ALIRT INSURANCE RESEARCH, LLC

Independent Analysis of Insurance Company Risk Trends

200 Day Hill Road, Ste. 220, Windsor, CT 06095 • Phone: (860) 683-2070

2008 Finally Over, but Difficulties/Challenges Carry into 2009

(Twelve Month 2008 Life Insurance Industry Review – March 19, 2009)

While history books will someday memorialize the financial crisis of 2008, it is at present a year that most financial professionals would rather forget. The ALIRT Life Industry Composite ALIRT Score fell to at least a 15 year low in large part due to the following major financial events, whose repercussions will remain with us for some time:

- Rapid deterioration in housing markets and increased defaults on residential mortgages, starting/especially with subprime and later Alt-A loans.
- Recessionary conditions in the U.S. economy beginning in late 2007.
- Bear Stearns forced sale to J.P. Morgan in March.
- AIG raised $20 billion of public equity in May/June.

And then came September . . .

- Fannie Mae and Freddie Mac conservation and Lehman Brothers failure.
- AIG holding company liquidity crisis, resulting in multiple occasions of financial support provided by the Federal Reserve Bank of New York and the U.S. Treasury.
- Upheaval in money market funds, commercial paper markets, and virtually all sectors of corporate debt as credit spreads widened dramatically. Commercial mortgage-backed securities, non-agency backed prime and jumbo mortgage-backed securities, and debt issued by financial institutions all were especially impacted.
- Unprecedented decline in equity markets, culminating in an ugly 4th quarter (indices down 20% plus), making 2008 a historic bear market year. The 4th quarter also included a dramatic decline in the share price for most all publicly-traded life insurers, before some recovery in late November/December. However, stock markets moved lower once again early in 2009, and insurer stock prices showed continued high levels of volatility.
- Rating downgrades of life insurers began in October and reached a crescendo in February/March, as virtually all insurers suffered negative ratings agency actions as they reported 4th quarter 2008 financial results.
- TARP program in U.S. for banks, similar programs in foreign countries (with AEGON and ING among the beneficiaries of a Dutch state initiative).
- U.S. Treasury planned to purchase mortgage-backed and asset-backed debt in an effort to "unclog" the still extremely tight credit markets, though inception has been delayed.

While not immune to this financial market turmoil, in general the life insurance industry was and remains better positioned than other parts of the financial services industry. This is due, in large part, to its stable and generally longer-term liability base, lower asset leverage compared to commercial or investment banks, strong renewal premium cash flows, and the legal structure of insurers and annuity writers as legally separate entities from parent companies.

That said, significant challenges do remain for all life insurers, with the degree varying by specific insurers.

Executive Summary: ALIRT Life Composite Results

Below we provide our overview of the life insurance industry financial results in 2008, as measured by the ALIRT Life Composite (comprised of the 100 largest U.S. life insurers).

- Total surplus fell 10.9% ($31 billion) in 2008, driven by large net capital losses of $73 billion (of which $47 billion was realized). Though a large percentage of the industry net capital losses were incurred by the AIG life insurers (described later in this report), ***net capital losses for 2008 excluding the AIG insurers exceeded aggregate composite capital losses in the 2000-2002 bear equity market.***

- The ALIRT Life Composite ***incurred statutory operating losses*** (both before and after taxes) in 2008, the first time that has happened in at least 20 years. Large operating losses for most of the major variable annuity writers in the 4th quarter offset earnings reported by the composite through 9/30/08. Reflecting the turmoil in equity markets, separate account assets fell 28% in 2008, including a 14% drop in the 4th quarter alone.

- The pure capital ratio fell to 9.8% at year end 2008, the lowest level since March 2003, though still reasonable by historical standards. However, a number of insurers received "relief" from state insurance departments in reserving and/or accounting practices. ***In our view, these "permitted practices" reduce the quality of the affected insurers' capitalization metrics and ALIRT/CPM Scores relative to their previous levels and in comparison to other insurers***. Without these measures, total surplus and capitalization metrics would have been lower for the life industry at 12/31/08, and materially lower for some companies.

- Credit spreads for a large range of bonds widened dramatically in 2008 as the market pricing of risk rose sharply. This led to a large decline in the market value of bonds, which reduced GAAP shareholders' equity. Statutory accounting does not require most bonds to be carried at market values, which limits the immediate impact from this deterioration, but investment impairments did occur in 2008 and more are expected in 2009 as the 15-month long recession shows little sign of ending soon.

- Lost investment income from problem fixed income investments, increases (some substantial) in cash for some insurers, and the low interest rate environment continued to pressure net investment yield, which fell to 5.56% in 2008, while the large net capital losses further depressed net total investment return (2.63% on a statutory basis for 2008).

- Premiums grew in 2008, but at a slower rate than 2007, and in the individual annuity line, a considerable shift toward fixed products and away from variable products occurred. Going forward, industry premium may be pressured by the weak economy (limiting "discretionary" funds for individuals and corporations), the financial market turmoil, and recent rating downgrades for a multitude of insurers.

Review of AIG Life Insurers

The nine AIG U.S. life insurers that are part of the ALIRT Life Industry Composite contributed significantly to the volatility observed in total surplus, net capital losses, and capital infusions for the composite in 2008. The nine companies incurred aggregate net capital losses of $34 billion and received capital infusions of $29 billion, which comprised 46% and 59%, of the respective totals for the ALIRT Life Composite. This was due to the AIG companies' securities lending operations. In these transactions, the AIG life insurers received cash collateral from borrowers (usually other financial institutions), in an amount in excess of the fair value of the securities lent. The AIG companies earned a return, in part, by investing the cash collateral at rates higher than the negotiated rate repaid to the borrower. The collateral was held in a custodial account for the insurers and was not available for the general use of the company.

Typically, insurers will invest this collateral in highly liquid, short-term assets that are unlikely to decline materially in value. Unfortunately, AIG invested much of the cash collateral received from the borrowers in residential mortgage-backed securities (which until recent times were considered highly liquid assets), some of which included subprime and/or Alt-A loan collateral. The market value of these securities deteriorated throughout 2008 and led to sizeable capital losses.

The AIG life insurers had "make whole" agreements whereby the parent agreed to cover any losses incurred, and AIG did infuse funds into the companies in the first half of 2008. Since mid-September the AIG group received support from the Federal Reserve Bank of New York (FRBNY) and the U.S. Treasury, which included direct loans to AIG, and the creation of a $38 billion securities lending facility for AIG to use in unwinding these operations, and later a new financing entity to which AIG transferred residential mortgage-backed securities from its U.S. securities lending collateral portfolio. AIG made a $1 billion subordinated loan to this latter entity, while the FRBNY will loan up to $22.5 billion to the entity.

The table below shows total surplus and the pure capital ratio for the AIG composite insurers for 2007 and 2008, as well as net capital losses and capital infusions for 2008. The unwinding of the life insurers' securities lending activities resulted in significant capital losses as the collateral associated with these transactions (residential mortgage-backed securities) were either transferred from the U.S. life insurers to the FRBNY facility or sold. Though the losses were offset somewhat by capital infusions, aggregate surplus was still markedly lower for many of the AIG insurers (though the pure capital ratios were still generally reasonable as of 12/31/08).

Review of AIG Life Insurers Surplus Development: 2008

Data in $ Millions	Total Surplus			Pure Capital Ratio			Capital Infusions	Net Cap. Gn/Loss
	2007	2008	% Chng	2007	2008	% Chng		
AIG Annuity Ins. Co.	4,878	3,242	-34%	9.9%	7.3%	-2.6%	7,643	-9,463
AIG Life Ins. Co.	565	465	-18%	7.5%	6.5%	-1.0%	915	-1,086
AIG SunAmerica Life	1,222	1,317	+8%	25.9%	26.0%	+0.1%	286	370
American Gen'l Life & Acc.	667	593	-11%	7.6%	6.8%	-0.8%	793	-1,140
American Gen'l Life, TX	6,025	5,666	-6%	18.9%	16.7%	-2.2%	8,565	-9,382
American Int'l Life, NY	679	458	-32%	10.0%	7.4%	-2.6%	952	-1,019
First SunAmerica Life	509	550	+8%	9.1%	8.2%	-0.9%	1,212	-1,041
SunAmerica Life Ins. Co.	5,917	4,760	-20%	15.3%	19.9%	+4.6%	3,789	-5,272
Variable Annuity Life	3,649	2,940	-19%	10.8%	8.8%	-2.0%	4,576	-5,552

I. CAPITAL AND SURPLUS

Total surplus declined 10.9% in 2008 for the ALIRT Life Composite, by far the largest decline since ALIRT began compiling these statistics. The lower surplus resulted primarily from large net capital losses of $73 billion, which dwarfed the previous high of $18 billion reported in 2002. This would have remained the case even excluding the $34 billion in net capital losses incurred by the AIG life insurers. Also, the ALIRT Life Composite incurred ***net operating losses*** in 2008, a dramatic reversal from operating earnings of $14 billion reported for the first nine months of 2008, and the first year in at least the last 20 that the life insurance industry incurred an operating loss.

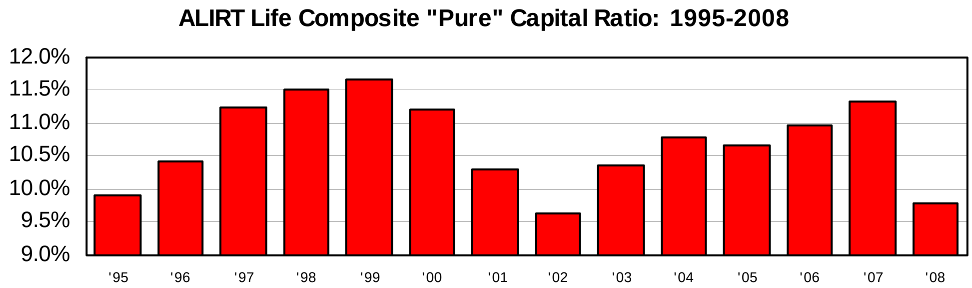
The operating losses, especially acute in the 4th quarter, were driven heavily by companies with a large mix of variable annuity business, the result of higher required general account reserves to cover "in the money" guaranteed minimum living and death benefits, as well as lower account management fees. As stock markets are lower once again thus far in 2009, in spite of a considerable recovery in mid-March, earnings for some companies may be negatively impacted when first quarter statutory statements are compiled this spring.

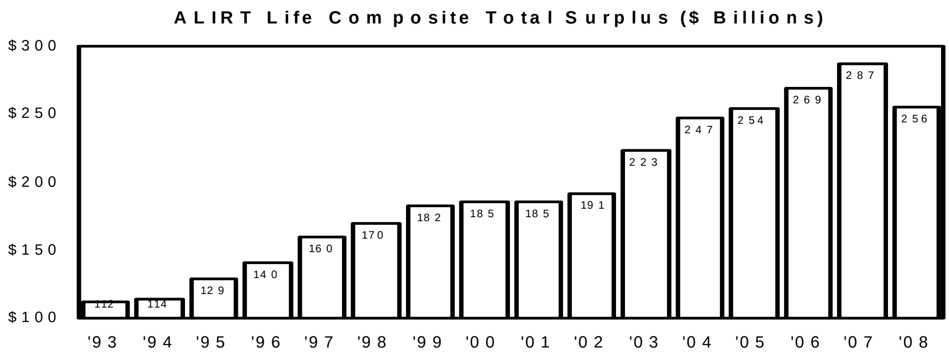
Despite the large operating losses in the fourth quarter and continued net capital losses, surplus fell "only" modestly in the quarter, compared to declines of 3.0%, 1.4%, and 6.5%, respectively, in the first three quarters of 2008. Offsetting the operating and capital losses in the fourth quarter were capital infusions of $23 billion while the composite insurers' surplus also benefited from $3.2 billion of reinsurance-related adjustments in the fourth quarter, and $10.1 billion in "all other changes". These all other changes included some relief/forbearance from state insurance departments as regards reserving and other accounting methodologies, which are detailed later in this report.

Surplus Development: ALIRT Life Composite

Data in $ Millions	2008					2007
	Full Year	4Q	3Q	2Q	1Q	
Surplus Begin. of Period	287,133	256,739	274,574	278,568	287,133	269,444
Operating Earnings	(1,441)	(15,492)	2,321	7,488	4,242	29,112
Net Capital Gains/(Losses)	(73,162)	(18,149)	(34,008)	(11,550)	(9,455)	1,766
Surplus Paid-In	48,781	22,616	17,720	8,379	66	2,770
Shareholder Dividends	(16,978)	(3,312)	(4,740)	(6,125)	(2,801)	(21,763)
Changes from Reinsur.	3,573	3,155	(103)	633	(112)	3,119
All Other Changes	7,796	10,145	975	(2,819)	(505)	2,685
Surplus End of Period	255,702	255,702	256,739	274,574	278,568	287,133
Change in Surplus	-10.9%	-0.4%	-6.5%	-1.4%	-3.0%	6.6%

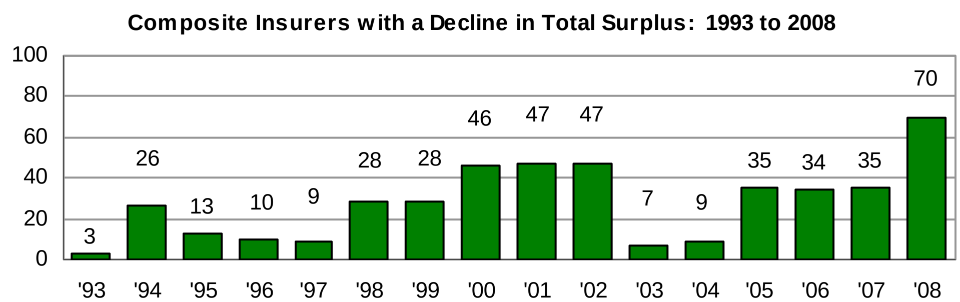
The graphs on the following page show aggregate surplus and the pure capital ratio for the ALIRT Life Composite pure capital ratio over the last several years. The industry pure capital ratio of 9.8% at 12/31/08 is down sharply from 11.3% at 12/31/07, and is now at the lowest level since the first quarter 2003. In light of the continued deterioration in equity markets and credit market volatility in the first quarter 2009, this ratio may move lower again by 3/31/09. However, industry capitalization levels are still above those observed in the late 1980's and early 1990's.





Surplus Declines for Individual Companies

Seventy of the ALIRT Life Composite insurers reported a decline in surplus in 2008, down from 83 through nine months 2008, but still by far the largest number of insurers with declining surplus in at least the last 16 years. Widespread net capital losses (incurred by 89 of the 100 composite insurers), statutory operating losses (or at least reduced earnings), lower investment income and yield, and relatively high levels of shareholder dividends paid to parent companies were all factors in the reductions in surplus.



Surplus fell at least 10% for 44 of the composite insurers in 2008, and at least 20% for 16 companies, which are shown in the table on the following page (excluding AIG insurers AIG Annuity & American Int'l Life of NY). Nationwide Life & Annuity incurred the largest percentage decline in surplus, as large net capital losses were not replenished with capital infusions. Variable annuity writers AXA Equitable Life and ING USA Annuity & Life incurred large operating losses which reduced surplus, while surplus fell for General American due to the full spin-off of Reinsurance Group of America, while Great-West Life & Annuity sold its health insurance business to CIGNA. Security Benefit Life (no longer included in the ALIRT Life Composite) incurred a 48% decline in surplus in 2008, largely the result of writedowns on its subprime-related CDO securities.

14 Companies with Largest 2008 % Decline in Surplus							
Company	Surplus 12/31/07	After-tax Operating Earnings (Losses)	Net Capital Gains (Losses)	Shareholder Dividends & Negative Surp. Pd-In	Other	**Surplus 12/31/08**	***% Change in Surplus 2008***
Nationwide Life & Ann.	203	(13)	(72)	0	(28)	**91**	**-55.3%**
AXA Equitable Life	7,850	(2,764)	(1,314)	(3)	(167)	**3,603**	**-54.1%**
General American Life	2,300	60	65	(1,318)	37	**1,144**	**-50.3%**
MONY Life Ins. Co., NY	1,104	76	(312)	(95)	(194)	**579**	**-47.5%**
Great West Life & Ann.	1,959	300	(61)	(1,767)	658	**1,090**	**-44.4%**
John Hancock Life, MA	5,929	(179)	(343)	(960)	(647)	**3,801**	**-35.9%**
ING USA Annuity & Life	2,730	(642)	(388)	(65)	306	**1,942**	**-28.9%**
Union Central Life	368	(22)	(184)	75	35	**272**	**-26.1%**
American National Ins. Co.	2,599	11	(556)	(74)	(55)	**1,925**	**-25.9%**
Union Security Ins. Co.	488	123	(137)	(85)	(19)	**371**	**-24.1%**
Paul Revere Life	568	106	(51)	(40)	(148)	**436**	**-23.2%**
Pruco Life, Arizona	831	(522)	(57)	360	33	**645**	**-22.4%**
Farmers New World	720	107	(155)	(90)	(9)	**573**	**-20.4%**
Metropolitan Tower Life	1,199	81	(59)	(277)	13	**956**	**-20.2%**

Operating Losses

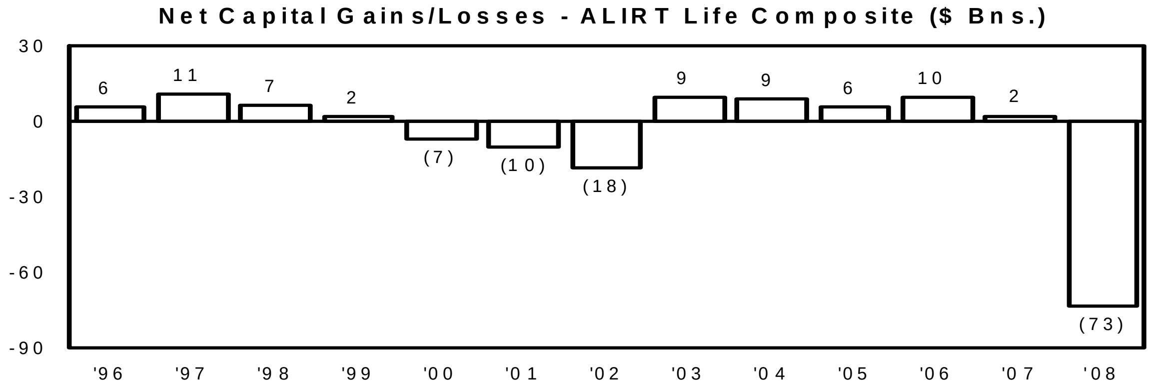
As mentioned above, the ALIRT Life Composite incurred after-tax operating losses of $1.4 billion in 2008, a dramatic reversal from at least 18 years of operating earnings reported from 1990-2007. The losses were entirely concentrated in the fourth quarter, as the composite reported earnings of $14 billion through 9/30/08, and the losses were heavily influenced by the large variable annuity writers (as exhibited in the table below), as the S&P 500 index fell 22% in the 4th quarter. Strain from increased fixed annuity sales may also have depressed earnings for some insurers in 2008.

12 Composite Insurers with Largest Operating Losses: 2008					
Data in $ Millions Company	After-tax Operating Losses 2008	Total Surplus 12/31/08	Net Capital Gains/ (Losses)	Net Capital Infusions 2008	% Assets in Sep. Acct.: 2008
Hartford Life & Ann.	(2,994)	2,184	1,661	53	77%
AXA Equitable Life	(2,764)	3,603	(1,314)	(3)	61%
Hartford Life Ins. Co.	(2,174)	4,174	(534)	1,727	70%
John Hancock Life USA	(1,877)	2,634	(358)	477	70%
Pacific Life Ins. Co.	(1,243)	3,623	504	(345)	49%
Riversource Life, MN	(1,186)	2,786	718	(452)	59%
Allstate Life, IL**	(1,179)	3,447	(1,541)	1,350	21%
Transamerica Life Ins. Co.	(924)	6,585	(43)	177	26%
Sun Life of Canada US	(737)	1,391	(642)	1,349	60%
Nationwide Life Ins. Co.	(700)	2,606	198	73	61%
ING USA Annuity & Life	(642)	1,942	(388)	(65)	60%
AIG SunAmerica Life	(609)	1,317	370	286	79%

** Operating losses for Allstate Life in 2008 resulted in large part from accounting surrounding market value adjusted fixed annuities. The Illinois Insurance Department granted regulatory relief for Allstate Life in 2008, resulting in a $1.2 billion positive impact to surplus.

Capital Losses

Net capital losses had already reached a record $55 billion through the first nine months of 2008, and widened further to $73 billion for the full year, which greatly exceed annual capital losses for any of the last 13 years, including the bear market years of 2000-2002 (as shown below).

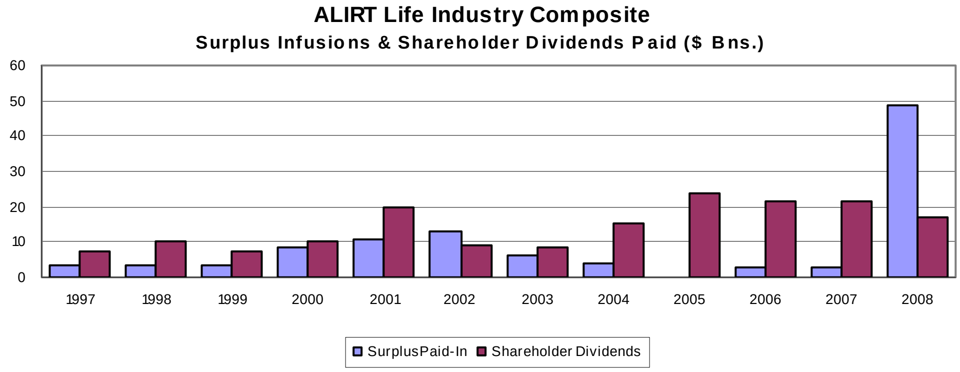


The capital losses resulted from the weaker equity markets, reduced surplus in life insurance subsidiary investments, investment writedowns, and to some extent reductions in the market value of certain investments. Eighty-nine percent of the ALIRT Life Composite carriers incurred net capital losses in 2008, and the table below shows the 14 companies (once again excluding AIG insurers) with the largest net capital losses in 2008. Most of these insurers reported a sharp decline in surplus for the year, though capital infusions, statutory earnings, and other items (including state insurance department "permitted practices") fully offset capital losses for Hartford Life & Accident, Allstate Life, MetLife Insurance Company of CT, and Principal Life.

Net Capital Losses: 2008						
	Net Capital Losses			$ Millions		
Company	$ Mns.	As % of Invested Assets	As % of 12/31/07 Surplus	Statutory Earnings	Capital Paid-In/ (Paid-Out)	% Change in Surplus
Teachers Ins. & Annuity	6,942	-3.9%	-30%	1,107	0	-19%
Northwestern Mutual Life	4,614	-3.4%	-28%	1,123	0	-17%
Hartford Life & Accident	2,907	-21.3%	-49%	604	2,274	+3%
New York Life Ins. Co.	2,693	-2.7%	-19%	409	0	-13%
Prudential Ins. Co. of Amer.	2,507	-1.7%	-24%	438	1,042	-16%
Allstate Life, IL	1,541	-3.0%	-48%	(1,179)	1,350	+8%
Allianz Life of N. America	1,372	-2.6%	-50%	255	580	-19%
AXA Equitable Life	1,314	-3.3%	-17%	(2,764)	(3)	-54%
Jackson National Life, MI	1,313	-2.8%	-28%	(323)	(313)	-14%
Mass. Mutual Life	1,082	-1.3%	-11%	277	0	-7%
Lincoln National Life	1,064	-1.7%	-18%	503	(400)	-16%
MetLife Ins. Co. of CT	938	-2.0%	-18%	720	(500)	+16%
OM Financial Life, MD	915	-5.6%	-103%	318	355	-10%
Principal Life Ins. Co.	730	-1.2%	-16%	692	(10)	+12%

Capital Infusions and Shareholder Dividends

The ALIRT Life Composite received aggregate capital infusions of $48.8 billion in 2008, which was over six times the ***aggregate*** capital infusions of $7.3 billion received from 2004 to 2007. The table below highlights a precedent for increased capital flows into insurers in times of market stress (i.e. 2000-2002), and that has certainly been the case so far in 2008. However, the turbulent capital markets make it difficult at the present time for any insurer or other financial institution to raise public debt or equity at economically advantageous terms.



Composite capital infusions were heavily influenced by the nine AIG life insurers, which received a total $28.7 billion of contributions (59% of the total). Of the remaining $20 billion, large amounts were received by Hartford Life & Accident ($2.5 billion, to offset losses in variable annuity dominant subsidiaries Hartford Life Ins. Co. and Hartford Life & Annuity), Prudential Ins. of America ($2.0 billion), Hartford Life Ins. Co. ($1.9 billion) Connecticut General Life ($1.4 billion, offset by adjustments relating to the acquisition of Great-West's health business), Allstate Life ($1.4 billion), Sun Life of Canada US ($1.3 billion), New York Life & Annuity ($1.2 billion), and MetLife Investors USA Ins. Co. ($1.0 billion).

Shareholder dividends of $17 billion in 2008 remained relatively high by historical standards[1]. Companies paying the largest shareholder dividends in 2008 were United Healthcare Ins. Co. ($2.2 billion), Great-West Life & Annuity ($1.8 billion, sold its group health business to CIGNA in 2008), MetLife companies General American Life and Metropolitan Life (each $1.3 billion), American Family Life of GA ($1.1 billion), and John Hancock Life Ins. Co. ($1.0 billion).

Other Significant Items Affecting Surplus

The ALIRT Life Composite reported $3.6 billion in positive adjustments to surplus from reinsurance transactions in 2008, the vast majority of which ($3.2 billion) occurred in the fourth quarter, likely in part the result of companies' efforts to improve risk-based capital ratios at the end of 2008. For the year, the largest reinsurance-related adjustments to surplus were reported by John Hancock Life USA ($1.5 billion), Transamerica Life ($963 million), Great-West Life & Annuity ($545 million, related to the sale of its group healthcare business to CIGNA in April 2008), Jackson National Life ($387 million), ING USA Annuity & Life ($244 million), Lincoln National Life ($156 million), and Sun Life of Canada US ($118 million).

These companies (with the exception of Great-West) all have a sizeable exposure to variable annuity business, and some companies may have chosen reinsurance (often intercompany) as a partial solution toward addressing the higher reserve requirements that resulted from the equity market downturn.

[1] Unfortunately, some of the parent companies which used dividend proceeds to buy back shares or pay stockholder dividends now find themselves in a position where they may need to raise capital to offset capital or operating losses at a time when raising public debt or equity capital is very difficult and/or expensive.

The table below shows those companies with the largest positive “all other changes” to surplus in 2008. A number of these adjustments were driven by accounting allowances permitted by state insurance departments after requests by insurers for capital relief.[2]

14 Companies with Large Positive “All Other Changes” to Surplus: 2008			
Company	$ Mns.	% of 2008 Surplus	Dominant Reasons
Allstate Life	1,689	49%	Permitted Practices
MetLife Ins. Co. of CT	1,587	26%	Surplus Notes, Permitted Practices, Change Non-Admitted Assets
Teachers Ins. & Annuity	1,557	8%	Tax Settlement
Jackson National Life	929	23%	Permitted Practices
Hartford Life & Annuity	810	37%	Permitted Practices
Riversource Life, MN	620	22%	Change in Deferred Income Taxes
John Hancock Life USA	618	23%	Surplus Notes
Northwestern Mutual	611	4%	Permitted Practices
Pacific Life	586	16%	Permitted Practices
Principal Life	529	11%	Permitted Practices
New York Life	340	3%	Change in New York Ins. Rules
American General Life	306	5%	Miscellaneous Adjustments
Protective Life	255	13%	Reserve Releases
Hartford Life Ins. Co.	254	6%	Permitted Practices

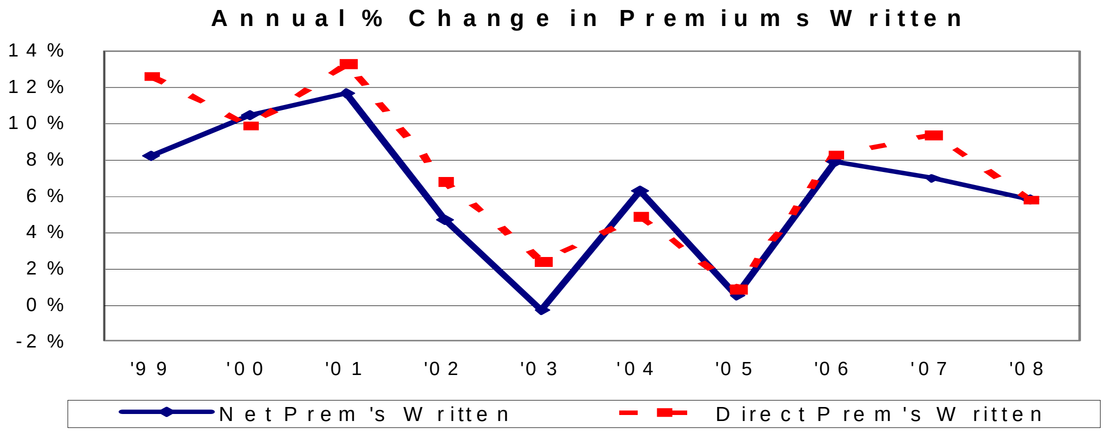
Other composite companies receiving material boosts in surplus from “Permitted Practices” in 2008 included Aviva insurers American Investors Life and Aviva Life & Annuity, Bankers Life & Casualty, Equitrust Life, Sammons insurers Midland National Life and North American Company for Life & Health, and Transamerica Life. Also, MetLife received $1.8 billion of benefit to shareholders’ equity from changes in New York State Insurance Department reserve requirements for variable annuities (making the NY regulations similar to those in other states).

The “relief” granted to some insurers makes financial comparisons between companies more difficult, as insurers are now to some extent operating under different rules in their respective states. Additionally and perhaps more importantly, comparisons of specific insurer results from their prior year performance are also affected, as the reported financials in 2008 were calculated under different methodologies from years 2007 and prior. This may boost ALIRT Scores in 2008 and 2009 by anywhere from a few to perhaps several points where the permitted practice amounts are material. ***We will consider these adjustments and how they impact a company’s solvency and surplus, which may factor into our ALIRT qualitative credit rating for some insurers.***

[2] In January 2009, the NAIC rejected changes to reserving and other accounting practices which had been proposed by the ACLI in an attempt to provide some capital relief to the entire life industry. In response, a number of state insurance departments allowed such “relief” to their domiciled companies, which was reflected in the year end 2008 statutory filings.

II. PREMIUM GROWTH (Includes Fixed and Variable Business, Deposit Funds)

The table below shows the annual percent change in direct and net premiums written over the last several years. Premium levels continued to grow in 2008, but the rate of growth declined from a cyclical peak in 2006-2007, reflecting sharply lower variable annuity sales (though offset somewhat by fixed annuity production), and perhaps the beginning impacts of the recessionary environment on demand for the industry's products. Continued escalation of health care costs may also be dampening employee benefit spends for retirement plans, group life, etc.

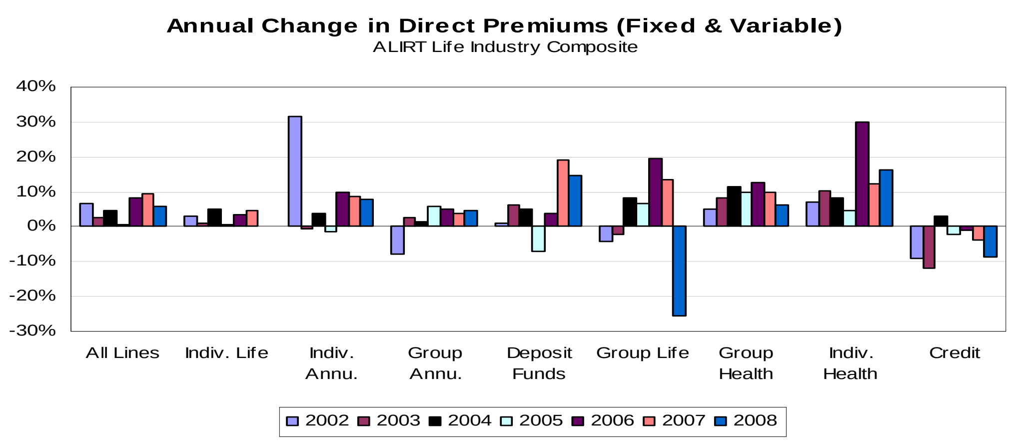


Premiums by Line of Business

The table and graph below show the mix of and change in direct premiums by business line for the ALIRT Life Composite over the last several years. The individual and group annuity lines, together with annuity deposit funds, comprise the largest businesses for the life industry, while the share of individual life premiums is slowly falling (14% of 2008 direct premiums).

Direct Premium Mix: ALIRT Life Composite

	Individual Life	Individual Annuities	Group Annuities	Annuity Deposits	Group Life	Group Health	Individual Health	Credit
2008	**14.3%**	**28.6%**	**25.9%**	**12.3%**	**3.8%**	**9.4%**	**5.6%**	**0.1%**
2007	15.1%	28.1%	27.8%	9.0%	5.4%	9.3%	5.1%	0.2%
2006	15.8%	28.3%	27.7%	8.6%	5.2%	9.3%	5.0%	0.2%
2005	16.5%	27.9%	28.5%	9.1%	4.7%	8.9%	4.1%	0.2%



Individual annuity sales actually increased in 2008, as strong fixed annuity sales for contractholders seeking a safe haven from equity market downturns offset a significant decline in variable annuity production.

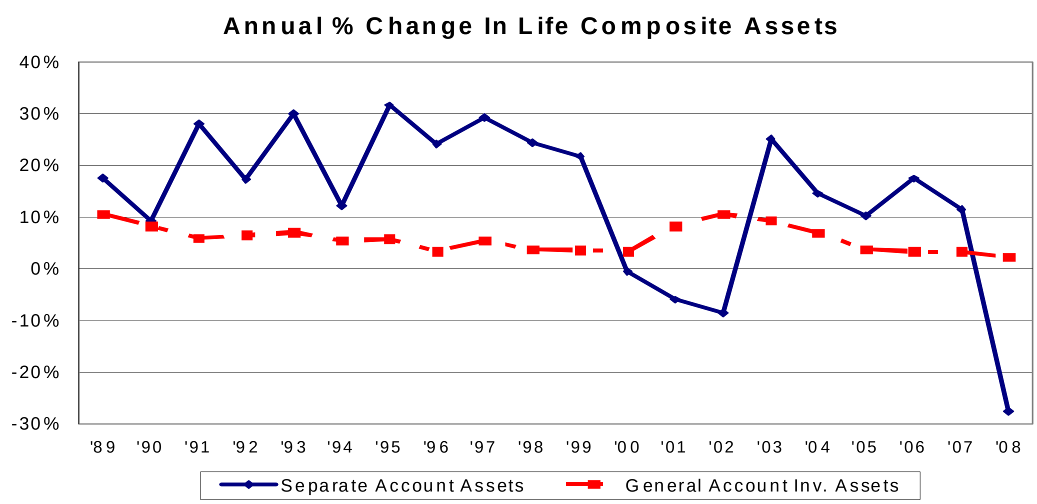
Group life premiums fell sharply as a percent of total premiums in 2008, the result of strong sales in 2007, driven in part by increased COLI/BOLI sales for some insurers, as well as private placement life insurance (Hartford Life) and trust-owned life insurance (Prudential).

Individual and group health insurance premiums continue to rise and together comprise about the same share of industry premiums as individual life insurance, while credit insurance premiums continue to decline, reflecting the increased use of debt cancellation products (in place of traditional credit insurance) by financial institutions.

Generating profitable premium and revenue growth remains one of the key longer-term challenges for both specific insurance companies and the life insurance industry as a whole. In 2003-2007, some insurers pursued premium and earnings growth through overly aggressive product design (variable annuity arms race), and/or entering into product lines or distribution channels perhaps without sufficient experience or expertise. Also, in an effort to boost investment yield, some insurers devoted investment monies to relatively new asset classes (hedge funds, private equity, subprime/Alt-A, CDOs, etc.) that were untested in a weak economy with tighter credit conditions.

III. ASSET GROWTH

General account assets grew 2.3% in 2008, below the 3-6% historical range observed in 10 of the last 15 years, despite an increase in fixed annuity sales. The large net capital losses, statutory operating losses, and lower net investment income served as drags on general account asset growth.



Separate account assets fell 28% in 2008, easily exceeding the declines reported in bear market years 2001 and 2002, with a full 14% decline reported in just the fourth quarter 2008. As equity markets were lower in the first quarter 2009 (through March 19), these trends may have continued thus far since the first of the year.

The chart below shows the change in equity market indices, separate account assets, and insurers reporting a decline in separate account assets for the last few years. With the exception of the Aviva USA companies and Aetna Life, all composite insurers reported lower separate account assets in 2008 (full year and 4th quarter). The downdraft in equity markets has several impacts on variable annuity earnings, including the following:

- Asset management fees (which are tied to account values) decline, reducing earnings
- General account reserve requirements increase as secondary fees become increasingly "in the money"
- Hedge "breakage" due to the dramatic increase in market volatility last fall
- Sales often decline as new potential contractholders seek the relative perceived safety of fixed annuities, bank certificates of deposit, FDIC-insured bank accounts, cash, etc.
- Hedging costs are higher as cost of the derivative instruments rise with higher market volatility
- Reinsurance for living benefits, which began to grow in 2007, has likely receded again (or at minimum is extremely expensive)

	1Q2009*	**2008**	**4Q08**	3Q08	2Q08	1Q08	2007	2006
DJIA	**-15.7%**	**-33.8%**	**-19.1%**	-4.4%	-7.4%	-7.6%	+6.4%	+16.3%
S&P 500	**-13.2%**	**-38.5%**	**-22.5%**	-9.0%	-3.2%	-9.9%	+3.5%	+13.6%
NASDAQ	**-5.9%**	**-40.5%**	**-24.6%**	-8.8%	0.6%	-14.1%	+9.8%	+9.5%
% Change in SA Assets	**???**	**-27.6%**	**-13.9%**	-8.6%	-1.0%	-7.0%	+10.7%	+17.6%
% Co's with Lower SA Assets	**???**	**96%**	**96%**	94%	63%	93%	27%	21%

* First quarter 2009 equity market results are through the end of the day, March 19, 2009.

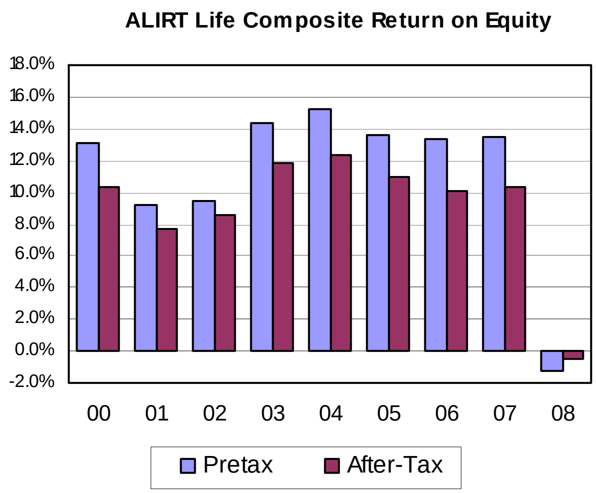
As discussed earlier, many large variable annuity writers experienced large operating losses in 2008 due to the above impacts. Though hedging programs offset some or much of the risk associated with secondary guarantees, companies were not immune from the need to post materially higher general account reserves in 2008.

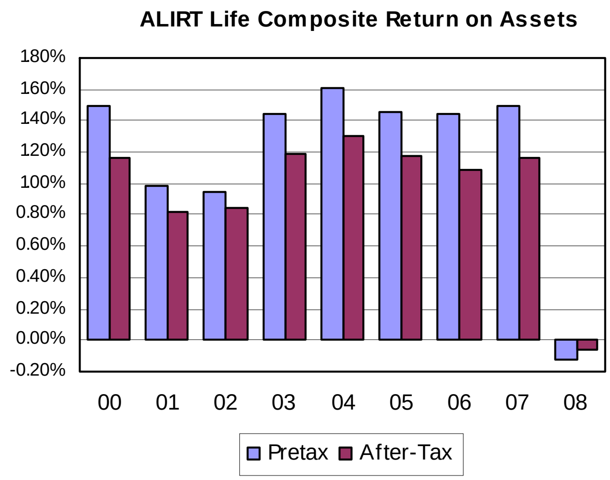
Further, though hedging programs seek to mitigate equity, interest rate, and market volatility risks, policyholder behavior remains a wildcard. As living benefits are still relatively new, there is little track record or history of policyholder behavior for insurers to base assumptions and pricing against. If utilization of these benefits (and/or adverse selection) is higher than insurers anticipate, this could lead to future reserve additions or operating losses.

On a positive note, the structure of the living benefits allows considerable time before any actual insurance company cash must be paid to policyholders. Any income or withdrawal benefit payment is first drawn from the policyholder's account value, and only when that account value is insufficient does the insurer have to make cash payments of its own. However, reserves for this possibility *do* need to be established on an ongoing basis, which have materially affected profitability and capitalization for some insurers.

IV. OPERATING EARNINGS

The life insurance industry (as measured by the ALIRT Life Composite) incurred an after-tax net operating loss of $1.4 billion for 2008, as after-tax operating losses of $15.5 billion in the 4th quarter exceeding earnings of $14.1 billion through 9/30/08. On a pretax basis composite net operating losses totaled $3.2 billion for the year[3]. The operating losses in 2008 are a reversal from the very strong earnings and operating returns on equity and assets reported in each year 2003-2007 (as shown in the graphs on the following page).





As discussed earlier, operating losses for many of the large variable annuity writers actually exceeded composite losses, while 63 of the composite insurers reported operating earnings in 2008. The table below shows the 16 companies with the largest negative swing in earnings in 2008, and with the exception of Allstate Life (which incurred losses in large part due to the accounting for its market value adjusted fixed annuities), all of the companies have a large business position in variable annuities.

16 Insurers with Largest Deterioration in Statutory Earnings: 2008 vs. 2007

$ in Mns.	2007	2008	Change		$ in Mns.	2007	2008	Change
AXA Equitable Life	634	(2,764)	(3,398)		John Hancock Life, MA	939	(179)	(1,118)
Hartford Life & Annu.	366	(2,944)	(3,310)		Nationwide Life Ins.	386	(700)	(1,086)
Hartford Life Ins. Co.	277	(2,174)	(2,451)		Amer. Gen'l Life, TX	1,070	153	(917)
John Hancock USA	(109)	(1,877)	(1,768)		Transamerica Life	(93)	(924)	(831)
Riversource Life, MN	524	(1,186)	(1,711)		Jackson Nat'l Life, MI	499	(323)	(822)
Pacific Life	348	(1,243)	(1,591)		AIG SunAmerica Life	184	(609)	(793)
Metropolitan Life	2,109	582	(1,528)		Sun Life of Canada US	(18)	(737)	(720)
Allstate Life, IL	271	(1,179)	(1,451)		ING USA Annuity/Life	45	(642)	(687)

On a positive note, a number of insurers reported strong operating earnings in 2008, as after-tax earnings exceeded $1 billion for five companies (United Healthcare Ins. Co., American Family Life of GA, Northwestern Mutual, Teachers Insurance & Annuity, and Aetna Life Ins. Co.), and exceeded $500 million for MetLife Insurance Company of CT, Principal Life, Hartford Life & Accident, Metropolitan Life, SunAmerica Life, Monumental Life, and Lincoln National Life.

[3] Operating earnings **exclude** realized or unrealized capital gains or losses.

V. INVESTMENT MIX

The table below shows the investment portfolio mix for the ALIRT Life Composite over the last several years, and for each quarter in 2008. Non-investment grade bonds showed a notable increase in the fourth quarter 2008, which may reflect downgrades for some residential and commercial mortgage-backed securities. The incidence of such "fallen angels" may increase in 2009 as the recessionary environment continues. This could further boost the ratio of non-investment grade bonds to invested assets, which hit a recent peak of 6.7% of invested assets at year end 2002.

The mix of direct mortgage loans remained fairly steady throughout 2008 and is slightly above a 20-year low, while real estate holdings (especially non-home office properties) remain small. Alternative assets such as hedge funds, private equity, etc. rose over the last few years, before easing in 2008 due to "de-risking" of investment portfolios, as well as impairments, withdrawals, and reduced market values.

Unaffiliated stocks rose as a percent of invested assets in 2006, as the NAIC reclassified hybrid securities to preferred stocks from bonds. Though life industry asset exposure to equity markets remains much lower than to bonds or mortgage loans, it is material for some companies, and is often concentrated in hybrid securities issued by both U.S. and foreign banks, which have come under considerable pricing pressure in recent months.

Invested Asset Distribution: ALIRT Life Composite

	12/31/08	9/30/08	6/30/08	3/31/08	12/31/07	12/31/06	12/31/05
Inv. Grade Bonds	**68.1%**	68.6%	68.9%	69.0%	68.8%	69.9%	72.1%
Non-Inv. Grade Bonds	**5.0%**	4.5%	4.6%	4.4%	4.6%	4.6%	4.7%
Mortgage Loans	**11.7%**	11.8%	11.6%	11.5%	11.5%	11.1%	10.8%
Real Estate	**0.7%**	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Unaffiliated Stocks	**2.7%**	2.9%	3.2%	3.2%	3.1%	3.1%	1.7%
Affiliated Stocks	**2.3%**	2.1%	2.3%	2.4%	2.8%	2.8%	2.5%
Policy Loans	**3.9%**	3.9%	3.8%	3.8%	3.8%	3.7%	3.7%
Schedule BA	**3.7%**	4.1%	4.0%	3.9%	3.8%	3.1%	3.1%
Cash & Other Invest.	**1.9%**	1.4%	0.9%	1.1%	0.9%	1.0%	0.7%

Investment spreads widened considerably in 2008 for all but the most conservative asset classes, with the largest impacts for residential and commercial mortgage-backed securities, other structured assets (home equity loans, credit cards, auto loans, etc.), and debt issuance of major banks. This market value deterioration accelerated in the 4th quarter, especially for commercial mortgage-backed securities and non-investment grade bonds.

So far in the first quarter 2009, market movements have not been anywhere near as dramatic as what occurred in the latter half of 2008. An exception has been hybrid securities, which deteriorated dramatically in the early part of 2009, which could result in incremental reductions in GAAP shareholders' equity and/or statutory impairments should the values not recover.

While wider investment spreads boost the potential rewards for taking on investment risk at this time, uncertainty as to the stability of the financial system and the length/severity of the current recession, anticipation of further investment impairments, mixed signals from political and regulatory bodies, a continued lack of liquidity in the marketplace, and a desire of insurers to keep asset liquidity high may limit the real or perceived ability of insurers to take on additional investment risks at this time.

Bond Portfolio

As stated earlier, the mix of non-investment grade bonds rose in 2008, and though non-investment grade bonds were still well below the peak level reached in 2002, the mix may climb as additional structured bonds (RMBS, CMBS, ABS, etc.) are downgraded, and as recessionary conditions and the tight credit markets pressure corporate issuers that presently receive investment grade ratings.

Bond Quality Distribution: ALIRT Life Composite

	2008	2007	2006	2005	2004	2003	2002
Class 1 (AAA, AA, A)	**66.1%**	67.5%	67.6%	66.5%	63.5%	61.2%	61.6%
Class 2 (BBB)	**27.1%**	26.2%	26.3%	27.3%	29.8%	30.8%	29.5%
Class 3 (BB)	**3.9%**	3.6%	3.5%	3.7%	3.8%	4.3%	5.1%
Class 4 (B)	**1.9%**	1.9%	2.1%	1.9%	2.1%	2.5%	2.3%
Class 5 (C)	**0.9%**	0.6%	0.4%	0.4%	0.5%	0.8%	1.1%
Class 6 (< C)	**0.2%**	0.1%	0.1%	0.2%	0.2%	0.4%	0.4%
Inv.-Grade (>= BBB-)	**93.1%**	93.7%	93.9%	93.8%	93.4%	92.0%	91.1%
Non-Inv. Grade (< BBB-)	**6.9%**	6.3%	6.1%	6.2%	6.6%	8.0%	8.9%

The table below highlights the ten composite insurers with the highest exposures to non-investment grade bonds, both as a percent of invested assets and surplus. Prudential subsidiaries Prudential Ins. Co. of America, Pruco Life of Arizona, and Prudential Retirement are all included below, as are subsidiaries of Conseco (Bankers Life & Casualty and Conseco Life) and AIG (AIG Annuity and AIG Life). Nationwide Life & Annuity has by far the highest surplus exposure to below investment grade bonds, as a result of the company's very high asset leverage.

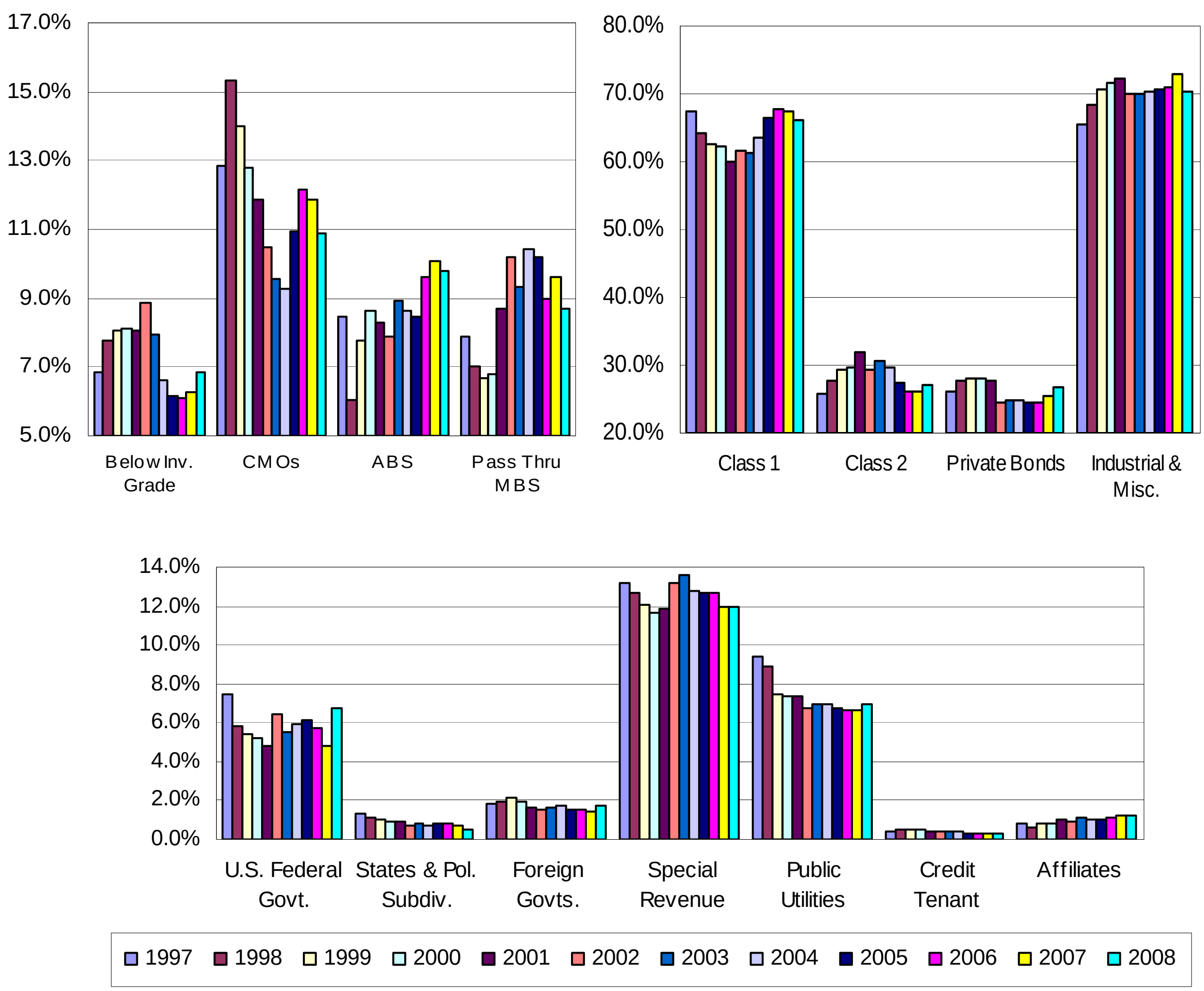
10 ALIRT Composite Insurers: Highest Below Inv. Grade Exposures: 12/08

Company	As a % of Inv. Assets		Company	As % of Tot. Surp.
Prudential Ins. Co. of America	9.0%		Nationwide Life & Annuity	289%
Prudential Retirement	8.7%		Prudential Ins. Co. of America	149%
Western-Southern Life Assur.	8.4%		Conseco Life Ins. Co.	145%
Nationwide Life & Annuity	8.0%		Monumental Life Ins. Co.	119%
Genworth Life of NY	7.7%		Bankers Life & Casualty	115%
UNUM Life of America	7.6%		Aviva Life & Annuity	114%
AIG Annuity Ins. Co.	7.4%		Phoenix Life Ins. Co.	103%
Pruco Life Ins. Co., AZ	7.3%		AIG Annuity Ins. Co.	102%
Bankers Life & Casualty	7.3%		AIG Life Ins. Co.	102%
New York Life & Annuity	7.2%		Prudential Retirement	100%
ALIRT Life Composite	**5.0%**		**ALIRT Life Composite**	**51%**

Below are additional exhibits highlighting the mix of bonds for the ALIRT Life Composite. In 2008, the key trends were as follows:

- Rise in non-investment grade bonds
- Decrease in NAIC Class 1 holdings (A level ratings and above), and Increase in NAIC Class 2 holdings (BBB rated). This may represent downgrades of certain CMBS/RMBS holdings from the highest rating class as defaults have increased.
- Decrease in the mix of all structured bonds (Pass Through MBS, CMOs, ABS)
- Decrease in the Industrial & Miscellaneous Bond Class (comprises most "corporate" bonds except for Public Utilities)
- Sharp rise in U.S. Government Bonds (flight to quality/liquidity, especially U.S. Treasuries)
- Privately placed bonds up slightly, reaching a seven-year high as a percent of total bonds

ALIRT Life Composite Bond Portfolio Characteristics: As a % of 12/31/08 Bonds



Mortgage-Backed and Asset-Backed Securities

The tables below highlight those insurers with the largest exposures to asset-backed and mortgage-backed securities at year end 2008, with annuity writers prevalent in all rankings. The market values for many structured bonds deteriorated sharply in 2008, starting with residential mortgage-backed securities (and related collateralized debt obligations (CDOs)) with subprime or Alt-A loan collateral, but later in the year expanding to prime jumbo residential mortgage-backed bonds, non-agency backed prime MBS, bonds backed by other loans (autos, credit cards, student loans, etc.) and commercial mortgage-backed securities. Insurers have already taken some impairments on such assets (especially subprime and Alt-A), and further impairments are likely unless prices recover significantly over the next several months.

Ten Insurers with Highest Mix of Structured Bonds as a Percent of Total Bonds: 2008

Company	ABS	Company	CMOs & Pass Thrus
Hartford Life Ins. Co.	31.5%	Great-West Life & Ann.	47.6%
Penn Mutual Life	29.2%	Teachers Ins. & Annuity	45.7%
Security Life of Denver	28.4%	Mutual of America Life	42.0%
Mutual of Omaha	25.0%	Sun Life of Canada US	41.4%
ING USA Annuity & Life	24.0%	USAA Life Ins. Co.	36.3%
SunAmerica Life	22.4%	National Life of VT	35.3%
Prudential Retirement	19.9%	National Western Life	35.3%
Transamerica Fin'l Life	19.9%	Metropolitan Tower Life	33.3%
Farmers New World Life	19.8%	MetLife Investors USA	32.1%
Pruco Life of Arizona	19.6%	United of Omaha Life	31.1%
ALIRT Life Composite	**9.8%**	**ALIRT Life Composite**	**19.6%**

Ten Insurers with Highest Exposure (relative to surplus) to Structured Bonds: 2008

Company	ABS	Company	CMOs & Pass Thrus
Security Life of Denver	332%	Nationwide Life & Ann.	755%
Allianz Life of N. Amer.	311%	Great West Life & Ann.	505%
OM Financial Life, MD	297%	Allianz Life of N. Amer.	431%
Nationwide Life & Ann.	278%	Conseco Life	388%
Midland National Life	252%	Teachers Ins. & Annuity	346%
Monumental Life Ins. Co.	234%	Life Ins. Co. of the SW	345%
ING USA Annuity & Life	229%	Sun Life of Canada US	344%
Hartford Life Ins. Co.	216%	USAA Life Ins. Co.	324%
Allstate Life, IL	191%	New York Life & Ann.	317%
Farmers New World Life	183%	Great American Life	309%
ALIRT Life Composite	**73%**	**ALIRT Life Composite**	**146%**

Most asset managers, rating agencies, industry analysts, and insurers believe that actual losses for securities such as CMBS will be ***substantially less*** than those currently implied by their market prices. To the extent that insurers can hold such securities until recovery and/or maturity, most of these losses may be avoided on a realized basis. However, the severely depressed market values for these bonds do create large unrealized losses for some insurers on a GAAP basis (and potentially statutory impairments as well), and limit, at least temporarily, the flexibility of their investment portfolios.[4] Finally, if/when such securities are downgraded by rating agencies, insurers must hold higher statutory asset valuation reserves and required risk-based capital to reflect the now lower-rated investment holdings.

Mortgage Loans

The table below shows the 12 companies with the highest exposure to direct mortgage loans. Despite the notably weaker economy, mortgage loan performance for the life insurance industry remains strong, as only ***0.05% of ALIRT Life Composite total mortgage loans were delinquent 90 days or in the process of foreclosure at 12/31/08***, while only 0.02% were loans with restructured terms. However, it is expected that this ratio will climb in light of the recessionary environment, deleveraging in the financial services sector and attendant tighter credit, and lower commercial real estate values.

Though commercial real estate may experience significant stress in the next few years, life insurer underwriting standards in general were more conservative than what occurred in private equity, conduits, and investment banking channels.

Additionally, life industry exposure to mortgages is much lower today than in the early 1990's, when several companies failed or faced considerable financial problems due in large part to their mortgage and real estate holdings. Total direct mortgage loans comprised 23% of invested assets and equaled 302% of surplus for the life insurance industry in 1990, versus 12% and 119%, respectively, for the ALIRT Life Composite in 2008.

12 ALIRT Composite Insurers: Highest Mortgage Loan Exposures: 12/31/08				
Company	As a % of Inv. Assets		Company	As % of Tot. Surp.
Standard Ins. Co.	41.9%		Nationwide Life & Annuity	796%
Life Ins. Co. of N. America	22.5%		Standard Ins. Co.	335%
Union Security Ins. Co.	22.2%		Metropolitan Life Ins. Co.	269%
Nationwide Life & Annuity	22.1%		Prudential Retirement	250%
Prudential Retirement	21.8%		Nationwide Life Ins. Co.	238%
Connecticut General Life	21.8%		Prudential Ins. Co. of America	230%
Nationwide Life Ins. Co.	21.1%		MONY Life Ins. Co.	228%
C.M. Life Ins. Co.	20.2%		John Hancock Life Ins. Co.	227%
Metropolitan Life Ins. Co.	19.0%		Union Security Ins. Co.	227%
American Equity Invest. Life	17.3%		American Equity Inv. Life	225%
John Hancock Life Ins., MA	17.2%		Allianz Life of N. America	222%
ALIRT Life Composite	**11.7%**		**ALIRT Life Composite**	**119%**

[4] Due to occasional client confusion over the treatment of unrealized gains/losses of different asset classes under GAAP and Statutory accounting standards, we provide a brief overview of this topic in Appendix A.

Alternative Assets: Schedule BA

The mix of "alternative investment" holdings held in Schedule BA of the statutory financial statement[5] rose to a historical high for life insurers as of 9/30/08, before easing somewhat in the fourth quarter 2008 as turmoil in the credit and equity markets intensified.

Though "alternative assets" comprise a relatively small share of total investments for the ALIRT Life Composite, many of the types of assets added more recently are relatively untested across an economic cycle, and Schedule BA assets historically exhibited more volatile returns than traditional bonds, commercial mortgages, etc. Also, as the tables below indicate, the larger insurers often have a higher mix of such assets.

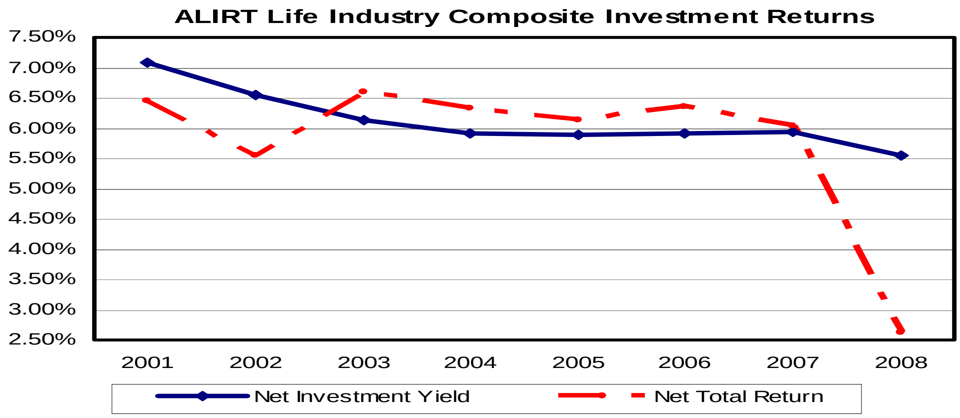
12 ALIRT Composite Insurers: Highest Schedule BA Exposures: 12/31/08				
Company	As a % of Inv. Assets		Company	As % of Tot. Surp.
MetLife Investors USA	25.4%		MetLife Investors USA	246%
SunAmerica Life	11.7%		AIG Annuity Ins. Co.	101%
American National Ins. Co.	8.3%		Metropolitan Life Ins. Co.	87%
Penn Mutual Life	8.2%		Variable Annuity Life	78%
AIG Annuity Ins. Co.	7.3%		Phoenix Life Ins. Co.	70%
New York Life Ins. Co.	7.0%		Allianz Life of N. America	65%
Aetna Life Ins. Co.	7.0%		Principal Life Ins. Co.	65%
General American Life	6.9%		Northwestern Mutual Life	65%
Variable Annuity Life	6.9%		John Hancock Life, MA	64%
Northwestern Mutual Life	6.6%		Mass. Mutual Life	59%
Mass. Mutual Life	6.4%		General American Life	59%
Metropolitan Life Ins. Co.	6.2%		SunAmerica Life Ins. Co.	59%
ALIRT Life Composite	**3.7%**		**ALIRT Life Composite**	**38%**

VI. INVESTMENT RESULTS

The graph on the following page shows investment returns for the ALIRT Life Composite over the last several years. Net investment yield resumed its long-term decline in 2008, after several years of fairly steady yield rates. The lower yield reflects lost investment income from problem residential mortgage-backed securities, continued lower interest rates, and a move later in the year toward more highly liquid (and lower yielding investments) as insurers built their liquidity positions in light of the financial market turmoil. As positions in cash, equivalents, and U.S. Treasury bonds remained high for many insurers in early 2009, yield may be depressed further through at least the first part of the year.

The lower yield and the large net capital losses of $73 billion produced a low 2008 total return rate of 2.63%, less than half the 6.04% rate reported for the full year 2007. Continued weakness in equity markets and the still-tight credit markets through mid-March 2009 may cause this trend to continue as well in the first quarter 2009.

[5] Schedule BA assets include, but are not limited to, private equity, hedge funds, venture capital, real estate-related joint ventures, limited partnerships, oil & gas exploration, surplus notes, in some cases hedging activity for variable annuity living benefits, etc.



Conclusions

The life insurance industry was not immune to the extremely challenging environment facing financial services firms in 2008, as rapidly deteriorating equity markets, volatile and tighter credit markets, deleveraging by some industry participants and capital concerns for many others exerted considerable pressure on carrier balance sheets.

Extremely large net capital losses, combined with historically poor operating results, resulted in lower capitalization for the industry. While this occurred after a period of very strong surplus formation, the current inability to access capital markets at other than cost-prohibitive terms could increase stress for insurers, especially those publicly-traded companies with large unrealized GAAP investment losses (though revisions to asset valuation guidance may limit this to some extent).

On a different note, though the life insurance industry and most companies do face challenges in the coming months, the industry as a whole is positioned relatively well in comparison to other financial services sectors. Unlike commercial and investment banks, many insurers enjoy strong renewal premium cash flow and some protection from early surrenders of its products. This mitigates the possibility of forced asset sales at today's depressed market valuations.

Further, asset leverage for life insurance companies is generally much lower than that for commercial banks and especially investment banks, and the industry is not reliant on capital markets to finance their day-to-day business activities. Finally, as a further hedge many companies have also actively boosted their liquidity in recent months, to meet any unexpected frequency in claims or policy surrenders, and to reduce the possibility that they may have to sell assets in this environment.

Though these factors do not eliminate all risks faced by life insurers, they do serve as key credit strengths for the industry, and allow for operational flexibility that many other financial services firms (some of which have received taxpayer monies and agreed to federal oversight) do not enjoy.

APPENDIX A

GAAP vs. Statutory Accounting as Regards Unrealized Losses

Statutory and GAAP accounting standards differ considerably as to how bonds are valued, as GAAP requires almost all bonds (except those classified as "Held to Maturity") are valued at "fair" or "market" value. This can result in rising shareholders' equity and asset values when credit spreads are tightening (as was the case in the mid 2000's), but can result in reduced shareholders' equity when credit spreads widen. The present environment has been particularly acute, as market values have declined sharply for a number of fixed income securities, which reflects not only higher expectations of default of the issuer or underlying loans, but may also reflect a significant lack of liquidity in the marketplace. If this indeed turns out to be the case, some of the large GAAP unrealized capital losses reported thus far could reverse in the future should the market values of the affected assets recover.

At present, the Financial Accounting Standards Board (FASB) is considering changes to its guidance regarding the valuation of assets for GAAP accounting purposes, and it is possible that changes may occur by the time the first quarter 2009 GAAP financial reports are compiled later this spring. However, it is unknown at this time how or if life insurers will be impacted from any potential changes.

In contrast to GAAP standards, statutory accounting rules require realized capital gains and losses to be recorded only upon the sale of a bond (or fixed income security), if an asset is determined to be other than temporarily impaired (a common historical guideline for impairment is a market value decline of 20% or more for a period of several months), or if an asset falls to an NAIC Class 6 rating (in or near default). As a result, net capital losses have not been nearly as large in the statutory financial statements as compared to GAAP, which resulted in a lesser decline in statutory surplus than for GAAP shareholders' equity.

However, the almost 11% decline in ALIRT Life Composite statutory surplus in 2008 still represents a large decline, especially when considering the lower level of unrealized bond losses (versus GAAP), sizeable capital infusions, and forbearance granted by state insurance departments regarding reserving and accounting for some insurers. Surplus may come under continued pressure in 2009 as impairments work their way through the statutory statements, and/or if equity markets remain weak.

ALIRT Insurance Research, LLC - 200 Day Hill Road, Ste. 220, Windsor, CT 06095
Phone: (860) 683-2070 Fax: (860) 683-4020 Email: info@alirtresearch.com