

CHAPTER 23

Life Insurance Companies*

INTRODUCTION

Functions and structure of the life insurance business.—The principal function of life insurance companies is to make available contracts providing protection against financial loss from death; many companies also offer contracts providing protection against the financial risk attendant upon old age or financial loss from certain other contingencies, such as illness and accident. Most life insurance contracts are sold on a level-premium plan of payment (the premium is the same each year) under which the premium in the early years exceeds the cost of insurance and in later years is less than the cost of insurance. Level-premium insurance provides a practical means for an individual to acquire insurance extending to the later years of life. Policies sold under this payment plan will normally generate in their early lifetime premium income in excess of claims and expenses. This excess must be invested in assets which together with their earnings and future premium payments will be sufficient to meet future benefit payments and expenses under the policies. This accumulation of assets reflects a second main function of life insurance companies, that of serving as a source of capital funds for investment.

The accumulated assets of all U.S. life insurance companies totaled about \$159 billion at the end of 1965. The growth of these assets over the postwar period is shown in the table below, with the data classified as to the assets held by mutual or by stock life insurance companies. Stock life insurance companies accounted for a growing share of total assets in this period, although their proportion of the total was still less than one-third by the end of 1965.

Total assets of U.S. life insurance companies classified by mutual and stock companies

End of year	Millions of dollars			Percent of total		
	Mutual	Stock	Total	Mutual	Stock	Total
1945.....	35,091	9,706	44,797	78	22	100
1950.....	49,551	14,469	64,020	77	23	100
1955.....	68,061	22,371	90,432	75	25	100
1960.....	87,533	32,043	119,576	73	27	100
1965.....	111,968	46,916	158,884	70	30	100

Source: Institute of Life Insurance.

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