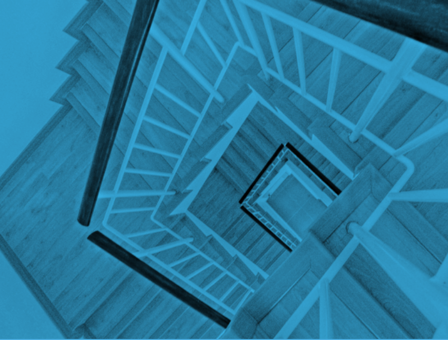

NEAM VANTAGE POINT

Perspectives

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OUR VIEW ON INSURANCE CAPITAL MANAGEMENT TOPICS

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2025 Health Industry Investment Highlights: Net Investment Income Fell Despite Higher Book Yields & Dividend Yields

Decade-high bond and dividend yields were not enough to prevent a decline in net investment income.

EXECUTIVE SUMMARY

In 2025, the U.S. health insurance[1] industry's net investment income declined, as lower income contributions from cash and short-term investments as well as Schedule BA assets more than offset the benefits of higher fixed income bond yields and equity dividend yields, both of which reached decade highs in 2025.

Industry asset allocation remained broadly stable, with bonds remaining the dominant asset class, followed by cash and short-term investments. A modest reduction in bond allocations in 2025 was reallocated primarily to equities and Schedule BA investments.

Fixed income portfolios continued to benefit from the prolonged higher-yield environment with credit quality and duration remaining largely unchanged for the health industry. Corporate bonds remained the largest fixed income sector while insurers steadily increased allocations to structured securities.

NET INVESTMENT INCOME[2] (NII) DECLINED, DRIVEN BY LOWER INCOME FROM CASH, SHORT-TERM INVESTMENTS, AND SCHEDULE BA ASSETS

Table 1 shows that net investment income (NII) declined from its 2024 peak. Fixed income securities increased their contribution to gross investment income (GII) for the second consecutive year and accounted for more than half of total GII in 2025 (Table 2), supported by record-high book yields (Table 4). Equities also contributed a larger share of GII, benefiting from higher dividend yields (Table 3) and increased portfolio allocations (Chart 1). However, lower income from cash and short-term investments as well as Schedule BA assets more than offset these gains. As a result, both NII dollars and the NII ratio declined in 2025.

Table 1. Earned Invested Income $ Billion and Percentage

Category	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total Cash/ Investments [$B]	345.7	345.1	346.0	327.1	307.8	289.3	237.8	216.6	208.2	188.9
Gross Earned Investment Income [$B]	16.3	17.1	15.4	10.1	7.2	7.0	8.0	6.8	6.3	4.6
Investment Expenses [$B]	1.8	1.5	1.5	1.3	1.1	1.2	1.1	1.1	1.0	1.0
Net Investment Income [$B]	14.5	15.6	14.0	8.8	6.1	5.8	7.0	5.7	5.2	3.6
Net Investment Income [%]	4.20%	4.51%	4.15%	2.77%	2.03%	2.19%	3.06%	2.68%	2.64%	1.99%

Source: NEAM, S&P Capital IQ Pro

Table 2. Gross Earned Investment Income Contribution by Asset Class

Category	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Bonds	51%	49%	47%	52%	61%	62%	56%	57%	50%	63%
Equities	10%	7%	6%	8%	14%	16%	15%	14%	13%	13%
Cash/Short-Term	23%	27%	30%	12%	1%	4%	13%	12%	5%	3%
Real Estate/Mortgage	5%	5%	6%	8%	11%	12%	10%	11%	12%	16%
Sch BA and Other	10%	12%	12%	20%	13%	6%	7%	6%	20%	5%
Total Gross Earned	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: NEAM, S&P Capital IQ Pro

Table 3. Gross Investment Income % by Broad Asset Sector

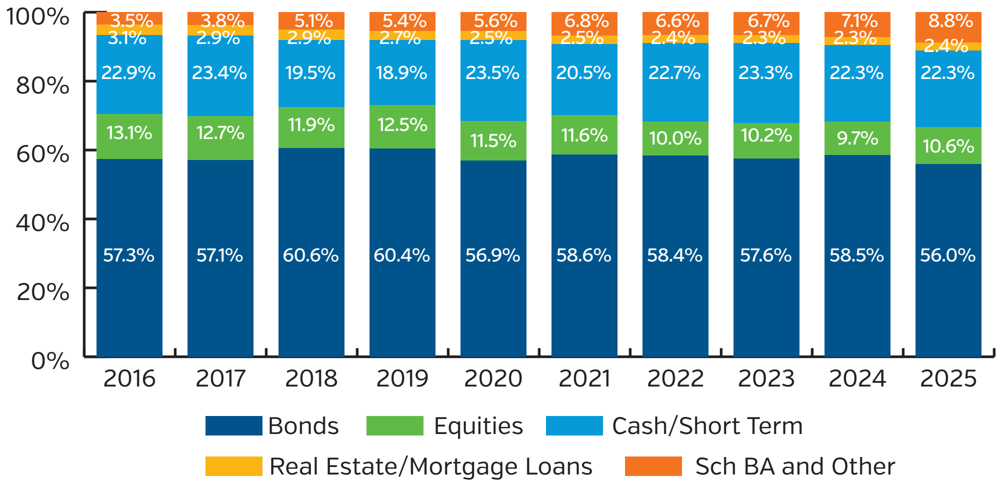
Category	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Bonds	4.23%	4.16%	3.71%	2.84%	2.56%	2.79%	3.25%	3.08%	2.77%	2.75%
Equities	4.57%	3.35%	2.69%	2.23%	2.94%	3.42%	4.29%	3.62%	3.06%	2.49%
Cash/Short-Term	4.85%	5.96%	5.89%	1.80%	0.08%	0.54%	2.41%	1.83%	0.74%	0.31%
Real Estate/Mortgage	10.83%	10.64%	10.92%	10.57%	10.63%	11.87%	12.31%	12.14%	12.56%	12.51%
Sch BA and Other	6.18%	8.65%	8.27%	9.29%	5.07%	3.09%	4.52%	3.95%	16.83%	4.00%
Total Gross Earned	4.71%	4.95%	4.58%	3.17%	2.41%	2.64%	3.54%	3.18%	3.15%	2.54%

Source: NEAM, S&P Capital IQ Pro

BOND ALLOCATION REMAINED DOMINANT

Chart 1 illustrates the health insurance industry's statutory asset allocation across broad asset sectors over the past decade. Fixed income securities remained the dominant asset class, although their share declined modestly to 56.0% in 2025 from a peak of 60.6% in 2018. This decline was largely offset by increased allocations to Schedule BA investments, which rose from 3.5% in 2016 to a record-high 8.8% in 2025. Cash and short-term investments remained the second-largest asset category, with allocations unchanged from 2024. Equity allocations also remained relatively stable over the past four years, hovering around 10% of total invested assets.

Chart 1. Broad Sector Asset Allocation

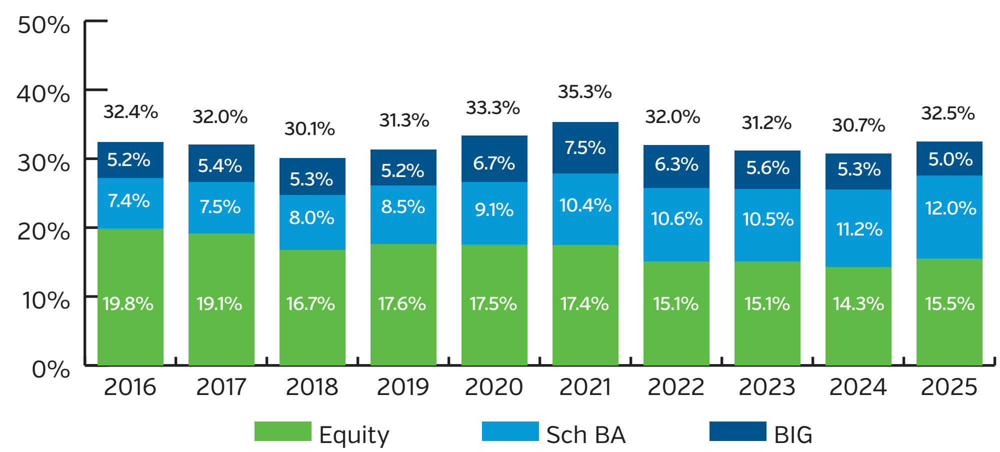


Source: NEAM, S&P Capital IQ Pro

RISK ASSET ALLOCATION INCREASED, DRIVEN BY EQUITIES AND SCHEDULE BA INVESTMENTS

Chart 2 illustrates the health insurance industry's allocation to risk assets, measured at fair value under statutory accounting, as a percentage of statutory surplus. After declining from 2022 through 2024, risk asset allocations rebounded in 2025, driven by increased exposure to equities and Schedule BA investments. Meanwhile, allocations to below-investment-grade (BIG) fixed income securities continued to decline from their 2021 peak. The reduction in BIG exposure reflects the availability of attractive yields across higher-quality fixed income sectors, reducing the need to assume additional credit risk. Schedule BA allocations reached a decade-high 12.0% of statutory surplus in 2025, with growth concentrated among larger insurers.

Chart 2. Risk Asset Allocation



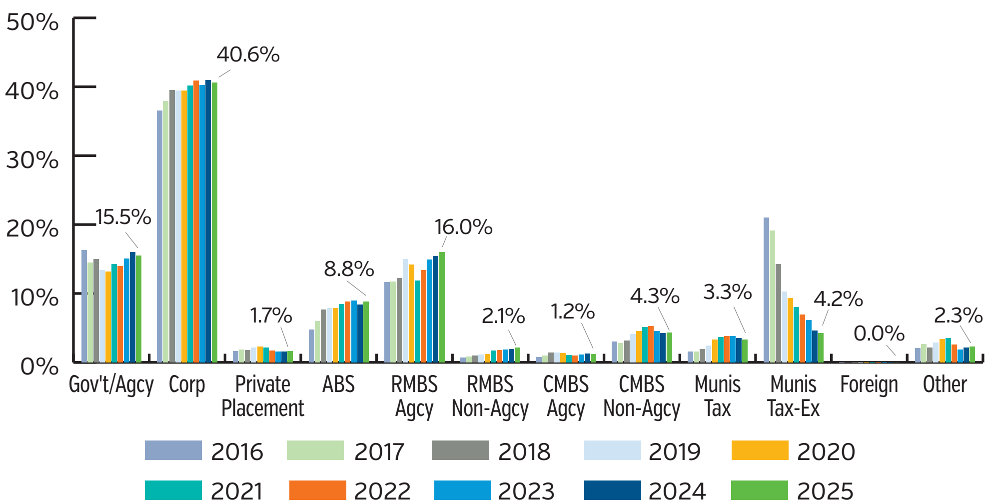
Source: NEAM, S&P Capital IQ Pro

FIXED INCOME ALLOCATIONS CONTINUED TO SHIFT TOWARD STRUCTURED SECURITIES

Chart 3 illustrates long-term trends in fixed income sector allocations over the past decade. Corporate bonds remained the dominant fixed income sector, representing more than 40% of industry fixed income holdings at year-end 2025, despite a modest decline in allocation during the year. In contrast, tax-exempt municipal bonds experienced the most significant decline, with allocations falling from 20.0% in 2016 to just 4.2% in 2025. This decrease is largely attributable to the 2018 tax reform (Tax Cuts and Jobs Act of 2017), which reduced the relative attractiveness of tax-exempt municipal securities for health insurers.

Within structured securities, agency RMBS and ABS posted the strongest growth over the past decade, together accounting for more than three-quarters of total structured security allocations in 2025. Agency RMBS surpassed government and agency securities to become the second-largest fixed income sector in 2025, reflecting insurers' continued shift toward structured securities. Taxable municipal bonds represented 3.3% of fixed income portfolios in 2025, down modestly from 2022 levels, primarily due to reduced issuance.

Chart 3. Fixed Income Sector Allocation 2016-2025



Source: NEAM, S&P Capital IQ Pro

BOOK YIELD CONTINUED TO CLIMB AND REACHED A DECADE HIGH

Supported by the prolonged higher-yield environment, the health industry's fixed income book yield rose 10 bps in 2025 to a decade-high 4.18%. Book yields increased across most fixed income sectors, led by tax-exempt municipal bonds and non-agency RMBS (Table 4). ABS, non-agency RMBS, and private placements each generated book yields exceeding 4.50% at year-end 2025.

Table 4. Fixed Income Book Yield (%)

Sector	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Gov't/Agcy	3.64	3.57	3.13	2.26	1.29	1.45	2.15	2.32	1.78	1.55
Corp	4.45	4.32	3.97	3.37	2.72	3.04	3.47	3.51	3.19	3.19
ABS	4.92	5.12	5.30	4.25	1.81	2.18	3.12	3.29	2.47	2.21
RMBS - Agcy	3.96	3.80	3.51	2.93	1.81	2.04	2.92	3.09	2.75	2.70
RMBS - Non-Agcy	4.79	4.53	4.30	3.53	2.43	3.04	3.92	4.76	4.80	4.77
CMBS - Agcy	3.68	3.64	3.32	2.58	2.15	2.39	2.89	2.90	2.38	2.13
CMBS - Non-Agcy	4.32	4.21	4.14	3.56	2.26	2.61	3.14	3.30	3.02	2.78
Munis - Taxable	3.71	3.50	3.26	2.85	2.50	2.71	3.29	3.47	3.20	3.22
Munis - Tax-Exempt	3.31	3.03	2.92	2.76	2.51	2.60	2.77	2.65	2.52	2.60
Private Placement	4.67	4.90	4.73	4.38	4.01	4.12	4.27	4.38	4.37	4.66
Grand Total	**4.18**	**4.08**	**3.82**	**3.17**	**2.25**	**2.51**	**3.05**	**3.11**	**2.74**	**2.68**

Source: NEAM, S&P Capital IQ Pro

Higher market yields continued to weigh on the fair value of existing holdings, leaving industry fair values below statutory book values during the higher-rate period. As insurers repositioned portfolios to lock in higher yields, they also realized investment losses from 2022 through 2025 (Table 5). This highlights that when balancing yield enhancement against realized-loss management, a holistic investment approach that integrates enterprise objectives, asset allocation, underwriting characteristics, and business profiles is required. Such an approach is increasingly critical amid evolving insurance cycles and heightened economic, geopolitical, and market uncertainty.

Table 5. Industry's Bonds Book Value and Fair Value ($ Billion)

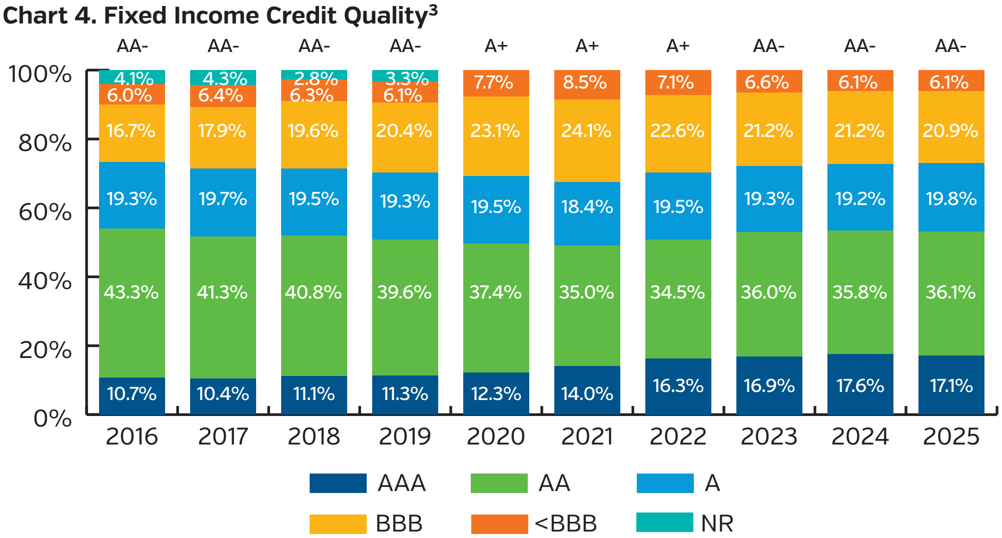
Category	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Book Value ($B)	193.4	202.0	199.2	190.9	180.5	164.7	143.7	131.3	118.9	108.3
Fair Value ($B)	187.9	189.8	187.0	172.6	179.6	168.6	143.8	126.7	116.8	106.4
Fair Value - Book Value ($B)	(5.5)	(12.1)	(12.2)	(18.3)	(0.9)	3.9	0.1	(4.6)	(2.1)	(1.9)
Realized Capital Gain/Loss ($B)	(0.1)	(0.7)	(1.2)	(1.6)	0.8	1.3	0.7	(0.2)	0.4	0.5

Source: NEAM, S&P Capital IQ Pro

CREDIT QUALITY IMPROVED AMID HIGHER INTEREST RATES

Chart 4 highlights long-term trends in the credit quality of fixed income portfolios. Prior to 2022, the prolonged low-interest-rate environment encouraged insurers to assume greater credit risk, driving allocations to BBB-rated and below-investment-grade (BIG) securities higher, culminating in a peak in 2021. Since 2022, higher market yields have enabled insurers to improve portfolio credit quality while maintaining attractive returns. As a result, allocations to AAA-rated securities increased, while exposure to BBB-rated and BIG holdings declined. This improvement was supported by increased allocations to agency RMBS and government and agency securities (Chart 3), contributing to a higher-quality fixed income portfolio.

Chart 4. Fixed Income Credit Quality[3]



Source: NEAM, S&P Capital IQ Pro

DURATION REMAINED RANGE-BOUND

Table 6 presents option-adjusted duration (OAD) by fixed income sector based on CUSIP-level holdings reported in Schedule D statutory filings. Despite changes across individual fixed income sectors, the health insurance industry's aggregate duration remained unchanged in 2025, as extensions in ABS and tax-exempt municipal bonds were offset by shorter durations in non-agency RMBS. More broadly, aggregate OAD has remained range-bound over the past decade, fluctuating between 4.3 and 4.8 years despite varying market and interest-rate environments.

Table 6. Fixed Income Option Adjusted Duration (Years)

Sector	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Gov't/Agcy	5.0	5.0	5.1	5.1	5.1	5.0	5.0	4.6	4.7	4.6
Corp	4.1	4.2	4.2	4.4	4.7	4.7	4.1	4.0	4.2	4.1
ABS	2.6	1.8	2.3	2.6	2.3	2.1	2.3	2.3	2.2	1.8
RMBS - Agcy	5.5	5.6	5.9	6.7	5.0	4.0	4.4	5.1	4.8	5.2
RMBS - Non-Agcy	3.7	4.2	4.4	4.7	3.5	2.6	3.1	3.4	3.7	3.4
CMBS - Agcy	3.9	4.2	4.3	4.5	4.4	4.8	5.3	5.6	4.7	3.8
CMBS - Non-Agcy	3.2	3.0	3.1	3.4	4.0	4.2	4.4	4.3	4.6	4.2
Munis - Taxable	5.4	5.5	5.6	5.8	6.2	6.5	5.9	4.9	4.6	4.8
Munis - Tax-Exempt	6.5	5.6	5.5	6.0	5.1	5.7	5.7	5.6	5.8	5.5
Grand Total	**4.4**	**4.4**	**4.5**	**4.8**	**4.6**	**4.5**	**4.4**	**4.3**	**4.5**	**4.5**

Source: NEAM, S&P Capital IQ Pro

KEY TAKEAWAYS

- Net investment income declined in 2025 despite decade-high fixed income book yields and equity dividend yields, as lower income from cash and short-term investments and Schedule BA assets more than offset gains from bonds and equities.
- Bonds remained the dominant asset class, while Schedule BA allocations continued to increase, reaching a decade high in 2025.
- Risk asset allocations rebounded in 2025, driven by higher allocations to equities and Schedule BA investments, while below-investment-grade fixed income exposure continued to decline
- Fixed income allocations continued to shift toward structured securities, while tax-exempt municipal bond allocations fell to 4% of fixed income holdings. Agency RMBS surpassed government and agency securities to become the second-largest fixed income sector.
- Book yields continued to rise, reaching a decade high in 2025, while credit quality and duration remained stable.

A customized enterprise comparative assessment can provide deeper insight into how a health insurance company’s asset and liability characteristics compare with peer organizations. This supports more informed, risk-aligned investment decisions.

ENDNOTES

[1] 173 health insurance companies whose invested assets exceeded US $50 million and statutory surplus exceeded US $10 million as of year-end 2024 (representing approximately ~98% of total industry invested assets in 2025). 13 companies whose financial statements were unavailable as of May 9, 2026 were excluded.

[2] Includes income earned from all investments, such as interest and dividends from bonds, stocks, mortgages and real estate, excluding realized or unrealized capital gains.

[3] Beginning in 2020, the NAIC credit rating reporting expanded from 6 to 20 categories. The NR category shown for 2019 and prior years consists of mostly true private placement securities.

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