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Fact Sheet for the Chairman, Subcommittee on Health, and the Chairman, Subcommittee on Select Revenue Measures, Committee on Ways and Means, House of Representatives

September 1988

TAX POLICY

Information on the Stock and Mutual Segments of the Life Insurance Industry

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September 26, 1988

The Honorable Fortney H. (Pete) Stark
Chairman, Subcommittee on Health
Committee on Ways and Means
House of Representatives

The Honorable Charles B. Rangel
Chairman, Subcommittee on Select
Revenue Measures
Committee on Ways and Means
House of Representatives

Your February 11, 1987, letter requested that we provide information for a review of the taxation of life insurance companies being done by the Subcommittee on Select Revenue Measures, House Committee on Ways and Means. More specifically, you asked that we gather data on the taxes paid by, and business trends of, life insurance companies for the years 1984, 1985, and 1986. Also, if the data warranted, you requested an evaluation of the segment balance mechanism, which attempts to maintain an equitable distribution of the life insurance industry tax burden between stock and mutual companies. As agreed with the Subcommittees, we are providing the numerical data you requested in this fact sheet and will provide a separate report to you on the segment balance mechanism upon the completion of our review.

Appendix II contains nine tables that present numerical data on the stock and mutual segments of the life insurance industry with regard to insurance in force, insurance issued, investment yields, assets held, and taxes incurred. The information covers calendar years 1984 through 1986, and it updates information provided in our previous fact sheet (GAO/GGD-86-31FS, Dec. 12, 1985). Our scope and methodology are further discussed in appendix I. Appendix I also discusses why our data differ from those in the Department of the Treasury's June 15, 1988, Interim Report to the Congress on Life Insurance Company Taxation.

During the years covered by this fact sheet, the life insurance companies were taxed under the provisions of the Deficit Reduction Act of 1984. This act eliminated the complex tax structure of the previous law and provided that life insurance companies be taxed at corporate rates on their taxable income. The act also specifically defined taxable income for mutual companies in an attempt to equitably distribute the tax burden between the stock and mutual segments of the life insurance industry.

The data in the tables indicate that the mutual life insurance companies accounted for a higher percentage of total industry assets than the stock life insurance companies, while the stock life insurance companies accounted for a higher percentage of total insurance in force, premium income, and new insurance issued. Some highlights of the data follow.

Total assets:

-- As of December 31, 1986, the mutual insurance companies had 53 percent of the industry's total assets, while the stock companies had 47 percent. (See fig. 1 and tables II.1 and II.2.)

-- The stock companies' assets increased at a greater rate than the mutual companies' assets during the period from 1984 through 1986. (See table II.3.)

Insurance in force:

-- As of December 31, 1986, the mutual companies had 46 percent of the industry's insurance in force, while the stock companies had 54 percent. (See fig. 1 and tables II.1 and II.2.)

-- Both segments increased their insurance in force at the same rate during 1985, but the mutual companies' insurance in force increased at a greater rate than the stock companies' insurance in force during 1986. (See table II.3.)

Premium income:

-- In 1986 the mutual companies had 46 percent of the premium income for the industry, while the stock companies had 54 percent. (See fig. 1 and tables II.1 and II.2.)

-- The mutual companies' premium income increased at a slightly greater rate than the stock companies' premium income during the period from 1984 through 1986. (See table II.3.)

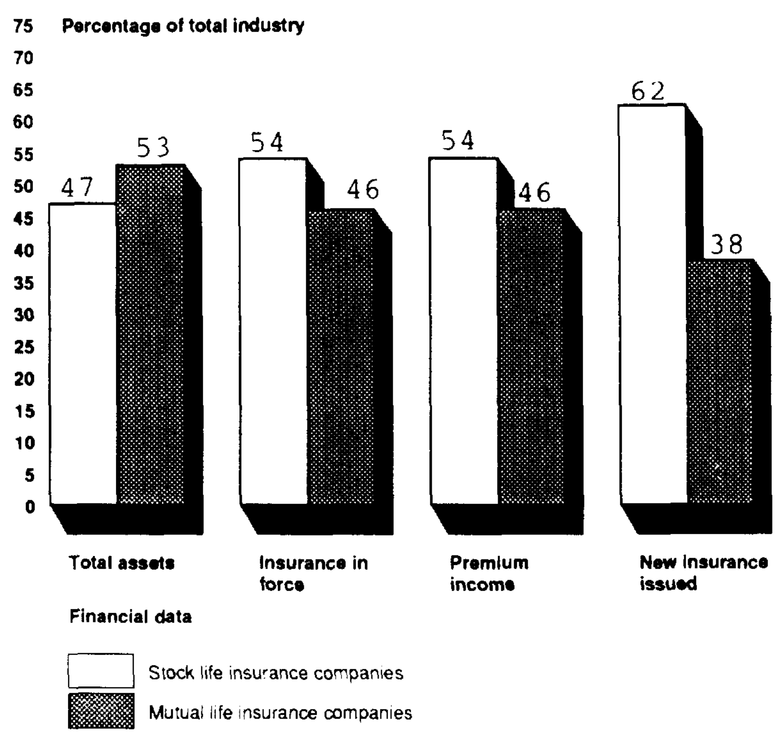
New insurance issued:

-- In 1986 the mutual companies had 38 percent of the new insurance issued by the industry, while the stock companies had 62 percent. (See fig. 1 and tables II.1 and II.2.)

-- The mutual companies' new insurance issued increased at a greater rate than the stock companies' new insurance issued during the period from 1984 through 1986. (See table II.3.)

Figure 1:

Percentage of Assets Held and Insurance in Force as of December 31, 1986, and Premium Income and New Insurance Issued During 1986



Investment yield:

-- For 1986, the mutual companies' net investment yield was 7.67 percent, while the stock companies' net investment yield was 8.63 percent. (See table II.9.)

Federal income taxes:

-- During the period from 1984 through 1986, mutual companies' federal income taxes, including tax on capital gains, increased at a greater rate than that of stock companies. (See table II.3.) For 1986, the mutual companies incurred a total of $2.4 billion in federal income taxes, while the stock companies incurred a total of $2.3 billion. (See table II.1.) The $4.7 billion total in 1986 industry federal income taxes included $3.2 billion in taxes incurred on realized capital gains, a figure significantly higher than the combined 1984 to 1985 tax on realized capital gains of $1.2 billion.

In addition to the tables referred to previously, we have included tables II.4 through II.8. These tables provide additional information on insurance in force, new insurance issued, accident and health insurance net premiums, and assets held.

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As agreed with the Subcommittees, we will make the fact sheet available to other interested parties upon request. If you have any questions regarding this fact sheet, please contact Mr. Natwar Gandhi of my staff on (202) 272-7904.

Jennie S. Stathis

Jennie S. Stathis
Associate Director

C O N T E N T S

FIGURE

SCOPE AND METHODOLOGY

The data used to develop the tables in this fact sheet came entirely from publicly available information contained in Best's Industry Composite of Life-Health Companies (1985 ed.); Best's Aggregates and Averages, Life-Health (1986 and 1987 eds.); and Best's Insurance Reports, Life-Health (1985, 1986, and 1987 eds.) published by the A.M. Best Company. We used Best's data because it is the most comprehensive compilation of life insurance company data readily available. We had also used Best's data in preparing our 1985 fact sheet. The 1987 edition of Best's Aggregates and Averages, Life-Health contained data for 1,365 stock companies and 121 mutual companies.

We adjusted Best's industry segment totals by including the stock subsidiaries of mutual companies with the mutual segment. This conforms with Internal Revenue Code Section 809, which requires that stock companies owned by mutual companies be treated as mutual companies in determining stock earnings rates and mutual earnings rates. In formulating our methodology, we considered the views of officials from the Department of the Treasury and the stock and mutual segments of the life insurance industry.

On June 15, 1988, Treasury issued an Interim Report to the Congress on Life Insurance Company Taxation. The report contained tax return and financial statement measures of the tax liabilities of mutual and stock companies for 1984 and 1985, including figures derived from Best's publications. It pointed out that measures of tax liabilities of the life insurance industry vary depending on the source of the information because of differences in the definition of companies in the industry and differences in income and tax measurement concepts. However, the report contained no data for 1986, a year we were specifically asked to include in our fact sheet.

Much of the Treasury tax return information measuring tax liabilities came from a Treasury study of sampled companies that asked for data on taxes actually paid for 1984 and 1985. According to the Treasury study, the industry's tax liabilities for 1984 and 1985 were $2.8 billion and $3.6 billion, respectively, not considering tax consolidations. This resulted in a stock/mutual tax split of 62/38 percent for 1984 and 59/41 percent for 1985. Our corresponding numbers as shown in table II.2 are 56/44 percent for 1984 and 51/49 percent for 1985.

Table II.1 shows our determination that the industry's tax liabilities for 1984, 1985, and 1986 were $2.8 billion, $4.1 billion, and $4.7 billion, respectively, not considering tax consolidations. Because Treasury actually surveyed companies to obtain tax return data, it was also able to provide a measure of taxes considering the effects of tax consolidation between life insurance companies and nonlife insurance parent or subsidiary companies.

Our use of data differed from Treasury's in two respects. The 1984 and 1985 data in our fact sheet differ from Treasury's reporting of Best's figures because of the previously described adjustment we made to include stock subsidiaries of mutual companies with the mutual segment. In addition, we did not adjust for tax consolidations in any of our analyses because all the necessary data were not readily available to us at the time we did our work.

TABLES

Table II.1:

Life Insurance Industry Financial Profile, Calendar Year 1986 (dollars in billions)

Type	Total industry Amount	Total industry Percent	Stock companies Amount	Stock companies Percent	Mutual companies Amount	Mutual companies Percent
Total assets	$ 942	100	$ 445	47	$ 497	53
Capital and surplus	65	100	42	65	23	35
Premium income	194	100	106	54	88	46
Investment income	69	100	34	49	35	51
Insurance in force	8,047	100	4,365	54	3,683	46
New insurance issued	1,435	100	892	62	543	38
Net gain from operations before taxes and policy-holder dividends	20.6	100	9.9	48	10.6	52
Policyholder dividends	12.4	100	3.2	26	9.3	74
Net gain from operations before taxes	8.1	100	6.8	83	1.4	17
Capital gain realized	10.6	100	4.3	40	6.3	60
Gain before taxes	18.7	100	11.0	59	7.7	41
Federal income taxes[a]	4.7	100	2.3	49	2.4	51
Net gain after taxes	14.1	100	8.7	62	5.3	38

[a]Includes federal income tax on capital gains. Federal income taxes incurred for 1984 and 1985 were $2.8 billion and $4.1 billion, respectively, not considering tax consolidations.

Note: In some cases, because of rounding, the sum of individual items may not equal the total.

Table II.2:

Selected Financial Data as a Percentage of Total Life Insurance Industry Activity, Calendar Years 1984 Through 1986

	Stock companies			Mutual companies		
	1986	1985	1984	1986	1985	1984
Total assets	47	45	45	53	55	55
Capital and surplus	65	63	61	35	37	39
Premium income	54	55	55	46	45	45
Investment income	49	47	47	51	53	53
Insurance in force	54	55	55	46	45	45
New insurance issued	62	63	64	38	37	36
Net gain from operations before taxes and policyholder dividends	48	47	43	52	53	57
Policyholder dividends	26	23	21	74	77	79
Net gain from operations before taxes	83	77	68	17	23	32
Capital gain realized	40	48	a	60	52	a
Gain before taxes	59	69	70	41	31	30
Federal income taxes[b]	49	51	56	51	49	44
Net gain after taxes	62	76	76	38	24	24

[a]Not meaningful.

[b]Includes federal income tax on capital gains.

Table II.3:

Annual Percentage Change in Selected Financial Categories Comparing Calendar Years 1984, 1985, and 1986

	Annual change from 1985 to 1986		Annual change from 1984 to 1985	
	Stock companies	Mutual companies	Stock companies	Mutual companies
Total assets	18	9	15	13
Capital and surplus	17	9	16	7
Premium income	23	26	15	16
Investment income	14	6	16	14
Insurance in force	10	15	10	10
New insurance issued	2	7	9	14
Net gain from operations before taxes and policyholder dividends	-7	-11	20	a
Policyholder dividends	11	-3	17	6
Net gain from operations before taxes	-14	-43	21	-20
Gain before taxes	12	71	51	61
Federal income taxes[b]	10	16	36	68
Net gain after taxes	13	117	55	55

[a]Less than .5 percent.

[b]Includes federal income tax on capital gains.

Table II.4:

Insurance in Force and New Insurance Issued by Type as a Percentage of Total Segment Activity, Calendar Years 1984 Through 1986

	Stock companies			Mutual companies		
	1986	1985	1984	1986	1985	1984
Insurance in force						
Whole life and endowment	32	34	32	31	32	31
Term	31	30	29	18	18	18
Credit	5	5	5	2	2	2
Group	27	27	28	43	42	43
Federal employees' group life insurance and servicemen's group life insurance	4	4	5	5	5	5
Industrial	a	1	1	a	a	a
Total insurance in force	100	100	100	100	100	100
New insurance issued						
Whole life and endowment	38	40	41	39	42	40
Term	29	27	26	26	25	28
Credit	14	15	14	2	2	2
Group	19	18	19	33	31	30
Industrial	a	a	a	a	a	a
Total new insurance issued	100	100	100	100	100	100

[a]Less than .5 percent.

Note: In some cases, because of rounding, the sum of individual items may not equal the total.

Table II.5:

Insurance in Force and New Insurance Issued by Type as a Percentage of Total Industry Activity, Calendar Years 1984 Through 1986

	Stock companies			Mutual companies		
	1986	1985	1984	1986	1985	1984
Insurance in force						
Whole life and endowment	55	56	56	45	44	44
Term	67	67	66	33	33	34
Credit	76	75	75	24	25	25
Group	42	45	45	58	55	55
Federal employees' group life insurance and servicemen's group life insurance	49	50	53	51	50	47
Industrial	64	65	67	36	35	33
Total insurance in force	54	55	55	46	45	45
New insurance issued						
Whole life and endowment	61	62	65	39	38	35
Term	65	65	62	35	35	38
Credit	92	92	92	8	8	8
Group	49	50	54	51	50	46
Industrial	91	87	86	9	13	14
Total new insurance issued	62	63	64	38	37	36

Table II.6:

Accident and Health Insurance Net Premiums by Type and as a Percentage of Total Industry Activity, Calendar Year 1986
(dollars in billions)

Type	Total industry Amount	Total industry Percent	Stock companies Amount	Stock companies Percent	Mutual companies Amount	Mutual companies Percent
Group	$33.2	100	$19.3	58	$13.9	42
Credit	1.7	100	1.3	80	0.3	20
Noncancelable	2.2	100	1.5	68	0.7	32
Guaranteed renewable	5.2	100	4.4	84	0.8	16
All other	3.0	100	1.9	62	1.1	38
Total	$45.3	100	$28.3	63	$16.9	37

Note: In some cases, because of rounding, the sum of individual items may not equal the total.

Table II.7:

Assets by Type and as a Percentage of Total Assets, Calendar Year 1986 (dollars in billions)

Asset type	Total industry Amount	Total industry Percent	Stock companies Amount	Stock companies Percent	Mutual companies Amount	Mutual companies Percent
Bonds	$419.1	45	$212.5	48	$206.7	42
Preferred stock	9.1	1	5.9	1	3.3	1
Common stock	39.6	4	20.2	5	19.4	4
Mortgage loans	188.3	20	87.0	20	101.3	20
Real estate	22.6	2	5.9	1	16.7	3
Policy loans	54.9	6	14.4	3	40.5	8
Other	208.1	22	99.1	22	109.0	22
Total assets	$941.7	100	$444.9	100	$496.8	100

Note: In some cases, because of rounding, the sum of individual items may not equal the total.

Table II.8:

Assets by Type as a
Percentage of Total Industry Assets,
Calendar Years 1984 Through 1986

Asset type	Stock companies 1986	1985	1984	Mutual companies 1986	1985	1984
Bonds	51	49	48	49	51	52
Preferred stock	64	64	64	36	36	36
Common stock	51	51	53	49	49	47
Mortgage loans	46	44	43	54	56	57
Real estate	26	24	26	74	76	74
Policy loans	26	26	26	74	74	74
Other	48	45	48	52	55	52
Total assets	47	45	45	53	55	55

Table II.9:

Investment Yields,
Calendar Years 1984 Through 1986
(percent)

Year	Industry total	Stock companies	Mutual companies
1986 investment yield	8.11	8.63	7.67
1985 investment yield	8.37	8.79	8.03
1984 investment yield	8.20	8.65	7.85

Note: The investment yields were computed on "total admitted assets" rather than "invested assets." "Total admitted assets" are the insurer's assets permitted by a state to be taken into account in determining its financial condition. "Invested assets" are the admitted assets that are invested in items such as stocks, bonds, real estate, mortgage loans, and policy loans.

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