

# Total U.S. Life Industry Benefits Increase, Impacted by the Continuing Increase in Surrender Activity

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Total U.S. Life Industry Benefits Increase, Impacted by the Continuing Increase in Surrender Activity.

Total life, annuity and health benefits paid by the U.S. life insurance industry were \$438.5 billion for 2005, an increase of 6.2% from the \$413 billion in benefits paid in 2004. However, the increase in benefits in 2005 was lower than the increase of 8.1% in 2004. As total industry benefit payments continued to increase in 2005, total premium income for the industry decreased by 2.4% to \$637.1 billion, from \$652.8 billion in 2004.

The top five life writers by total premium income in 2005 showed MetLife reaching the top spot, while AIG slipped to second position. MetLife moved from No. 2 in 2004 to No. 1 in 2005, primarily due to its acquisition of Travelers. AIG fell to the No. 2 ranking in total premium income in 2005 after being No. 1 in 2004 due to its large decline in annuity sales, which resulted in a 19.4% decrease in its total premium income, to \$39 billion in 2005.

Prudential's ranking improved to No. 3 from the fifth position in 2004, largely due to an increase in its group annuity business. Rounding out the top five writers in 2005 were ING in fourth position, with \$30 billion in total premium income and Hartford Life group, which slipped to the fifth position with \$27.0 billion.

The aging of baby boomers, flattening of the yield curve and other attractive investment opportunities led to the moving of insurance assets through total benefits paid in 2005. Products such as certificates of deposit became more attractive and were able to compete with the life insurance companies' interest-sensitive products for investors' dollars due to their ability to provide similar interest crediting rates without carrying such high surrender charges.

Surrender benefits increased significantly in 2005 and were the core contributor to the increase in life industry benefits paid in 2005. Surrender benefits in 2005 were \$228.5 billion, up 16.1% from \$196.8 billion in 2004 -- a figure that represented a 12.4% increase. More than 52.1% of total benefits were due to surrenders in 2005, compared with 47.6% in 2004. Surrender benefits from individual and group annuity products made up the bulk of the industry's total surrender benefits in 2005, accounting for 83.3%.

Annuity benefits for the total industry increased 4.7% to \$61.8 billion from \$59 billion in 2004.

Annuity benefits are expected to continue to increase in the coming years as baby boomers approach retirement age and begin to draw from their savings. Death benefits paid, matured endowments and policyholder dividends accounted for small increases as part of total benefits paid in 2005.

Accident and health benefits recorded a 10.5% decline in 2005 to \$78.8 billion, from \$88 billion in 2004. The large decrease in accident and health benefits was attributed in part to a shift in benefit costs borne by the policyholders, allowing lower benefits paid by health insurers.

This study is available electronically from the A.M. Best Co. Web site at [www.bestweek.com](http://www.bestweek.com). Call customer service for more information, (908) 439-2200, ext. 5742.

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