BERRY MICHAEL J
Form 4
May 03, 2010

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
BERRY MICHAEL J

(Last) (First) (Middle)

C/O SOLARWINDS, INC., 3711 S. MOPAC EXPY., BLDG TWO

(Street)

AUSTIN, TX 78746

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SolarWinds, Inc. [SWI]

3. Date of Earliest Transaction (Month/Day/Year)
04/29/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Senior Vice President & CFO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/29/2010		P		15,000	A	$ 19.2765 (1)	33,000	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BERRY MICHAEL J C/O SOLARWINDS, INC. 3711 S. MOPAC EXPY., BLDG TWO AUSTIN, TX 78746			Senior Vice President & CFO	

Signatures

/s/ Bryan A. Sims, Attorney-in-Fact	05/03/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) This transaction was executed in multiple trades at prices ranging from $19.1986 to $19.30, inclusive. The price reported above reflects the weighted average purchase price. The reporting person hereby undertakes to provide upon request to the SEC staff, the issuer or a security holder of the issuer full information regarding the number of shares acquired and each separate price within the ranges set forth in this footnote.

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(1) Excludes Esurance brand since not available.

(2) Reserves comprise 66% case reserves and 34% IBNR.

Pending, new and closed claims for Michigan personal injury protection exposures for the years ended December 31 are summarized in the following table.

Number of claims	**2013**	**2012**	**2011**

Pending, beginning of year	4,029	3,844	3,089
New	8,531	7,629	6,486
Total closed	7,876	7,444	6,122
Pending, end of year	4,684	4,029	3,453(1)

(1) Excludes Esurance claims totaling 391 as of December 31, 2011.

The reserve increases of $351 million in the NJUCJF program in 2013 are attributable to unlimited personal injury protection coverage on policies written prior to 1991. The ceded claims reflects increased longer term paid loss trends due to increased costs of medical care and increased longevity of claimants. New claims for this cohort of policies are unlikely and pending claims are expected to decline.

We enter into certain intercompany insurance and reinsurance transactions for the Property-Liability operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

Catastrophe reinsurance

Our catastrophe reinsurance program is designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Our program is designed to provide reinsurance protection for catastrophes including hurricanes, windstorms, hail, tornados, fires following earthquakes, earthquakes and wildfires. These reinsurance agreements are part of our catastrophe management strategy, which is intended to provide our shareholders an acceptable return on the risks assumed in our property business, and to reduce variability of earnings, while providing protection to our customers.

We anticipate completing the placement of our 2014 catastrophe reinsurance program in second quarter 2014. We expect the program will be similar to our 2013 catastrophe reinsurance program. For further details of the existing 2013 program, see Note 11 of the consolidated financial statements.

ALLSTATE FINANCIAL 2013 HIGHLIGHTS

Net income available to common shareholders was $95 million in 2013 compared to $541 million in 2012.

Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $2.30 billion in 2013, an increase of 5.5% from $2.18 billion in 2012.

Investments totaled $39.11 billion as of December 31, 2013, reflecting a decrease of $17.89 billion from $57.00 billion as of December 31, 2012. Investments classified as held for sale totaled $11.98 billion as of December 31, 2013. Net investment income decreased 4.1% to $2.54 billion in 2013 from $2.65 billion in 2012.

Net realized capital gains totaled $74 million in 2013 compared to net realized capital losses of $13 million in 2012.

During 2013, loss on disposition of $521 million, after-tax, was recorded relating to the pending sale of Lincoln Benefit Life Company.

Contractholder funds totaled $24.30 billion as of December 31, 2013, reflecting a decrease of $15.02 billion from $39.32 billion as of December 31, 2012. Contractholder funds classified as held for sale totaled $10.95 billion as of December 31, 2013.

ALLSTATE FINANCIAL SEGMENT

Overview and strategy The Allstate Financial segment sells life insurance and voluntary employee benefits products. We serve our customers through Allstate exclusive agencies and exclusive financial specialists, and workplace distribution. Allstate Financial brings value to The Allstate Corporation in three principal ways: through profitable growth, by bringing new customers to Allstate, and by improving the economics of the Protection business through increased customer loyalty and stronger customer relationships based on cross selling Allstate Financial products to existing customers. Allstate Financial's strategy is focused on expanding Allstate customer relationships, growing the number of products delivered to customers through Allstate exclusive agencies and Allstate Benefits (our workplace distribution business), improving returns on our in-force annuity products, and emphasizing capital efficiency and shareholder returns.

On July 17, 2013, we announced our plans to exit the independent master brokerage agencies distribution channel. In connection with this announcement, we entered into a definitive agreement with Resolution Life Holdings, Inc. to sell Lincoln Benefit Life Company, LBL's life insurance business generated through independent master brokerage agencies, and all of LBL's deferred fixed annuity and long-term care insurance business for $600 million subject to certain adjustments as of the closing date. The transaction is subject to regulatory approvals and other customary closing conditions. We expect the closing to occur in April 2014. The estimated loss on disposition of $521 million, after-tax, was recorded in 2013. The business being sold had $341 million of premiums and contract charges in 2013. Effective July 18, 2013, we no longer offer any products through the independent master brokerage agency distribution channel.

The products we currently offer include interest-sensitive, traditional and variable life insurance; and voluntary accident and health insurance. Our products are sold through Allstate exclusive agencies and exclusive financial specialists and workplace enrolling independent agents. Effective January 1, 2014, we no longer offer fixed annuities such as deferred and immediate annuities. Allstate exclusive agencies and exclusive financial specialists have a portfolio of non-proprietary products, including fixed and variable annuities and mutual funds, available to meet customer needs. We are planning to outsource the administration of our annuity business to a third party administration company by the end of 2014. Institutional products consisting of funding agreements sold to unaffiliated trusts that use them to back medium-term notes were previously offered and $85 million remain outstanding as of December 31, 2013. Banking products and services were previously offered to customers through the Allstate Bank, which ceased operations in 2011.

Based upon Allstate's strong financial position and brand, we have a unique opportunity to cross-sell our products to meet the needs of more Allstate customers. We will enhance trusted customer relationships established through Allstate exclusive agencies to serve those who are looking for assistance in meeting their protection and retirement needs by providing them with information, products and services. To further strengthen Allstate Financial's value proposition to Allstate exclusive agencies and drive further engagement in selling our products, Allstate Financial products are integrated into the Allstate Protection sales processes and the agent compensation structure incorporates sales of Allstate Financial products. Life insurance policies issued through Allstate agencies increased 3.9% and 9.3% in 2013 and 2012, respectively, compared to the prior years.

Our employer relationships through Allstate Benefits also afford opportunities to offer Allstate products to more customers and grow our business. Allstate Benefits is an industry leader in voluntary benefits, offering one of the broadest product portfolios in the voluntary benefits market. Our strategy for Allstate Benefits focuses on growth in the national accounts market by increasing the number of sales and account management personnel, expanding independent agent distribution in targeted geographic locations for increased new sales, increasing Allstate exclusive agency engagement to drive cross selling of voluntary benefits products, and developing opportunities for revenue growth through new product and fee income offerings. Allstate Benefits new business written premiums increased 9.4% and 6.5% in 2013 and 2012, respectively.

Our in-force deferred and immediate annuity business has been adversely impacted by the credit cycle and historically low interest rate environment. Our immediate annuity business has also been impacted by medical advancements that have resulted in annuitants living longer than anticipated when many of these contracts were originated. We have reduced the level of legacy deferred annuities in force and proactively manage annuity crediting rates to improve the profitability of the business. The pending LBL sale will further reduce the level of deferred annuities

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in force. We are managing the investment portfolio supporting our immediate annuities to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. We are increasing investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance including equities and real estate to more appropriately match investment duration with these long-term liabilities.

Allstate Financial outlook

Our growth initiatives continue to focus on increasing the number of customers served through our proprietary Allstate agency and Allstate Benefits channels.

We continue to focus on improving returns on our in-force deferred and immediate annuity products.

We plan to accelerate growth of premiums and contract charges by offering a broad range of products to meet our customers' needs. The solutions we offer to meet customer life and retirement needs will include underwritten insurance products as well as third-party solutions where we choose not to offer certain products.

We expect lower investment spread due to reduced contractholder funds, the continuing low interest rate environment and changes in asset allocations. The amount by which the low interest rate environment will reduce our investment spread is contingent on our ability to maintain the portfolio yield and lower interest crediting rates on spread-based products, which could be limited by market conditions, regulatory minimum rates or contractual minimum rate guarantees, and may not match the timing or magnitude of changes in asset yields. We also anticipate changing our asset allocation for long-term immediate annuities to have less reliance on investments whose returns come primarily from interest payments to investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance including equities and real estate. This shift could result in lower and more volatile investment income; however, we anticipate that this strategy will lead to higher total returns on attributed equity.

Allstate Financial's attributed GAAP equity may increase as there may be limitations on the amount of dividends Allstate Financial companies can pay without prior approval by their insurance departments.

We continue to review our strategic options to reduce our exposure and improve returns of the spread-based businesses. As a result, we may take additional operational and financial actions that offer return improvement and risk reduction opportunities.

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Summary analysis Summarized financial data for the years ended December 31 is presented in the following table.

($ in millions)	2013	2012	2011
Revenues			
Life and annuity premiums and contract charges	$ 2,352	$ 2,241	$ 2,238
Net investment income	2,538	2,647	2,716
Realized capital gains and losses	74	(13)	388
Total revenues	4,964	4,875	5,342
Costs and expenses			
Life and annuity contract benefits	(1,917)	(1,818)	(1,761)
Interest credited to contractholder funds	(1,278)	(1,316)	(1,645)
Amortization of DAC	(328)	(401)	(494)
Operating costs and expenses	(565)	(576)	(555)
Restructuring and related charges	(7)		(1)
Total costs and expenses	(4,095)	(4,111)	(4,456)
(Loss) gain on disposition of operations	(687)	18	(7)
Income tax expense	(87)	(241)	(289)
Net income available to common shareholders	$ 95	$ 541	$ 590
Life insurance	$ 235	$ 226	$ 262
Accident and health insurance	89	81	95
Annuities and institutional products	292	234	233
Loss on sale of LBL	(521)		
Net income available to common shareholders	$ 95	$ 541	$ 590
Allstate Life and Retirement	$ (5)	$ 458	$ 484
Allstate Benefits	100	83	106
Net income available to common shareholders	$ 95	$ 541	$ 590
Investments as of December 31	$ 39,105	$ 56,999	$ 57,373
Investments classified as held for sale as of December 31	11,983		

Net income available to common shareholders was $95 million in 2013 compared to $541 million in 2012. The decrease was primarily due to the estimated loss on disposition related to the pending LBL sale, lower net investment income and higher life and annuity contract benefits, partially offset by higher life and annuity premiums and contract charges, net realized capital gains in 2013 compared to net realized capital losses in 2012 and decreased amortization of DAC.

Net income in 2012 was $541 million compared to $590 million in 2011. The decrease was primarily due to net realized capital losses in 2012 compared to net realized capital gains in 2011, lower net investment income and higher life and annuity contract benefits, partially offset by decreased interest credited to contractholder funds and lower amortization of DAC.

Analysis of revenues Total revenues increased 1.8% or $89 million in 2013 compared to 2012, primarily due to higher life and annuity premiums and contract charges and net realized capital gains in 2013 compared to net realized capital losses in 2012, partially offset by lower net investment income. Total revenues decreased 8.7% or $467 million in 2012 compared to 2011 due to net realized capital losses in 2012 compared to net realized capital gains in 2011 and lower net investment income.

Life and annuity premiums and contract charges Premiums represent revenues generated from traditional life insurance, immediate annuities with life contingencies, and accident and health insurance products that have significant mortality or morbidity risk. Contract charges are revenues generated from interest-sensitive and variable life insurance and fixed annuities for which deposits are classified as contractholder funds or separate account liabilities. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates.

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The following table summarizes life and annuity premiums and contract charges by product for the years ended December 31.

($ in millions)	2013	2012	2011
Underwritten products			
Traditional life insurance premiums	$ 455	$ 434	$ 406
Accident and health insurance premiums	26	26	27
Interest-sensitive life insurance contract charges	991	969	935
Subtotal Allstate Life and Retirement	1,472	1,429	1,368
Traditional life insurance premiums	36	36	35
Accident and health insurance premiums	694	627	616
Interest-sensitive life insurance contract charges	95	86	80
Subtotal Allstate Benefits	825	749	731
Total underwritten products	2,297	2,178	2,099
Annuities			
Immediate annuities with life contingencies premiums	37	45	106
Other fixed annuity contract charges	18	18	33
Total annuities	55	63	139
Life and annuity premiums and contract charges [1]	$ 2,352	$ 2,241	$ 2,238

(1) Contract charges related to the cost of insurance totaled $725 million, $696 million and $659 million in 2013, 2012 and 2011, respectively.

Total premiums and contract charges increased 5.0% in 2013 compared to 2012, primarily due to growth in Allstate Benefits accident and health insurance business, higher contract charges on interest-sensitive life insurance products primarily resulting from the aging of our policyholders and growth of insurance in force, and increased traditional life insurance premiums due to lower reinsurance premiums ceded and higher sales and renewals through Allstate agencies, partially offset by lower sales of immediate annuities with life contingencies. Effective March 22, 2013, we no longer offer structured settlement annuities. We continue to service the in-force structured settlement contracts.

Total premiums and contract charges increased 0.1% in 2012 compared to 2011, primarily due to higher contract charges on interest-sensitive life insurance products primarily resulting from the aging of our policyholders and lower reinsurance ceded, and increased traditional life insurance premiums due to lower reinsurance ceded and higher sales through Allstate agencies, partially offset by lower sales of immediate annuities with life contingencies.

Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life insurance, fixed annuities, funding agreements and, prior to December 31, 2011, bank deposits. The balance of contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less

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cumulative contract benefits, surrenders, withdrawals, maturities and contract charges for mortality or administrative expenses. The following table shows the changes in contractholder funds for the years ended December 31.

($ in millions)	**2013**	**2012**	**2011**
Contractholder funds, beginning balance	$ 39,319	$ 42,332	$ 48,195
Deposits			
Fixed annuities	1,062	928	667
Interest-sensitive life insurance	1,378	1,347	1,291
Bank deposits			360
Total deposits	2,440	2,275	2,318
Interest credited	1,295	1,323	1,629
Benefits, withdrawals, maturities and other adjustments			
Benefits	(1,535)	(1,463)	(1,461)
Surrenders and partial withdrawals	(3,299)	(3,990)	(4,935)
Bank withdrawals			(1,463)
Maturities of and interest payments on institutional products	(1,799)	(138)	(867)
Contract charges	(1,112)	(1,066)	(1,028)
Net transfers from separate accounts	12	11	12
Fair value hedge adjustments for institutional products			(34)
Other adjustments [1]	(72)	35	(34)
Total benefits, withdrawals, maturities and other adjustments	(7,805)	(6,611)	(9,810)
Contractholder funds classified as held for sale	(10,945)		
Contractholder funds, ending balance	$ 24,304	$ 39,319	$ 42,332

(1) The table above illustrates the changes in contractholder funds, which are presented gross of reinsurance recoverables on the Consolidated Statements of Financial Position. The table above is intended to supplement our discussion and analysis of revenues, which are presented net of reinsurance on the Consolidated Statements of Operations. As a result, the net change in contractholder funds associated with products reinsured to third parties is reflected as a component of the other adjustments line.

Contractholder funds decreased 38.2%, 7.1% and 12.2% in 2013, 2012 and 2011, respectively. The decrease in 2013 reflects the reclassification of contractholder funds held for sale relating to the pending LBL sale. Contractholder funds including those classified as held for sale decreased 10.4% in 2013, reflecting a large institutional product maturity in 2013 and our continuing strategy to reduce our concentration in spread-based products. Average contractholder funds decreased 22.1% in 2013 compared to 2012 and 9.8% in 2012 compared to 2011.

Contractholder deposits increased 7.3% in 2013 compared to 2012, primarily due to increased fixed annuity deposits driven by the new equity-indexed annuity products and higher deposits on immediate annuities, as well as higher deposits on interest-sensitive life insurance. Contractholder deposits decreased 1.9% in 2012 compared to 2011, primarily due to increased fixed annuity deposits driven by new equity-indexed annuity products launched in second quarter 2012 being more than offset by the absence of Allstate Bank deposits in 2012.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 17.3% to $3.30 billion in 2013 from $3.99 billion in 2012. Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 19.1% to $3.99 billion in 2012 from $4.94 billion in 2011. 2011 had elevated surrenders on fixed annuities resulting from crediting rate actions and a large number of contracts reaching the 30-45 day period (typically at their 5 or 6 year anniversary) during which there is no surrender charge. The surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.2% in 2013 compared to 11.3% in 2012 and 12.6% in 2011.

Maturities of and interest payments on institutional products in 2013 include a $1.75 billion maturity. There are $85 million of institutional products outstanding as of December 31, 2013. Maturities of and interest payments on institutional products decreased to $138 million in 2012 from $867 million in 2011, reflecting differences in the timing and magnitude of maturities.

Net investment income decreased 4.1% or $109 million to $2.54 billion in 2013 from $2.65 billion in 2012, primarily due to lower average investment balances, partially offset by higher prepayment fee income and litigation proceeds

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which together increased income by a total of $50 million in 2013 and higher limited partnership income. Net investment income in 2013 includes $264 million relating to investments classified as held for sale for the period from July 17, 2013 to December 31, 2013. Net investment income decreased 2.5% to $2.65 billion in 2012 from $2.72 billion in 2011, primarily due to lower average investment balances and lower yields on fixed income securities, partially offset by income from limited partnerships.

Net realized capital gains and losses for the years ended December 31 are presented in the following table.

($ in millions)	**2013**	**2012**	**2011**
Impairment write-downs	$ (33)	$ (51)	$ (246)
Change in intent write-downs	(19)	(17)	(51)
Net other-than-temporary impairment losses recognized in earnings	(52)	(68)	(297)
Sales	112	20	838
Valuation of derivative instruments	(3)	(16)	(237)
Settlements of derivative instruments	17	51	22
EMA limited partnership income [1]			62
Realized capital gains and losses, pre-tax	74	(13)	388
Income tax (expense) benefit	(28)	5	(138)
Realized capital gains and losses, after-tax	$ 46	$ (8)	$ 250

(1) Income from EMA limited partnerships is reported in net investment income in 2013 and 2012 and realized capital gains and losses in 2011.

For further discussion of realized capital gains and losses, see the Investments section of the MD&A.

Analysis of costs and expenses Total costs and expenses decreased 0.4% or $16 million in 2013 compared to 2012, primarily due to lower amortization of DAC and interest credited to contractholder funds, partially offset by higher life and annuity contract benefits. Total costs and expenses decreased 7.7% or $345 million in 2012 compared to 2011, primarily due to lower interest credited to contractholder funds and amortization of DAC, partially offset by higher life and annuity contract benefits.

Life and annuity contract benefits increased 5.4% or $99 million in 2013 compared to 2012, primarily due to an increase in reserves for secondary guarantees on interest-sensitive life insurance, growth at Allstate Benefits and worse mortality experience on life insurance. Our 2013 annual review of assumptions resulted in a $37 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to higher concentration of and increased projected exposure to secondary guarantees.

Life and annuity contract benefits increased 3.2% or $57 million in 2012 compared to 2011, primarily due to worse mortality experience on life insurance and the reduction in accident and health insurance reserves at Allstate Benefits in 2011, partially offset by lower sales of immediate annuities with life contingencies and the reduction in reserves for secondary guarantees on interest-sensitive life insurance. Our 2012 annual review of assumptions resulted in a $13 million decrease in the reserves for secondary guarantees on interest-sensitive life insurance due to favorable projected mortality.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and life and annuity contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies ("benefit spread"). This implied interest totaled $527 million, $538 million and $541 million in 2013, 2012 and 2011, respectively.

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The benefit spread by product group for the years ended December 31 is disclosed in the following table.

($ in millions)	2013	2012	2011
Life insurance	$ 301	$ 330	$ 338
Accident and health insurance	(18)	(9)	(9)
Annuities	(77)	(66)	(55)
Subtotal Allstate Life and Retirement	206	255	274
Life insurance	21	17	17
Accident and health insurance	356	312	338
Subtotal Allstate Benefits	377	329	355
Total benefit spread	$ 583	$ 584	$ 629

Benefit spread decreased 0.2% or $1 million in 2013 compared to 2012, primarily due to the increase in reserves for secondary guarantees on interest-sensitive life insurance and worse mortality experience on life insurance and annuities, partially offset by premium growth in Allstate Benefits accident and health insurance and higher cost of insurance contract charges on interest-sensitive life insurance.

Benefit spread decreased 7.2% or $45 million in 2012 compared to 2011, primarily due to worse mortality experience on life insurance and annuities and the reduction in accident and health insurance reserves at Allstate Benefits in 2011, partially offset by lower reinsurance premiums ceded on life insurance, higher cost of insurance contract charges on interest-sensitive life insurance and the reduction in reserves for secondary guarantees on interest-sensitive life insurance.

Interest credited to contractholder funds decreased 2.9% or $38 million in 2013 compared to 2012, primarily due to lower average contractholder funds and lower interest crediting rates, partially offset by the valuation change on derivatives embedded in equity-indexed annuity contracts that reduced interest credited expense in 2012. Interest credited to contractholder funds decreased 20.0% or $329 million in 2012 compared to 2011, primarily due to the valuation change on derivatives embedded in equity-indexed annuity contracts that reduced interest credited expense, lower average contractholder funds and lower interest crediting rates. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by $24 million in 2013 compared to a $126 million decrease in 2012 and an $18 million increase in 2011. During third quarter 2012, we reviewed the significant valuation inputs for these embedded derivatives and reduced the projected option cost to reflect management's current and anticipated crediting rate setting actions, which were informed by the existing and projected low interest rate environment and are consistent with our strategy to reduce exposure to spread-based business. The reduction in projected interest rates resulted in a reduction of contractholder funds and interest credited expense by $169 million in 2012.

In order to analyze the impact of net investment income and interest credited to contractholders on net income, we monitor the difference between net investment income and the sum of interest credited to contractholder funds and the implied interest on immediate annuities with life contingencies, which is included as a component of life and annuity contract benefits on the Consolidated Statements of Operations ("investment spread").

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The investment spread by product group for the years ended December 31 is shown in the following table.

($ in millions)	2013	2012	2011
Annuities and institutional products	$ 342	$ 292	$ 188
Life insurance	93	72	42
Accident and health insurance	14	13	8
Allstate Bank products			22
Net investment income on investments supporting capital	271	253	251
Subtotal Allstate Life and Retirement	720	630	511
Life insurance	12	10	12
Accident and health insurance	11	12	11
Net investment income on investments supporting capital	14	15	14
Subtotal Allstate Benefits	37	37	37
Investment spread before valuation changes on embedded derivatives that are not hedged	757	667	548
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	(24)	126	(18)
Total investment spread	$ 733	$ 793	$ 530

Investment spread before valuation changes on embedded derivatives that are not hedged increased 13.5% or $90 million in 2013 compared to 2012, primarily due to lower crediting rates, higher prepayment fee income and litigation proceeds and higher limited partnership income, partially offset by the continued managed reduction in our spread-based business in force. Investment spread before valuation changes on embedded derivatives that are not hedged increased 21.7% or $119 million in 2012 compared to 2011 due to income from limited partnerships and lower crediting rates, partially offset by lower yields on fixed income securities and the continued managed reduction in our spread-based business in force.

To further analyze investment spreads, the following table summarizes the weighted average investment yield on assets supporting product liabilities and capital, interest crediting rates and investment spreads. For purposes of these calculations, investments, reserves and contractholder funds classified as held for sale are included.

	Weighted average investment yield			Weighted average interest crediting rate			Weighted average investment spreads		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Interest-sensitive life insurance	5.1%	5.2%	5.4%	3.8%	4.0%	4.2%	1.3%	1.2%	1.2%
Deferred fixed annuities and institutional products	4.5	4.6	4.6	2.9	3.2	3.3	1.6	1.4	1.3
Immediate fixed annuities with and without life contingencies	6.9	6.9	6.3	6.0	6.1	6.2	0.9	0.8	0.1
Investments supporting capital, traditional life and other products	4.0	4.0	3.9	n/a	n/a	n/a	n/a	n/a	n/a

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The following table summarizes our product liabilities as of December 31 and indicates the account value of those contracts and policies in which an investment spread is generated.

($ in millions)	2013	2012	2011
Immediate fixed annuities with life contingencies	$ 8,928	$ 8,889	$ 8,831
Other life contingent contracts and other	3,458	6,006	5,575
Reserve for life-contingent contract benefits	$ 12,386	$ 14,895	$ 14,406
Interest-sensitive life insurance	$ 7,777	$ 11,011	$ 10,826
Deferred fixed annuities	12,524	22,066	25,228
Immediate fixed annuities without life contingencies	3,675	3,815	3,821
Institutional products	85	1,851	1,891
Other	243	576	566
Contractholder funds	$ 24,304	$ 39,319	$ 42,332
Traditional life insurance	$ 570	$	$
Accident and health insurance	1,324		
Interest-sensitive life insurance	3,529		
Deferred fixed annuities	7,416		
Liabilities held for sale	$ 12,839	$	$

Amortization of DAC decreased 18.2% or $73 million in 2013 compared to 2012 and 18.8% or $93 million in 2012 compared to 2011. The components of amortization of DAC for the years ended December 31 are summarized in the following table.

($ in millions)	2013	2012	2011
Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions	$ 298	$ 310	$ 331
Amortization relating to realized capital gains and losses [(1)] and valuation changes on embedded derivatives that are not hedged	7	57	156
Amortization acceleration for changes in assumptions ("DAC unlocking")	23	34	7
Total amortization of DAC	$ 328	$ 401	$ 494

(1) The impact of realized capital gains and losses on amortization of DAC is dependent upon the relationship between the assets that give rise to the gain or loss and the product liability supported by the assets. Fluctuations result from changes in the impact of realized capital gains and losses on actual and expected gross profits.

The decrease in DAC amortization in 2013 compared to 2012 was primarily due to the absence of amortization on a large fixed annuity block that became fully amortized in 2012, lower amortization relating to valuation changes on derivatives embedded in equity-indexed annuity contracts due to a large valuation change in 2012, lower amortization on interest-sensitive life insurance resulting from decreased benefit spread, and lower amortization acceleration for changes in assumptions. Amortization relating to valuation changes on derivatives embedded in equity-indexed annuity contracts was $1 million in 2013 compared to $25 million in 2012.

The decrease in DAC amortization in 2012 compared to 2011 was primarily due to decreased amortization relating to realized capital gains and losses and decreased amortization on fixed annuity products due to the DAC balance for contracts issued prior to 2010 being fully amortized, partially offset by increased amortization acceleration for changes in assumptions and increased amortization relating to valuation changes on embedded derivatives that are not hedged.

Our annual comprehensive review of the profitability of our products to determine DAC balances for our interest-sensitive life, fixed annuities and other investment contracts covers assumptions for persistency, mortality, expenses, investment returns, including capital gains and losses, interest crediting rates to policyholders, and the effect of any hedges in all product lines. In 2013, the review resulted in an acceleration of DAC amortization (charge to income) of $23 million. Amortization acceleration of $38 million related to interest-sensitive life insurance and was primarily due to

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an increase in projected mortality and expenses, partially offset by increased projected investment margins. Amortization deceleration of $12 million related to fixed annuities and was primarily due to an increase in projected investment margins. Amortization deceleration of $3 million related to variable life insurance.

In 2012, the review resulted in an acceleration of DAC amortization of $34 million. Amortization acceleration of $38 million related to variable life insurance and was primarily due to an increase in projected mortality. Amortization acceleration of $4 million related to fixed annuities and was primarily due to lower projected investment returns. Amortization deceleration of $8 million related to interest-sensitive life insurance and was primarily due to an increase in projected persistency.

In 2011, the review resulted in an acceleration of DAC amortization of $7 million. Amortization acceleration of $12 million related to interest-sensitive life insurance and was primarily due to an increase in projected expenses. Amortization deceleration of $5 million related to equity-indexed annuities and was primarily due to an increase in projected investment margins.

The changes in DAC for the years ended December 31 are detailed in the following table.

($ in millions)	Traditional life and accident and health		Interest-sensitive life insurance		Fixed annuities		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Beginning balance	$ 671	$ 616	$ 1,529	$ 1,698	$ 25	$ 209	$ 2,225	$ 2,523
Acquisition costs deferred	164	154	176	192	24	25	364	371
Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions (1)	(111)	(99)	(174)	(186)	(13)	(25)	(298)	(310)
Amortization relating to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged (1)			(6)	(18)	(1)	(39)	(7)	(57)
Amortization (acceleration) deceleration for changes in assumptions ("DAC unlocking") (1)			(35)	(30)	12	(4)	(23)	(34)
Effect of unrealized capital gains and losses (2)			201	(127)	28	(141)	229	(268)
DAC classified as held for sale	(13)		(700)		(30)		(743)	
Ending balance	$ 711	$ 671	$ 991	$ 1,529	$ 45	$ 25	$ 1,747	$ 2,225

(1) Included as a component of amortization of DAC on the Consolidated Statements of Operations.

(2) Represents the change in the DAC adjustment for unrealized capital gains and losses. The DAC adjustment represents the amount by which the amortization of DAC would increase or decrease if the unrealized gains

and losses in the respective product portfolios were realized.

Operating costs and expenses decreased 1.9% or $11 million in 2013 compared to 2012 and increased 3.8% or $21 million in 2012 compared to 2011. The following table summarizes operating costs and expenses for the years ended December 31.

($ in millions)	**2013**	**2012**	**2011**
Non-deferrable commissions	$ 103	$ 103	$ 111
General and administrative expenses	398	421	385
Taxes and licenses	64	52	59
Total operating costs and expenses	$ 565	$ 576	$ 555
Restructuring and related charges	$ 7	$	$ 1

General and administrative expenses decreased 5.5% or $23 million in 2013 compared to 2012, primarily due to lower employee related expenses and proceeds received from a litigation settlement.

General and administrative expenses increased 9.4% or $36 million in 2012 compared to 2011, primarily due to higher employee related expenses, lower reinsurance expense allowances and increased marketing costs, partially offset by a charge in 2011 related to the liquidation plan for Executive Life Insurance Company of New York, the elimination of expenses following our exit from the banking business in 2011 and lower pension costs.

Loss on disposition of $687 million in 2013 includes the estimated $698 million loss relating to the pending LBL sale. Gain on disposition of $18 million in 2012 relates to the amortization of the deferred gain from the disposition through

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reinsurance of substantially all of our variable annuity business in 2006, and the sale of Surety Life Insurance Company, which was not used for new business, in third quarter 2012. Loss on disposition of $7 million in 2011 included $22 million related to the dissolution of Allstate Bank. In 2011, after receiving regulatory approval to dissolve, Allstate Bank ceased operations.

Reinsurance ceded We enter into reinsurance agreements with unaffiliated reinsurers to limit our risk of mortality and morbidity losses. In addition, Allstate Financial has used reinsurance to effect the acquisition or disposition of certain blocks of business. We retain primary liability as a direct insurer for all risks ceded to reinsurers. As of December 31, 2013 and 2012, 36% and 39%, respectively, of our face amount of life insurance in force was reinsured. Additionally, we ceded substantially all of the risk associated with our variable annuity business.

Our reinsurance recoverables, summarized by reinsurer as of December 31, are shown in the following table.

($ in millions)	**Standard & Poor's financial strength rating [4]**	**Reinsurance recoverable on paid and unpaid benefits**	
		2013	**2012**
Prudential Insurance Company of America	AA-	$ 1,510	$ 1,691
RGA Reinsurance Company	AA-	305	361
Swiss Re Life and Health America, Inc. [1]	AA-	186	217
Paul Revere Life Insurance Company	A	121	127
Munich American Reassurance	AA-	109	131
Scottish Re Group	N/A	104	131
Mutual of Omaha Insurance	A+	92	96
Transamerica Life Group	AA-	88	447
Manulife Insurance Company	AA-	59	62
Triton Insurance Company	N/A	54	55
Security Life of Denver	A-	48	83
American Health & Life Insurance Co.	N/A	44	45
Lincoln National Life Insurance	AA-	39	60
General Re Life Corporation	AA+	25	31
Employers Reassurance Corporation	A+	15	1,059
Other [2]		73	92
Total [3]		$ 2,872	$ 4,688

(1) The Company has extensive reinsurance contracts directly with Swiss Re and its affiliates and indirectly through Swiss Re's acquisition of other companies with whom we had reinsurance or retrocession contracts.

(2) As of December 31, 2013 and 2012, the other category includes $58 million and $75 million, respectively, of recoverables due from reinsurers with an investment grade credit rating from Standard & Poor's ("S&P").

(3) Reinsurance recoverables classified as held for sale were $1.66 billion as of December 31, 2013.

(4) N/A reflects no rating available.

We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended

December 31, 2013.

We enter into certain intercompany reinsurance transactions for the Allstate Financial operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

INVESTMENTS 2013 HIGHLIGHTS

Investments totaled $81.16 billion as of December 31, 2013, decreasing from $97.28 billion as of December 31, 2012. Investments classified as held for sale totaled $11.98 billion as of December 31, 2013.

Unrealized net capital gains totaled $2.70 billion as of December 31, 2013, decreasing from $5.55 billion as of December 31, 2012.

Net investment income was $3.94 billion in 2013, a decrease of 1.7% from $4.01 billion in 2012.

Net realized capital gains were $594 million in 2013 compared to $327 million in 2012.

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INVESTMENTS

Overview and strategy The return on our investment portfolios is an important component of our financial results. Investment portfolios are segmented between the Property-Liability, Allstate Financial and Corporate and Other operations. While taking into consideration the investment portfolio in aggregate, we manage the underlying portfolios based upon the nature of each respective business and its corresponding liability structure.

We employ a strategic asset allocation approach which considers the nature of the liabilities and risk tolerances, as well as the risk and return parameters of the various asset classes in which we invest. This asset allocation is informed by our global economic and market outlook, as well as other inputs and constraints, including diversification effects, duration, liquidity and capital considerations. Within the ranges set by the strategic asset allocation, tactical investment decisions are made in consideration of prevailing market conditions. We manage risks associated with interest rates, credit spreads, equity markets, real estate and currency exchange rates. Our continuing focus is to manage risks and returns and to position our portfolio to take advantage of market opportunities while attempting to mitigate adverse effects.

The Property-Liability portfolio's investment strategy emphasizes protection of principal and consistent income generation, within a total return framework. This approach, which has produced competitive returns over the long term, is designed to ensure financial strength and stability for paying claims, while maximizing economic value and surplus growth.

The Allstate Financial portfolio's investment strategy focuses on the total return of assets needed to support the underlying liabilities, asset-liability management and achieving an appropriate return on capital.

The Corporate and Other portfolio's investment strategy balances the unique liquidity needs of the portfolio in relation to the overall corporate capital structure with the pursuit of returns.

Investments outlook

Although interest rates rose in 2013, we anticipate that they may remain below historic averages for an extended period of time and that financial markets will continue to have periods of high volatility. Invested assets and income are expected to decline in line with reductions in contractholder funds for the Allstate Financial segment, including $11.98 billion of investments classified as held for sale as of December 31, 2013 related to the pending sale of Lincoln Benefit Life. Additionally, income will decline as we continue to invest and reinvest proceeds at market yields that are below the current portfolio yield. We plan to focus on the following priorities:

- Managing our exposure to interest rate risk by maintaining a shorter maturity profile in the Property-Liability portfolio.
- Shifting the portfolio mix to have less reliance on investments whose returns come primarily from interest payments to investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance including equities and real estate
- Investing to the specific needs and characteristics of Allstate's businesses.

Portfolio composition The composition of the investment portfolios as of December 31, 2013 is presented in the following table.

($ in millions)	Property-Liability (5)	Percent to total	Allstate Financial (5)	Percent to total	Corporate and Other (5)	Percent to total	Total	Percent to total
Fixed income securities (1)	$ 29,578	74.6%	$ 29,648	75.8%	$ 1,684	69.8%	$ 60,910	75.1%
Equity securities (2)	4,396	11.1	701	1.8			5,097	6.3
Mortgage loans	429	1.1	4,292	11.0			4,721	5.8
Limited partnership interests (3)	2,898	7.3	2,064	5.3	5	0.2	4,967	6.1
Short-term investments (4)	1,002	2.5	668	1.7	723	30.0	2,393	2.9
Other	1,335	3.4	1,732	4.4			3,067	3.8

Total	$	39,638	100.0%	$	39,105	100.0%	$	2,412	100.0%	$	81,155	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $29.05 billion, $28.30 billion, $1.66 billion and $59.01 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

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(2)
Equity securities are carried at fair value. Cost basis for these securities was $3.86 billion, $607 million and $4.47 billion for Property-Liability, Allstate Financial and in Total, respectively.

(3)
We have commitments to invest in additional limited partnership interests totaling $1.48 billion, $1.37 billion and $2.85 billion for Property-Liability, Allstate Financial and in Total, respectively.

(4)
Short-term investments are carried at fair value. Amortized cost basis for these investments was $1.00 billion, $668 million, $723 million and $2.39 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

(5)
Balances reflect the elimination of related party investments between segments.

Total investments decreased to $81.16 billion as of December 31, 2013, from $97.28 billion as of December 31, 2012, primarily due to the reclassification of investments relating to LBL to assets held for sale. Total investments including those classified as held for sale were $93.14 billion as of December 31, 2013, a decrease of $4.14 billion from December 31, 2012, reflecting net reductions in Allstate Financial's contractholder funds and lower fixed income valuations. The decline in valuation of fixed income securities during 2013 was primarily due to increasing risk-free interest rates.

The Property-Liability investment portfolio increased to $39.64 billion as of December 31, 2013, from $38.22 billion as of December 31, 2012, primarily due to positive operating cash flows, partially offset by dividends paid by Allstate Insurance Company ("AIC") to The Allstate Corporation (the "Corporation") and lower fixed income valuations.

The Allstate Financial investment portfolio decreased to $39.11 billion as of December 31, 2013, from $57.00 billion as of December 31, 2012, primarily due to the reclassification of investments relating to LBL to assets held for sale, our continuing strategy to reduce our concentration in spread based products and lower fixed income valuations.

The Corporate and Other investment portfolio increased to $2.41 billion as of December 31, 2013, from $2.06 billion as of December 31, 2012, primarily due to the proceeds from the issuance of debt and preferred stock, and dividends paid by AIC to the Corporation, partially offset by payments for the debt tender offer, common share repurchases and dividends paid to common shareholders.

During 2013, strategic actions focused on optimizing portfolio yield, return and risk in the low interest rate environment. In the Property-Liability portfolio, we increased our investment in short and intermediate term corporate fixed income securities and reduced our investment in long-duration municipal and corporate bonds and shorter duration U.S. government and agencies. This positioning, coupled with an increase in floating rate bank loans, has reduced our exposure to rising interest rates. While the dispositions generated net realized capital gains, we expect a decline in investment income prospectively due to the lower yield on the reinvestment of proceeds. We reduced our investments in ARS through dispositions. The carrying value of RMBS and CMBS declined due to the receipt of principal payments during the year. We also increased our real estate and limited partnership interests, consistent with our strategy to have a greater proportion of ownership of assets and equity investments.

Fixed income securities by type are listed in the following table.

($ in millions)	**Fair value as of December 31, 2013**	**Percent to total investments**	**Fair value as of December 31, 2012**	**Percent to total investments**
U.S. government and agencies	$ 2,913	3.6%	$ 4,713	4.9%
Municipal	8,723	10.8	13,069	13.5
Corporate	40,603	50.0	48,537	49.9
Foreign government	1,824	2.2	2,517	2.6
ABS	4,518	5.6	3,624	3.7
RMBS	1,474	1.8	3,032	3.1
CMBS	829	1.0	1,498	1.5
Redeemable preferred stock	26	0.1	27	

Total fixed income securities	$	60,910	75.1%	$	77,017	79.2%

As of December 31, 2013, 89.4% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P, Fitch, Dominion, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. All of our fixed income securities are rated by third party credit rating agencies, the National Association of Insurance Commissioners, and/or are internally rated. Our initial investment decisions and ongoing monitoring procedures for fixed income securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

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The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by credit rating as of December 31, 2013.

($ in millions)	Aaa Fair value	Aaa Unrealized gain/(loss)	Aa Fair value	Aa Unrealized gain/(loss)	A Fair value	A Unrealized gain/(loss)
U.S. government and agencies	$ 2,913	$ 122	$	$	$	$
Municipal						
Tax exempt	923	8	2,588	51	1,411	42
Taxable	202	6	1,961	136	961	53
Corporate						
Public	588	12	2,500	56	10,833	345
Privately placed	633	8	921	52	3,218	170
Foreign government	836	61	373	8	323	9
ABS						
Collateralized debt obligations ("CDO")	491	2	392		182	(6)
Consumer and other asset-backed securities ("Consumer and other ABS")	2,660	21	275	7	198	8
RMBS						
U.S. government sponsored entities ("U.S. Agency")	409	15				
Prime residential mortgage-backed securities ("Prime")	24		8		34	1
Alt-A residential mortgage-backed securities ("Alt-A")	2				4	
Subprime residential mortgage-backed securities ("Subprime")	6				6	
CMBS	327	13	51	3	83	5
Redeemable preferred stock						
Total fixed income securities	$ 10,014	$ 268	$ 9,069	$ 313	$ 17,253	$ 627

	Baa Fair value	Baa Unrealized gain/(loss)	Ba or lower Fair value	Ba or lower Unrealized gain/(loss)	Total Fair value	Total Unrealized gain/(loss)
U.S. government and agencies	$	$	$	$	$ 2,913	$ 122
Municipal						
Tax exempt	240	5	121	(2)	5,283	104

Taxable	258	(15)	58	(7)	3,440	173
Corporate						
Public	12,482	351	3,633	101	30,036	865
Privately placed	4,505	163	1,290	14	10,567	407
Foreign government	292	10			1,824	88
ABS						
CDO	5		148	(10)	1,218	(14)
Consumer and other ABS	138	4	29	1	3,300	41
RMBS						
U.S. Agency					409	15
Prime	63		324	32	453	33
Alt-A	11		346	28	363	28
Subprime			237	(5)	249	(5)
CMBS	118	3	250	17		