annual Growth 13-18 3.4%
Wages $33.0bn
Businesses 860

Market Share
MetLife Inc. 3.0%
Northwestern Mutual 2.9%
MassMutual Financial Group 2.2%

Revenue vs. employment growth

Per capita disposable income

Products and services segmentation (2013)

Key External Drivers
Median age of population
Per capita disposable income
Number of employees
Yield on 10-year Treasury note
S&P 500

Key Statistics

Life Cycle Stage Mature
Revenue Volatility High
Capital Intensity High
Industry Assistance Low
Concentration Level Low
Regulation Level Heavy
Technology Change Medium
Barriers to Entry High
Industry Globalization Medium
Competition Level High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 41
Industry Performance

Executive Summary

According to the Federal Reserve, the Life Insurance and Annuities industry is one of the largest sources of investment capital in the United States. As a major source of capital, businesses, governments and organizations rely on life insurers to expand operations or finance transactions. At the same time, life insurers’ primary responsibility is to their policyholders; they offer services and products related to wealth preservation, retirement savings and estate planning.

Key External Drivers

Median age of population
The industry is trending toward a more affluent market as it emphasizes the uses of life insurance and annuities as retirement, estate planning and tax-preferred products. As a result, demand increases as the average age of the population rises. The median age of the population is expected to increase slowly during 2013, making it a potential opportunity for industry growth.

Per capita disposable income
There is a strong link between rising household wealth and incomes, measured by per capita disposable income, and demand for life insurance. As consumers’ asset base and income increase, protecting these assets with insurance products becomes more important. Rising incomes also increase savings rates and the use of medium- to long-term savings products such as industry annuities. Per capita disposable income is expected to increase in 2013.

Number of employees
Growth in the total workforce increases demand for industry products and services. It does this directly through employer-sponsored group insurance and annuity programs and indirectly as...
Industry Performance

Key External Drivers continued

more workers demand a greater number of individual life insurance and annuity products. The total number of employees is expected to rise, but it will only increase slowly during 2013, making it a potential threat to industry growth.

Yield on 10-year Treasury note
Life insurers are long-term investors with low-risk tolerances that use fixed-income securities to earn returns in excess of the growth in their future liabilities. Consequently, about two-thirds of industry investment income is related to fixed-income securities, whose price and returns are affected by interest rate movements. High interest rates generally allow insurers to generate more investment income from fixed-income securities due to higher coupon interest payments while lower rates reduce investment income because this income is reinvested at a lower rate. As a result, slowly rising interest rates a net positive for the industry because they generally hold debt to maturity. Interest rates are expected to increase in 2013.

S&P 500
About one-fourth of life insurers’ investment income is related to equity market performance. Consequently, the performance of the S&P 500 is an important indicator of the overall performance of the industry’s investment portfolio. This driver is expected to increase slowly during 2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>Per capita disposable income</th>
<th>Median age of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>06</td>
<td>-4</td>
<td>37.0</td>
</tr>
<tr>
<td>08</td>
<td>4</td>
<td>37.5</td>
</tr>
<tr>
<td>10</td>
<td>2</td>
<td>37.0</td>
</tr>
<tr>
<td>12</td>
<td>0</td>
<td>37.5</td>
</tr>
<tr>
<td>14</td>
<td>-2</td>
<td>37.0</td>
</tr>
<tr>
<td>16</td>
<td>0</td>
<td>37.5</td>
</tr>
<tr>
<td>18</td>
<td>-2</td>
<td>37.0</td>
</tr>
</tbody>
</table>

SOURCE: WWW.IBISWORLD.COM
Industry Performance

Current Performance

In the five years to 2013, revenue for the Life Insurance and Annuities industry is expected to decline at an average annual rate of 1.7% to $934.3 billion. During this period, industry growth has been hampered by weak underlying household demand and poor investment returns as the subprime mortgage crisis pushed the US economy into the Great Recession. In fact, revenue contracted 17.8% in 2009. The industry also had a negative average profit margin in 2008 due to significant losses on mortgage-backed securities that since rebounded to about 7.4% but still remains below prerecessionary levels. The industry experienced slight declines in 2011 due to financial market volatility, but revenue returned to growth in 2012 and is expected to increase 1.6% in 2013 due to rises in household wealth and a 1.7% increase in per capita disposable income.

When calculating the industry’s key statistics, IBISWorld categorizes annuity considerations as revenue. Annuities are a form of insurance or investment sold by industry operators that entitle the investor to a series of annual sums. Following generally accepted accounting principles (GAAP) standards, however, industry operators record annuity considerations as a liability on a life insurer’s balance sheet.

Diminished demand and investment income

In 2008 and 2009, the US economy shed more than 8.0 million jobs, decimating demand for group and individual insurance and annuity coverage. In the group market, the spike in unemployment diminished the number of individuals who qualify for life and disability benefits. Struggling companies continue to reduce employee benefits, including disability and life insurance coverage, in order to maintain profitability or keep operations afloat. At the same time, demand for individual coverage has waned because many cash-strapped individuals have discontinued policies or reduced coverage to cut costs. In 2010, demand rebounded as the economy began to recover. Annuity considerations jumped during the year, especially compared to investment income, which barely increased. Notably, the largest source of investment income in recent years has been from high-grade corporate bonds, which grew to account for about 75.0% of total industry investments.

In 2009, investment income fell faster than the Standard and Poor’s (S&P) 500 index, due to the industry’s exposure to real estate and debt-related securities. In contrast, the industry outperformed the equities market in 2008. The divergence between the S&P 500 index and investment income is related to diversification; life insurers manage highly diversified portfolios. According to the National Association of Insurance Commissioners and IBISWorld estimates, the majority of the industry’s investment income is related to bonds (56.1%), followed by common stock (24.6%), mortgage loans (8.7%),
Diminished demand and investment income continued

contract loans (3.2%) and real estate holdings (1.9%).

The equity market has rebounded from the recession lows, but the industry's exposure to bonds, mortgages and other debt-related securities have been hampering returns. The Federal Reserve's decision to extend quantitative easing policies indefinitely will keep interest rates at exceptionally low levels through 2013 and likely through mid-2015. Continued low interest rates will dampen industry operators' investment income and profit during the year because life insurers have to reinvest their income at lower interest rates.

Importance of investment income

The majority of industry revenue is directly related to policy sales, with premiums and annuities accounting for about 66.0% of revenue, according to the American Council of Life Insurers (ACLI) and IBISWorld estimates. At the same time, growth is often reflected by changes in the US financial market because insurers rely on investment returns to supplement income and support policy payouts. According to the ACLI, investments generate about 24.5% of industry revenue. The remaining industry revenue is associated with miscellaneous fees, including charges related to asset management, investments and reinsurance ceding.

Insurers generate asset management fees by managing investments associated with variable annuity and insurance products. Under a variable policy structure, investment risks are passed on to the policyholder because insurers are not required to make fixed payments once the policy matures; instead, the payments are based solely on investment performance. These types of policies are often referred to as separate accounts on life insurers' balance sheets because the assets are separated from the companies' general assets. As a result of this structure, fluctuations in investment returns can also have a material effect on revenue. This factor has been particularly evident since 2008 because poor financial conditions have devastated policyholders' separate account holdings, which has influenced life insurers' investment management fees.

Industry transformation continues

Industry demand is also influenced by a variety of factors external to the economy, including individual wealth and US demographics (e.g. the median age of the population, marriage trends and mortality rates). The majority of these factors have helped push the shift in demand from traditional life insurance products toward annuities and disability and long-term care (LTC) insurance.

Over the past two decades, the industry has gone through major changes due to improvements in mortality rates and life expectancy, which has decreased the need for survivor benefits. Most

Improvements in life expectancy have shifted demand toward savings-related life insurance

American families are also composed of two income earners, which improves financial stability in the case of an untimely loss of a parent, guardian or spouse. At the same time, the increase in longevity has put added pressure on individuals to protect assets and build

importance of investment income
Industry Performance

Industry transformation continues continued

wealth for longer-term retirements. Government regulations and tax incentives have also supported this transition because most individuals now use life insurance products and annuities for savings-related purposes and estate-planning goals, as opposed to survivor benefits.

As a result of these trends, annuity considerations are now the largest source of revenue for the industry. Individuals and estate planners often use annuities for tax-planning purposes because the appreciation of an annuity is tax-deferred during the accumulation phase of the product. Annuities are also beneficial because they provide a steady stream of income over a set period of time, making it easier for estate planners and retirees to anticipate future financial needs. In addition, life insurance is increasingly being used for retirement or savings-related purposes.

Falling enterprises and employment

In the five years to 2013, the number of enterprises is expected to decrease at an average annual rate of 2.5% to 860 due to consolidation. Larger insurers benefit from economies of scale and improved efficiency, particularly because the cost of investment management, underwriting and back-office support can be spread across a greater number of clients. Larger companies are also better suited for raising capital than their smaller counterparts because these firms generally have large, well-diversified investment portfolios with strong risk ratings. Recent consolidation activity includes MetLife’s acquisition of Allstate’s Legal Plans Business. Similarly, industry employment is expected to decline 0.4% per year on average to 347,797 during the five years to 2013. The decline in employment is largely related to cost-cutting measures taken in response to lower investment returns.

The effects of consolidation and operators exiting the industry during the recession have overshadowed a trend toward more independent agents, which increases the number of non-employer enterprises. Recruiting, training and retaining life insurance agents has been difficult during and after the economic recession. Moreover, customers are becoming progressively sophisticated and affluent, with specialized financial planning needs. The traditional agent is transforming into a financial planning advisor, who needs to address a comprehensive range of financial planning needs. To satisfy the wide range of investment risk appetites of customers, more agents are not only selling fixed annuities, but also acquiring the securities licenses to sell variable annuities. These factors are part of the reason for the trend toward independent agents. It is also difficult for one company to supply the full range of products the agent needs. Agents are better able to sell a variety of insurance and investment designs if they sell the products of several companies.
Industry Performance

The Life Insurance and Annuities industry has a bright future. Growth in household wealth and incomes and the aging of the population will boost demand for life insurance and annuity products for asset protection and retirement purposes over the next five years. Additionally, with governments struggling to sustain social welfare programs, they will likely shift more responsibility to households to plan for retirement and manage their estates that will further underpin industry growth. In the five years to 2018, industry revenue is forecast to increase at an average annual rate of 3.4% to $1.1 trillion. Growth is projected to start accelerating in 2014 as the economic recovery takes a stronger hold in consumers’ minds. Revenue growth of 3.7% in 2014 will also benefit from improving investment returns. In the later years of the outlook period, insurers will likely benefit from strong financial performance and interest rate increases as the economy begins to stabilize and the Federal Reserve raises rates to control inflation.

Profitability is also expected to rise in 2014 as insurers benefit from a decline in delinquency rates and lower asset write-downs on mortgages and other debt-related securities. This trend is important because many life insurers built up a large portfolio of mortgage-backed securities (MBSs) and other collateralized-debt obligations (CDOs) during the housing boom. By 2018, the average industry profit margin is forecast to reach prerecession levels of about 9.5%.

Changing product mix

In the past three years, payouts related to variable life insurance products and annuities were poor due to volatile market conditions. As a result, IBISWorld expects that demand for these types of products will continue to be low over the next five years as consumers try to minimize risk. At the same time, the demand for traditional fixed-payment annuities and life insurance products is forecast to rise as consumers, estate planners and pension funds use these products for savings-oriented purposes. Market conditions are also expected to continue to shift the demand for industry services away from group products toward individual coverage as businesses reduce employee benefits. Individual responsibility related to retirement savings and estate planning is also expected to increase as the US government shores up its Social Security system by reducing benefits.

Insurers will likely be more conservative regarding investment exposures and vigilant in improving risk-management models and analytics. As a result, the reliance on rating agencies, such as Moody’s and Standard & Poor’s (S&P) 500, will diminish because of the rating industry’s inability to identify risks related to housing, MBSs and CDOs. At the same time, underwriting will improve as insurers better align risks with premium payments. Underwriting enhancements are also expected to improve company balance sheets, as higher premiums help recoup losses related to the financial market’s collapse and recession.

An aging population will push up demand for savings-type products

An aging population will push up demand for savings-type products, while demand for death protection products shrinks. Premium growth is also expected, reflecting the escalating medical costs of the aging population.
Industry Performance

Changing product mix continued

Many companies will offer policies tailored to the needs of senior applicants, such as low to moderate face value whole life insurance policies, to allow these older first-time applicants an opportunity to buy affordable insurance. Pre-need (or prepaid) insurance policies are life policies that, although available at any age, are usually offered to older applicants. This type of insurance is designed specifically to cover funeral expenses when the insured person dies.

Lower risk means lower returns

Because many insurers were burned by subprime mortgage holdings and other risky investments in the three years to 2010, they will have a renewed interest in minimizing portfolio risk in the five years to 2018. Lower risk typically results in lower returns, so the industry's investment income is expected to be subdued in relation to the levels experienced before the subprime mortgage crisis as life insurers maintain a more conservative investment approach.

Though equity markets are projected to improve over the next five years as economic recovery gains speed, equity dividends will remain subdued in the next two years as weak consumer spending and high unemployment rates continue to dampen corporate profit growth. Investment income will likely be affected by the real estate market's continued losses, particularly concerning the commercial sector. With the US housing and commercial property market likely to remain in recovery mode during the five years to 2017, property yields will also be poor.

IBISWorld expects that the Federal Reserve will continue quantitative easing policies indefinitely, which will likely keep interest rates relatively low through mid-2015 in order to stimulate economic recovery. Consequently, bond yields and investment income from credit market instruments will remain constrained. However, the industry is expected to benefit from the recovery of low-risk corporate bonds as the economy rebounds from the recession.

Consolidation and globalization

Similar to other mature industries, life insurers will continue to consolidate operations in an attempt to boost revenue, efficiency and profitability. Larger insurers generally benefit from operational efficiencies because firms are able to leverage capital to invest in new technology infrastructures that improve employee productivity. Additionally, larger life insurance firms are better able to diversify assets and manage risk. At the same time, the market shift to retirement products is expected to drive new niche players into the market, offsetting consolidation among larger players. As a result, the rate of decline in the number of industry firms will slow compared to the previous five-year period, contracting at a 1.1% annualized rate to about 814. Life insurers are also forecast to increase productivity, as firms continue to rely on new technologies to manage operations. As a result, industry revenue growth is expected to outpace employee growth, with the number of workers expected to increase at an average annual rate of just 0.9% to 363,783.
Industry Performance

Consolidation and globalization continued

IBISWorld projects that industry globalization will increase over the next five years as life insurers look for new growth opportunities overseas due to saturation in the US market. This trend is reflected by the recent announcement that MetLife is interested in purchasing American International Group’s American Life Insurance Company, which derives about 70.0% of its income from Japan. Emerging economies also provide avenues of growth for traditional life insurance products because life expectancies and mortality rates are not as strong as in the United States. In addition, emerging economies often lack personal financial stability, so the death of an income earner can often crush a household’s economic viability.
Industry Performance

The industry is undergoing consolidation

There is wholehearted market acceptance and saturation of industry-related insurance policies and annuities

Product innovation has been largely cosmetic and has not resulted in a substantial increase in demand

---

### Key Features of a Mature Industry

- **Revenue grows at same pace as economy**
- **Company numbers stabilize; M&A stage**
- **Established technology & processes**
- **Total market acceptance of product & brand**
- **Rationalization of low margin products & brands**

---

### Quality Growth

High growth in economic importance; weaker companies close down; developed technology and markets

---

### Maturity

Company consolidation; level of economic importance stable

---

### Quantity Growth

Many new companies; minor growth in economic importance; substantial technology change

---

### Decline

Shrinking economic importance

---

**Life Insurance & Annuities**

**Insurance Brokers & Agencies**

**Reinsurance Carriers**

**Third-Party Administrators & Insurance Claims Adjusters**

**Health & Welfare Funds**

**Workers’ Compensation & Other Insurance Funds**
Industry Performance

Industry Life Cycle

The US Life Insurance and Annuities industry is in the mature phase of its economic life cycle. This phase is characterized by stable demand growth, industry consolidation and in the 10 years to 2018, industry value added (IVA) is expected to increase at an average annual rate of 11.2%; however, this rate is from a recessionary low in 2008. In fact, industry profit margins are slowly declining which is a sign of a mature industry. In comparison, US GDP is expected to increase at an average 2.1% annually over the same period. This similar growth illustrates that the industry is expected to grow in line with the overall economy. Weak industry growth has been driven by poor performance over the five years to 2013, as revenue is expected to drop 1.7% on average annually to $934.3 billion.

The decline in industry revenue is not necessarily reflective of an industry in decline. Instead, it is more indicative of the grave impact that the credit crisis and recession had on industry growth. Over the five years to 2018, IBISWorld anticipates that revenue will be more in line with real GDP growth. Specifically, in the five years to 2018, industry revenue is expected to increase at an annualized rate of 3.4%.

The industry’s maturity is also highlighted by the increase in consolidation. Many of the major players, such as MetLife and Prudential, made a number of acquisitions during the past five years and are expected to continue such activity over the five years to 2018. MetLife acquired Travelers in 2005 for $11.8 billion, which has been one of the larger transactions in recent years, and AIG’s American Life Insurance Company unit in 2010 in an attempt to expand its international operations.

The industry is highly saturated, with about 78.0% of US households owning some type of economic protection. At the same time, the majority of new industry products are largely cosmetic in nature. Consequently, no new products in recent years have led to a significant increase in demand for policies.
Products & Markets

Supply Chain

KEY BUYING INDUSTRIES

21 Mining in the US
Mining related companies are strong purchasers of life insurance products due to the inherent risks associated with this industry.

31-33 Manufacturing in the US
The manufacturing segment is comprised of industries that contain strong unions, which often champion strong employee benefit programs for their members, including group life insurance, disability and LTC insurance.

99 Consumers in the US
Consumers and businesses are the primary purchasers of life insurance, annuities and disability or LTC insurance.

KEY SELLING INDUSTRIES

52413 Reinsurance Carriers in the US
Life insurers often offload risk by reinsuring their policies. Reinsurance carriers assume all or part of the risks associated with existing insurance policies originally underwritten by another insurance carrier.

52421 Insurance Brokers & Agencies in the US
Insurance agents and brokers sell life insurance, annuities and disability or LTC insurance to consumers and businesses.

52429 Third-Party Administrators & Insurance Claims Adjusters in the US
Some life insurers receive services in the form of claims adjustment, third-party administration and other insurance related activities.

Products & Services

According to data from the American Council of Life Insurers (ACLI) and IBISWorld estimates, industry premiums are made up of annuity considerations, life insurance premiums and health insurance premiums. All three product segments provide some sort of financial protection for owners. Annuities protect their owners against the possibility of outliving their financial resources during retirement. Life insurance protects the policyholder’s dependents from financial...
hardship in the event the insured person dies. The industry’s health insurance relates to disability coverage and long-term care (LTC) insurance. Disability insurance provides paycheck protection for workers who are unable to work due to accident or illness, and LTC protects retirement savings and financial stability by providing money for long-term medical care needs.

The mix of industry premiums from life insurance and annuity considerations has changed markedly over time. Prior to 1986, premium receipts from life policies were greater than annuity considerations, but starting in 1986, annuity premiums have exceeded life insurance premiums. During the past five years, premiums from annuities have increased, while premiums from life insurance have decreased. Improvements in mortality rates and life expectancy have decreased the need for survivor benefits. Additionally, most American families are now composed of two income earners, increasing financial stability and making families better able to sustain the untimely loss of a parent, guardian or spouse. At the same time, the increase in longevity has put added pressure on individuals to protect assets and build wealth for longer-term retirements. Government regulations and tax incentives have also supported this transition because most individuals now use life insurance products and annuities for savings-related purposes and estate-planning goals, as opposed to survivor benefits.

As a result of this shift in consumer needs, the demand for annuities continues to outpace traditional life policies since these products provide a favorable structure for retirement planning. Despite losing market share, some life insurance products are expected to benefit from the shift. For instance, living policyholders are using some life insurance products, such as universal, single-premium and limited-pay programs, for tax purposes, collateral assignments, withdrawals and pension funding. Some policies also provide options for accessing death benefits for LTC purposes during the insured’s lifetime.

**Annuities**

Annuities are sold as either immediate annuities or deferred annuities. The two products differ in payment structures. Immediate annuities begin making policy payments immediately after being purchased, while deferred annuities delay payments until a later date, such as retirement. During the deferment period, the annuity owner often makes periodic premium payments to help grow the annuity to its maximum level before payout.

In addition, annuities provide a variety of features that are designed for different needs. For example, a fixed annuity provides stable returns for owners because payments are predetermined at a fix rate of return. In contrast, variable annuities allow owners to increase the potential payout of their annuity investment, but they are also considered more risky because the payouts are not guaranteed. Instead, payouts are determined by the performance of some underlying asset such as equities or bonds. As a result, a variable annuity places investment risk with the purchaser instead of the issuer.

Annuities attract a significant volume of premiums for a number of reasons. First, investment income earned through annuities is not taxable until the money is withdrawn. Second, many annuities include “floors” that limit the extent of investment decline from an increasing reference point and thus protect the individual’s annuity account. Third, unlike some pension fund types, there are no limits on the annual contributions that can be made to a deferred annuity.
Finally, immediate annuities offer financial security since an individual is able to “outlive” the amount initially paid. Importantly, demand for annuities continues to grow, with the prospect of a longer life driving many citizens to seek savings products.

Life insurance
Life insurance is generally categorized as either term life insurance or permanent life insurance. These policy types differ significantly: term life insurance only provides coverage for a specified period of time, usually on an annual basis, while permanent provides insurance protection for as long as the insured individual lives. Term policies also have strict payment guidelines since insurance coverage normally expires if the policyholder does not make timely payments. Additionally, term life policies are only used for death benefits, while permanent life insurance can be used for a variety of other purposes. Specifically, permanent life policies build cash values that can help meet financial emergencies, pay for special goals or provide income for retirement.

Whole life insurance, also known as ordinary life insurance, is the most common type of permanent insurance. The premiums for such policies are paid periodically and generally remain constant over the life of the policy. After the initial payment, universal life or adjustable life insurance allows the policyholder to pay premiums at any time, in virtually any amount, subject to certain minimums and maximums. It is also easier to change the amount of the death benefit than under a traditional whole life policy.

Variable life insurance provides benefits and cash values that vary with the performance of an underlying portfolio of investments. Premiums are allocated to a variety of investments, depending on the policyholders’ appetite for risk, as insurers are allowed to place funds in a variety of financial products from risky equities to risk-free US Treasuries. However, unlike traditional life insurance products, the cash value of a variable life policy is not guaranteed, and the policyholder bears the risk. Good investment performance will lead to higher cash values and death benefits.

Disability and long-term care insurance
Health-related insurance within the life insurer industry is often related to accident care. In addition, LTC insurance falls under the health segment of the US Life Insurance and Annuities industry. Employment wage growth and health and medical expenses drive the demand for disability and LTC insurance. Disability insurance is one of the main accident insurance products, providing the insured with an income if he or she becomes sick or injured and unable to work. LTC insurance pays for services for individuals who are unable to function normally after the occurrence of a chronic illness or disability. Services are generally related to assisted-living or nursing home services, including bathing, eating, dressing and transferring individuals from place to place.

Disability insurance comes in two major forms: a variety of employer-paid and government-sponsored programs, generally cost-free to the recipient, covering certain categories of workers; and private policies (paid for by individuals) that protect income when there are no applicable employer or
Demand Determinants

Industry premiums are a strong indicator of the overall demand for life insurance products, due to the direct relation to policy sales between clients and life insurers. The overall demand for industry products is often determined by general economic conditions, US demographics, regulatory policies and tax rates. The two economic conditions that drastically influence industry demand are fluctuations related to the total US workforce and per capita disposable income.

Industry premiums are generated through individual policies marketed and sold directly to consumers and group policies sold to third-party entities such as employers. The ability for individuals to maintain insurance premiums or annuity payments is directly related to disposable income, which is often influenced by employment levels. In addition, employers provide a percentage of industry revenue through group insurance coverage and annuities, so workforce levels are key in determining industry demand.

In addition to general economic factors, regulatory policies related to taxes and demographics such as the average age of the population are highly correlated with the demand for industry products. Older populations tend to focus more on savings-related industry products such as annuities, due to the increased importance these individuals place on retirement planning. The need for estate planning is also important for older generations but these factors are often related to regulatory changes.

The decline in mortality rates, birth rates and marriage rates has decreased the incentive for individuals to purchase life insurance policies associated with survivor benefits. As a result, the industry has shifted its focus away from traditional death benefit products toward the retirement and estate-planning arena. Life insurance and annuity products provide significant tax incentives for individuals that are estate planning or facing retirement. Consequently, regulations related to estate taxes are often a strong indicator of industry demand. Generally, higher tax rates create greater demand for industry products.

The rise in retirement related products is increasing the popularity of variable annuities, separate accounts and other deposit-type products. Following this shift, life insurers’ investment performance relative to other substitute savings products is emerging as a key demand determinant.
The Life Insurance and Annuities industry is divided into two broad markets. The first segment is often referred to as the personal market because it comprises policies and coverage that are sold directly to consumers on an individual basis. The second segment, known as the commercial market, consists of institutions that purchase industry products on a group basis or on behalf of their employees and members.

**Individual market**
According to National Association of Insurance Commissioners (NAIC) data and 2011 IBISWorld estimates, the individual market accounts for about 61.8% of industry premium. This segment has also been the main driver of industry growth as individuals continue to purchase policy coverage in an attempt to offset the steady decline in employee benefit programs. Similarly, the demand for disability coverage and LTC insurance by individuals has also increased, particularly within sectors that have a high level of independent contractors, such as construction.

**Group market**
NAIC data states that the group market accounts for an estimated 37.9% of industry premium. The demand for group coverage continues to decline as employers look to cut costs related to employee benefits. This trend is largely associated with the rise in benefit costs that have taken place over the past decade, particularly in relation to health and retirement costs.

**Demographic segments**
Demographics play a significant role in sales for life insurance. Understanding the reasons why households purchase varying amounts of life insurance is increasingly important due to the proliferation of new products and services and additional competitors. Life insurers can use demographic data to motivate current customers to purchase more insurance and stimulate others (i.e. non-consumers of life insurance) to buy their product.

According to LIMRA, a life insurance industry association, men aged 35 to 54 have decreased as a percentage of the individual life market in the past five years. Additionally, young males, aged 18 to 24, are less likely than in past decades to be starting their adult years with any individual life insurance. Finally, husbands aged 35 to 54 and 65 or older...
had double-digit declines in the proportion owning individual life insurance in the past five years. While younger women are now as likely as their male counterparts to have coverage, women aged 55 and older are still considerably less likely than men the same age to own life insurance. The gap in average life insurance coverage between husbands and wives with similar personal incomes has narrowed over the past five years, primarily because insured wives have experienced smaller declines in amounts of individual life and group life coverage than have husbands with similar personal incomes.

As people age, they tend to rely more on life insurance products for their retirement. Death benefit policies ensure that beneficiaries are financially secure once the insured dies, but in more recent years, the insurance industry has made great headway in offering investment and savings insurance products. The aging of the US population and the increasing life expectancy have caused the average age of the life insurance consumer to increase during the past five years. At the same time, demographic studies on the users of the search site Bing show an increase in younger females looking into life insurance. A 2009 Mintel survey focusing on marketing strategy to different life insurance generations discovered similar results: 63.0% of Generation X (the generation that generally includes people born from the early 1960s through the early 1980s) said “it is important to be well-insured when it comes to life insurance,” versus just 58.0% of the general population agreeing with that same statement. Yet Generation X and Generation Y (the generation that includes people born between the early 1980s to the late 1990s, or even as late as the early 2000s) got fewer life insurance mailings than Baby Boomers did in 2009. Generation X is under-served in life and health insurance, making them a growing target market.

Life insurance companies are changing the focus of their sales efforts away from the middle-class market that they have focused on for most of their history and toward selling large permanent life insurance policies to wealthier households for estate-tax planning purposes. Life insurance consumption rises with the level of income for several reasons. First, an individual’s consumption and human capital typically increase along with income, creating a greater demand for insurance (mortality coverage) to safeguard the income potential of the insured and the expected consumption of his or her dependents. Second, life insurance may be a luxury good, inasmuch as increasing income leads to improved ability to direct a higher share of income toward retirement and investment-related life insurance products. Finally, the overhead costs associated with administrating and marketing insurance can make larger size policies less expensive per dollar of insurance in force, which lowers the price of life insurance policies.

A higher level of education is also positively correlated with the demand for any type of life insurance product. A higher level of education may raise an individual’s ability to understand the benefits of risk management and long-term savings, therefore increasing his or her level of risk aversion. Education may also increase the demand for pure death protection by lengthening the period of dependency, as well as increasing the human capital of, and so the value to be protected in, the primary wage earner. Education may also increase the demand for pure death protection by lengthening the period of dependency, as well as increasing the human capital of, and so the value to be protected in, the primary wage earner. Education may also increase the demand for pure death protection by lengthening the period of dependency, as well as increasing the human capital of, and so the value to be protected in, the primary wage earner. However, a positive relation between education and life insurance might also indicate that better access to long-term savings and insurance instruments encourages access to higher education.
Products & Markets

**International Trade**

The Life Insurance and Annuities industry does not directly participate in the sale of goods, so international trade is not applicable. The industry continues to expand operations globally; international trends are detailed in the Industry Globalization section of this report.
The distribution of industry establishments is largely determined by population trends. More populated states tend to have more industry establishments than their smaller counterparts. Population density is also an important indicator of the number of establishments in each state. States with low density tend to have more establishments per individual in comparison to more densely populated regions. In contrast, densely populated states have larger offices and fewer establishments. States with a higher share of urban to total population have higher levels of life insurance consumption. The concentration of consumers in a geographic area simplifies the distribution of life insurance products, as costs related to marketing, premium collection, underwriting and claim handling are reduced. A higher share of urban population is also related to less reliance on informal insurance agreements and therefore may induce a higher demand for formal insurance products.

In addition to population, the industry is also influenced by regulatory requirements and state income taxes. States with lower regulations and taxes tend to have a higher proportion of enterprises than population; for example, the Plains region accounts for 24.9% of the industry firms despite only containing 6.6% of the US population.

Overall, the three largest regions for industry establishments are the Southeast (25.8% of establishments), Mid-Atlantic (17.4%) and Great Lakes (15.0%). This trend mirrors the distribution of the US population and industry premiums. States with the highest establishment percentage include California (9.0%), Texas (6.7%), Florida (6.3%) and New York (5.7%).

With the exception of deposit-type funds, the distribution of policies also follows a similar pattern as establishments and enterprises because demand is influenced by general population trends and individual wealth. In contrast, based on premium receipts, deposit-type funds are mainly distributed
in New York and Delaware. This characteristic is slightly misleading, though, since these funds refer to separate accounts, which contain financial assets associated with variable annuities and other pass-through products. Insurers separate these assets from their general accounts because policy payments are determined by the value of the products underlying investment assets. As a result, the majority of premiums are found in these two states: New York is the epicenter of investment activity and Delaware has favorable security and incorporation laws.

Despite the industry’s transition from death benefits toward savings-oriented services and products, the geographical distribution of life insurance establishments has exhibited very little change over the past decade. This is because much of the distribution of life insurance products is conducted through agents and brokers, banks and other financial service providers that are not employed by the primary carriers. Products like annuities and mutual funds are generally standardized and are mostly offered through a network of third-party outlets. With annuities accounting for more than 51.2% of life premiums, it is not necessary to alter regional presence in response to changing regional sales patterns.

### Geographic spread of premiums

<table>
<thead>
<tr>
<th>Region</th>
<th>Life insurance (%)</th>
<th>Annuities (%)</th>
<th>Disability/LTC insurance (%)</th>
<th>Deposit-type funds (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>West</td>
<td>15</td>
<td>14</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Rocky Mountains</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Plains</td>
<td>8</td>
<td>7</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>Southwest</td>
<td>10</td>
<td>9</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Southeast</td>
<td>24</td>
<td>22</td>
<td>25</td>
<td>6</td>
</tr>
<tr>
<td>Great Lakes</td>
<td>15</td>
<td>16</td>
<td>17</td>
<td>6</td>
</tr>
<tr>
<td>Mid-Atlantic</td>
<td>20</td>
<td>22</td>
<td>13</td>
<td>55</td>
</tr>
<tr>
<td>New England</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: National Association of Insurance Commissioners
Market Share Concentration

Level
Concentration in this industry is Low

The Life Insurance and Annuities industry has low market concentration, as the top four life insurers in the United States are estimated to account for less than 40.0% of industry revenue. However, this statistic is somewhat misleading, as annuity considerations are not accounted for as revenue under generally accepted accounting principles (GAAP). As a result, more than 50.0% of industry premiums are not included in the industry’s concentration analysis. At the same time, it is important to highlight these companies, as annuities are the largest source of industry revenue, disregarding GAAP standards. Over the five years to 2018, concentration is expected to increase as larger firms acquire smaller operators in an attempt to increase market share and expand services.

Concentration based on company structure

The four main types of life insurers in the United States include stock-owned entities, mutual companies, fraternal organizations and federal agencies. However, most life insurers are organized as either stock (76.2% of firms) or mutual companies (13.6%). Stock life insurers issue stock and are owned by their stockholders, while mutual companies are legally owned by their policyholders and consequently do not issue stock. Stock life insurance companies can be owned by a variety of investors, including individual investors, institutions, corporations, other life insurance companies and even mutual firms. As a result, these entities tend to be less risk-averse in comparison to mutual companies, as the diverse ownership base is generally more concerned with profit margin and stock appreciation than financial stability.

Enterprise distribution by employment size*

<table>
<thead>
<tr>
<th>No. of employees</th>
<th>Distribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 4</td>
<td>55.9</td>
</tr>
<tr>
<td>5 to 9</td>
<td>8.6</td>
</tr>
<tr>
<td>10 to 19</td>
<td>5.8</td>
</tr>
<tr>
<td>20 to 99</td>
<td>10.7</td>
</tr>
<tr>
<td>100 to 499</td>
<td>5.9</td>
</tr>
<tr>
<td>500+</td>
<td>13.0</td>
</tr>
</tbody>
</table>

*Based on latest available 2010 Statistics of US Businesses Survey
SOURCE: US CENSUS BUREAU

In contrast, only policyholders can own mutual companies, unless a stock company is owned by a mutual company, and in that case, it is considered a mutual company. As a result, policyholders are generally more risk-adverse than stock-owned firms, as owners are more concerned with the company’s ability to meet future obligations. Mutual companies have undergone a trend of demutualization in recent years. Demutualization involves the process of forming a mutual holding company that owns the individual life insurer. This structure is similar to a publicly owned holding company. At the same time, both structures provide an advantage in raising capital to run or expand operations.

The third major type of life insurance structure is a fraternal organization (9.5%), which is an entity that provides both social and insurance benefits directly to its members. Fraternal organizations are often established with a particular set of goals in mind, including promoting religion, service or ethnicity. A few notable examples of these organizations include Modern Woodmen of America Life Insurance and Annuities, Catholic Holy Family Society and the Equitable Reserve Association.
**Cost Structure**

Life Insurance and Annuities industry revenue is mainly generated by insurance premiums, annuity considerations and investment income. About 66.0% of industry income is generated from premiums and annuity considerations, while investment earnings account for about 24.5% of industry revenue. The remaining 9.5% of industry income is associated with miscellaneous fees, including charges related to life insurance policies, investments or reinsurance ceding, which occurs when one insurer transfers a portion of risk to another insurer for a premium.

**Profit**

As a result of the industry’s reliance on investment income, industry profitability (earnings before interest and taxes) can often fluctuate on a year-to-year basis, depending on financial market conditions. In 2013, for instance, industry profitability is expected to be about 7.4% because the industry continues to suffer from its exposure to bonds, mortgages and other debt-related securities that have offered lower returns over the past five years due to falling and interest rates and the recession. In comparison, industry profitability was north of 9.0% prior to the subprime mortgage crisis and Great Recession. Over the five years to 2018, industry profitability is expected to return to its historic average as the economy fully recovers and the financial markets stabilize.

In addition to fluctuations in revenue, industry profitability is also influenced by expenditures, which can usually be divided into three main categories: benefit payments, operating expenses and investment expenses. Benefit payments include payouts for life insurance, annuities and health insurance. Operating expenses include commissions, wages, and other business-related activities. Investment expenses include expenses, fees and taxes associated with investment management activities.

**Benefit payments**

Benefit payments are the largest expense facing life insurers since benefit payments account for an estimated...
Competitive Landscape

Cost Structure

59.4% of industry revenue in 2013. The cost item varies considerably as a percentage of revenue due to frequent changes in investment income. Benefit payments are also influenced by the death rate and average age of policyholders. These changes tend to be gradual, though, so insurers usually adjust premium prices to offset any increases in potential payout schedules.

Additions to policy reserves

Reserves are funds that a life insurer holds to ensure payment of future policyholder benefits. Life insurers are required to hold a certain amount of reserves, which is dependent on state regulations, policy counts and exposures. As a result, it is important for insurers to consistently save a portion of premium income.

Wages and commissions

Wages account for 3.5% of industry revenue in 2013. Wages actually increased as a percentage of revenue from 2009, but this was mainly due to the decline in revenue. Wages generally include salaries for in-house sales teams, back-office support personnel and other operational employees. The demand for life insurance and annuities is expected to rise in 2013 as the economy continues to improve; however, growth is expected to be moderate. Consequently, commission expenses remained steady in 2013 at 5.6%. In general, commissions account for a higher proportion of revenue than wages since the majority of agents and brokers are paid on a commission basis for selling annuity contracts and policies.

Sector vs. Industry Costs

---|---
15.0 | 7.7
13.6 | 9.1
22.1 | 59.4
1.8 | 2.3
43.2 | 17.6
2.0 | 3.4
2.5 | 0.3
0.3 | 1.8

SOURCE: WWW.IBISWORLD.COM
Competitive Landscape

**Basis of Competition**

The majority of products within the industry are similar, so it is important for insurers to be able to competitively price products. At the same time, insurers must be able to differentiate themselves from competitors. As a result, insurers often compete on quality of service and rates of return on their policies. Additionally, it is important for insurers to maintain strong brand awareness and financial strength, particularly after the Great Recession.

The relatively high degree of customer contact occurring throughout the purchase, renewal and claims process allows many insurers to compete on the quality of their service. Throughout the life of a policy, life insurers have contact with two to three people: the plan sponsor, participant and benefactors. To compete on service, life insurers must provide a high level of service to a variety of people who often have a diverse set of service needs. This represents a significant challenge, as the life insurer must satisfy the service needs of three potential parties with one policy. In the sales and renewal process, an insurer must possess staff with market knowledge and experience, so potential and current customers can be best advised on their future insurance needs. As a result, insurers must invest in training and development programs for internal sales teams. For external sales staff, insurers must pay competitive commissions to attract capable agents and brokers.

In addition to direct sales, life insurers also sell their products indirectly through third-party brokers and agents. Within this market, it is important for insurers to have strong payout programs, as brokers primarily generate revenue from commissions on sales. Insurers also must provide quality service to this third-party market, as brokers rely on life insurers for product information and claim support.

Throughout the life of a policy, an insurer must provide individuals with timely, easily accessible account information. To do this, insurers must continually upgrade and improve technological systems. Proper system upgrades lower operational costs by increasing employee productivity. At the same time, these systems help improve consumer sentiment as users may benefit from various technology changes, particularly services that allow clients to access information remotely via the internet. Brand awareness and reputation are also important, particularly after the Great Recession. The financial performance and strength of an insurer builds confidence within the marketplace that the insurer will have the ability to meet future benefit obligations. This is critical, particularly for life insurers, as claims are often not made for years or even decades after the policy is initially purchased.

**Barriers to Entry**

The Life Insurance and Annuities industry has significant barriers to entry. A prospective entrant must first raise capital to run operations. After sufficient capital is accumulated, new enterprises must build a distribution network that utilizes both in-house and independent agents and brokers to sell their products. The business must also hire highly trained actuaries and underwriters who are capable of competitively pricing policies and minimizing risks.

The industry is also subject to state and federal regulators. However, the majority of government oversight is conducted on a state level, which makes it difficult for firms to operate in multiple state jurisdictions. Additionally, firms are...
Competitive Landscape

Barriers to Entry continued

required to meet risk-based capital requirements, which is dependent on asset risk, insurance liabilities and premium income.

Industry concentration is low, but larger, better-established firms generally outperform smaller or entry-level players. Larger companies are more established with stronger reputations and larger distribution networks. The size of these players is also important as scale can affect premiums and can help generate increased investment returns.

Major players also have a larger client base and this is reflected in their assets under management. Generally, as the value of assets under management increases, risks dissipate and lower

Barriers to Entry checklist

<table>
<thead>
<tr>
<th>Level</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Mature</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>Heavy</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: WWW.IBISWORLD.COM

 premiums can be passed on to clients and dividends paid to policyholders of mutual insurance companies. As a result, the competitive pricing by industry incumbents can make it difficult for new entrants to win customers.

Industry

Globalization

Level & Trend

Globalization in this industry is Medium and the trend is Increasing

Similar to other financial service industries, the Life Insurance and Annuities industry continues to expand through globalization. The industry is highly saturated within the domestic market, so future growth will require insurers to expand global operations. The industry’s expansion into the retirement and estate-planning arena is also forecast to increase domestic competition, particularly from banks, mutual funds and securities firms. However, only about 11.0% of industry firms are foreign owned operations.

As domestic growth slows, world markets are becoming more open and enticing for US insurers. Major countries where US life insurers operate include Canada, the Netherlands, Switzerland, Germany, France and the United Kingdom.

Recent international trade agreements have increased market opportunities for US companies. Technology gains in telecommunications, information technology and data processing have also improved industry productivity and operational efficiencies. These technological advancements have also increased the ability for insurers to operate on a global scale. The increased focus on global expansion can be highlighted by MetLife, which purchased AIG’s ALICO in 2010. Acquisition and joint-venture trends are expected to increase as firms look to expand internationally. This trend is expected to continue because acquisitions are the most efficient way to enter a foreign market due to product awareness and supply channels being already established.
MetLife, founded in 1868, is a leading global provider of insurance, annuities and employee benefit programs throughout the United States, Japan, Latin America, Asia Pacific, Europe and the Middle East. Headquartered in New York City, MetLife is the largest life insurer in the United States based on admitted assets and serves 90 million customers in over 60 countries. Through its subsidiaries and affiliates, MetLife offers life insurance, annuities, auto and homeowners insurance, and other financial services to individuals, as well as group insurance and retirement and savings products and services to corporations and other institutions.

The company is organized into four major segments: institutional insurance, individual insurance, auto and home insurance and international services. The company provides industry services through its institutional and individual insurance segments. The two groups account for about 75.0% of the firm’s total revenue. The institutional team specializes in group life insurance, retirement plans and savings services that are sold to third parties, rather than directly to the individual customer. In contrast, the firm’s individual segment specializes in consumer coverage and sells policies directly to the individual consumer. MetLife is the top seller of group life insurance in the United States. Aside from a charge associated with use of the US Social Security Administration’s Death Master File in 2011 (which identified some group life insurance certificates, individual life insurance policies and other contracts where a covered person may be dead but a claim had not yet been made), this business has proved profitable over time for MetLife. Given the commoditized nature of life insurance in the United States, MetLife is expected to materially cut back individual life insurance or exit the product line altogether during the upcoming years.

According to IBISWorld estimates, MetLife accounts for about 3.0% of industry revenue in 2012. This calculation is misleading, however, because IBISWorld categorizes annuity considerations as revenue when calculating the industry’s key statistics. In contrast, industry operators report income according to generally accepted accounting principles (GAAP) standards, which records annuity considerations as a liability on a life insurer’s balance sheet. Based on GAAP accounting, MetLife accounts for about 9.4% of industry revenue.

**Financial performance**

In the five years to 2012, MetLife’s US life insurance revenue is expected to increase at an average annual rate of 1.0% to $27.2 billion. During this period, the company experienced consistent growth until 2009, when the Great Recession decimated revenue and profitability. In 2009, revenue dropped 2.5%, and net income went negative. However, this trend was short-lived, as the firm’s revenue and net income returned to growth in 2010. The company is
Major Companies

Player Performance continued

Northwestern Mutual (NM) is a mutual company based in Milwaukee, WI. The company specializes in life insurance products, but it also offers other financial services, including long-term care (LTC) insurance, disability insurance, annuities, mutual funds and employee benefit services. In addition, the firm provides consultation services related to investment activities, including financial planning, estate planning, trusts and retirement benefits.

Player Performance

Northwestern Mutual
Market share: 2.9%

increasingly focused on markets outside of the United States. Expected growth of 2.1% in 2012 will be an improvement over 2011 growth; yet it will be restrained by low premium growth and the low interest rate environment. Premium growth has slowed due to declining pension closeout sales, which are settlements of all plan assets and liabilities through the purchase of a group annuity contract.

In 2012, about 30.0% of MetLife’s revenue is expected to come from abroad, compared with less than 15.0% in 2007. In ten years, the company believes a much higher percentage of earnings will come from outside the United States and Japan, with almost all growth in protection products. In 2012, MetLife hired American International Group Inc.’s (AIG) Christopher Townsend to lead operations in Asia after the company expanded in the continent with a $16.0 billion acquisition in late 2010.

MetLife has been hindered to some degree by its status as a bank holding company, which subjected it to regulation by the Federal Reserve. The company has been trying to exit the banking business due to the mounting regulation. In August 2012, the Fed imposed a $3.2 million fine on MetLife, citing a failure in oversight for its bank’s mortgage units, particularly in regard to its mortgage servicing and foreclosure operations. The Fed’s action came ahead of MetLife’s planned sale of its subsidiary bank’s deposit-taking operations to GE Capital, which would remove MetLife from regulation by the Fed.

MetLife Inc. (US life insurance segments) – financial performance*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Net Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>25,864.3</td>
<td>NA</td>
<td>2,469.9</td>
<td>NA</td>
</tr>
<tr>
<td>2008</td>
<td>27,967.8</td>
<td>8.1</td>
<td>1,811.3</td>
<td>-26.7</td>
</tr>
<tr>
<td>2009</td>
<td>27,265.0</td>
<td>-2.5</td>
<td>-1,527.7</td>
<td>N/C</td>
</tr>
<tr>
<td>2010</td>
<td>26,236.6</td>
<td>-3.8</td>
<td>1,398.5</td>
<td>N/C</td>
</tr>
<tr>
<td>2011</td>
<td>26,608.4</td>
<td>1.4</td>
<td>2,639.9</td>
<td>88.8</td>
</tr>
<tr>
<td>2012*</td>
<td>27,179.0</td>
<td>2.1</td>
<td>1,395.6</td>
<td>-47.1</td>
</tr>
</tbody>
</table>

*Data based on GAAP accounting standards (annuity considerations are not included); **Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD
Throughout its history, the company has mainly focused on life insurance. But in 1969, the company began offering disability income insurance, which was its first nonlife insurance product. Since then, the company has expanded operations to include retirement annuities and LTC insurance. More recently, the company expanded its services to include investment management with its purchase of Frank Russell Company.

NM maintains the highest ratings for insurance financial strength from all four major rating agencies: AM Best, S&P, Moody’s and Fitch Ratings. According to AM Best, the company oversees more than 10.0% of the US direct life insurance market. The company accounts for about 2.9% of industry revenue in 2012; however, this calculation is misleading because IBISWorld categorizes annuity considerations as revenue when calculating the industry’s key statistics. Industry operators report income according to GAAP standards, whereby annuity considerations are recorded as a liability on a life insurer’s balance sheet. Based on GAAP accounting, Northwestern accounts for about 6.3% of industry revenue.

Financial performance
In the five years to 2012, revenue is expected to increase at an average annual rate of 4.1% to $26.1 billion. The company’s net income is expected to increase during the same period, benefiting from better investment income due to economic recovery and improvements in the financial markets. Growth in 2012 is expected due to a rising volume in policies sold.

Revenue declined in 2009 due to the economic recession, which caused declines in premiums and investment income. Premiums fell due to rising unemployment, while the volatile financial market wiped out investment income, particularly in regards to the bond market. The decrease in returns from bonds is particularly troublesome for NM (and the industry as a whole), because the majority of invested assets are within the fixed-income sector. The company has fared better than the general life insurance industry, though, due to its conservative portfolio and investment approach. In fact, the majority of mutual companies have fared better in this dark economic climate than less risk-averse publicly held life insurance. Over the next five years, Northwestern Mutual is planning to offer additional financial services, which could further boost revenue while exposing the company to heightened regulation.

### Northwestern Mutual – financial performance*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Net Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>21,355.0</td>
<td>NA</td>
<td>1,000.0</td>
<td>NA</td>
</tr>
<tr>
<td>2008</td>
<td>21,923.0</td>
<td>2.7</td>
<td>483.0</td>
<td>-51.7</td>
</tr>
<tr>
<td>2009</td>
<td>21,366.0</td>
<td>-2.5</td>
<td>321.0</td>
<td>-33.5</td>
</tr>
<tr>
<td>2010</td>
<td>23,109.0</td>
<td>8.2</td>
<td>756.0</td>
<td>135.5</td>
</tr>
<tr>
<td>2011</td>
<td>24,478.1</td>
<td>5.9</td>
<td>770.4</td>
<td>1.9</td>
</tr>
<tr>
<td>2012**</td>
<td>26,069.1</td>
<td>6.5</td>
<td>790.1</td>
<td>2.6</td>
</tr>
</tbody>
</table>

*Data based on GAAP accounting standards (annuity considerations are not included); **Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD
MassMutual Financial Group mainly focuses on whole life insurance, but it also offers a wide variety of other products to meet the financial needs of its clients. These product offerings include life insurance, disability income insurance, LTC insurance, retirement and 401(k) plan services and annuities. MassMutual was founded in 1851 in Springfield, MA. The company was originally founded as a stock-owned entity due to a Massachusetts state law that required an initial stock subscription of $100,000 for insurance companies.

Like MetLife and Northwestern, MassMutual’s market share is skewed due to GAAP accounting standards. As a result, MassMutual is only expected to account for about 2.2% of industry revenue in 2012. This calculation is misleading because IBISWorld categorizes annuity considerations as revenue when calculating the industry’s key statistics. In contrast, industry operators report income according to GAAP standards, where annuity considerations are recorded as a liability on a life insurer’s balance sheet. Based on GAAP accounting, MassMutual accounts for about 5.3% of industry revenue.

**Financial performance**

In the five years to 2012, the company’s revenue is expected to increase 0.8% on average per year to $19.5 billion. The majority of growth that occurred during this period was largely wiped out in 2009 due to the recession. According to IBISWorld estimates, revenue decreased 4.6% in 2009. The decline in revenue was largely driven by the decrease in investment income and the drop in premiums brought on by the rise in unemployment. The firm’s operating profit has declined sharply since 2008, largely related to the recession, which has hurt investment and premium income.

Despite the decline in revenue, however, MassMutual outperformed the total industry in 2009 due to its conservative investment approach. The company’s conservative investment style is consistent with other mutual companies, all of which have outperformed the majority of their publicly owned counterparts that are less risk averse.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>18,744.0</td>
<td>4.0</td>
<td>2,173.0</td>
<td>24.5</td>
</tr>
<tr>
<td>2008</td>
<td>19,301.0</td>
<td>3.0</td>
<td>1,311.0</td>
<td>-39.7</td>
</tr>
<tr>
<td>2009</td>
<td>18,410.1</td>
<td>-4.6</td>
<td>1,000.0</td>
<td>-23.7</td>
</tr>
<tr>
<td>2010</td>
<td>18,135.8</td>
<td>-1.5</td>
<td>825.0</td>
<td>-17.5</td>
</tr>
<tr>
<td>2011</td>
<td>19,028.9</td>
<td>4.9</td>
<td>848.0</td>
<td>2.8</td>
</tr>
<tr>
<td>2012**</td>
<td>19,510.9</td>
<td>2.5</td>
<td>852.8</td>
<td>0.6</td>
</tr>
</tbody>
</table>

*Data based on GAAP accounting standards (annuity considerations are not included); **Estimate*
The US Life Insurance and Annuities industry is made up of about 952 companies, according to IBISWorld estimates and US Census data. Companies can be ranked in terms of policies in force, assets, premiums, annuity considerations and life insurance coverage. Under GAAP accounting rules, annuity considerations are not accounted for as revenue; instead, this income is categorized as a liability. Conversely, STAT accounting rules and IBISWorld industry analysis treats this income as revenue. As a result of the GAAP standards, the largest annuity providers in the United States are not properly estimated within the Major Companies section of this report. The top five annuity insurers were MetLife Inc., Manulife Financial, ING North America, AIG and Prudential Financial, according to the ACLI and NAIC.

The major companies within the industry can also be categorized by net life insurance premiums, total assets and total annuity reserves. The five largest companies in regards to premiums are: MetLife Inc., Northwestern Mutual, MassMutual Financial Group, New York Life and Prudential Financial, according to the ACLI and NAIC. In regards to policies in force, or the value of coverage held by each company, the top five companies included MetLife, Prudential Financial, Swiss Re America, New York Life and State Farm. It is important to note that IBISWorld includes other revenue besides premiums when determining market share, including investment income and fees.

**New York Life Insurance Company**  
*Estimated market share: 2.1%*

New York Life Insurance Company (NYL), founded as Nautilus Insurance Co. in 1841, began operating in 1845 and changed its name to New York Life in 1849. Over its 150-year-plus history, NYL has grown to become the biggest mutual life insurance company in the United States. The company ranks 76 on the Fortune 100, making it the largest privately held insurance company on the list. The company has been a pillar of strength within the US financial system, maintaining the highest possible financial strength ratings from all four of the major credit rating agencies throughout the financial crisis. Because NYL is a mutual company, policyholders have certain ownership rights over the organization, such as entitlements to any surplus that exists and is released. From time to time, insurance companies will possess excess surplus and decide to release the excess. For stock, a company’s surplus releases reflect a direct boost to the company’s bottom line, whereas for mutual companies, surplus releases are distributed to policyholders.

NYL helped develop variable universal life insurance in the 1960s, which featured variable benefits and level premiums; variable annuities were added in 1968. In 1982, the company formed New York Life and Health Insurance Co., and then acquired MacKay-Shields Financial in 1984. Expansion continued in 1987, when it purchased a controlling interest in a third-party insurance plan administrator and group insurance programs. But as healthcare profitability decreased and the insurance industry consolidated, NYL sold its health insurance operations in 1998. In the same year, the company revealed plans to demutualize, but was stopped by the state legislature.

NYL offers a number of products but retains its core business: life insurance and annuities. As customer focus shifts from death benefits to retirement, the company has added such products and services as mutual funds and securities brokerage for individual and institutional investors. In December 2006, NYL introduced the LifeStages Longevity Benefit Variable Annuity, which offers...
the tax-deferred growth potential of a variable annuity plus a stream of lifetime income for purchasers who live a long time and need protection against outliving their financial resources. The new product was a response to the growing financial risk longevity presents in retirement.

Longevity risk has become a major growth opportunity for the industry and companies like NYL that seek to meet customers’ changing needs. Of two people aged 65, there is a 50.0% probability that one of them will live past age 90. The new variable annuity product established by NYL gives consumers the ability to accumulate retirement assets now, while simultaneously building an extra source of income for the future. The product also features an up-front premium credit and offers a wide array of investment options that can help customers grow and diversify their retirement savings.

In 2012, NYL is expected to generate $15.6 billion in revenue. During the past five years, the firm’s growth has been derailed by the decline in investment income and the increase in realized investment losses. The firm was hit in 2008 by investment losses due to the recession and this is expected to continue despite the recent recovery in the financial markets. Interest rates still remain at record lows in 2012, hurting revenue associated with fixed-income securities.

**Prudential Financial Inc.**
*Estimated market share: 1.4%*

Prudential Financial is one of the largest group and individual life insurance and variable annuity distributors in the United States. The insurer is widely recognized by its logo, the Rock of Gibraltar, but it is also often confused with the British insurer that carries the same name and ticker symbol on the London Stock Exchange. In August 2012, the company indicated intentions to acquire the individual life insurance business of The Hartford Financial Services Group. If the deal goes through, the combined company would gain considerable market share.

Prudential is a diverse organization that specializes in insurance, investment management and other financial products to both retail and institutional customers within the United States and 30 other countries. The company’s products and services include life insurance, annuities, mutual funds, pension- and retirement-related services, asset management, securities brokerage services and commercial and residential real estate. The firm offers these products through three main divisions: US retirement and investment management (31.3% of total company revenue); US individual life and group insurance (29.0%); and international investment and insurance (39.7%). The company’s industry-related services are primarily categorized under the US individual life and group insurance division.

In 2012, Prudential’s revenue is expected to reach $12.7 billion. During the past five years, growth has been supported by a steady rise in premium income from life insurance products. In contrast, annuities have offset some of this growth as the company faced poor investment returns due to the Great Recession and subprime mortgage crisis. Prior to the recession, the company benefited from both premium and policy growth.

**American International Group Inc.**
*Estimated market share: 0.7%*

American International Group (AIG) is one of the world’s largest insurance underwriters with operations in more than 130 countries. AIG companies are providers of life insurance and retirement services in the United States. It has three segments: Chartis,
Major Companies

Other Companies

SunAmerica Financial Group and Financial Services. SunAmerica offers a suite of products and services to individuals and groups, including term life, universal life, accident and health, fixed and variable deferred annuities, fixed payout annuities, mutual funds and financial planning.

Having survived a near-death experience as a result of its financial guarantee debacle, AIG has completed its recapitalization plan by eliminating its debt obligations to the Federal Reserve Bank of New York (FRBNY) and issuing common stock to the US Treasury. The company went through a period of management turnover as a result of the charges by then-New York Attorney General Eliot Spitzer and then got into financial difficulties with its financial guarantee and stock-lending businesses. At that point, the US government stepped in to bail out the company for fear that it might cause a systemic risk that would bring others down in the midst of the 2008 financial crisis.

Despite having lost considerable market share in both its property-casualty and life insurance businesses, AIG remains one of the largest insurance companies in the world, with leading positions in both the property-casualty insurance, life insurance and retirement savings businesses.

SunAmerica’s life insurance division has historically been relatively stable and slow growing, with their operations focused on term and universal life. Within the unit, the company still has sizable private equity exposure, which makes the company vulnerable to market conditions. In 2012, SunAmerica revenue is expected to reach $5.2 billion. In August 2012, the company signed a definitive agreement with Hartford Financial Services Group to acquire Woodbury Financial Services Inc.
Operating Conditions

Capital Intensity
Technology & Systems
Revenue Volatility
Regulation & Policy
Industry Assistance

Capital Intensity

Level
The level of capital intensity is High

The Life Insurance and Annuities industry has a high level of capital intensity; for every dollar spent on wages (including commissions), industry firms spend about $0.37 cents on capital. Capital is needed to maintain reserve requirements and cover potential claims (or benefits). Reserve requirements are utilized by regulators to ensure that insurers and reinsurers are able to meet expected claim payments during catastrophic events. There is no national oversight of insurance companies, so reserve ratios vary by state, but in general, regulators determine an insurer’s reserve requirements on policyholder counts, revenue and benefits (or the potential payout of claims).

The sheer size of industry operators also limits the level of capital intensity. As a result, the ratio of labor to capital varies among life insurers of different

Tools of the Trade: Growth Strategies for Success

New Age Economy
Recreation, Personal Services, Health and Education. Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labor skills are key to product differentiation.

Traditional Service Economy
Wholesale and Retail. Reliant on labor rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

Life Insurance & Annuities

Investment Economy
Information, Communications, Mining, Finance and Real Estate. To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.

Old Economy
Agriculture and Manufacturing. Traded goods can be produced using cheap labor abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialize in niche, high-value products.

Change in Share of the Economy

SOURCE: WWW.IBISWORLD.COM
Operating Conditions

Capital Intensity continued

sizes. For instance, as the volume of business increases, the level of capital intensity generally declines due to scale, as the need for technological investments regarding claims processing, policy administration and actuarial activities does not dramatically increase with volume, as most systems are designed to handle high policy counts. Instead, costs incrementally increase, due to the need for extra staff to process claims and administer accounts.

Technology & Systems

The Life Insurance and Annuities industry relies heavily on information technology to maintain customer records and to process financial transactions. Computer systems are also utilized for risk management purposes, sales and other operational functions. Additionally, many life insurers continue to expand internet-related infrastructure so that clients can access their account and make changes and limited transactions online. This investment has helped to reduce labor intensity and improve customer satisfaction levels. IBISWorld anticipates that investment in information technology systems will continue into the foreseeable future, as it offers industry firms ongoing productivity and efficiency gains.

Revenue Volatility

Overall industry growth is dependent on general economic conditions, financial market activity, US demographics and regulation changes. However, year-over-year volatility is typically driven by fluctuations in investment activity, as returns account for about 27.7% of industry income. Due to this exposure, industry revenue has been relatively volatile over the past three years, due to the subprime mortgage crisis and Great Recession that began in 2008. During the five years to 2013, industry revenue fluctuated at an average absolute rate of 10.5%.

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.
Operating Conditions

Regulation & Policy

Life insurers are major players within capital markets and vital components of the US financial system. As a result, the industry is highly regulated by states and to a lesser extend by federal agencies. Regulatory scrutiny of the financial sector, including the industry, have increased since the 2008 financial crisis and subsequent recession. The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law in July 2010, was the most significant overhaul of federal regulation of the financial services sector since the Great Depression. It mainly affects life insurers by imposing new reserve and capital requirements and securities regulations.

Securities regulation

Over the five years to 2013, life insurers have derived a larger share of their revenue from variable annuity sales. Variable annuity products are considered securities and subject to federal securities regulations set by the Securities and Exchange Commission governing registration, distribution and disclosure requirements to consumers. Distribution regulations and scrutiny on annuity sales practices at the federal level, in particular, that require education and licensing of agents, have hindered annuity sales growth and have caused the industry to rely more on independent agents to distribute these products over the past five years. In addition, recent tax changes that lowered capital gains on stocks but not equity sub-accounts in annuity products made annuities comparably less attractive to simple stock ownership which has further dampened consumer demand for them. However, life insurance products, which are already heavily regulated by states, are exempt from additional oversight from the new Consumer Financial Protection Board.

The Commodity Futures Trading Commission and the Securities and Exchange Commission are also heavily scrutinizing major end-users of derivatives securities, which includes life insurers, and insuring that derivative swaps are traded through clearinghouses. Life insurers use derivatives to reduce risk and hedge against potential future losses. While insurance products are likely to be exempt from clearing regulations, any change in regulation on derivatives participants is likely to negatively impact the industry.

Reserve and capital requirements

To limit systemic risk across the global financial system, the federal government is scrutinizing and raising reserve and capital requirements for financial institutions. Although life insurers address different types of risk than banking institutions, the Collins Amendment in the Dodd-Frank Act has the potential to negative affect life insurers by imposing the same stricter reserve and capital requirements as banks. On the other hand, the establishment of the Federal Insurance Office, a federal government office within the Treasury Department with insurance expertise, has the potential to limit the effects of new reserve and capital requirements by advocating for amended rules on behalf of the industry to Congress.

States, not the federal government regulate the industry

Life insurers are not directly subject to federal regulations. Instead, insurance companies are subject to regulation and supervision by the states in which they transact business. The laws of these jurisdictions generally establish agencies with broad regulatory authority, including powers to grant and revoke licenses to transact business; approve premium rates for some lines of business; establish reserve requirements; determine the reasonableness and adequacy of statutory capital and surplus;
and regulate the type and amount of permitted investments. Most states also have enacted legislation that regulates insurance holding company systems, including acquisitions, extraordinary dividends, the terms of surplus notes, the terms of affiliate transactions and other related matters. Other regulations differ on a state basis, with New York Insurance Law limiting agent compensation, commissions and marketing expenses that may be incurred with the sale of life insurance policies.

In addition to state insurance regulators, the National Association of Insurance Commissioners (NAIC), which is an association of state regulators, is continually re-examining existing laws and regulations and their application to insurance companies. The NAIC has approved and recommended to the states, the adoption and implementation of several regulatory initiatives designed to decrease the risk of insolvency of insurance companies in general. One such initiative was the December 1993 introduction of risk-based capital (RBC) requirements in order to determine the levels of statutory capital and surplus an insurer must maintain in relation to its investment and insurance risks. The RBC has four levels of regulatory attention, depending on the ratio of the insurer’s total adjusted capital (defined as the total of its statutory capital, surplus, asset valuation reserve and certain other adjustments) to its RBC.

First, the Company Action Level occurs if a company’s total adjusted capital is less than 100% but greater than or equal to 75% of its RBC or if a negative trend has occurred and total adjusted capital is less than 125% of its RBC. The company must submit a comprehensive plan to the regulatory authority that discusses proposed corrective actions to improve its capital position. The Regulatory Action Level is implemented if a company’s total adjusted capital is less than 75% but greater than or equal to 50% of its RBC. The regulatory authority will then perform a special examination of the company and issue an order specifying corrective actions that must be followed. Thirdly, the Authorized Control Level comes into play if a company’s total adjusted capital is less than 50% but greater than or equal to 35% of its RBC. As a result, the regulatory authority may take any action it deems necessary, including placing the company under regulatory control. Finally, the Mandatory Control Level occurs if a company’s total adjusted capital is less than 35% of its RBC. The regulatory authority is then mandated to place the company under its control.

As part of their routine regulatory oversight process, insurance departments conduct detailed examinations of the books, records and accounts of insurance companies domiciled in their states every three to five years. Such examinations are generally conducted in cooperation with the departments of two or three other states, under guidelines promulgated by the NAIC. Insurers are also required to diversify their investment portfolio to lower the overall risk of the asset portfolio. Failure to meet this requirement can exclude surplus assets from surplus capital requirements and can also require divestment.

Financial Accounting Standards Board
Insurers are required to use a special accounting system when filing annual financial reports with state regulators and the Internal Revenue Service. This system is known as statutory accounting principles (SAP). These accounting principles are more conservative than General Accepted Accounting Principles (GAAP) standards, as defined by the Financial Accounting Standards Board, and have been introduced to ensure that insurers have sufficient capital and
Life Insurance & Annuities in the US
March 2013
40

Operating Conditions

Regulation & Policy continued

surplus to cover insurance losses. The main difference between the two systems is in the timing of expenses, tax accounting, the treatment of capital gains and accounting for surplus. SAP recognizes liabilities earlier or at a higher value and recognizes assets later or at a lower value. This implies that SAP, as opposed to GAAP, treats insurers as if they were about to be liquidated. SAP is defined according to state law according to uniform codes established by the National Association of Insurance Commissioners. Insurance companies reporting to the Securities and Exchange Commission must maintain and report another set of figures that meet GAAP standards.

Industry Assistance

The Life Insurance and Annuities industry has a low level and steady of industry assistance. The Treasury Department extended bailout funds to a number of life insurers in April 2009, under its Troubled Asset Relief Program (TARP) to stabilize the financial system and restart economic growth. The extension was an attempt to cover big losses that have incurred within the investment sector of some industry firms. However, it is important to note that TARP only covers life insurers that own federally chartered banks (bank holding companies). Life insurers generally receive ongoing industry support from regulators whom negotiate with foreign regulators to form international regulatory equivalency agreements. These agreements reduce compliance costs for multinational life insurers and allow them to more easily expand operations into new emerging markets.

Level & Trend

The level of Industry Assistance is Low and the trend is Steady
## Key Statistics

### Industry Data

<table>
<thead>
<tr>
<th>Revenue ($m)</th>
<th>Industry Value Added ($m)</th>
<th>Establishments</th>
<th>Enterprises</th>
<th>Employment</th>
<th>Exports</th>
<th>Imports</th>
<th>Wages ($m)</th>
<th>Total Assets ($m)</th>
<th>Per Capita Disposable Income ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004: 917,710.4</td>
<td>146,733.0</td>
<td>8,868</td>
<td>1,719</td>
<td>372,613</td>
<td>-</td>
<td>-</td>
<td>34,772.4</td>
<td>5,156,927</td>
<td>31,184</td>
</tr>
<tr>
<td>2005: 916,386.6</td>
<td>154,819.2</td>
<td>8,688</td>
<td>1,119</td>
<td>356,258</td>
<td>-</td>
<td>-</td>
<td>34,120.3</td>
<td>5,260,876</td>
<td>31,218</td>
</tr>
<tr>
<td>2006: 1,008,988.8</td>
<td>120,796.4</td>
<td>8,337</td>
<td>1,072</td>
<td>354,354</td>
<td>-</td>
<td>-</td>
<td>33,360.0</td>
<td>5,685,402</td>
<td>32,303</td>
</tr>
<tr>
<td>2007: 1,050,396.0</td>
<td>122,783.6</td>
<td>8,290</td>
<td>1,009</td>
<td>359,025</td>
<td>-</td>
<td>-</td>
<td>33,796.9</td>
<td>5,627,697</td>
<td>32,749</td>
</tr>
<tr>
<td>2008: 1,016,668.6</td>
<td>63,856.8</td>
<td>8,232</td>
<td>976</td>
<td>354,717</td>
<td>-</td>
<td>-</td>
<td>33,008.4</td>
<td>5,023,851</td>
<td>33,229</td>
</tr>
<tr>
<td>2009: 836,118.7</td>
<td>130,383.1</td>
<td>8,008</td>
<td>946</td>
<td>34,366</td>
<td>-</td>
<td>-</td>
<td>32,107.9</td>
<td>4,754,603</td>
<td>32,020</td>
</tr>
<tr>
<td>2010: 912,132.8</td>
<td>128,427.7</td>
<td>7,952</td>
<td>917</td>
<td>339,246</td>
<td>-</td>
<td>-</td>
<td>32,045.6</td>
<td>4,969,916</td>
<td>32,335</td>
</tr>
<tr>
<td>2011: 909,792.1</td>
<td>97,263.6</td>
<td>8,048</td>
<td>895</td>
<td>338,620</td>
<td>-</td>
<td>-</td>
<td>32,183.5</td>
<td>5,000,605</td>
<td>32,529</td>
</tr>
<tr>
<td>2012: 919,823.7</td>
<td>112,406.9</td>
<td>8,153</td>
<td>879</td>
<td>344,353</td>
<td>-</td>
<td>-</td>
<td>32,382.3</td>
<td>5,035,289</td>
<td>32,942</td>
</tr>
<tr>
<td>2013: 934,295.4</td>
<td>115,646.1</td>
<td>8,276</td>
<td>860</td>
<td>347,797</td>
<td>-</td>
<td>-</td>
<td>33,027.7</td>
<td>5,072,452</td>
<td>33,515</td>
</tr>
</tbody>
</table>

### Annual Change

<table>
<thead>
<tr>
<th>Revenue ($m)</th>
<th>Industry Value Added ($m)</th>
<th>Establishments</th>
<th>Enterprises</th>
<th>Employment</th>
<th>Exports</th>
<th>Imports</th>
<th>Wages ($m)</th>
<th>Total Assets ($m)</th>
<th>Per Capita Disposable Income ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005: -0.4</td>
<td>-20.0</td>
<td>-2.0</td>
<td>-5.1</td>
<td>-4.4</td>
<td>N/A</td>
<td>N/A</td>
<td>0.9</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>2006: 9.9</td>
<td>-22.0</td>
<td>-4.0</td>
<td>-4.2</td>
<td>-0.5</td>
<td>N/A</td>
<td>N/A</td>
<td>-2.2</td>
<td>4.3</td>
<td>3.1</td>
</tr>
<tr>
<td>2007: 4.5</td>
<td>1.6</td>
<td>-0.6</td>
<td>-5.9</td>
<td>1.3</td>
<td>N/A</td>
<td>N/A</td>
<td>1.3</td>
<td>2.6</td>
<td>1.4</td>
</tr>
<tr>
<td>2008: -3.2</td>
<td>-48.0</td>
<td>-0.7</td>
<td>-3.3</td>
<td>-1.2</td>
<td>N/A</td>
<td>N/A</td>
<td>-2.3</td>
<td>-10.7</td>
<td>1.5</td>
</tr>
<tr>
<td>2009: -17.8</td>
<td>104.2</td>
<td>-2.7</td>
<td>-3.1</td>
<td>-3.2</td>
<td>N/A</td>
<td>N/A</td>
<td>-2.7</td>
<td>-5.4</td>
<td>-3.6</td>
</tr>
<tr>
<td>2010: 9.1</td>
<td>-1.5</td>
<td>-0.7</td>
<td>-3.1</td>
<td>-1.2</td>
<td>N/A</td>
<td>N/A</td>
<td>-0.2</td>
<td>4.5</td>
<td>1.0</td>
</tr>
<tr>
<td>2011: -0.3</td>
<td>-24.3</td>
<td>1.2</td>
<td>-2.4</td>
<td>0.2</td>
<td>N/A</td>
<td>N/A</td>
<td>0.4</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>2012: 1.1</td>
<td>15.6</td>
<td>1.3</td>
<td>-1.8</td>
<td>1.7</td>
<td>N/A</td>
<td>N/A</td>
<td>0.6</td>
<td>0.7</td>
<td>1.3</td>
</tr>
<tr>
<td>2013: 1.6</td>
<td>2.9</td>
<td>1.5</td>
<td>-2.2</td>
<td>1.0</td>
<td>N/A</td>
<td>N/A</td>
<td>2.0</td>
<td>0.7</td>
<td>1.7</td>
</tr>
<tr>
<td>2014: 3.7</td>
<td>18.3</td>
<td>1.7</td>
<td>-1.4</td>
<td>1.2</td>
<td>N/A</td>
<td>N/A</td>
<td>3.8</td>
<td>1.7</td>
<td>2.1</td>
</tr>
<tr>
<td>2015: 4.1</td>
<td>8.4</td>
<td>1.9</td>
<td>-1.1</td>
<td>1.4</td>
<td>N/A</td>
<td>N/A</td>
<td>3.9</td>
<td>1.7</td>
<td>2.7</td>
</tr>
<tr>
<td>2016: 3.0</td>
<td>7.0</td>
<td>1.5</td>
<td>-1.3</td>
<td>1.0</td>
<td>N/A</td>
<td>N/A</td>
<td>3.3</td>
<td>2.4</td>
<td>1.8</td>
</tr>
<tr>
<td>2017: 2.9</td>
<td>12.2</td>
<td>0.5</td>
<td>-1.0</td>
<td>0.0</td>
<td>N/A</td>
<td>N/A</td>
<td>0.0</td>
<td>1.9</td>
<td>1.8</td>
</tr>
<tr>
<td>2018: 3.4</td>
<td>14.0</td>
<td>0.4</td>
<td>-0.7</td>
<td>0.5</td>
<td>N/A</td>
<td>N/A</td>
<td>0.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
</tbody>
</table>

### Key Ratios

<table>
<thead>
<tr>
<th>IVA/Revenue (%)</th>
<th>Imports/Demand (%)</th>
<th>Exports/Revenue (%)</th>
<th>Revenue per Employee ($1,000)</th>
<th>Wages/Revenue (%)</th>
<th>Employees per Est.</th>
<th>Average Wage ($1,000)</th>
<th>Share of the Economy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004: 15.99</td>
<td>N/A</td>
<td>N/A</td>
<td>2,662.90</td>
<td>3.79</td>
<td>42.02</td>
<td>93,320.42</td>
<td>1.20</td>
</tr>
<tr>
<td>2005: 16.93</td>
<td>N/A</td>
<td>N/A</td>
<td>2,566.64</td>
<td>3.73</td>
<td>41.01</td>
<td>95,774.13</td>
<td>1.23</td>
</tr>
<tr>
<td>2006: 12.02</td>
<td>N/A</td>
<td>N/A</td>
<td>2,836.12</td>
<td>3.32</td>
<td>42.50</td>
<td>94,143.14</td>
<td>0.93</td>
</tr>
<tr>
<td>2007: 11.69</td>
<td>N/A</td>
<td>N/A</td>
<td>2,925.69</td>
<td>3.22</td>
<td>43.31</td>
<td>94,135.23</td>
<td>0.93</td>
</tr>
<tr>
<td>2008: 6.28</td>
<td>N/A</td>
<td>N/A</td>
<td>2,866.14</td>
<td>3.25</td>
<td>43.09</td>
<td>93,055.99</td>
<td>0.49</td>
</tr>
<tr>
<td>2009: 15.59</td>
<td>N/A</td>
<td>N/A</td>
<td>2,435.07</td>
<td>3.84</td>
<td>42.88</td>
<td>93,509.26</td>
<td>1.02</td>
</tr>
<tr>
<td>2010: 14.08</td>
<td>N/A</td>
<td>N/A</td>
<td>2,688.71</td>
<td>3.51</td>
<td>42.66</td>
<td>94,461.52</td>
<td>0.98</td>
</tr>
<tr>
<td>2011: 10.69</td>
<td>N/A</td>
<td>N/A</td>
<td>2,686.76</td>
<td>3.54</td>
<td>42.08</td>
<td>95,043.12</td>
<td>0.73</td>
</tr>
<tr>
<td>2012: 12.22</td>
<td>N/A</td>
<td>N/A</td>
<td>2,671.17</td>
<td>3.52</td>
<td>42.24</td>
<td>94,038.09</td>
<td>0.83</td>
</tr>
<tr>
<td>2013: 12.38</td>
<td>N/A</td>
<td>N/A</td>
<td>2,686.32</td>
<td>3.54</td>
<td>42.02</td>
<td>94,962.58</td>
<td>0.84</td>
</tr>
<tr>
<td>2014: 14.12</td>
<td>N/A</td>
<td>N/A</td>
<td>2,752.69</td>
<td>3.54</td>
<td>41.82</td>
<td>97,431.60</td>
<td>0.97</td>
</tr>
<tr>
<td>2015: 14.69</td>
<td>N/A</td>
<td>N/A</td>
<td>2,825.98</td>
<td>3.53</td>
<td>41.61</td>
<td>99,867.47</td>
<td>1.01</td>
</tr>
<tr>
<td>2016: 15.27</td>
<td>N/A</td>
<td>N/A</td>
<td>2,881.94</td>
<td>3.54</td>
<td>41.40</td>
<td>102,164.41</td>
<td>1.04</td>
</tr>
<tr>
<td>2017: 16.65</td>
<td>N/A</td>
<td>N/A</td>
<td>2,965.52</td>
<td>3.45</td>
<td>41.19</td>
<td>102,164.41</td>
<td>1.13</td>
</tr>
<tr>
<td>2018: 17.13</td>
<td>N/A</td>
<td>N/A</td>
<td>3,038.40</td>
<td>3.63</td>
<td>40.99</td>
<td>104,233.02</td>
<td>1.16</td>
</tr>
</tbody>
</table>

### Economic Rank

<table>
<thead>
<tr>
<th>Year</th>
<th>Economy Rank</th>
<th>Sector Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2/58</td>
<td>5/58</td>
</tr>
<tr>
<td>2008</td>
<td>26/58</td>
<td>39/58</td>
</tr>
<tr>
<td>2009</td>
<td>7/58</td>
<td>N/A</td>
</tr>
<tr>
<td>2010</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2011</td>
<td>10/58</td>
<td>6/13</td>
</tr>
<tr>
<td>2012</td>
<td>45/1195</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Figures are inflation-adjusted 2013 dollars. Rank refers to 2013 data.

SOURCE: WWW.IBISWORLD.COM
Jargon & Glossary

**Industry Jargon**

**FIXED ANNUITY** A type of investment vehicle that guarantees a future stream of fixed payments. Annuities transfer investment risk from the insured to the insurer.

**GENERAL ACCOUNT** A policy that supports guaranteed contractual obligations and future payments that are associated with life insurance policies.

**PERMANENT LIFE INSURANCE** A policy that provides similar coverage as term life insurance but is meant to be held and paid for during the duration of the insured person’s life.

**POLICIES IN FORCE** The total dollar amount of insurance that has been issued by a company, which is generally the sum of the face value or potential payouts of the policy plus dividends.

**SEPARATE ACCOUNTS** A policy that supports liabilities or payments associated with investment risk pass-through products, such as annuities, variable life insurance policies and pension-related products.

**TERM LIFE INSURANCE** A policy that provides life insurance coverage at a fixed rate of payments over a limited period of time, usually one year. After the period, coverage at the previous rate is not guaranteed.

**VARIABLE ANNUITY** A type of annuity that provides future payments to the contract holder, usually at retirement. Payments are dependent on the performance of annuities underlying portfolio of securities.

**VARIABLE UNIVERSAL LIFE INSURANCE** A type of whole life insurance in which benefits payments are determined by the performance of underlying investments chosen by the policyholder.

**WHOLE LIFE INSURANCE** A permanent life insurance policy that remains in force for the insured person’s whole life as long as premium payments remain current or on time.

**IBISWorld Glossary**

**BARRIERS TO ENTRY** High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

**CAPITAL INTENSITY** Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

**CONSTANT PRICES** The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the “real” growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the US Bureau of Economic Analysis’ implicit GDP price deflator.

**DOMESTIC DEMAND** Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

**EMPLOYMENT** The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

**ENTERPRISE** A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

**ESTABLISHMENT** The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

**EXPORTS** Total value of industry goods and services sold by US companies to customers abroad.

**IMPORTS** Total value of industry goods and services brought in from foreign countries to be sold in the United States.

**INDUSTRY CONCENTRATION** An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

**INDUSTRY REVENUE** The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

**INDUSTRY VALUE ADDED (IVA)** The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry’s contribution to GDP, or profit plus wages and depreciation.
INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry’s life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry’s products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.
At IBISWorld we know that industry intelligence is more than assembling facts
It is combining data with analysis to answer the questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions

Who is IBISWorld?
We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 700 US industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

IBISWorld Membership
IBISWorld offers tailored membership packages to meet your needs.