

Over taxation of Life Insurers in 2000

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Summary

For the last 10 years Life Insurance Companies have paid 7-9% of Corporate America's Federal Income Tax (for 1998-96 about \$13 billion of Corporate America's \$180 billion in taxes.) Life Insurance companies however are actually a small part of Corporate American. They have

- (1) 0.5% of Corporate America's 110 million workers (total is for 1999, BLS data);
- (2) 0.7% of Corporate America's \$2.7 trillion in wages (total is for 1997, BEA data);
- (3) 0.5% of the \$6.3 billion of "private industry GDP" (total is for 1997, BEA data);

Among the approximately 3850 U.S. public companies with \$100 million or more of market capitalization on 12/31/99 the publicly traded life insurers have:

- (1) 0.78% of the \$16.3 trillion on market value
- (2) 2.29% of the \$7.8 trillion in "sales" (definition varies by industry)
- (3) 2.05% of the \$3.7 trillion in "book value"
- (4) 1.46% of the \$1.1 trillion in earnings before income tax.

Inclusion of the "mutuals" might increase the publicly traded totals by about 1/3 -- based on the "adjusted" statutory surplus numbers, and on the relationship between statutory surplus and market values of mutual life insurers which have recently gone public. (Data is from Standard & Poors Compustat data base.)

While the average corporation tax bill is about \$1700 per employee, the bill for life insurers is about \$20,000 per employee. The average corporate income tax bill is about 1% of market value versus about 5% for life insurers

Based on the forgoing we conclude that the federal income taxes on life companies are excessive.

Property and Casualty insurers are also paying excessive taxes. They have about 0.5% of the Corporate America's employees, and pay 4-5% of the \$180 billion in taxes. In addition P&C insurers are also paying sizable "implicit taxes" on their muni bonds. (P&C insurers and the banks are the two biggest corporate investors in muni bonds, and without them muni bond interest rates would be much higher.) While we haven't studied them in much detail, banks are also paying high taxes, about 1/2 as much as life insurers based on wages and employee counts, and about 1/3 - 1/4 as much based on market values. They also pay implicit tax on their muni bond holdings.

We will explain how a "stock - mutual war" caused the high taxes. We will present some evidence that the excessive taxes are associated with:

- 1) Reduced value to customers
- 2) Reduced wages and/or loss of jobs
- 3) Reduced stock prices
- 4) Problems in the municipal bond market
- 5) A movement of insurance companies offshore.

We will also discuss some reforms, and the reform in muni bonds rules should actually raise federal and state revenue, which could pay for other life insurance tax reductions.

The paper is about 40 pages long and has many detailed charts. The author discusses in detail the sources of the data so that others can reproduce the results.

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I. Sources of Data

- A. Tax and Income Data
 - 1. NAIC - Insurance Carriers
 - 2. SOI - Insurance Carriers and Corporate America
- B. Employee Count and Wages
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- D. GDP
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II. Discussion of Various Measures of Economic Activity

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IV. Why life companies pay so much tax – the “stock vs. mutual war”

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The following are sources of data:

	Government Source	Web site
1	IRS Statistics of Income	www.irs.gov
2	U.S. Dept. of Labor – Bureau of Labor Statistics	www.bsl.gov
3.	U.S. Dept. of Commerce – Bureau of Econ. Analysis	www.doc.gov or www.bea.doc.gov
4.	Federal Reserve Flow of Funds	www.federalreserve.gov
5.	Economic Report of the President	www.access.gpo.gov
6	Statistical Abstract United States 1999	
7	Ken Kies Corporate Tax Shelter Study, 1999	www.house.gov/ways_means

	Other Sources	
1	NAIC Data	www.naic.org
2	Sheshnoff CD-ROM	
3	Wilshire 5000	www.wilshire.com
4	SNL Securities	
5	ACLI Fact Book 1999	
6	Compustat (Standard & Poors)	www.compustat.com
7	Business Week Global 1000	www.businessweek.com
8	National Center Employee Ownership	www.nceo.org

I. Data.

A1. NAIC Tax, Income, and Surplus Data.

The National Association of Insurance Commissioners (NAIC) collects annual statement data from virtually all insurance companies, including Life & Health (L&H), Property and Casualty (P&C), title, Fraternal Life, and HMOs. (A few insurance companies domiciled in Texas do not submit data to the NAIC.) The NAIC data for Life and Health (L&H) and Property and Casualty (P&C) insurers is available from Sheshnoff (formerly OneSource). Using the Sheshnoff data disks we obtained annual statement data of taxes incurred for the last six years (1999-94). (The data was from the July and August 2000 disks, and not all companies had reported for the 1999 year.) Apparently the total industry data (company 99) is based on some consolidation estimates done by Standard & Poors. We found for L&H insurers:

NAIC Data for Life & Health Insurers					
\$ thousands	Assets	Adj Surplus	Adj Income	Total FIT	Fit/Income
1999 in part	3,114,666	220,231	28,735	9,948	34.82%
1998	2,834,806	209,369	35,017	13,319	38.04%
1997	2,583,178	198,572	36,388	12,545	34.47%
1996	2,339,654	178,828	30,890	11,361	36.78%
1995	2,152,111	156,407	28,836	11,121	41.44%
1994	1,948,327	139,392	12,935	8,312	48.80%

Note that the FIT to adjusted income ratio for life-health insurance companies is fairly high, for 1994 to 1999 the percentages are 34-48%.

The author's defines "Adjusted Surplus" by the formula below (with 1998-1996 data in thousands):

	1999	1998	1997	1996
Capital & Surplus (p.3 line 38)	181,792	171,320	160,252	147,177
- Surplus Notes	(13,926)	(14,288)	(11,236)	(10,904)
+ IMR (page 3 line 11.4)	12,275	14,489	11,397	9,358
+ AVR (page 3 line 24.1)	40,089	37,847	36,159	33,196
= Adjusted Surplus		209,369	196,572	178,828

The definition of "tax equity" includes 1/2 of the provision for policyholder dividends (page 3 line 7 & 8). For 1999 this is 1/2 of \$16 billion, or another \$8 billion.

The author defines "Adjusted Income" by the formula below (with 1998-1996 data in thousands):

	1999	1998	1997	1996
Gains after policyholder dividends (p. 4 line 29)	27,001	22,588	27,830	26,348
- IMR amortization (p. 4 line 4a)	(1,772)	(1,772)	(1,345)	(1,192)
+ Capital Gains (Exhibit 3)	1,914	14,201	9,903	5,734
- 7% on ending surplus notes.				
= Adjusted Gains.		35,017	36,388	30,890

The "Adjusted Income" does not include certain items that flow through the "surplus account" (page 4 of NAIC blank) such as reinsurance gains and losses. These are hard to find because they are included in

write in lines. The author should have subtracted out interest paid on surplus notes – but did not. The interest on surplus notes is an approximation, but many surplus notes have interest rates of 7-9%.

The total tax is the sum of two annual statement items:

	1999	1998	1997	1996
Income Tax (p. 4 line 30)	8,206	7,428	8,340	8,987
+ Capital Gains Tax (Exhibit 3)	1,743	5,387	4,204	2,374
= Total Federal Income Tax	9,949	13,319	12,545	11,361

The tax does not include additional taxes paid by audit adjustments – which run through the”surplus account.”

The ACLI reports similar numbers for taxes, see Life Insurance Fact Book, 1999 at 105; Factbook 1998 at 83 and they got the NAIC data from one of the Sheshnoff disks. The very slight difference in 1998 ACLI data and the above might be that the July, 2000 disk left off some companies.

Year	Tax in millions
1999	---
1998	\$13,339 mil.
1997	12,545
1996	11,359

For P&C companies we have the following NAIC data from the July, 2000 Sheshnoff disk:

NAIC Data for Property & Casualty Insurers					
\$ thousands	Assets	Policyholder Surplus	Income	Total FIT	Fit/Income
1999	\$984,882	349,213	29,051	5,977	20.65%
1998	977,738	352,730	41,838	10,482	25.05
1997	929,496	324,425	47,908	9,652	20.15
1996	840,485	263,541	30,417	5,635	18.53
1995	798,938	235,427	25,729	4,829	18.77
1994	729,822	196,270	13,134	2,420	18.43

For P&C insurers there are fewer adjustments.

Adjusted Surplus =
Policyholder Surplus – Surplus Notes;

Adjusted Income = Net Income (page 4) – 7% interest on surplus notes.

FIT = page 4

P&C companies do not have AVR and IMR or IMR amortization. (They do have surplus notes – and we need to modify the above to remove them.)

The tax to income ratios for P&C companies are about 16-18%. That understates their “effective tax” however, since many P&C companies have municipal bonds, and there is a yield disadvantage (an implicit tax) when one buys such bonds.

The above data does not include HMOs and Title insurers, or Fraternal Life companies (which are tax exempt). There are a number of P&C insurers which are owned by states (e.g. Workers Compensation Funds) and these do not pay taxes, although they might have earnings and surplus and they certainly have employees. (We need to modify the above to remove them, but the author had not obtained any data.) There is one Life Company owned by Wisconsin and another Life company owned by the Episcopal Pension Fund which do not pay taxes; but these are small companies.

Cash Flow Taxes (NAIC)

The NAIC statements also show the “paid” federal income taxes – separately for “operations” and “capital gains.” The paid taxes for a calendar year can include taxes for three or more years and will not track with the data on the tax returns. We have run the P&C data and will run the L&H data later.

			P&C incurred	P&C paid
1999			5,977	6,756
1998			10,482	10,933
1997			9,663	8,842
1996			5,638	5,094
1995			4,834	4,231
1994			2,421	2,487
Total			39,015	38,344

Caveats

The NAIC (or Sheshnoff) data shows Life and Health and Property and Casualty Federal Income Taxes – as reported on the NAIC statements. Some L&H insurers file tax returns as “non-life” and conversely a very few P&C insurers file tax returns as life. Also the NAIC tax data may appear in the “surplus section” – as when additional taxes are assessed on audit. These additional taxes are not recorded in the regular annual statement lines – which leads to an understatement in taxes. Sometimes, foreign taxes are included as “federal income taxes” – which leads to an overstatement of U.S. federal income taxes.

Tax Exempt bonds – implicit taxes

From the IRS Statistics of Income (table crtb12-96) We have the following 1996 data on tax exempt bonds assets:

Statistics of Income - Tax Exempt Assets \$ millions		1996
Total (not all categories are listed below)		457,744
Manufactures		16,067.4
Wholesale & retail trade		3,280
Finance		430,274.5
Banks		71,263.3
Other credit agencies (non depository banks)		19,503.9
Security & commodity brokers		1,437.5
Insurance carriers		323,244
Insurance agents		2,212.3

Some of the tax exempt bonds in “manufacturing companies” might be in P&C affiliates of the manufacturing companies.

The author did a study of life insurance muni bond investments – using 1992 data which was one of the last years the NAIC still had separate data for tax exempt bonds on the L&H statements. The muni-bond share of L&H assets was only 0.12% and much of that was in L&H insurers known to be taxed as “non-life insurers” – but there are now many more insurers taxed as “non-life” filing L&H blanks.

Assuming 5% interest on muni bonds, and assuming the implicit tax is about 2%, then the non-life insurers earn interest of about \$15 million and have an explicit tax of about 1/3 of the interest received. The banks (including other credit agencies) usually invest in short duration muni bonds, and it is unclear what their implicit tax is.

The NAIC data for P&C insurers shows the following as “tax exempt interest” – however there are also tax exempt bonds and tax exempt school real estate, which are not shown in the statement. Also Title insurers and HMOs may have muni bond interest. The data below shown an “implicit tax” of about \$3.5 million for 1996.

P&C Insurers	Interest on tax exempt bonds \$ in 000
1999 Aug. disk	11,591
1998	11,750
1997	10,988
1996	10,801
1995	10,673
1994	10,882

A2 SOI tax data. For life insurers

The IRS has different corporate tax forms, which include a general form 1120, form 1120 L (for “life” insurers), and form 1120 PC (for “non life” insurers -- mainly health and property and casualty insurers). There are special forms for pass through entities – RICS, RETIS and S-Corporations (RICS are regulated investment companies, i.e. mutual funds. REITS are real estate investment trusts and S-Corporations and are small business where the owners elect to be taxed on profits.) There is form 1120F (foreign corporations with U.S. operations), and also form 1120A.

A conglomerate may have manufacturing, life insurance, and property and casualty insurance companies. Usually these conglomerates compute taxable income for the manufacturing, life insurance, property & casualty insurers on forms 1120, 1120 L and 1120 PC, and then compute tax on an individually designed consolidation schedule. The IRS Statistics of Income (SOI) does fine scholarly work on corporate income taxes, and they have classified taxes by industry. Because a conglomerate files a consolidated return, the SOI classifies the conglomerate into one industry (see page 14 on “Industrial Classification” in the 1996 Corporation Income Tax Returns.) Thus some life and non-life insurance companies may be classified with manufacturing companies (like GE) or clothing stores (as when Sears owned Allstate). Conversely some manufacturing companies or (say) TV stations may be classified with the “life insurers” (industry code 6355) or as a “property casualty insurers (industry codes 6356 & 6359) if they are owned by an insurance company. Since the classification is based on “revenue” and since P&C insurers have greater revenue than life insurers we could expect to find some insurers taxed as “life” may be included in the “non-life sector.

The following shows some of the “industry” tax data for 1990, 1991, and 1997, from the Corporate Source Books, and data downloaded from the “www.irs.gov” web site such as table “97co-14 bs”. Note the almost doubling of life insurance taxes between 1991 and 1990. The Section 848 “Dac Tax” was enacted in 1990, and effective for 1/4 of the 1990 year.

SOI Corporate Source Book - Income Tax after Credits \$ in millions

Code	All Industries	Banking	Credit Agencies	Security & Commodity Brokers	Insurance Carriers	Life Insurance	Property Casualty	Insurance Agents
		45	46	47	48	6355	6356 & 59	49
1980	62,949.2							
1985	63,348.2							
1990	96,403.1	6,844.4	4,509.0	710.7	5,715.6	2,328.7	3,387.3	461.2
1991	92,566.3	7,413.6	4,942.2	1,354.2	8,799.9	4,596.9	4,203.0	449.9
1992						6,500.0		
1993	119,937.3					7,600.0		
1994	135,519.7	13,694.7	5,842.4	2,347.6	9,296.0	5,041.8	4,254.2	634.4
1995	156,392.8	18,962.7	6,389.1	2,877.0	14,410.4	8,543.1	5,867.4	702.7
1996	170,620.9	18,762.3	6,035.5	4,029.6	16,174.1	9,101.3	7,072.8	743.6
1997	184,176.0				17,251.1	8,949.3	8,161.2	

Comparing the NAIC and SOI data we have:

	L&H – NAIC	SOI-6355	P&C – NAIC	P&C 6356&9
1994	8,316	5,041.8	2,420	4,254.2
1995	11,121	8,543.1	4,829	5,867.4
1996	11,361	9,101.3	5,635	7,072.8
1997	12,545	8,949.3	9,632	8,161.2

A3. SOI “Special Run” of 1120L data.

Mr. Chris Des Rochers, FSA obtained a “special run” of 1120L “taxable income” data from the Statistics of Income (SOI). The special run added up all 1120 L taxable income data – regardless of who was the parent corporation. The author has not obtained any details about this special run, and was unable to obtain further data from the SOI. The “special run” data is shown below, along with some other data:

	SOI Industry 6355 Net Income	SOI Industry 6355 Inc subj to tax	SOI Special Run Taxable Income	Tax Rate	Pro Forma Tax	NAIC Data & ACLI data
1987			4,374	0.40	1,750	1,844
1988			8,059	0.34	2,740	3,490
1989			12,984	0.34	4,415	5,075
1990	9,682.05	7,635.17	9,608	0.34	3,267	4,230
1991	17,790.73	13,901.66	17,513	0.34	5,954	6,906
1992			24,206	0.34	8,230	8,525
1993			27,281	0.35	9,548	10,965

1994			17,537	0.35	6,138	8,312
1994			28,918	0.35	10,121	11,121
1996			30,670	0.35	10,734	11,361
1997	31,983.82	29,098.91		0.35		12,545

The 1990 and 1991 source books showed “income subject to tax “ on line 76 and on line 77 in 1997. The 1990 and 1991 source books showed “net Income, total” on line 67 and on line 69 in 1997.

The 1994-1997 was based on Sheshnoff (NAIC) data, while the 1993-prior data was from the ACLI 1996 Fact Book at page 78 (which was probably based on NAIC data). The agreement between the SOI and NAIC/ACLI data is not too bad, especially when one notes that many L&H insurers file 11120 P&C, or even an 1120. The “pro forma tax” is the “SOI Special Run” times the “tax rate.”

A4. 1996 SOI Data – all corporations

The following shows 1996 SOI data, but the “life insurance” and “non-life insurance” sectors include only the companies whose principal business is life insurance or non-life insurance.

The SOI data confirms the very high taxes paid by life insurers and by property and casualty insurers.

Federal Income Taxes - selected Years by Major Industry

\$ in millions	1980	1985	1990	1995	1996	1997
Total Tax after credits	62,949	63,348	96,406	156,371	170,621	184,176
Agriculture	422	345	555	611	660	599
Mining	1,675	558	1,348	1,172	1,351	2,020
Construction	1,974	1,663	1,907	2,282	2,668	2,818
Manufacturing	32,671	25,382	38,973	54,283	58,884	64,307
Transportation & Util	5,323	8,433	15,882	24,837	25,964	25,582
Wholesale & Retail	10,564	13,397	12,616	18,476	20,732	21,960
Finance, Insurance, RE	7,700	10,194	20,512	45,986	50,182	54,777
Service	2,601	3,344	4,598	8,720	10,179	12,111
Total of above	62,930	63,314	96,390	98,018	170,620	184,174
Business Receipts	5,731,616	7,369,539	9,860,442	12,785,798	13,659,470	14,460,929
Agriculture	48,850	65,419	82,115	100,631	111,727	107,930
Mining	167,398	126,711	97,322	114,163	127,584	134,379
Construction	260,388	374,590	522,586	627,463	699,597	768,122
Manufacturing	2,301,057	2,656,346	3,434,141	4,290,705	4,567,209	4,794,291
Transportation & Util	507,373	733,944	874,111	1,086,623	1,183,960	1,247,593
Wholesale & Retail	1,919,348	2,408,175	3,216,862	4,206,376	4,383,103	4,588,803
Finance, Insurance, RE	256,892	501,994	900,908	1,094,871	1,176,180	1,282,308
Service	266,089	497,981	726,041	1,263,791	1,408,716	1,536,597
Total	5,727,394	7,365,160	9,854,087	12,784,624	13,658,076	14,460,024
Agriculture	0.67%	0.54%	0.58%	0.39%	0.39%	0.33%
Mining	2.66%	0.88%	1.40%	0.75%	0.79%	1.10%
Construction	3.14%	2.62%	1.98%	1.46%	1.56%	1.53%

Manufacturing	51.90%	40.07%	40.43%	34.71%	34.51%	34.92%
Transportation & Util	8.46%	13.31%	16.47%	15.88%	15.22%	13.89%
Wholesale & Retail	16.78%	21.15%	13.09%	11.82%	12.15%	11.92%
Finance, Ins. RE	12.23%	16.09%	21.28%	29.41%	29.41%	29.74%
Service	4.13%	5.28%	4.77%	5.58%	5.97%	6.58%
TAX Total of above	99.97%	99.95%	99.98%	100.00%	100.00%	100.00%
BUSINESS RECEIPTS %						
Agriculture	0.85%	0.89%	0.83%	0.79%	0.82%	0.75%
Mining	2.92%	1.72%	0.99%	0.89%	0.93%	0.93%
Construction	4.54%	5.08%	5.30%	4.91%	5.12%	5.31%
Manufacturing	40.15%	36.04%	34.83%	33.56%	33.44%	33.15%
Transportation & Util	8.85%	9.96%	8.86%	8.50%	8.67%	8.63%
Wholesale & Retail	33.49%	32.68%	32.62%	32.90%	32.09%	31.73%
Finance, Insurance, RE	4.48%	6.81%	9.14%	8.56%	8.61%	8.87%
Service	4.64%	6.76%	7.36%	9.88%	10.31%	10.63%
BUS RECEIPTS	99.93%	99.94%	99.94%	99.99%	99.99%	99.99%

Source 97co 14 bs

The SOI data shows that the "Finance, Insurance, Real Estate Component had a substantial tax increase relative to other industries since 1980 while manufacturing companies enjoyed a tax decrease.

The following is the 1996 SOI data by major and detailed "industry" (based on the SOI classification scheme which classifies all subsidiaries of a conglomerate into one industry.)

SOI 1996 Tax data

\$ in millions	Total # returns	Business Receipts	Net Income	Income subject to tax	Tax before Credits	Foreign Tax Cr	Tax after Cr.
	1	5	7	9	10	11	16
Returns of active corporations	4,631,370	13,659,470	986,783	639,840	223,713	40,244	170,621
Agriculture, forestry, & fishing	158,963	111,727	6,262	2,656	764	81	660
Mining	35,799	127,584	12,112	6,813	2,525	931	1,351
Construction	471,230	699,597	25,037	9,513	2,958	196	2,668
Manufacturing	325,689	4,567,209	325,291	269,125	95,502	29,219	58,884
Transportation & public utilities.	205,777	1,183,960	93,130	80,088	28,377	432	25,964
Transportation	168,991	449,981	18,821	12,608	4,538	138	3,963
Communication.	22,166	336,001	36,750	33,176	11,602	222	11,064
Electric, gas, & sanitary serv.	14,620	397,977	37,558	34,304	12,237	73	10,936
Wholesale trade	364,497	2,074,105	49,230	29,027	9,767	571	8,947
Retail trade	774,793	2,302,939	58,633	38,483	12,920	719	11,777
Wh & retail trade not allocable	3,201	6,060	137	30	8	0	8
Finance, insurance & real estate	723,754	1,176,180	337,822	166,619	58,302	6,213	50,182
Services	1,557,401	1,408,716	79,102	37,477	12,589	1,883	10,179
Nature of business not allocable	10,266	1,394	27	8	1	0	1
Subtotal (check)	4,631,370	13,659,470	986,783	639,840	223,713	40,244	170,621
Banking	9,645	73,594	66,333	62,739	21,978	2,692	18,762
Credit excl banks.....	28,599	67,760	21,166	18,629	6,484	246	6,036
Security, com. brokers & serv.	25,085	73,204	17,593	14,944	5,233	1,104	4,030
Insurance	7,076	779,615	60,089	52,219	18,516	1,400	16,174
Life insurance	1,732	373,138	32,533	28,400	9,977	608	9,101
Property & Casualty insurers	5,344	406,477	27,556	23,819	8,539	792	7,073
Ins. agents, brokers, & serv.	79,689	48,013	4,997	2,711	877	121	744
Real estate	508,616	122,327	14,873	5,953	1,848	9	1,743
Rics, Reits, Holding Cos.	65,042	11,666	152,771	9,424	3,366	641	2,693
Check	723,752	1,176,180	337,822	166,619	58,302	6,213	50,182
Agriculture, forestry & fishing.	3.43%	0.82%	0.63%	0.42%	0.34%	0.20%	0.39%
Mining.	0.77%	0.93%	1.23%	1.06%	1.13%	2.31%	0.79%
Construction	10.17%	5.12%	2.54%	1.49%	1.32%	0.49%	1.56%
Manufacturing.	7.03%	33.44%	32.96%	42.06%	42.69%	72.60%	34.51%
Transportation and public utilities.	4.44%	8.67%	9.44%	12.52%	12.68%	1.07%	15.22%
Transportation	3.65%	3.29%	1.91%	1.97%	2.03%	0.34%	2.32%
Communication.	0.48%	2.46%	3.72%	5.19%	5.19%	0.55%	6.48%
Electric, gas & sanitary serv.	0.32%	2.91%	3.81%	5.36%	5.47%	0.18%	6.41%
Wholesale trade.	7.87%	15.18%	4.99%	4.54%	4.37%	1.42%	5.24%
Retail trade	16.73%	16.86%	5.94%	6.01%	5.78%	1.79%	6.90%
Wholesale & retail not allocable	0.07%	0.04%	0.01%	0.00%	0.00%	0.00%	0.00%
Finance, insurance & real estate	15.63%	8.61%	34.23%	26.04%	26.06%	15.44%	29.41%

Services	33.63%	10.31%	8.02%	5.86%	5.63%	4.68%	5.97%
Business not allocable	0.22%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal (check)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Banking %	0.21%	0.54%	6.72%	9.81%	9.82%	6.69%	11.00%
Credit Agency	0.62%	0.50%	2.14%	2.91%	2.90%	0.61%	3.54%
Security broker	0.54%	0.54%	1.78%	2.34%	2.34%	2.74%	2.36%
Life Insurance	0.04%	2.73%	3.30%	4.44%	4.46%	1.51%	5.33%
P&C insurance	0.12%	2.98%	2.79%	3.72%	3.82%	1.97%	4.15%
Insurance brokers	1.72%	0.35%	0.51%	0.42%	0.39%	0.30%	0.44%
Real estate	10.98%	0.90%	1.51%	0.93%	0.83%	0.02%	1.02%
Rics, Reits, Holding Cos.	1.40%	0.09%	15.48%	1.47%	1.50%	1.59%	1.58%
TOTAL	15.63%	8.61%	34.23%	26.04%	26.06%	15.44%	29.41%

Note that the “life insurers share” keep rising, from 2.73% “business receipts, to 3.30% of “net income” to 4.44% of “income subject to tax” to 4.46% of “tax before credits” and 5.33% for “tax after credits.” The “life insurance” “business receipts” (apparently premiums and investment income) are overstated. Ideally, the surrenders, policyholder dividends, and increases in reserves should be subtracted from premiums, interest, and realized capital gains. Even so; notice that the income subject to tax is much higher than “business receipts.”

A4 Economic Report to the President -- Tax Data.

The Economic Report of the President (February, 2000) also includes some tax data, apparently compiled using SOI data. The data below was from Table B-78 at page 399 (\$ in billions).

Economic Report of the President – Table B 78 (Feb. 2000) (\$ billions)

Year	Total tax	Individual	Corporate	Social Ins.	Other	Corp/Indiv
1999	\$1827.5 bil.	879.5	184.7	611.5	151.5	21.00%
1998	1,721.8	828.6	188.7	571.8	132.7	22.77%
1997	1,579.3	737.5	182.3	539.4	120.2	24.72%
1996	1,453.1	656.4	171.8	509.4	115.4	26.17%
1995	1,351.8	590.2	157.0	484.5	120.1	26.60%
1994	1,258.6	543.1	140.4	461.5	113.7	25.85%
1993	1,154.4	509.7	117.5	428.3	98.9	23.05%
1992	1,091.3	476.0	100.3	413.7	101.4	21.07%
1991	1,055.0	467.8	98.1	396.0	93.1	20.97%
1990	1,032.0	466.9	93.5	380.0	91.5	20.03%
1985	734.1	334.5	61.3	265.2	73.1	18.33%
1980	517.1	244.1	64.6	157.8	50.6	26.46%
1975	279.1	122.4	40.6	84.5	31.5	33.17%
1970	192.8	90.4	32.8	44.4	25.2	36.28%
1965	116.8	48.8	25.5	22.2	20.3	52.25%
1960	92.5	40.7	21.5	14.7	15.6	52.83%
1955	65.5	28.7	17.9	7.9	11.0	62.37%

1950	39.4	15.8	10.4	4.3	8.9	65.82%
1945	45.2	19.4	16	3.5	7.3	82.47%
1940	6.5	0.9	1.2	1.8	2.7	133.33%

(We found the Economic Report of the President on the web using a “www.google.com” search for “Economic Report President.” The web address was “www.access.gpo.gov”)

While the Corporate to Individual tax ratio has decreased from the 1975-prior period to the 1980-later period, we need to note that Corporate Social Security taxes, and corporate costs of health care have increased over time.

The sources of the data were listed were the Department of Treasury and Office of Management and Budget (OMB). However the 1996 data for corporate income taxes of 171.8 billion is slightly more than the taxes reported by the IRS Statistics of Income (SOI), Corporate Income Tax Returns for 1996. The SOI data shows “returns of active corporations” (page 26 --170.62 billion); “returns with net income “ (page 69 -- \$170.966 billion) or “active corporations excluding RIC, REITS, S corporations” (page 89-\$170.362 billion)

From Table 869 of the 1999 Statistical Abstract we have the 1980-96 data (in \$ billions); we added the 1997 data from the Corporate Source book, page 9, income from active corporations.

	Income subject to tax	Tax before Credits	Total Tax Credits	Foreign Tax Credit	Tax after Credits	President's Report Corp Tax
1997	684	239	55	42	184	182.3
1996	\$640 bil.	224	53	40	171	171.8
1995	565	194	42	30	156	157.0
1994	494	168	37	25	136	140.4
1993	437	149	35	23	(na)	117.5
1992	378	126	30	22	102	100.3
1991	350	116	29	21	93	98.1
1990	366	119	32	25	96	93.5
1985	266	109	48	24	61	61.3
1980	247	104	42	25	62	64.6

B, WAGES and EMPLOYEE COUNT

The ACLI Fact Book 1999 has some employee count data, which was obtained from the Bureau of Labor Statistics (BLS). The following is the BLS data, by Standard Industry Code (SIC). (Some of the results differ from the ACLI Fact Book 1999 because the BLS is constantly updating old data.)

Year	Insurance	Carriers	Life	AH total	Med Svc	Fire	Title	Balance	Agents
SIC	63&64	63	631	632	6324	633	636	635&639	640
1990	2126	1462.2	547.5	241.6	186.7	557.3	62.4	53.4	663.3

1991	2161	1494.6	560.0	258.7	201.1	561.9	57.8	56.2	666.3
1992	2152	1495.6	550.3	270.1	208.9	552.3	65.3	57.6	656.6
1993	2197	1529	571.9	280.5	219.4	544	73.2	59.4	668
1994	2236	1551.9	581.1	293.3	231.5	540.3	75.1	62.1	683.6
1995	2225	1528.8	564.4	304.7	243.6	532.5	64.2	63	695.5
1996	2226	1517.1	524.5	324.2	262.6	533.4	69.1	65.9	708.6
1997	2264	1538.8	518.5	340.1	277	538.2	72.5	69.5	725.2
1998	2335	1591.1	521	357	289.3	549.8	84.2	79.1	744.2
1999	2371	1610.5	506	368.9	298	558.9	86.7	90	760.8
Apr-00	2359	1592.2	495.5	368.1	297.9	560.5	76.3	91.8	766.8

Note that “life insurance” employee counts have declined about 12% from 1991, the first full year of the onerous Section 848 DAC tax.

The BLS has several categories of insurance carriers:

Code 6311 = Code 631 Life Insurers.

Includes life insurers and the tax exempt fraternal life companies.

Code 632 Health insurers = sum of 6321 and 6324.

Code 6331 fire, property and casualty

Most property and casualty insurers

Code 6335 Surety

Includes casualty-credit, mortgage guaranty and surety. Many companies who write these lines file yellow NAIC blanks and are included with P&C insurers.

Code 6336 title insurers

Code 6339 miscellaneous

Federal Deposit insurance (for banks)

Typically codes 631 and 632 file a “L&H” statement with the NAIC while codes 6331 and 6335 file a Property & Casualty statement. Code 6339 contains entities which are not state regulated insurance companies. The BLS has separate statistics for all insurance carriers (code 63) and for codes 6311; 6321, 6324, 6331, 6335 but 6350 and 639 are lumped together.

The new North American Industry Code System (NAICS) splits reinsurers from the above categories. The reinsurance category includes both L&H and P&C business. Since much reinsurance is provided by companies that also write direct, it is the author’s opinion that the proposed split is a mistake, unless the reinsurers are also split between L&H, and P&C, Title, and exempt government reinsurers.

B2. Corporate America’s Employee Count (BLS).

From the Bureau of Labor Statistics (BLS), “National Employment, Hours, and Earnings” we obtained data for Corporate America. We used their web site “www.bls.gov/ceshome.htm” and the Current Employment Statistics; Nonfarm Payroll Statistics from the Current Employment Statistics.” --

“historical series.” We selected the “not seasonally adjusted” data and used the “annual” numbers. The series ID are:

Total nonfarm EEU 0000 0001
 Total Private EEU 0050 0001
 Insurance carriers EEU7263 001 (SIC code 63)
 Insurance agents, brokers, service EEU 7264 0001 (SIC code 64)

U.S. National Employment -- from the BLS (in thousands)				
Year	Total Nonfarm	Total Private	Insurance Carriers	Insurance Agents
1920	27,340	24,737	NA	NA
1930	29,409	26,361	NA	NA
1940	32,361	28,159	NA	NA
1950	45,197	39,170	NA	NA
1960	54,189	45,836	831.7	NA
1970	70,880	58,325	1029.7	NA
1980	90,406	74,166	1224.1	463.8
1990	109,403	91,098	1462.2	663.3
1995	117,191	97,885	1528.8	695.5
1996	119,608	100,189	1517.1	708.6
1997	122,690	103,133	1538.8	725.2
1998	125,865	106,042	1591.1	744.2
1999	128,786	108,616	1610.5	760.8
April 2000	131,258	110,211	1592.2	766.8

By April 2000 there were 110.2 million Americans applied by private firms. All insurance carriers have about 1.3% of America’s employment, and life insurance carriers have about 1/3 of that. Since 1980 the insurance employment growth has not kept pace with the “total private” employment.

B3. Wage Data of Insurers (BLS)

From the BLS we also obtained some wage data, average weekly earnings of “production workers.”

EEU 0050 0004 Total Private
 EEU 7000 0004 Finance, Insurance, Real Estate ((SIC 60-65,67)

National Compensation Survey from BLS							
Average Weekly Earnings – production workers, not seasonally adjusted, "annual" data							
	Total Private	Ins Carrier 63	Life 631	A&H total 632	Medical Plans 6324	P&C 633	Life /Private
Year							
1990	345.35	418.13	383.99	412.87	416.00	446.40	1.111886
1991	353.98	439.88	396.31	428.96	431.29	473.86	1.119583
1992	363.61	467.59	421.87	455.04	459.55	502.13	1.160227
1993	373.64	496.69	461.73	487.41	495.99	527.34	1.235762
1994	385.86	528.07	500.25	512.45	520.88	557.58	1.296455

1995	394.34	561.68	536.18	536.69	546.82	603.06	1.35969
1996	406.61	584.45	549.23	558.87	572.71	635.89	1.350754
1997	424.89	609.46	549.86	576.11	592.70	673.18	1.294123
1998	442.19	649.74	588.12	611.90	634.73	708.88	1.330017
1999	456.78	658.52	597.53	622.38	646.80	719.65	1.308135
Apr-00	473.67	688.92	625.60	646.12	673.92	759.32	1.320751

The “life insurance” weekly wages appear to be about 30% higher than “total private” but are lower than P&C insurers, which have a less onerous tax system.

The total wages, however, should include high income people and even their stock options, which we don’t have. Also there may be differences in wages due to the use of more highly paid professionals that do not supervise others in some industries than in others. From stat.bls.gov/cscope we read the following.

Production or nonsupervisory workers in service industry are “nonsupervisory workers – employees who are not owners or who are not primarily employed to direct, supervise, or plan the work of others.”

Since life insurers have about 0.5% of Corporate America’s employees, their share of the wages of production workers is not much greater – maybe about 0.65%.

Census Data of Employee Count and Total Wages.

The Statistical Abstract 1999 Table 872 has Payroll and paid employees by industry, in the Advance Comparative Statistics of the United States. The source of the data is the U.S. Census Bureau (Dept. of Commerce), 1997 Economic Census, 1997 MNAICS basis. The data was combined by the Standard Industry Code (SIC),

Statistical Abstract 1999; Table 872

Advance Comparative Statistics for the U.S. (1987 Basis) 1992 & 1997.

Employees in thousands and Payroll in billions, 1997 payroll per employee in thousands.

	SIC	1992 Payroll	1997 payroll	1992 employees	1997 employees	97 payroll /employee	97 employee /Total	Payroll /Total
Mineral	10-14	24.2	22.1	638.2	550.1	40.175	0.56%	0.81%
Construction	15-17	117.7	170.3	4,668.3	5,616.8	30.320	5.69%	6.22%
Manufacturing	20-39	494.1	596.2	16,948.9	17,634.0	33.810	17.86%	21.77%
Transportation	41-47	66.2	93.8	2,725.0	3,407.7	27.526	3.45%	3.43%
Communication	48	47.1	68.7	1,294.2	1,570.2	43.752	1.59%	2.51%
Electric, Gas	49	39.2	42.2	915.0	844.8	49.953	0.86%	1.54%
Wholesale Trade	50-51	173.3	234.4	5,791.3	6,507.0	36.023	6.59%	8.56%
Retail Trade	52-57	222.9	293.6	18,407.5	21,349.1	13.752	21.62%	10.72%
Finance	60-64	176.0	259.8	5,104.2	5,641.9	46.048	5.71%	9.49%
Real Estate	65	26.2	35.3	1,231.5	1,393.6	25.330	1.41%	1.29%
Services	70-89	639.4	921.9	27,399.3	34,223.9	26.937	34.66%	33.67%
Total all categories		2,026.3	2,738.3	85,123.4	98,739.1	27.733	100.00%	100.00%

Total all categories		2,026.3	2,738.3	85,123.4	98,739.1	27.733	100.00%	100.00%
Depository	60	57.3	76.9	2,100.1	2,103.1	36.565	2.13%	2.81%
Nondepository	61	15.5	24.3	445.6	588.9	41.263	0.60%	0.89%
Security & commodity	62	33.8	67.1	406.4	642.9	104.371	0.65%	2.45%
Insurance carriers	63	50.5	65.7	1,516.6	1,586.6	41.409	1.61%	2.40%
Insurance agents, brokers	64	18.9	25.8	635.5	720.4	35.813	0.73%	0.94%
Total Finance		176.0	259.8	5,104.2	5,641.9	46.048	5.71%	9.49%

Insurance Carriers have about 1/4 of the payroll of “total finance” and about 30% of the employee count. Ranked by employee count, banks are about 1.75 times the size of insurance carriers, and security dealers are about as large, and investment companies are about 0.4% as large. (Depository institutions are SIC code 60); security and commodity brokers are SIC code 62.

The Wages of “production workers” at banks are lower than insurance companies, while the wages of security dealers are higher. The overall wages (Table 872) for insurance carriers are slightly higher than the wages of banks and nondepository credit institutions.

2d. BEA - NIPA data of Employees and Wages

The following are some statistical data produced by the Department of Commerce, Bureau of Economic Analysis (BEA). These are the National Income and Product Account (NIPA) tables 6.02 and 6.05. insurance carriers have about 1.5% of Corporate America’s employees and about 2% of the wages. (The BEA has other tables for benefit costs, number of consultants, etc.)

BEA Table 6.05 Full Time Equivalent Employees

Thousands of employees

	Private Industry	Banking	Credit Agencies	Security Comm. Brokers	Insurance carriers	Insurance Agents, Brokers
1929	32,134	385	130	128	358	120
1930	29,909	375	128	103	368	122
1935	26,742	277	108	74	364	112
1940	31,612	296	105	58	425	118
1945	36,336	343	81	42	404	118
1950	41,099	418	121	56	546	123
1955	44,381	529	184	78	702	163
1960	46,103	645	245	111	807	199
1965	50,338	750	314	124	866	232
1970	56,554	1,009	348	199	986	268
1975	59,937	1,225	425	168	1,053	338
1980	70,967	1,496	545	224	1,231	448
1985	77,155	1,621	726	357	1,272	546
1987n	81,007	2,158	356	449	1,372	607
1990	86,650	2,152	360	428	1,457	661
1991	85,055	2,067	364	423	1,479	670
1992	85,301	2,003	392	441	1,462	654
1993	87,242	1,988	444	474	1,466	666
1994	90,181	1,972	468	521	1,468	687

1995	93,133	1,935	447	532	1,451	697
1996	95,388	1,920	492	557	1,449	707
1997	98,258	1,926	547	601	1,462	724
1998	101,218	1,930	628	646	1,502	739
1999	103,798	1,926	670	686	1,527	743

Prior to 1987 the banking industry was divided into “banks” and “security agencies other than banks.” Beginning in 1987 it was divided into “depository” and “non depository” institutions.

The chart seems to indicate that the large taxes increases on life insurers in 1984 and 1990 and the large P&C tax increase in 1987 may have caused employment growth to go down. The bank taxes were also increased – by denying banks the ability to exclude tax exempt bond interest and many types of municipal bonds. Employment at security dealers has grown.

The next chart from the Bureau of Economic Analysis shows compensation in \$ millions. Security and Commodity Brokers have passed up insurance carriers in total wages by 1997 – even though they have far fewer employees. Total wages have increased almost 100 fold since 1929, while the number of workers has increased a little more than 3 times.

BEA Table 6.02 Compensation of employees
\$ in millions

	Private Industry	Banking	Credit Agencies	Security Comm. Brokers	Insurance carriers	Insurance Agents, Brokers
1929	\$45,996	782	256	407	821	239
1930	41,520	737	246	320	828	231
1935	30,613	522	200	206	645	189
1940	43,352	620	244	169	819	230
1945	86,369	896	245	226	1,031	321
1950	131,357	1,531	418	322	1,986	430
1955	187,287	2,396	801	561	3,009	682
1960	243,053	3,549	1,318	886	4,441	1,033
1965	322,565	4,881	1,982	1,299	6,089	1,470
1970	484,956	8,580	2,778	2,612	9,175	2,352
1975	737,249	14,540	4,799	3,614	14,291	4,221
1980	1,320,264	25,915	9,135	8,457	24,195	8,733
1985	1,927,610	40,497	17,611	21,030	36,378	14,515
1987n	2,198,185	57,892	11,869	32,575	44,336	18,967
1990	2,670,768	67,720	13,816	32,872	55,867	24,518
1991	2,735,913	68,048	14,691	35,583	60,359	25,476
1992	2,895,132	71,175	17,471	44,947	63,960	26,116
1993	3,040,580	74,165	21,644	54,370	67,118	27,259
1994	3,217,635	77,344	21,532	54,434	70,169	29,306
1995	3,382,805	78,887	22,087	58,857	72,391	30,585
1996	3,550,510	82,740	25,330	72,063	75,441	32,424
1997	3,773,522	87,566	29,516	79,430	78,125	34,456
1998	4,075,046	94,243	37,865	92,618	85,098	36,084
1999	4,351,977	97,933	40,027	105,872	89,700	38,148

The numbers below are in percentage terms.

BEA Table 6.05 Full Time Equivalent Employees

Thousands of employees

	Total Private	Depository	Non Depository	Total Banking	Security + Com. Brokers	Insurance Carriers	Insurance Brokers
1929	32,134	1.20%	0.40%	1.60%	0.40%	1.11%	0.37%
1930	29,909	1.25%	0.43%	1.68%	0.34%	1.23%	0.41%
1935	26,742	1.04%	0.40%	1.44%	0.28%	1.36%	0.42%
1940	31,612	0.94%	0.33%	1.27%	0.18%	1.34%	0.37%
1945	36,336	0.94%	0.22%	1.17%	0.12%	1.11%	0.32%
1950	41,099	1.02%	0.29%	1.31%	0.14%	1.33%	0.30%
1955	44,381	1.19%	0.41%	1.61%	0.18%	1.58%	0.37%
1960	46,103	1.40%	0.53%	1.93%	0.24%	1.75%	0.43%
1965	50,338	1.49%	0.62%	2.11%	0.25%	1.72%	0.46%
1970	56,554	1.78%	0.62%	2.40%	0.35%	1.74%	0.47%
1975	59,937	2.04%	0.71%	2.75%	0.28%	1.76%	0.56%
1980	70,967	2.11%	0.77%	2.88%	0.32%	1.73%	0.63%
1985	77,155	2.10%	0.94%	3.04%	0.46%	1.65%	0.71%
1987n	81,007	2.66%	0.44%	3.10%	0.55%	1.69%	0.75%
1990	86,650	2.48%	0.42%	2.90%	0.49%	1.68%	0.76%
1991	85,055	2.43%	0.43%	2.86%	0.50%	1.74%	0.79%
1992	85,301	2.35%	0.46%	2.81%	0.52%	1.71%	0.77%
1993	87,242	2.28%	0.51%	2.79%	0.54%	1.68%	0.76%
1994	90,181	2.19%	0.52%	2.71%	0.58%	1.63%	0.76%
1995	93,133	2.08%	0.48%	2.56%	0.57%	1.56%	0.75%
1996	95,388	2.01%	0.52%	2.53%	0.58%	1.52%	0.74%
1997	98,258	1.96%	0.56%	2.52%	0.61%	1.49%	0.74%
1998	101,218	1.91%	0.62%	2.53%	0.64%	1.48%	0.73%
1999	103,798	1.86%	0.65%	2.50%	0.66%	1.47%	0.72%

The data seems to support the assertion that the 1959 and 1984 and 1990 Life Insurance Tax laws caused a relative decline in insurance employment. The “insurance carrier” category includes P&C and title insurers.

BEA Table 6.02 Compensation of Employees

Millions of \$

	Total Private	Banking	Non Depository	Total Banking	Security Brokers	Insurance Carriers	Insurance Brokers
1929	45,996	1.70%	0.56%	2.26%	0.88%	1.78%	0.52%
1930	41,520	1.78%	0.59%	2.37%	0.77%	1.99%	0.56%
1935	30,613	1.71%	0.65%	2.36%	0.67%	2.11%	0.62%
1940	43,352	1.43%	0.56%	1.99%	0.39%	1.89%	0.53%
1945	86,369	1.04%	0.28%	1.32%	0.26%	1.19%	0.37%
1950	131,357	1.17%	0.32%	1.48%	0.25%	1.51%	0.33%

1955	187,287	1.28%	0.43%	1.71%	0.30%	1.61%	0.36%
1960	243,053	1.46%	0.54%	2.00%	0.36%	1.83%	0.43%
1965	322,565	1.51%	0.61%	2.13%	0.40%	1.89%	0.46%
1970	484,956	1.77%	0.57%	2.34%	0.54%	1.89%	0.48%
1975	737,249	1.97%	0.65%	2.62%	0.49%	1.94%	0.57%
1980	1,320,264	1.96%	0.69%	2.65%	0.64%	1.83%	0.66%
1985	1,927,610	2.10%	0.91%	3.01%	1.09%	1.89%	0.75%
1987n	2,198,185	2.63%	0.54%	3.17%	1.48%	2.02%	0.86%
1990	2,670,768	2.54%	0.52%	3.05%	1.23%	2.09%	0.92%
1991	2,735,913	2.49%	0.54%	3.02%	1.30%	2.21%	0.93%
1992	2,895,132	2.46%	0.60%	3.06%	1.55%	2.21%	0.90%
1993	3,040,580	2.44%	0.71%	3.15%	1.79%	2.21%	0.90%
1994	3,217,635	2.40%	0.67%	3.07%	1.69%	2.18%	0.91%
1995	3,382,805	2.33%	0.65%	2.98%	1.74%	2.14%	0.90%
1996	3,550,510	2.33%	0.71%	3.04%	2.03%	2.12%	0.91%
1997	3,773,522	2.32%	0.78%	3.10%	2.10%	2.07%	0.91%
1998	4,075,046	2.31%	0.93%	3.24%	2.27%	2.09%	0.89%
1999	4,351,977	2.25%	0.92%	3.17%	2.43%	2.06%	0.88%

C. MARKET VALUE DATA

1. Corporate Market Value Data. – Federal Reserve (Federal Reserve)

The June 9, 2000 Federal Flow of Funds Reports had the following data for the value of Corporate Equities (L.213 at page 82) (Z.1 update at page 90) The report can be obtained from the web: www.federalreserve.gov. The first quarter 2000 report showed that the value of stock was \$19.56 trillion dollars. We have also listed the amounts of stocks held by life insurance companies, P&C companies and the “household sector.” Most of the stocks held by life insurance companies are in the separate accounts. Because of proration penalties life insurance companies hold few common and preferred stocks in their general account.

\$ in billions	Issues At market Row 1	Market Value Domestic Corp Row 19	Household Sector Row 6	Life Ins. Sector Row 12	Other Ins. Row 13	Mutual Funds Row 16
2000 1Q	\$19,557.9	17,228.1	8,266.7	1,028.7	210.5	3,614.3
1999	18,876.7	16,593.9	7,829.4	969.8	204.9	3,396.9
1998	15,413.4	13,703.4	6,328.7	733.2	201.4	2,508.5
1997	13,181.4	12,688.8	5,689.6	558.6	186.0	2,018.7
1996	10,255.8	9,016.0	4,642.1	414.1	148.6	1,470.0
1995	8,495.7	7,507.6	4,121.6	315.4	134.2	1,024.9
1994	6,333.3	5,538.8	3,070.9	246.1	112.1	709.6
1993	6,306.2	5,603.9	3,242.1	201.2	103.4	607.4
1992	5,430.9	4,977.3	2,873.2	151.6	97.3	401.3
1991	4,863.3	4,450.4	2,570.9	135.8	94.1	308.9

The “market value of domestic corporations” (row 19) is computed below. It is based on all issues less foreign issues held by U.S. residents and less provisions for double counting.

Row		12/31/1999
1.	Issues at Market	\$18,876.7
2.	Non Financial	14,517.7
3	Rest of world (foreign issues held by US residents)	1,939.5
4	Financial Corporations	2,419.5
9	Commercial banking	10.4
13	Other insurance companies	204.9
17	Closed-end funds	91.8
18	Brokers and dealers	66.4
19	Mt Value Domestic Corp. (2)+(4) –{9,13,17,18}	15,593.9

The “Wilshire 5000” (which actually has about 7000 stocks of U.S. headquartered corporations) had a market value on August 7, 2000 of \$15.8 trillion, which is fairly close to row 19 above.

The “issues at market” (row 1) and “market value of domestic corporations” (row 19) include only companies that issue stock; and does not include “private companies” and some cooperatives (such as mutual L&H and mutual P&C companies). The “market value” of private companies and mutual insurance companies may add another \$2-3 trillion in value. Many of the smaller companies are private, and some larger companies are private, such as Cargill.

(The total assets of America includes lots of double counting – what is an asset for one is a liability for another, and chains of ownership can increase the gross assets. The Flow of funds, Table B100.3 shows that households and non profit organizations held \$48.66 trillion of assets at 12/31/99.)

C2. Corporate Market Value Data – Wilshire 5000.

We obtained some market value data from “www.wilshire.com.” In their web site we examined “indexes”, “Wilshire 5000”, and “fundamental characteristics.” Wilshire notes:

The Wilshire 5000 Total Market index – measures the performance of all U.S. headquartered equity securities with readily available price data. Over 7,000 capitalization weighted security returns are used to adjust the index.

Wilshire gave the following data on their web site (their column headings were incorrect):

Wilshire 5000 by Sector as of Aug. 8, 2000				
	Number of Companies	Number of Companies as % of Wilshire 5000	Market Value of Companies as % of Wilshire 5000	Market Value in \$ Billions
Capital Goods	314	4.57%	4.66%	\$ 736.3
Consumer Durables	228	3.32	1.39	219.6
Consumer Non-Durables	1446	21.03	24.87	3,929.5
Energy	252	3.67	4.87	769.5
Finance	1297	18.87	13.61	2,150.4
Materials & Services	1753	25.5	9.87	1,559.5
Technology	1169	17	31.49	4,975.4
Transportation	141	2.05	0.8	126.4
Utilities	275	4	8.43	1,331.9

TOTAL	6875	100.01	99.99	15,798.4
Total Market Capitalization			\$15.8 trillion	
From www.wishire.com; "indexes"; "Wilshire 5000" "fundamental characteristics"				

The chart indicates that all of "finance" has about 13.61% of the \$15.8 trillion in market value of U.S. headquartered equity securities. The Insurance carrier segment of that is roughly 30% of total finance (based on employee counts & wages); and the life insurance sector of the "insurance carriers" is also about 1/3 (based on employee counts & wages). Thus Life insurers might be 10% of total finance or 1.36% of the market value of Corporate America.

C3. Insurance Market Values (SNL Securities).

An investment banking firm (SNL) has an extensive list of insurance companies which it follows. SNL divided the tax into life-health, property-casualty, and multi-line companies. As of May, 2000 it had the following market values:

	\$ in millions
L&H – includes Aflac, Aon	128,635
P&C – includes Berkshire Hathaway	214,990
Multi-line – includes AIG	\$186,703
Total above	\$530,320
AIG	170,475
Berkshire Hathaway	83,999
Aon	7,533
Aflac	12,082

About one-half of Aid's market value is from affiliates outside the U.S. The Berkshire Hathaway includes investment properties. Aon is mainly a broker. About 1/2 of AFLAC's value is from its Japanese business. Of course, the U.S. insurers (like all corporations) get a foreign tax credit.

Many mutual companies are excluded from the above list, and so are many stock insurers. To estimate these we compared the May, 2000 market values to the 12/31/99 "adjusted surplus" values for a number of companies which held few foreign assets. The ratio of market value to adjusted surplus was about 1.6 to 1. To be conservative let us raise the 1.6 to 2.

For life companies the adjusted statutory surplus is \$220 billion (at 12/31/99) so doubling it gives us \$440 billion, which is about 2% of corporate America's estimated \$22 trillion in market value.. The P&C "policyholder surplus" is about \$350 billion, so doubling it gives \$700 billion, which is about 3.5% of corporate America's \$22 trillion in market value.

C4. Standard and Poors Compustat data base.

The Compustat data base tracks thousands of public companies, both U.S. and foreign. We ran the data base to pick out all companies with 12/31/99 market capital of \$100 million or more. We then eliminated the foreign companies, and the unit investment trusts (SIC code 6726). The code 6726 companies had "NA" for almost all the data.

We see that the Public Life and Health insurance companies are a small portion of Corporate America by every measure. The public Life insurers had only 0.78% of the market value; and only 4.4% of the assets, versus 36% for the banks and non depository institutions. Life companies had only 1.76 of the earnings (earnings after tax); and 1.46% of the EBIT (earnings before tax).

Compustat Data base -- as of 12/31/99 U.S. Public Companies with mkt cap > \$100 million								
Industry	SIC	#cos	MktCap	Sales0	Assets0	Shares0	Book0	Earn0
Agriculture	100-800	13	8,005	16,950	13,736	704	3,875	989
Mining	1000=1499	117	207,336	92,584	206,208	10,450	81,331	13,435
Construction	1500-1799	36	20,758	66,627	43,348	1,048	15,215	8,492
Manufacturing	2000-3999	1384	7,109,446	3,299,328	3,924,460	162,323	1,219,630	762,978
Transportation	4000-4799	82	254,417	246,625	309,429	7,122	100,578	46,317
Communication	4800-4899	162	1,837,695	403,841	1,128,687	39,453	419,744	79,601
Energy	4900-4999	143	357,872	407,185	935,111	13,813	226,193	93,483
Wholesale Trade	5000-5199	111	143,433	419,026	182,699	5,920	57,396	23,057
Retail Trade	5200-5999	252	1,079,261	1,016,210	525,440	29,403	200,940	105,353
Banks	60	299	836,658	421,358	4,855,274	25,618	351,469	243,747
Non Depository	61	39	437,210	209,736	2,165,434	9,397	119,837	95,263
Security & Com. Brokers	62	59	305,373	183,361	1,768,933	7,145	81,920	71,188
Life Co.	6311	22	69,832	48,481	521,305	1,621	35,738	19,182
A&H Cos	6321	8	23,605	46,735	214,800	856	22,303	4,876
Medical Plans	6324	12	34,408	84,738	129,743	982	17,117	6,949
P&C	6331	54	359,346	208,578	1,066,379	5,800	185,940	60,652
Guaranty	6351	16	24,708	6,622	45,505	586	13,690	6,703
Other	6361, 6399	5	2,188	7,656	5,533	143	2,203	1,059
Ins. Agents, Brokers, Svc.	64	15	47,730	26,170	42,945	917	9,990	6,764
Real Estate	65	26	15,762	12,290	42,502	1,056	11,781	3,980
Investment Cos.	67	164	162,850	49,629	321,781	7,726	108,093	26,694
Service	7000-8999	827	3,014,913	567,485	817,399	56,713	383,070	84,090
	Sum above	3846	16,352,807	7,841,217	19,266,651	388,795	3,668,054	1,764,851
	Check	3846	16,352,807	7,841,217	19,266,651	388,795	3,668,054	1,764,851

Compustat Data base – as of 12/31/99 U.S. Public Companies with mkt cap > \$100 million

	SIC	#cos	MktCap	Sales0	Assets0	Shares0	Book0	Earn0	EBITO
Agriculture	100-800	0.34%	0.05%	0.22%	0.07%	0.18%	0.11%	0.06%	0.10%
Mining	1000=1499	3.04%	1.27%	1.18%	1.07%	2.69%	2.22%	0.76%	1.06%
Construction	1500-1799	0.94%	0.13%	0.85%	0.22%	0.27%	0.41%	0.48%	0.43%
Manufacturing	2000-3999	35.99%	43.48%	42.08%	20.37%	41.75%	33.25%	43.23%	35.63%
Transportation	4000-4799	2.13%	1.56%	3.15%	1.61%	1.83%	2.74%	2.62%	2.39%
Communication	4800-4899	4.21%	11.24%	5.15%	5.86%	10.15%	11.44%	4.51%	5.22%
Energy	4900-4999	3.72%	2.19%	5.19%	4.85%	3.55%	6.17%	5.30%	5.63%
Wholesale Trade	5000-5199	2.89%	0.88%	5.34%	0.95%	1.52%	1.56%	1.31%	1.27%
Retail Trade	5200-5999	6.55%	6.60%	12.96%	2.73%	7.56%	5.48%	5.97%	5.66%
Banks	60	7.77%	5.12%	5.37%	25.20%	6.59%	9.58%	13.81%	9.70%
Non Depository	61	1.01%	2.67%	2.67%	11.24%	2.42%	3.27%	5.40%	11.33%

Security & Com, Brokers	62	1.53%	1.87%	2.34%	9.18%	1.84%	2.23%	4.03%	8.46%
Life Co.	6311	0.57%	0.43%	0.62%	2.71%	0.42%	0.97%	1.09%	0.76%
A&H Cos	6321	0.21%	0.14%	0.60%	1.11%	0.22%	0.61%	0.28%	0.33%
Medical Plans	6324	0.31%	0.21%	1.08%	0.67%	0.25%	0.47%	0.39%	0.37%
P&C	6331	1.40%	2.20%	2.66%	5.53%	1.49%	5.07%	3.44%	2.48%
Guaranty	6351	0.42%	0.15%	0.08%	0.24%	0.15%	0.37%	0.38%	0.26%
Other	6361, 6399	0.13%	0.01%	0.10%	0.03%	0.04%	0.06%	0.06%	0.05%
Ins. Agents, Brokers, Svc.	64	0.39%	0.29%	0.33%	0.22%	0.24%	0.27%	0.38%	0.34%
Real Estate	65	0.68%	0.10%	0.16%	0.22%	0.27%	0.32%	0.23%	0.31%
Investment Cos.	67	4.26%	1.00%	0.63%	1.67%	1.99%	2.95%	1.51%	2.13%
Service	7000-8999	21.50%	18.44%	7.24%	4.24%	14.59%	10.44%	4.76%	6.09%
Total		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
						%			
L&H ins.			0.78%	2.29%	4.49%	0.89%	2.05%	1.76%	1.46%
P&C ins.			2.35%	2.74%	5.77%	1.64%	5.44%	3.82%	2.74%

The Life & Health companies include the Life Cos. (American General, Lincoln National, Jefferson Pilot); the A&H companies (Aetna, Aflac, Unum, Consecoco) and the medical plan companies (Cigna, Humana, Oxford).. The P&C companies include the P&C companies (AIG, Berkshire Hathaway), and the Guaranty companies.

Technical Note on the Compustat data

The Compustat data base was run with a Factset front end. The tables below show the Factset field we used.

Input Data as of 12/31/99	Units	Factset field
Net Sales	\$ million	C12(1999)
Assets	\$ millions	C6(1999)
Price per share	\$	P(12/31/99)
Book Value = Common equity	\$ millions	C(60)
Earnings per Share (per Q)	\$	C58(1999)
Shares outstanding	Millions of shares	C25(1999)
Shares outstanding used for EPS	Millions of shares	C54(1999)

Using the above as input we computed:

Computed Data	Unit	Formula
Market Value	\$ millions	(12/31/99 price per share) (Shares outstanding)
Book Value per share	\$	(Book Value) / (Shares outstanding)
Earnings	\$ millions	(Earnings per share per Q.) (4) (Shares outstanding)

Some of the input data was marked "NA". In fact the only columns where we data in each rows was the 12/31/99 market value and the 12/31/99 price per share. Using these fields we eliminated the few "NA" rows by making some approximations;

	Unit	Default Value
--	------	---------------

Net Sales	\$ millions	40% market value
Assets	\$ millions	Market value
# shares outstanding	Millions of share	Market value / \$20
Book value per share	\$	40% (price per share)
Earnings per share	\$	10% (price per share)

The companies with a non U.S. address were removed; we also removed the unit investment trusts (code 6726) – since they had “NA” for virtually all their data. We did not remove the Reits (6798) or the open ended mutual funds (6722).

We are planning on making further runs, to compute earnings before and after extraordinary items.

C4. Alien Insurance Data

The following chart shows the market value of some alien insurance companies that were on the Compustat data base. The three large Life insurers are worth almost \$200 billion – more than all the U.S. life insurers put together. The list does not include the Munich, some of the Japanese insurers.

The high taxes on life and P&C insurance companies may have caused a significant shrinkage in the U.S. insurance industry. An alien insurance company may have an advantage – in that interest on much of its capital is taxed on a more friendly tax regime, and interest on its contingency reserves for catastrophes are not taxed.

Compustat Data for Alien Insurers	SIC		Market Value 12/31/99 (in millions)
PRUDENTIAL PLC -ADR	6311	UK	95659
AEGON NV	6311	Netherlands	63835
AXA -SPON ADR	6311	France	25300
MANULIFE FINL CORP	6311	Canada	6268
ANNUITY AND LIFE RE HLDGS	6311	Bermuda	666
LONDON PACIFIC GP LTD -ADR	6311	UK	580
SCOTTISH ANNUITY & LIFE HLDG	6311	Cayman Islands	131
PARTNERRE LTD	6331	Bermuda	1598
SCOR -SPON ADR	6331	France	1532
RENAISSANCERE HOLDINGS LTD	6331	Bermuda	805
MUTUAL RISK MANAGEMENT LTD	6331	Bermuda	693
IPC HOLDINGS LTD	6331	Bermuda	372
LASALLE RE HOLDINGS LTD	6331	Bermuda	257
PXRE GROUP LTD	6331	Bermuda	152
XL CAPITAL LTD	6351	Bermuda	6630
ACE LIMITED	6351	Bermuda	3629

C5. Market Values, Book Values and GAAP Profits – Business Week Global 1000.

In July 12, 1999 Business Week published the Global 1000; and there were 494 U.S. companies on the List. The companies were classified by a “Standard Industry Code” (SIC), but it was not clear who assigned the codes – perhaps the magazine assigned the codes. Berkshire Hathaway, Citigroup, Equifax and Transamerica were all assigned to non-bank financial, rather than to “insurance carriers.” Also the codes did not distinguish between Life & Health (631 and 632); Property & Casualty (633); Surety &

Guaranty (635). Moreover, insurance agents (64) were included with the carriers, and real estate companies were given code 64 instead of 65. We show a summary of the data below. The “BWcode” reflects the author’s subdivision of the SIC used by Business Week. For banks the “sales” numbers was marked “not applicable” so that comparisons between industries are not meaningful.

Business Week Global 1000 - July 12, 1999						
\$ in millions		Market	Book	Sales	Profits	Assets
BWcode	TOTAL all 494 cos.	11,273,083	2,233,185	4,222,612	346,149	13,765,011
61	Banks	815,713	272,848	45,201	41,044	3,754,456
62	Non bank financial	496,755	106,383	19,309	20,951	2,475,506
62x	Non bank financial - 4 special cos.	274,434	104,292	15,453	9,537	851,210
63	Insurance Carriers	287,781	114,381	118,809	14,336	835,652
631	Insurance Carriers Life	99,700	41,652	47,680	5,199	617,570
635	Insurance Carriers Guaranty	16,133	7,678	1,852	1,121	26,060
638	Insurance Brokers & Svc	29,741	6,732	5,903	1,334	31,559
64	Real Estate Managers	17,866	13,138	1,680	774	38,230
61	Banks	7.24%	12.22%	1.07%	11.84%	27.31%
62	Non bank financial	4.41%	4.76%	0.46%	6.04%	18.00%
62x	Non bank financial - 4 special cos.	2.43%	4.67%	0.37%	2.75%	6.19%
63	Insurance Carriers	2.55%	5.12%	2.81%	4.13%	6.08%
631	Insurance Carriers Life	0.88%	1.87%	1.13%	1.50%	4.49%
635	Insurance Carriers Guaranty	0.14%	0.34%	0.04%	0.32%	0.19%
638	Insurance Brokers & Svc	0.26%	0.30%	0.14%	0.38%	0.23%
64	Real Estate Managers	0.16%	0.59%	0.04%	0.22%	0.28%

Business Week Global 1000 - July 12, 1999						
\$ in millions						
BW Codes	Company	Mkt	Book	SalesUS	ProfitsUS	AssetsUS
61	BANK OF AMERICA	112,872	47,030	NA	5,606	617,679
61	BANC ONE	66,798	20,242	NA	3,869	261,496
61	WELLS FARGO	66,113	20,660	NA	1,950	202,475
61	CHASE MANHATTAN	61,100	23,500	NA	4,016	365,875
61	FIRST UNION	44,705	17,194	NA	3,696	237,363
61	BANK OF NEW YORK	27,216	5,336	NA	1,192	63,503
61	J.P. MORGAN	24,520	10,661	NA	963	261,067
61	U.S. BANCORP	23,585	5,896	NA	1,327	76,438
61	FLEET FINANCIAL GROUP	23,458	8,688	NA	1,532	104,382
61	WASHINGTON MUTUAL	22,716	9,465	NA	1,487	165,493
61	SunTrust BANKS	21,688	8,033	NA	1,088	93,170
61	NATIONAL CITY	20,811	6,713	NA	1,071	88,246
61	FIRSTAR (10)	19,052	3,736	3,345	430	38,476

61	MELLON BANK	18,685	4,557	NA	870	50,777
61	FIFTH THIRD BANCORP (10)	18,232	3,256	2,638	476	28,922
61	WACHOVIA	17,936	5,435	NA	874	64,123
61	PNC BANK	17,295	5,964	NA	1,115	77,207
61	KeyCorp	15,571	5,989	NA	996	80,020
61	BANKBOSTON	14,060	4,848	NA	792	73,513
61	PROVIDIAN FINANCIAL (10)	13,606	926	2,105	296	7,231
61	STATE STREET	12,267	2,315	NA	436	47,082
61	BB&T (10)	11,216	2,952	2,942	502	34,427
61	NORTHERN TRUST (10)	10,090	1,904	2,319	354	27,870
61	COMERICA	9,443	2,777	NA	607	36,601
61	MERCANTILE BANCORPORATION	9,211	3,070	NA	375	35,800
61	BANKERS TRUST **	9,042	4,306	NA	-73	133,115
61	REGIONS FINANCIAL (10)	8,481	3,141	2,998	422	36,832
61	MARSHALL & ILSLEY (10)	7,306	2,149	1,675	301	21,566
61	HUNTINGTON BANCSHARES (10)	7,277	2,140	2,324	302	28,296
61	REPUBLIC NEW YORK	7,263	2,690	NA	248	50,424
61	SUMMIT BANCORPORATION (10)	7,070	2,719	2,401	466	33,101
61	SOUTHTRUST (10)	6,515	2,833	2,859	369	38,134
61	UNIONBANCAL (10)	6,084	2,765	2,506	466	32,276
61	UNION PLANTERS (10)	5,890	2,945	2,694	226	31,692
61	SYNOVUS FINANCIAL (10)	5,453	1,091	1,235	187	10,498
61	GOLDEN WEST FINANCIAL	5,361	2,978	NA	447	38,469
61	FIRST TENNESSEE NATL. (10)	5,351	1,163	1,925	226	18,734
61	ZIONS BANCORPORATION (10)	5,030	1,070	1,098	147	16,649
61	AMSOUTH BANCORPORATION (10)	5,009	1,518	1,649	263	19,902
61	FIRST AMERICAN (10)	4,762	1,832	1,746	211	20,732
61	CHARTER ONE FINANCIAL (10)	4,728	1,970	1,935	277	24,467
61	OLD KENT FINANCIAL (10)	4,638	1,104	1,475	199	16,589
61	POPULAR (10)	4,131	1,589	1,872	232	23,160
61	M&T BANK (10)	4,076	1,698	1,460	208	20,584
62	FANNIE MAE	69,568	14,198	NA	3,444	485,014
62	MORGAN STANLEY DEAN WITTER	55,060	13,429	NA	3,276	317,590
62	AMERICAN EXPRESS	54,517	9,735	NA	2,201	126,933
62	CHARLES SCHWAB	42,870	1,448	NA	348	22,264
62	FREDDIE MAC	40,538	7,949	NA	1,700	321,421
62	GOLDMAN SACHS GROUP	32,251	7,679	NA	1,256	231,796
62	MERRILL LYNCH	30,224	9,750	NA	1,259	299,804
62	ASSOCIATES FIRST CAPITAL	28,395	8,605	NA	1,224	75,175
62	MBNA	22,149	2,575	NA	776	25,806
62	HOUSEHOLD INTERNATIONAL	21,046	6,190	NA	1,157	52,892
62	FRANKLIN RESOURCES (10)	10,968	2,437	2,642	500	3,480
62	E*TRADE GROUP (10)	10,320	974	284	-1	1,969
62	CAPITAL ONE FINANCIAL (10)	9,909	1,321	2,600	275	9,419
62	DONALDSON, LUFKIN & JENRETTE (10)	8,221	2,569	8,452	371	72,282
62	PAINWEBBER GROUP	6,852	2,447	NA	434	54,176
62	SLM HOLDING	6,762	650	NA	501	37,210
62	LEHMAN BROTHERS HOLDINGS	6,489	4,056	NA	736	153,890

62	KANSAS CITY SOUTHERN (10)	6,206	985	1,284	190	2,620
62	KNIGHT/TRIMARK GROUP (10)	5,937	200	356	67	359
62	AMERITRADE HOLDING (10)	5,215	205	158	0	1,290
62	BEAR STEARNS	4,942	3,089	NA	660	154,496
62	CIT GROUP (10)	4,698	2,764	2,271	339	24,303
62	T. ROWE PRICE (10)	4,642	663	886	174	797
62	COUNTRYWIDE CREDIT	4,629	2,104	NA	385	15,648
62	CONCORD EFS (10)	4,347	362	376	64	520
620	CITIGROUP	150,936	40,794	NA	5,807	668,641
621	TRANSAMERICA	9,144	5,715	NA	707	58,503
622	EQUIFAX (10)	4,986	222	1,621	193	1,829
623	BERKSHIRE HATHAWAY (10)	109,368	57,562	13,832	2,830	122,237
63	AMERICAN INTERNATIONAL GROUP (10)	141,616	30,786	33,239	3,766	194,398
63	ALLSTATE	29,455	14,728	19,307	3,294	87,691
63	AMERICAN GENERAL	18,186	8,660	3,605	1,052	105,107
63	TRAVELERS PROPERTY CASUALTY (10)	15,479	9,105	10,451	1,343	51,274
63	HARTFORD FINANCIAL SERVICES GROUP	14,347	5,739	10,323	964	131,743
63	CHUBB	11,305	5,653	5,304	707	20,746
63	PROGRESSIVE (10)	10,219	2,689	5,292	457	8,463
63	ST. PAUL	8,155	6,273	6,693	397	38,323
63	CNA FINANCIAL	7,988	8,876	13,375	282	62,359
63	CINCINNATI FINANCIAL (10)	6,801	5,232	2,054	242	11,087
63	XL CAPITAL	6,783	4,845	685	588	10,109
63	SAFECO	5,990	5,445	4,562	352	30,892
63	ACE (10)	5,907	3,938	1,407	560	8,789
63	NATIONWIDE FINANCIAL SERVICES (10)	5,550	2,413	2,512	332	74,671
631	CIGNA	19,121	8,313	16,413	1,292	114,612
631	EQUITABLE	15,708	5,067	588	833	159,501
631	AFLAC	13,627	3,785	5,943	431	31,183
631	LINCOLN NATIONAL	10,302	5,422	1,621	510	93,836
631	CONSECO (10)	9,886	5,203	7,716	510	43,600
631	UNUM	7,447	2,758	3,959	363	15,183
631	JEFFERSON-PILOT	7,173	2,989	1,049	444	24,338
631	HARTFORD LIFE (10)	6,644	2,555	4,699	306	100,980
631	PROVIDENT (10)	5,297	3,311	3,938	254	23,088
631	TORCHMARK	4,495	2,248	1,754	256	11,249
635	MBIA	6,814	3,786	425	482	11,797
635	MGIC INVESTMENT (10)	5,247	1,749	975	385	3,051
635	AMBAC FINANCIAL GROUP (10)	4,072	2,143	452	254	11,212
638	MARSH & McLennan	18,725	3,672	NA	796	11,871
638	AON	11,016	3,060	5,903	538	19,688

D. GROSS DOMESTIC INCOME and GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP), the featured measure of U.S. output, is the market value of the goods and services produced by labor and property located in the United States. Gross domestic income (GDI) is the

cost incurred and the income earned in the production of GDP. It should be equal to GDP but because the components are estimated independently there is a difference called the “statistical discrepancy.” See a paper on the web sit (www.beadoc.gov) -- Seskin and Parker, A Guide to the NIPA’s, March 1998 Survey of Current Business.

The following are some data for 1996, from the Seskin & Parker paper:

Nipa line		(billions of \$)	Nipa Table
2	Wage and salary	\$3,633.6	6.03
5	Supplements to wages	793.3	
1 = 2+5	Compensation of employees	4,426.9	6.02
+ 8	Proprietor’s income	520.3	6.12
+ 10	Corporate profits with inventory and capital consumption adj.	735.9	
+ 19	Net Interest	425.1	6.15
= 20	NATIONAL INCOME	6,254.5	6.01
+21	Business Transfer Payments	33.6	
+24	Indirect business tax & nontax liab.	604.8	
- 25	subsidies less current surplus of government	25.4	
+26	Consumption of fixed capital	830.1	
= 31	GROSS NATIONAL INCOME	7,697.6	
33-32	Payts to – receipts from rest of world	(1.7)	
34	GROSS DOMESTIC INCOME (GDI)	7,695.9	
35	statistical discrepancy = GDP – GDI	(59.9)	

36	Personal consumption expenditures	5,207.6
40	Gross Private domestic investment	1,116.5
47	Net Exports goods & services	(94.8)
50	Government Consumption	1,406.7
	GROSS DOMESTIC PRODUCT (GDP)	7,636.0

We see that for GDI the biggest component is compensation to employees – for wages and supplements to wages. The supplements include the employer’s social security unemployment taxes, and contributions for workers compensation, private pension and profit sharing, private group health and life insurance, etc.

On the GDP side the biggest component is personal consumption expenditures. See Statistical Abstract, 1999, table 721 for the various components of GDP for various time periods.

1. GDP estimates (BEA)

The Statistical Abstract of the United States, 1999 Table 722 had Gross Domestic Product (GDP) by major industry (\$ in billions) (5,743.8 represents \$5.74 trillion dollars). The following is some selected data.

\$ billion	1990	1995	1996	1997
GDP	5,743.8	7,289.6	7,961.6	8,110.9
Private Industry	4,951.4	6,308.9	8,667.9	7,083.3
Manufacturing	1031.4	1282.2	1309.1	1378.9

Wholesale trade	367.2	491.4	519.8	562.8
Retail Trade	503.5	641.0	673.0	712.9
Depository banks	169.2	229.1	240.6	266.4
Non depository	21.5	39.7	44.3	56.3
Security & Commodity	39.7	73.4	96.5	106.6
Insurance carriers	69.3	118.5	120.0	148.0
Insurance agents	37.1	46.7	48.0	50.7
Services	1,059.4	1,445.4	1,544.2	1,656.8
Federal Govt	293.3	327.7	334.8	338.1
State Govt.	499.0	635.0	658.9	689.6

The Bureau of Economic Affairs (Dept. of Commerce) has additional data.

Line		Billions of dollars						1997%
		1992	1993	1994	1995	1996	1997	
1	Gross domestic product	6244.4	6558.1	6947	7269.6	7661.6	8110.9	114.51%
2	Private industries	5370.8	5655.4	6013.5	6306.9	6667.9	7083.3	100.00%
3	Agriculture, forestry, & fishing	112.4	106.1	119.2	109.5	130.4	131.7	1.86%
6	Mining	92.2	94.6	94.9	98.7	113.8	120.5	1.70%
11	Construction	229.7	242.4	268.7	286.4	311.9	328.8	4.64%
12	Manufacturing	1063.6	1116.5	1216.1	1282.2	1309.1	1378.9	19.47%
36	Transportation & public utilities	528.7	561.7	598.7	616.4	649.3	676.3	9.55%
49	Wholesale trade	406.4	423.3	468	491.4	519.8	562.8	7.95%
50	Retail trade	544.3	573.2	615.3	641	673	712.9	10.06%
51	Finance, insurance, and RE	1147.9	1218.1	1267.6	1362.3	1448.6	1570.3	22.17%
61	Services	1200.8	1267	1350.4	1445.4	1544.2	1656.8	23.39%
76	Statistical discrepancy	44.8	52.6	14.6	-26.5	-32.2	-55.8	-0.79%
	Total Private industries	5370.8	5655.5	6013.5	6306.8	6667.9	7083.2	100.00%
78	Federal	321.4	323.4	324.9	327.7	334.8	338.1	4.77%
81	State and local	552.2	579.3	608.6	635	658.9	689.6	9.74%
	Grand Total	6244.4	6558.2	6947	7269.5	7661.6	8110.9	114.51%

The BEA also has detail within each major industry. For Finance and Insurance it has:

Line		Billions of dollars						1997%
		1992	1993	1994	1995	1996	1997	
2	Private industries	5370.8	5655.4	6013.5	6306.9	6667.9	7083.3	100.00%
51	Finance, insurance, and RE	1147.9	1218.1	1267.6	1362.3	1448.6	1570.3	22.17%
52	Depository institutions	200.1	203	207.4	229.1	240.6	266.4	3.76%
53	Nondepository institutions	28.3	37.6	36.1	39.7	44.3	56.3	0.79%
54	Security and commodity brokers	49.5	63.9	78.5	73.4	96.5	106.6	1.50%
55	Insurance carriers	83.4	106.6	108.8	118.5	122	146	2.06%
56	Ins. Agents, brokers & service	39.5	41.5	45	46.7	48	50.7	0.72%
57	Real estate	734.9	759	802.9	843.8	892.2	935	13.20%

58	Nonfarm housing services	553.5	568.7	607.3	643.1	675.8	712.7	10.06%
59	Other real estate	181.4	190.2	195.6	200.7	216.4	222.4	3.14%
60	Holding & investment offices	12.3	6.7	-11.1	11	5.1	9.4	0.13%
	Total	1148	1218.3	1267.6	1362.2	1448.7	1570.4	22.17%

The insurance carriers are about 2.06% of total private GDP, and life insurers are about 1/3 of that. The GDP data equals personal consumption, private domestic investment, net exports and government consumption. Personal consumption is obviously related to wages.

F. FIXED PRIVATE CAPITAL

The Statistical Abstract 1999 also has “fixed private capital” in billions of dollars in Table 897. Here 12,707 means 12.7 trillion dollars. The source is the U.S. Bureau of Economic Analysis, Survey of Current Business, September, 1998. Manufacturing, transportation and major subcategories under total private. Insurance carriers and agents are sub-sub categories under “finance.”

	1990	1995	1996	1997
Total Private Capital	\$12,707 bil.	15,736	16,497	17,316
Residential	6,147	7,779	8,186	8,591
Non residential	6,559	7,967	8,311	8,725
Manufacturing	1,200	1,427	1,481	1,533
Transportation	1,849	2,2204	2,278	2,360
Finance & real estate	1,489	1,872	1,959	2,074
Depository	269	354	370	388
Non depository	73	105	115	127
Security & Commodity	10	11	11	12
Insurance carriers	104	164	175	185
Insurance agents	6	6	6	7

Again insurance carriers are a small percentage of the “finance” subtotal and a very small percentage of non-residential “fixed private capital.” The Bureau of Economic Analysis, Table 3 gives a breakdown of Net Cost of Fixed Private Capital. (the 1995 numbers don’t quite agree because the BEA is always revising their numbers.) For more data see the U.S. Bureau of Economic Analysis, Table 5 Current Cost Net Stock of Private Assets by Industry, 1988-98.

	1990	1991	1992	1993	1994	1995
Fixed private capital	12,706.7	12,955.2	13,484.1	14,193.8	14,980.0	15,685.8
Nonresidential equipment	2,452.2	2,519.5	2,590.0	2,700.8	2,863.3	3,050.5
Residential equipment	49.5	50.8	52.6	55.4	58.6	61.0
Nonresidential structures	4,107.3	4,177.2	4,302.7	4,504.0	4,704.1	4,902.5
Residential structures	6,097.8	6,207.7	6,538.7	6,933.6	7,354.0	7,671.8
Total	12,706.8	12,955.2	13,484.0	14,193.8	14,980.0	15,685.8

BEA – Table 5.—Current-Cost Net Stock of Private Fixed Assets, by Industry, 1988–98

\$ in Billions								
Industry	Line	1988	1990	1995	1996	1997	1998	1998%
Private fixed assets	1	11,540.9	12,760.3	15,908.5	16,722.5	17,573.4	18,642.9	
Real Estate	61	6,294.1	6,943.7	8,779.2	9,232.2	9,714.0	10,358.8	
Private fixed assets - real estate		5,246.8	5,816.6	7,129.3	7,490.3	7,859.4	8,284.1	100.00%
Agriculture, forestry, & fishing	2	453.4	481.5	551.2	569.2	588.7	613.9	7.41%
Mining	7	401.1	430.8	455.0	482.9	500.6	529.8	6.40%
Construction	12	72.5	81.7	100.5	108.9	118.0	129.3	1.56%
Manufacturing	13	1,094.6	1,217.2	1,457.3	1,520.9	1,590.1	1,660.2	20.04%
Transportation & public utilities	37	1,705.4	1,855.3	2,231.9	2,312.7	2,398.4	2,477.4	29.91%
Wholesale trade	53	256.9	285.6	379.0	405.3	433.3	463.0	5.59%
Retail trade	54	344.9	390.7	514.1	549.7	583.0	617.4	7.45%
Finance and Insurance	56-60,65	431.2	522.1	701.8	754.3	804.0	879.8	10.62%
Services	66	486.9	551.7	738.5	786.4	843.4	913.3	4.90%
Total Private fixed assets - RE		5246.9	5816.6	7129.3	7490.3	7859.5	8284.1	44.44%

BEA – Table 5.—Current-Cost Net Stock of Private Fixed Assets, by Industry, 1988–98

\$ in Billions								
Industry	Line	1988	1990	1995	1996	1997	1998	1998%
Private fixed assets - Real Estate		5,246.8	5,816.6	7,129.3	7,490.3	7,859.4	8,284.1	100.00%
Depository institutions	56	204.3	236.3	268.1	274.6	285.5	300.6	3.63%
Nondepository institutions	57	88.1	113.8	166.3	192.2	207.9	239.3	2.89%
Security and commodity brokers	58	30.6	40.0	63.5	68.9	74.9	84.2	1.02%
Insurance carriers	59	70.6	88.8	139.0	145.7	154.7	165.3	2.00%
Insurance agents, brokers, svc.	60	7.6	8.5	12.8	14.3	15.7	17.3	0.21%
Holding & other Investment offices	65	30.0	34.7	52.1	58.6	65.3	73.1	0.88%
Total Finance and Insurance		431.2	522.1	701.8	754.3	804.0	879.8	10.62%

G. Expenditures by Consumer Unit

The Statistical Abstract 1999 also has expenditures by consumer unit in Table 738. The data is for 1997 and shows average yearly expenditures, for “all consumer units.” The data shows blacks and Hispanics separately and has data by year of age.

Statistical Abstract 1999 Table 738 & 740

Average Annual Income & Expenditures of Consumer Units

	1991	1997
# consumer Units	97,918	105,578
Expenditures Total	29,514	34,819
Food	4,271	4,801
Alcohol	297	309
Housing	9,252	11,272

Apparel	1,735	1,729
Transportation (vehicle purchase, gas, other)	5,145	6,457
Health Care	1,584	1,841
Entertainment	1,472	1813
Personal Care products	other	528
Reading	163	164
Education	other	571
Tobacco products	276	264
Misc.	other	847
Cash contributions	other	1,001
Life Insurance & other personal insurance	356	379
Pensions and social security	2,431	2,844
Personal Taxes	3,172	3,241
Other	Balance	

source BLS, Consumer Expenditure Survey

Thus life insurance and other personal insurance are about 1% of personal expenditures.

H. Corporate Profits as Reported on NIPA.

The U.S. Department of Commerce, Bureau of Economic Analysis (BEA) computes “corporate profits” – in the National Income and Product Accounts (NIPA). This data is based on adjustments to the IRS Statistics of Income data., and the BEA numbers are constantly being revised. The Table 8.25 shows the derivation of Corporate Profits Before Tax.

BEA Table 8.25 NIPA Accounts						
\$ in billions	1992	1993	1994	1995	1996	1997
1 Total receipts less total deductions, IRS	415	507.9	585.1	717.8	797.6	905.5
2 Plus: Adjustment for misreporting on income tax returns	70.7	72.5	78.1	85.7	94.1	107.7
3 Post tabulation amendments and revisions\1\	1.1	5.1	-13.5	-6.4	-4.3	8.4
4 Income of organizations not filing corp. income	23.8	22.5	23.6	27.8	28.4	29.2
5 Federal Reserve banks	17.8	16.1	17.8	22.2	21.8	23.4
6 Federally sponsored credit agencies\2\	1.9	2.1	2.1	2.6	2.7	3.1
7 Other\3\	4	4.3	3.7	3	4	2.7
8 Depletion on domestic minerals	7.3	6.9	7.6	8.1	8.2	8.4
9 Adjustment to depreciate expenditures for mining	-7.4	-6.3	-3.8	-2.1	0.6	6.4
10 State and local corporate profits tax accruals	24.4	26.9	30	31.7	33	34.2
11 Interest payments of regulated investment cos.	-57.1	-59.6	-77.3	-79.2	-86.4	-96.1
12 Bad debt expense	89.6	80.7	67.9	67.8	74.7	83.6
Less: Tax-return measures of:						
13 Gains, net of losses, from sale of property	70.9	90.8	71	115.5	132.9	201.1
14 Dividends received from domestic corporations	25.3	28.8	33	38.7	47.2	57.7
15 Income on equities in foreign corp. and branches	67.2	77.1	79.2	92.3	107.1	113.8
16 Costs of trading or issuing corporate securities\4\	15.5	20.8	11.1	20.5	25.3	24.1
17 Taxes paid by domestic corporations to foreign gov.	5.5	5.7	7.1	7.7	8	8.9
18 Plus: Income received from equities in foreign corp.	68.7	76.7	77.2	92	100.9	110.7
19 Equals: Profits before taxes, NIPA's	451.6	510.4	573.4	668.5	726.3	792.4

Note that capital gains and dividends received from domestic corporations are removed from NIPA – because they don't represent current income (in the case of capital gains), or to prevent double counting (in the case of dividends). For income tax purposes there is the 70% intercorporate dividends received deduction, and capital losses are deductible (subject to limitations). It would seem reasonable that the disallowance of 30% of the dividends and the capital loss restriction rules would be “reverse tax expenditures.”

Revised NIPA Data by Industry

From the BEA Web site we found the revised October, 1999 data by industry. We went to the web site “www.bea.doc.gov” and then “selected NIPA tables” and then “annual only NIPA tables” where we downloaded 117 comma delimited annual only text files. The following is from Table 6.17C

The pension problem was fixed, but the “insurance carrier” are based on SOI data – which exclude insurance companies owned by manufactures or retail stores.

BEA Table 6.17C.~Corporate Profits Before Tax by Industry								
[Millions of dollars]	1992	1993	1994	1995	1996	1997	1998	1999
1 Corporate Profits Before Tax	451,594	510,375	573,406	668,454	726,345	792,396	758,172	822,976
2 Domestic industries	382,878	433,634	496,168	576,442	625,492	681,706	654,672	711,560
3 Agriculture, forestry, and fishing	1,951	1,911	1,385	1,842	2,950	3,059	3,104	4,355
6 Mining	2,040	1,509	3,348	4,517	8,124	10,972	3,184	2,376
11 Construction	7,966	10,148	13,650	17,265	21,932	25,696	32,758	36,229
12 Manufacturing	93,139	107,711	144,709	172,518	175,789	192,312	167,600	183,909
13 Durable goods	36,512	50,793	72,544	77,298	81,184	92,051	79,189	91,366
25 Nondurable goods	56,627	56,918	72,165	95,220	94,605	100,261	88,411	92,543
36 Transportation & utilities	58,488	69,300	82,954	85,894	92,023	83,991	82,532	89,700
37 Transportation	2,219	6,368	10,316	11,613	16,157	18,639	22,148	24,470
45 Communications	27,604	33,202	36,837	33,604	35,012	25,570	22,966	26,641
48 Electric, gas, & sanitary serv.	28,665	29,730	35,801	40,677	40,854	39,782	37,418	38,589
49 Wholesale trade	26,481	30,614	36,883	35,546	41,588	46,315	50,905	58,455
50 Retail trade	36,265	41,831	49,187	47,471	54,806	62,648	76,512	84,784
51 Finance, ins. & real estate	123,398	129,104	117,726	160,062	171,827	195,658	180,922	190,752
52 Depository institutions	95,692	86,732	81,639	99,679	99,677	106,853		
53 Federal Reserve banks	17,828	16,127	17,784	22,202	21,784	23,383		
54 Commercial depository inst	77,864	70,605	63,855	77,477	77,893	83,470		
55 Nondepository institutions	14,635	16,557	17,343	19,594	22,356	22,144		
56 Security and commodity brokers	1,843	3,986	5,995	1,806	5,121	11,349		
57 Insurance carriers	9,616	16,132	19,298	24,444	28,529	23,593		
58 Ins. Agents, brokers & service	3,024	3,130	3,917	4,129	4,453	4,628		
59 Real estate	-4,049	-1,785	-483	1,674	3,369	5,691		
60 Holding and other invest. offices	2,637	4,352	-9,983	8,736	8,322	21,400		
61 Services	33,150	41,506	46,326	51,327	56,453	61,055	57,155	61,000
74 Rest of the world\2\	68,716	76,741	77,238	92,012	100,853	110,690	103,500	111,416

The NIPA corporate profits data is based on IRS data and suffers from the same problems; and since certain items like capital gains and dividends are excluded, adjustments would have to be made.

F. Market Share Data

The Section 848 Deferred Acquisition Cost (DAC) tax is very onerous on life insurance products, and less onerous on annuities. The tax on life insurers in general is much higher than for mutual fund management companies. Therefore one might expect to see a declining “market share” of life insurance versus deferred annuities, and a decline in the ratio of life insurance assets to mutual fund assets. This is the case, see the ACLI Fact Book 1999, page 137 & 141 which compare the growth of life and annuity reserves, and see 93-94 which compare life and annuity premiums. See page 130 which compares assets of life insurance companies with mutual funds. Of course, factors other than tax might have contributed to the declining share of life insurance premiums & reserves versus annuity premiums & reserves; or “life insurance” v. “mutual funds.” Also, why the premiums for life insurance have not grown as fast as annuities, they have still increased since 1985.

Source of Funds – ACLI and Federal Reserve
(\$ in billions)

Year	Life Ins Co.	Mutual funds	Total	Life Share
1998	2,769.5	4,944.2	7,713.7	35.90%
1995	2,063.6	2,598.1	4,661.7	44.27%
1990	1,351.4	1,101.7	2,453.1	55.09%
1988	1,125.0	835.5	1,960.5	57.38%

Premiums from ACLI 1999 Fact Book, Table 6.7 \$ in millions

	Life	Annuity	Health	Life & Ann	Total	Life %
1950	6,249	939	1,001	7,188	8,189	86.94%
1955	8,903	1,288	2,355	10,191	12,546	87.36%
1960	11,998	1,341	4,026	13,339	17,365	89.95%
1965	16,083	2,260	6,261	18,343	24,604	87.68%
1970	21,679	3,721	11,367	25,400	36,767	85.35%
1975	29,336	10,165	19,074	39,501	58,575	74.27%
1980	40,829	22,429	29,366	63,258	92,624	64.54%
1985	60,127	53,899	41,837	114,026	155,863	52.73%
1986	66,213	85,712	44,153	151,925	196,078	43.58%
1990	76,692	129,064	58,254	205,756	264,010	37.27%
1995	102,766	158,389	90,038	261,155	351,193	39.35%
1998	119,897	229,493	94,881	349,390	444,271	34.32%

NAIC reporting change occurred in 1986, increasing annuity sales

Policy Reserves from ACLI Table 9.5 (\$ in millions)

	Life	Health	Individual Annuity	Group Annuity	Suppl. Contracts	Total	Life %
1955	54,588	575	with grp	13,216	6,980	75,359	72.44%
1960	70,791	865	4,327	14,952	7,538	98,473	71.89%
1965	90,795	1,432	5,028	22,187	8,178	127,620	71.14%

1970	115,442	3,474	6,951	34,009	7,903	167,779	68.81%
1975	150,063	6,293	12,442	59,907	8,411	237,116	63.29%
1980	197,865	11,015	31,543	140,417	9,499	390,339	50.69%
1983	220,968	14,956	64,661	221,724	10,132	532,441	41.50%
1985	235,854	18,805	96,969	303,021	10,653	665,302	35.45%
1990	348,774	33,448	282,129	515,794	16,822	1,196,967	29.14%
1995	511,021	63,233	594,147	618,666	25,258	1,812,325	28.20%
1998	655,983	82,020	763,329	845,164	30,952	2,377,448	27.59%

II. DISCUSSION of MEASURES

We used every measure we could think of to compare life & health insurance tax burdens to Corporate America. Almost all the measures (except reported taxable income or similar measures) show that life insurers are paying way too much tax relative to their share of Corporate America.

The authors two favorite measures are market value and wages. Wages and Market Values can be computed for all public companies, and public companies make up most of Corporate America. Income is generally thought to be a product of capital and labor, and labor is best measured by wages (plus benefits and stock options) and capital is best measured by market value. Therefore wages and market value are intuitively reasonable.

Some of the other measures are good within the insurance industry, but have flaws when comparing insurers to other industries, however by virtually every measure one can think of life insurers are way over paying their taxes. We discuss some measures here

1. Sales. For life insurers there are a wide variety of “sales” measures – as is shown below

		Comment
1a	Direct Premium	Base of state premium tax
1b	Net Premium (Direct + Assumed – Ceded)	NAIC premium
2a.	Gross revenue = net premium + investment income	NAIC gross income
2b	Above + capital gains and losses	A line on 1120 L
3.	Above – increase in reserves	Used in 1120 L for proration
4.	Above – benefits	Used in 1120 L to measure DAC tax

I think the best definition is #4.—which is consistent with the definition used by the banks. Banks do not count deposits as receipts. The number used for GAAP and the IRS Statistics of Income is presumably 2a. The use of (2a) would overstate life insurance receipts. (Insurance companies on the NAIC blank have had different treatment of annuity deposits. Sometimes they have been treated like bank deposits, and other times as premiums balanced off by reserves.)

2. Assets.

Total assets give lots of weight to the banks, and are obviously not an appropriate measure of tax liabilities. Surprisingly, life insurers are only a tiny fraction of bank assets; and are not even that big compared to Corporate America.

3. GAAP Book Value

Gaap book value is an interesting measure. There are however serious flaws because the GAAP standards vary from industry to industry and from company to company. Where taxes were historically based off GAAP (as in manufacturing companies) the GAAP is conservative. Where there is no tie in (as for Life companies) the GAAP definition of earnings tends to be aggressive. This is discussed below.

Nevertheless the life insurance share of tax far exceeded its share of GAAP book value.

One problem with GAAP is that many mutual life insurers don't have GAAP. We can approximate the effect of using GAAP by grading on "adjusted statutory surplus" and comparing GAAP book to adjusted statutory values for mutuals which have recently become public, such as Metropolitan, John Hancock, and Mony.

4. GAAP earnings.

GAAP earnings are an interesting measure, but there are flaws -- similar to the flaws with GAAP book value.

5. NIPA – National Income and Product Accounts.

An earlier study of Life Insurance Tax burdens used NIPA (National Income and Product Account) data for Corporate Profits before Taxes. NIPA data is interesting, but as pointed out in that study the use of NIPA data has flaws.

The NIPA numbers, are produced by the BEA (Commerce Department, Bureau of Economic Analysis) and are based on IRS numbers (with some adjustments). NIPA numbers are used for computing GDP and are reasonable for that use. In fact, the BEA makes no attempt to produce accurate numbers by industry, and their industry numbers are merely used for extrapolation purposes.

To understand the flaw in using NIPA consider two corporations -- both are earning \$1000 in "economic income" (which is of course difficult to define). Suppose the first suffers a couple of artificial add-ons (based on say equity and revenue), while the second uses tax shelters. If a researcher uses NIPA data, he/she will find that the tax burden is roughly 35% for both:

		Co. 1	Co. 2
1	Economic Income	1000	1000
2	Add ons /tax shelters	1000	(400)
3	Reported Taxable Income = (1)+(2)	2000	600
4	Tax rate = 35%	35%	35%
5	Tax after foreign tax credits	700	210
6.	NIPA Income	1900	650
7.	Tax / NIPA	26.84%	32.3%

In row 5 the tax should be before the foreign tax credit, but some researcher do not add back the foreign tax credit.

6a. Wages.

Wages are a common denominator for all industries. Ideally we should include benefits and stock options.

6b. Employee Count.

Employee count is a proxy for wages. We can use a weighted employee count to adjust for the difference in wage levels between different industries.

7. GDP

The Bureau of Economic Analysis computes GDP by industry. This measure seems to be correlated with wages. This is an interesting measure, but part of it comes from the IRS, and may have certain flaws.

8. Personal Expenditures.

The author believes this to be a fairly good measure. If consumers are spending lots of money on cars, and little on insurance, then we would expect car companies to make more money than insurance companies.

Arguments for and against wages

Some experts have expressed doubts about the use of wages (including stock options and benefit costs). Wages, however, are a common denominator for all industries, and are subject to less variation than other measures such as GAAP income. The author, however, believes that the ratio

“economic profits” / “economic profits” plus (wages & stock options & benefits)

should tend to be similar for all industries. If a company doesn't make profits it won't be able to hire employees. If a company is ultra profitable it may find ways to pay owners (who are often management employees) through wages or stock options or dividends or just plain growth in market value.

III Use of GAAP income.

A. GAAP book value and/or GAAP income

Public corporations also compute a “book income” based on Generally Accepted Accounting Principles – or (GAAP). If there were uniform formulas for GAAP then it could be a good measure. Unfortunately there are different standards for various industries, and within an industry GAAP methodology varies from company to company. For life insurers GAAP is not as standard as statutory accounting and is not as standardized as tax accounting.

We discuss some considerations of how GAAP for life insurers differs from the GAAP of many other industries. We will discuss the treatment of policy acquisition costs, versus the amortization methods used by manufacturing companies. We will also discuss “hidden value” which is not recognized in GAAP value, such as the value of broadcasting licenses and the value of certain natural resources.

Acquisition Cost Treatments

Many corporations depreciate assets used accelerated methods – or at least using straight line methods. They also use LIFO (rather than FIFO) for evaluating inventory. For decades the “tax accounting” method for corporations is tied (in part) to GAAP accounting. The author believes this had led to a

conservative method of reporting earnings. The author remembers, when he was a young child that there was a debate over Chrysler motor company's handling of inventory. They used the less conservative method (FIFO) – which increased reported income – but unfortunately also increased taxes. Eventually, the stock analysts said the car company's accounting technique was “stupid” and they would give them negative credit, and the car company changed the method.

Life insurers, on the other hand, were not using a so-called “GAAP” method – until one was invented in 1974. Moreover GAAP has never been used for tax purposes (except for 1-2 years when there was a tie in to an alternative minimum tax.)

For statutory (NAIC) purposes companies were allowed to use “modified” or “Commissioner's Reserve” methods – which amortized a computed expense allowance for a long period of time – like a mortgage. This method was invented by A. Zillmer and T. B Sprague in 1866 and 1870; and like the method of computing premiums and reserves – was based on an interest assumption.

Prior to 1984 companies could use “net level reserves” for tax purposes. Since there was no tie in for statutory to tax – the statutory method was probably more liberal than the GAAP standards used for general corporations. The 1974 GAAP standard used a methodology similar to the Zillmer modified reserves --- except that the net level reserve and the deferred acquisition costs were shown separately.

In more recent times FASB has developed FAS 97 (for universal life) and single premium deferred annuities; and FAS 120 for participating whole life. These accounting standard can be very aggressive (the opposite of “conservative”) and can lead to “trajectory DAC.” (See the author's paper in the Record Society of Actuaries, May 1995.)

We have the following standards for writing off costs, where we see that life insurance companies are the least conservative.:

Acquisition Cost amortization	Use
Immediate Write Off	Various companies
Accelerated depreciation	Industrial Companies
Straight line depreciation	Industrial Companies
Mortgage method	Life Insurers – FASB 60, statutory
Negative Amortization (trajectory DAC)	Life Insurers – FASB 97, 120

The negative amortization which can be used with FAS 97 and FAS 120 doesn't seem to make much sense to the author, but that can be the result.

Statutory accounting used the Mortgage method for computing “modified” and “net level” reserves. The reserves are usually based on a “factor method” where factors are applied to the “in force” face amounts, so that acquisition costs for policies that lapse are written off immediately. In Section 848 of the Internal Revenue Code the extra DAC (7.7%, 2.05, 1.7% of individual life, group life and annuity premium) is written off over 10 years – but with no reduction for policies that lapse.

For statutory accounting Life Insurers may defer the acquisition costs over a long period of time (the premium paying period for whole life plans which might be 100 years). For GAAP accounting life insurers may use a 30 year amortization method. Other corporations defer costs over shorter periods.

Unaccounted value.

Almost all companies have some franchise or “goodwill” value. If you have a customer base then one might have repeat business. Other corporations, however, probably have greater goodwill value than life companies, because “ease of entry” is greater.

Other corporations also have great value in intangible assets. The patents and trademarks and broadcasting licenses are worth quite a bit. There are very few valid patents in the insurance field.

Other corporations also have tangible assets that may appreciate in value. The oil in the ground increases with inflation.

Appendix on Trajectory DAC.

We will explain “trajectory DAC” using some charts. In the charts we compare three mortgage payment patterns for an 8% \$100,000 home mortgage, with the DAC payoff patterns under Fas 97 and Fas 120. The chart has four rows and two columns. In the first column we show the “payment patterns” and in the second column we show the amortization pattern. In the first row we show a level payment pattern; and the amortization (second column) show the payoff pattern – which is a downward pointing parabola. In the second row we assume the mortgagor is a “super saver” and works at 2-3 jobs to pay off the mortgage. The mortgage may decrease like the depreciation schedule of a corporation – a downward pointing line. The third row illustrate a “super optimist” whose mortgage payments are based on an exponentially increasing hypothetical pattern of earnings. In the early years the super optimist doesn’t even pay down the debt – but instead the outstanding debt increases for a long period of time – like a trajectory shell.

The fourth row, first column shows the pattern of a cash value on a whole life pattern – it is increasing like a straight line. If the actuary assumes most of the hypothetical future profit is from “excess interest” (and uses a hypothetical level spread), then the hypothetical future profit, called Expected Gross Profit (EGP) or Expected Gross Margin (EGM) in Fas 97 and Fas 120 – will follow the pattern of the cash value. The “DAC mortgage” also looks like a trajectory shell.

The FAS 60 method and the statutory method follow row 1 – level payment pattern.

B. Accounting Income – the leveraging effect of artificially high taxes.

Suppose we have two industries, both earning \$1 billion dollars and both paying an effective federal income tax rate of 20%. Then the tax on the second industry is increased to 40%, and the industry compensates by raising prices so that it earns the same \$800 million after tax. To earn the same \$800 million, the pre tax income must rise to \$1333 million.

The tax does not merely double – but increases from \$200 million to \$553 or 277.5%. Of course, the industry which raises prices might not be able to compete for either customers or employees.

C. ACLI Tax Study

Several years ago the ACLI hired Coopers and Lybrand to compare life insurance taxes versus the taxes of Corporate America. They study compared life insurance company taxes to statutory income and Corporate America taxes to GAAP income. The study showed that Life Companies were considerably paying more taxes than Corporate America, although the differences were not as dramatic as we have shown using wages, and market value and other measures.

The Study was based on measures of “accounting income” – which has certain flaws as discussed above.

D. Taxes on Other Financial intermediaries.

Using the 1996 Statistics of Income, Corporate Income Tax Returns we also analyzed the income taxes of banks, other credit institutions, and security dealers, and investment companies. In 1996 banks paid slightly more tax than insurance companies (\$18 billion) versus \$16 billion for all insurance carriers, and versus about \$10 billion for life insurers. We must remember, however, that the SOI data puts subsidiaries in the same class as the parent. Thus credit life companies owned by banks are in the bank, not the insurance total. The tax on security brokers was about \$4 billion, and about \$2 billion for non-bank investment companies, and about \$6 billion for credit institutions other than banks.

Based on employee count banks are 4 times as large as life insurers, security dealers are about as large, and investment companies are about 1/2 as large. We have not researched the market values of banks or security dealers.

Experts have suggested that financial institutions pay lots of taxes because they deal in money. (Willie Sutton, a notorious bank robber was quoted as saying he robbed banks “because that is where the money is.” (he apparently denied saying that). Experts have suggested that Life Insurers are paying more than other than banks not only because of the stock mutual war, but because the bank regulators, the FDIC, the OCC (Office Controller of the Currency), and the Federal Reserve Board wants banks to prosper.

Employees from BLS (numbers in thousands)					
	Banks	Other Depository Inst.	Security & Commodity Brokers	Insurance Carriers	Insurance vs. Others
Code	60	61	62	63	
1990	2,250.5	372.8	424.2	1,462.2	47.98%
1991	2,164.2	379.4	419.6	1,494.6	50.44%
1992	2,095.7	405.5	440.1	1,495.6	50.85%
1993	2,088.8	454.9	471.6	1,529.0	50.71%
1994	2,065.7	490.6	515.5	1,551.9	50.52%
1995	2,025.1	462.9	525.4	1,528.8	50.73%
1996	2,018.6	522.0	553.0	1,517.1	49.04%
1997	2,027.2	577.3	596.0	1,538.8	48.08%
1998	2,046.0	657.6	646.5	1,591.1	47.49%
1999	2,061.0	710.4	687.8	1,610.5	46.56%
4/2000	2,045.1	686.1	727.5	1,592.2	46.03%

IV. Why Life Insurers pay so much tax.

The major reason for the excessive tax is the “stock vs. mutual life insurance war.” This **first “modern” war** started in 1982, but a temporary truce called “stop gap.” was drawn up. In the truce “mutual life” insurers were allowed to deduct 77.5% of dividends and non-par deductions and “stock life” were allowed to deduct 85% of dividends and non par deductions. (There were earlier wars in 1959 on the L&H side and in 1942 on the P&C side)

War Number Two 1984

In 1984 the war began again, and in this case both sides were big losers, with “mutuals” bigger losers than stocks. As a result of the war there were a host of tax increases imposed on life insurers:

1. Reserve effects.
 - a. net level reserves replaced by CRVM reserve for life
 - b. net level reserves for non-can A&H replaced by two year preliminary term
 - c. specified mortality table – replaced by the table which produced the weakest reserve.
 - d. company interest rate – replaced by highest rate permitted in 26 states.
2. Contingency reserves eliminated
 - a. Non par and Group health specials eliminated
 - b. Phase three deferrals eliminated.
3. Policyholder dividends.
 - a. No deduction for the increase in page 3 line 7 dividend provision (unless fully accrued)
4. Mutual Life add-on tax. (Sec. 809)
 - a. A special tax imposed on “mutual life” insurers based on their “equity”
5. “Tracing rule” on muni bonds.
 - a. If a life insurer owns a P&C insurer, then a second level proration penalty is imposed if the P&C pays dividends to the life insurer.

The above tax increases were partially offset by a 20% special deduction. The treasury (no less) realized that the above was excessive and took pity on us and reduced the 46% tax rate by 20%. In 1987 the general corporate rate was decreased to 34% and the special 20% deduction was repealed – which in effect gave life insurers a 20% increase versus the rest of Corporate America.

The Life War spreads to our sister P&C affiliates -- 1986

In 1986 Congress raised taxes on Property and Casualty and Title insurers. The P&C tax increase might have been a spillover from the stock-mutual life war, since many stock life insurers had P&C affiliates and three of the largest mutual life insurers had P&C affiliates. The increases were from the following:

1. Discounted loss reserves
Long term claim reserves are not discounted explicitly for tax purposes – but there is often explicit discounting which results from the increase in payments on outstanding claims.
2. DAC
Arbitrarily decided that acquisition costs were 20% of unearned premiums.
3. Proration on muni bonds, preferred stock, common stock
Arbitrarily required a 15% proration penalty
4. Elimination of the “mutual P&C” PAL (protection against abnormal loss) contingency reserve account.

To the extent that life companies had cancelable A&H business they were affected by the first two rules. The Life company proration rule was much worse than 15%, but Congress didn’t find it necessary to reduce life insurance taxes.

The Mop Up Action by the Government in 1987

In 1987 the government again raised Life Insurance Taxes – by further weakening tax reserves. Instead of using the highest rate permitted in 26 states the government raised the interest rate to the “applicable federal rate.” Since there is a cash value floor the effect on whole life, although serious, was contained. On Disability Income business there were further substantial reductions in reserves because the products have no cash value.

Moreover, as interest rates have come down the government has not allowed us to strengthen tax reserves. In many cases this results in a mismatch. Companies take capital gains, pay capital gains taxes, but the tax reserve interest rate is locked in. Al Guertin around 1945 suggested that we use capital gains for reserve increases. Recently, the NAIC has required companies to use the IMR to prevent them from immediately recognizing the capital gains for tax purposes; but the IMR increases are not tax deductible.

War Number 3 -- 1990

In 1990 the stock and mutual war broke out again. Apparently some mutuals thought that they could get the Sec 809 “equity tax” repealed if there were a revenue offset – in this case a “deferred acquisition cost” add-on for all life insurers. The mutuals recruited a sponsor, Cong. Downey of New York, but Cong. Downey instead of making the bill revenue neutral for the entire life insurance industry made it revenue neutral for the mutuals, and revenue positive for the stocks, because he wanted to “spend” the tax money on other things. (In those days new spending programs required a “pay for.”) Then Treasury got the Downey bill, and it became revenue positive for everyone, and Sec. 809 was not repealed. (Cong. Downey was defeated for reelection by Cong. Rick Lazio based on unrelated issues, and Cong. Lazio in 2000 is running for the U.S. Senate for New York against Mrs. Hillary Clinton – whose husband President Bill Clinton has proposed more increases in the DAC tax and a tax on 815 accounts– but the increases has been derailed by Congressional Democrats and Republicans.)

Peace at Last

In 1999 the stock-mutual War finally came to an end and peace was declared. There were two major factors that led to the end. **First** most of the mutual life companies transformed – which left almost no one to fight the war on the mutual side. **Second**, in 1999 and 2000 the Treasury announced another plan to increase life insurance taxes to an even higher level, including a tax on Sec 815 phase three balances, increased DAC taxes, and increased proration taxes on P&C insurers.

The transformation of the mutuals took at least three forms. **First**, many mutual insurers including the three very large mutual life insurers, John Hancock (MA), Metropolitan (NY) and Prudential (NJ) announced plans to demutualize. Prior to that other large life insurers had demutualized – including Mutual of New York or Mony Financial (NY), Equitable (NY), State Mutual or Allmerica (MA), Unum (ME), Maccabbees (MI); Guarantee (NE); and Standard of Oregon (OR). **Second**, a number of former mutual life companies converted to MHC – including Amerus (IA) (which later demutualized); Principal (IA), Pacific (CA); Security Benefit (KS); Ohio National (OH); National (VT); Minnesota (MN); Acacia (DC) & Ameritas (NE), General American (MO) (which later merged with Metropolitan which demutualized in early 2000) and at least a half dozen others. In 1999 the Treasury issued Revenue ruling 99-3 that said that mutual holding companies were not “mutual life” for the purpose of the Sec. 809 equity tax. **Third**, some mutual life insurers had “de-lified” (become taxed as “non-life.”) By 2000 the number of relatively large “mutual life stayers” has been reduced to four : New York Life (NY); Northwestern Life (WI); Massachusetts Life (MA) and Guardian (NY). The four plus a few other mutuals have only 10% of the life insurance assets.

The industry has become united in opposing segmented taxes and tax increases in general. The Life Insurance trade organization, the American Council of Life Insurers, which was frozen out of tax negotiations from 1982-99 has now started to lobby for the industry. In past tax fights (on product tax issues) the ACLI and the industry have been very effective.

Appendix on Section 809

Section 809 was only imposed on the equity of insurance companies whose parent was both “mutual” and “taxed as a life insurer.” The tax was not imposed on non-life insurance mutual or cooperative. Also many “mutual type” life insurers were not subject to section 809. These included life & health companies and life affiliates whose parent companies were in the following categories:

- a. Mutual P&C insurers and “nor profit reciprocals.”
- b. Blue Cross franchise companies.
- c. Companies owned by Labor Unions or Churches.
- d. Companies owned by Canadian or other alien mutuals (but U.S. branches of Canadian mutual life companies were treated like mutuals.)
- e. Companies owned by P&C insurers which had no shareholders.
- f. Mutual Life insurers taxed as “non life”

Section 809 had multiple flaws – but we shall discuss only two. The first, is the trailing three year average problem. Thus the “mutual life” rate of return is compared to the trailing three year average of stock insurers. The fluctuation in earnings – often caused by changed in tax laws or the general economy – can produce positive and negative “differential earnings rates.” But the Treasury was successful in prevent the mutual life insurers from deducting the negatives. We illustrate the trailing three year average problem, where we assumed that mutuals earn the current year stock rate every year (after the multiplication by the 90.555 factor), but that the earnings for both stocks and mutuals jump up in year 4. The mutual rate exceeds the imputed rate in year 4 by 3%, but is 1% less in the following three years.

Yr	Stock rate	Imputed	Mutual	RDER
1	15		15	
2	15		15	
3	15		15	
4	18	15	18	-3
5	15	16	15	+1
6	15	16	15	+1
7	15	16	15	+1

The second is the “denominator problem.” Suppose that a mutual and stock both have \$10 billion of equity, and both earn 15%. Both have \$5 billion of cash equity invested in non-life insurance companies or alien life insurance companies. Suppose the non U.S. life and non-life insurers are fairly new and just earn an interest return – say 8%. For simplicity we assume the dividends from the overseas and non-life companies are zero and the equity method of accounting was not sued. We then had the following:

	Consolidated	U.S. Life	Other	Form 8390
Stock Life	1500/10,000	1100 / 5,000	400 / 5,000	1100/ 5,000 = 22%
Mutual Life	1500/10,000	1100 5,000	400 / 5,000	1100 / 10,000 = 11%

Form 8390 is used to compute the differential earnings rate. In this case the stock life company reports a 22% return on equity, while the identical mutual life insurer reports a 11% return on equity. Indeed some stock insurers have a reported 30-40% return on “life equity.”

V. The Harm Caused by the High Level of Life Insurance Company Taxes.

A. Reduced Policyholder Values

The Life Insurance Level of Taxes – based on their share of wages and market value is about \$8 billion or about 80% too high. Total policyholder dividends are about \$16 billion, and “excess interest” on universal life and annuity products may be another \$16 billion. If the excess tax money were allocated to policyholders in excess interest then we might be able to raise excess interest or policyholder dividends and excess interest by about 25%.

B. Hurts Employees

Alternatively, Corporate America’s Federal Income taxes average about \$1,750 per employee, for the 110 million employees. (The average would be smaller if the life insurers were removed.) For some life insurers the tax is about \$20,000 per employee. If the tax were more reasonable than life companies might be able to give their employees a raise to bring them up to the level paid by P&C insurers, and still have lots left over for raising policyholder dividends or excess interest.

The high taxes may be hurting agents by making the life insurance products less attractive.

C. Foreign Competitive Problem

The high taxes on both Life and P&C insurers may be driving many insurers to sell out to foreign interests or move abroad – often to a tax haven.

Thus many European insurers and banks are buying U.S. Life and P&C insurers. By rebating money to the overseas parent, the interest on capital can increase in a more hospitable environment. In Europe, many insurers are allowed to hold “contingency reserves” for catastrophes like windstorms, tidal waves, and earthquakes – while the interest on such reserves is fully taxed in the United States. While many alien insurers maintain a large staff in the United States some jobs inevitably move to other countries – perhaps the top management jobs. Certainly the large alien life and P&C insurers are many times larger than U.S. mutual companies. AIG is a large company, but at least half of it is based on foreign countries.

VI. Related Topics.

In this section we consider some topics related to tax burdens. This includes the so-called “inside build up” and municipal bond interest.

A. Inside Build Up.

It is frequently asserted that there is an advantage at the product level for both life insurance and annuity products. This is so-called the “inside build up.” The theory is that most policyholders are not taxed currently on the increase in cash value, while the life insurance companies get a deduction.

For annuities any supposed advantage is offset by including the gain on the annuity in income tax (as well as the estate tax) On annual premium whole life policies the tax savings on the inside build up are almost

wholly offset by the loss of deduction for those who surrender in the first few policy years. Consider an example, (1) one person buys a stock for \$1000 and it falls to \$100, he sells and takes a \$900 loss. (2) another person buys a \$50,000 face amount whole life policy for \$1000 and surrenders it at the end of year one, for a \$100 cash value. In (1) the person has a capital loss deduction, which can be offset against other income (subject to limits). In(2) the \$900 loss is considered the “cos of insurance” and is non-deductible. The actual cost of insurance was about \$100, and the other \$800 went to cover acquisition costs.

Also policies do pay tax on surrender, and they pay tax currently when dividends excess premiums (which for some mutual life companies occurs around duration 30).

The inside build up advantage, therefore, is largely a myth.

B. Proration on muni bonds, preferred stocks and common stocks.

Life Insurance companies are subject to ugly proration penalties on municipal bonds, preferred stocks and common stocks. Rich people generally receive a full exclusion for muni bond interest, while P&C companies receive an 85% exclusion, while life companies may be subject to 50-90% tax. Because of the “implicit tax” (lower yield) on muni bonds few insurers taxed as “life” buy muni bonds. (Some L&H insurers are taxed as non-life and do buy muni bonds.)

A Congressman – an expert in municipal finance – once told me that the proration rules helped preserve the federal revenue base – by restricting the amount of buyers. Of course, the expert realized this was inefficient. Afterward the U.S. Supreme Court decided in South Carolina v. Baker, that the federal government can tax muni bond interest any time it wants. As a result the U.S. Treasury was able to restrict “arbitrage” and more directly and efficiently protect the federal revenue..

Preferred Stock

On preferred stocks general corporations have the 70% dividends received deduction, which means if the dividends to the corporate shareholder is \$1 million, then only \$300,000 is taxable. P&C insurers have 85% times the 70%, which means that if the dividend is \$1 million, then \$405,000 is taxable. Individuals have no exclusion. The corporate exclusion is justified because the corporation borrowing the money by preferred stock is unable to deduct the typically large preferred stock dividends.

Common Stock

On investments in common stock -- general corporations have the 70% dividends received deduction – But dividends on common stock are generally very small – about 1.05% of market value (See the data on the Wilshire 5000). Instead of dividends the corporate income is often left with the corporation or is used to buy-back stock and help the market value. Today (in 2000) individuals have significant advantages for owning common stock. These include the 20% capital gains rate, and the step up in basis on death. Since dividends are very low, it is not unreasonable for a corporate stock to go up 9% per year in value (i.e. pay a 1% dividend and earn 10% after tax).

The corporate “capital gains” tax on common stock is still 35% -- which puts corporations at a disadvantage in owning these securities.

C. The Move to Bermuda

Certain P&C affiliates have moved to Bermuda – either by redomiciling or by selling out to a Bermuda owned insurer, such as Ace and Excel. The author believes that this trend is due to the high taxes imposed on U.S. insurers.

D. Corporate Tax Shelters

Corporations have supposedly used these shelters to reduce income. Many, however, have been plugged by Treasury regulations, changes in the law, or plugged by the courts. The New York Times, Friday, August 11, 2000, had another article on a “Bond and Option Sales Strategy” (BOSS). Other shelters were

1. Step down preferred
2. 357(c) basis adjustment
3. ACM Partnership.

VII. Reforming the life insurance tax law.

A. Raising Treasury Revenue – from proration reform on muni bonds

We can suggest a number of reforms. The first would *actually raise federal and state revenue* and give life insurers a small break. That is replace the onerous life insurance “proration rule” for muni bond interest by a 15% proration formula – the same as used for P&C insurers (actually a zero rate for all insurers is justified. The 15% means that 15% of the muni bond interest is subject to tax. The 15% proration, times the 35% corporate rate means that P&C insurers have a 29.75% tax benefit for owning muni bonds. This is much less than the 39.6% or 36% rate imposed on most upper income individuals. For state purposes most individuals are exempt from tax when they buy the bonds from their state. P&C insurers get little or no benefit from any of the states when they buy muni bonds.

Currently, the life insurance proration formula is based on a complex formula which uses actuarial items, such as “required interest” and on the average 60-80% of muni bond interest is taxable. This burden is so heavy that the volume of tax exempt bonds owned by Life Insurers is di minimis. The Life Insurance Blank used to show muni bond interest, and the author’s 1992 study showed that the percentage of assets held by life insurers invested in muni bonds was 0.15% -- and much of that was by life insurers that were taxed as “non-life.”

By giving life insurers reasonable treatment, the federal and state taxes will go up, and muni bond yields will decrease slightly. In effect, whatever bonds that life insurers buy, will have a lower revenue cost than is granted to upper income individuals.

Various tax publications have long complained that high income individuals avoid paying any tax. The biggest cause is buying muni bonds (Of course, the upper income individuals who buy the bonds really pay an implicit tax, but the tax is reduced because life insurers are walled off from the muni market.)

In times past, many in Congress thought that penalties on potential buyers of tax exempt bonds was one way to keep states from issuing gobs and gobs of them and in effect reduce federal tax revenues. Around 1988, however, the U.S. Supreme Court decided in *South Carolina v. Baker* that the Treasury could tax muni bonds it wanted to. As a result of that decision the Treasury has a powerful club to control the volume of tax exempt bonds, and indeed has put into various anti-arbitrage rules in the Federal Income Tax Code.

B. Eliminating Section 848 DAC – or replacing CRVM reserves with “net level” reserves.

The use of CRVM (or “modified reserves”) already has a built in deferred acquisition costs. In fact, GAAP reserves are based on net level reserves, less an explicit DAC.

In 1866 Dr. Zillmer invented the preliminary term reserves, and his paper in German specifically noted the coverage of deferred acquisition costs (a translation was completed by the author and professional translators and passed out in 1989 for the 100 th anniversary of one of the actuarial societies; and another is available on the internet.) T. B. Sprague wrote a paper in English on the full preliminary term method. In 1936 and 1946 Dr. Walter O. Menge (later chairman of the Lincoln National) discussed preliminary term reserves, and noted that the reserves provided a deferred acquisition cost adjustment.

The two year preliminary term required of disability income business defers too much DAC. The CRVM method is the one-year preliminary term method – for whole life plans.

C. Allowing Contingency Reserves.

Many P&C reinsurers and some insurers have either moved to or started from Bermuda. These companies might have a tax advantage – interest on surplus is not taxable. Some of these companies, especially XL and Ace were formed to cover the catastrophe risks.

Some European insurers receive a deduction for the catastrophe reserves, but the U.S. eliminated the life company “phase 3” reserves and the mutual P&C “protection against capital loss” account in 1984 and 1986.

To keep insurers in the United States and to be fair to domestic insurers the U.S. should allow contingency reserves.

D. Reforming the Life Insurance Company Reserve Rules.

There are a variety of reserve computation rules that reduce reserves. These are unfair and should be eliminated. In particular, the use of very high reserve discount rates is unfair, and we should at least revert back to the 26 state rule.

Whole Life reserves and term life insurance reserves should be based on select-ultimate tables, rather than the table which produces the lowest reserve.

E. Reforming 815 and the Life versus non life consolidation rules.

Section 815 imposes taxes on phase 3 balances. It is usually a voluntary tax, but causes problems when a corporation want to deploy capital. The bills can sometimes arise unexpectedly – and are onerous for certain charities. One of the biggest phase 3 tax bills was imposed on a meritorious charity – the Mac Arthur foundation – the family who set up the charity owned Bankers Life of Chicago.

The Life insurance versus non-life insurance rules are complex and probably unintelligible to even those who tried to write them (many of the complex points are “reserved.”) Apparently the rules were designed in an era when P&C affiliates invested in tax exempt bonds and generated tax losses which were offset by life insurance gains. Those rules have changed. Moreover, life and health and P&C insurers both compete in health insurance – a very big line of business. The consolidation limitation can apply to

affiliates who are essentially writing the same business. (Since the life versus non-life test is based on reserves, some very ancient life insurance business can cause a health insurer to be taxed as “life.”)

The rationale for 809, 815, and consolidation limitations are no longer present, and all should be repealed.

[Historical Note]

Whole Life

The whole life policy was invented in 1756, by James Dodson, Fellow of the Royal Society, and perhaps the first consulting actuary. His brainchild was the Equitable Society in London, founded in 1762 after Dodson’s death in 1757. (The author of this paper distributed a copy of Dodson’s 1756 paper at the 100th anniversary of the Actuarial Society of America 1989.) Dodson calculated the first premiums, and also computed the first reserves (the net and gross premiums were equal); and the reserves were on the “net level” plan. The first policyholder dividends were developed by the Amicable – these were non guaranteed death benefits which are now called terminal dividends. Rev. Richard Price (an economist and a friend of Benjamin Franklin and the United States, and perhaps an honorary U.S. citizen) developed annual dividends for the Equitable policies.]

Transformations.

The transformation of mutuals into stocks has also occurred in other countries. In England, the Norwich Union demutualized in the mid 1990s. The Norwich Union was formed in 1808 and in 1866 had absorbed the world’s first mutual life insurer -- the Amicable formed in 1706. The Equitable Society of London has decided in 2000 to demutualize. Some Australian companies have demutualized. In Canada the four large Canadian mutual life insurers – Manulife, Sun Life, Clarica, Canada Life have all demutualized.

The Life insurance MHC law was imported from the Banking industry. People’s Bank of Bridgeport was the first bank to use the MHC – and did so around 1988. Amerus, which owned an Savings and Loan did the first life insurance MHC in 1986. Austria and Quebec have MHC laws.]