NAIC Group Code 0008
NAIC Company Code 60186
Employer's ID Number 36-2554642

Allstate Life Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2018

The Allstate Life Insurance Group (the "Company") consists of Allstate Life Insurance Company ("ALIC"), Allstate Life Insurance Company of New York and ALIC Reinsurance Company ("ALIC Re"). Regulatory approval was received to prepare a combined Management Discussion and Analysis ("MD&A"). Accordingly, the combined results of the aforementioned companies have been analyzed in this MD&A.

ALIC, the lead company, is a wholly-owned subsidiary of Allstate Insurance Company ("AIC"), an Illinois domiciled insurer. AIC is a wholly-owned subsidiary of Allstate Insurance Holdings, LLC ("AIH"), a Delaware limited liability company. AIH is a wholly-owned subsidiary of The Allstate Corporation (the "Corporation").

The Company is licensed to conduct business in all states, the District of Columbia and Puerto Rico. The Company sells traditional and interest-sensitive life insurance products. The Company also sells variable life insurance in New York, while previously selling variable life insurance nationwide through September 2017. The Company distributes its products through Allstate exclusive agencies and exclusive financial specialists. The Company also sells voluntary accident and health insurance through workplace enrolling independent agents in New York. The Company previously offered and continues to have in force fixed annuities such as deferred and immediate annuities. The Company previously offered variable annuities and substantially all of this business is reinsured.

The Company's strategy is to broaden Allstate's customer relationships and value proposition by offering proprietary life insurance solutions. The Company also distributes non-proprietary retirement products offered by third-party providers. Target customers are those who prefer local personalized advice and service and are brand-sensitive.

The Company's product positioning provides solutions to help meet customer needs during various phases of life. Term and whole life insurance products offer basic life protection solutions. Universal life and financial planning solutions cover more advanced needs and are provided primarily in New York. Allstate exclusive agencies partner with exclusive financial specialists to deliver life and retirement solutions. These specialists have expertise with advanced life and retirement cases and other more complex customer needs. Successful partnerships assist agencies with building stronger and deeper customer relationships. Sales producer education and technology improvements are being made to ensure agencies have the tools and information needed to help customers meet their needs and build personal relationships as trusted advisors.

The Company exited the continuing sale of annuities over an eight-year period from 2006 to 2014, reflecting expectations of declining returns. As a result, the declining volume of business is managed with a focus on increasing lifetime economic value. Both the deferred and immediate annuity businesses have been adversely impacted by the historically low interest rate environment. The 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. The Company focuses on the distinct risk and return profiles of the specific products when developing investment and liability management strategies. The level of legacy deferred annuities in force has been significantly reduced and the investment portfolio and crediting rates are proactively managed to improve the profitability of the business while providing appropriate levels of liquidity. The investment portfolio supporting immediate annuities is managed to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. To better match the long-term nature of immediate annuities, the Company uses performance-based investments in which it has ownership interests and a greater proportion of return is derived from idiosyncratic asset or operating performance. The Company continues to review strategic options to reduce exposure and improve returns of the business. As a result, the Company may take additional operational and financial actions that offer return improvement and risk reduction opportunities.

Effective January 1, 2017, ALIC and ALIC Re entered into an external reserve financing arrangement which replaced the $325 million affiliated surplus note arrangement in place as of December 31, 2016. The external financing resulted in increasing the ALIC Re's surplus note capacity to accommodate the expansion of the existing reinsurance agreement with ALIC effected contemporaneously. The refinancing was comprised of reinsurance and financing transactions as follows:

ALIC and the ALIC Re entered into the Amended and Restated Reinsurance Agreement (“Amended Reinsurance Agreement”) effective January 1, 2017. The original reinsurance agreement included guaranteed term business written by ALIC and Lincoln Benefit Life Company (“LBL”), former wholly-owned subsidiary, in 2000 through 2009. The Amended Reinsurance Agreement expanded the covered business to include guaranteed term business assumed by ALIC and written by LBL and Allstate Assurance Company (“AAC”), an affiliate, with issue years 2010 through 2017. The LBL and AAC businesses were ceded to ALIC and retroceded to ALIC Re. In addition, the Amended Reinsurance Agreement revised, as of the effective date, the experience rated refund formula to utilize Actuarial Guideline XLVIII (“AG48”) reserves and added additional conditions for experience rated refund payments, including an explicit holdback of $150 million to fund future income tax payments by ALIC Re, which will become payable when future income is earned on the business. Upon implementation of the Amended Reinsurance Agreement, ALIC recorded a net after-tax benefit to income of $563 million. The pre-tax components of the benefit, which was ceded from ALIC to ALIC Re, resulted from a decrease in premiums of $288 million due to reinsurance and favorable impacts to experience refund income, death benefits, increase in aggregate reserves and increase in loading on deferred and uncollected premiums of $292 million; $18 million; $826 million and $7 million, respectively. The experience rated refund was paid by ALIC Re to ALIC in March 2017. As a result of the expanded reinsurance transaction, ALIC Re recognized a tax benefit of $292 million on the taxable reinsurance loss of assuming the excess XXX reserves. On March 14, 2017, ALIC borrowed on a short-term basis from the Corporation under the Amended and Restated Intercompany Liquidity Agreement $311 million to settle the ALIC Re’s tax benefit associated with the January 1, 2017 transactions as well as ALIC Re’s 2016 losses. ALIC paid the amount to ALIC Re’s on March 15, 2017 as permitted under the tax sharing agreement. The net effect on the Company’s combined earned surplus as a result of the Amended Reinsurance Agreement and amended experience refund was zero. The reinsurance and financing transactions resulted in the combined group effectively holding economic reserves on the basis of AG48 reserves for this business; which became the effective basis of reserve valuation for 2017 under principles based reserving.

Also, effective January 1, 2017, pursuant to South Carolina Code 38-90-530(A), ALIC Re holds the outstanding principal amount of a variable funding puttable note issued by Bueller Financing, LLC (“Bueller”) and referred to as a credit-linked note (“CLN”) in ALIC Re’s captive insurance trust as a form of security acceptable by the Director. The CLN was issued in conjunction with a Master Transactions Agreement (“MTA”) between ALIC Re and Bueller. The CLN amount is calculated as and will vary with the amount of Commissioners Reserve Valuation Method (“CRVM”) reserves on the reinsured business in excess of the AG48 reserves, with a maximum value of $1.75 billion. As the National Association of Insurance Commissioners (“NAIC”) Accounting Practices and Procedures Manual does not explicitly identify the form of the CLN, ALIC Re obtained permission from the South Carolina Department of Insurance (“SC DOI”) to record the outstanding principal amount as an admitted asset on Page 2, Line 25 of the Assets page and within capital and surplus on Page 3, Line 34 of the Liabilities, Surplus and Other Funds page. The CLN is recorded in the same way in the Company’s financial statement as it was recorded on ALIC Re’s standalone financial statement.

Pursuant to the Surplus Note Purchase Agreement, ALIC is authorized to purchase up to $750 million of such notes issued by ALIC Re. Effective January 1, 2017, with the permission of the SC DOI, ALIC Re redeemed at par value, plus $1 million of accrued interest, all the surplus notes it had issued to ALIC through the transfer of cash and securities. Upon repayment of the surplus notes, the intercompany note agreements between ALIC and its affiliate, Kennett Capital, Inc. (“Kennett”) totaling $325 million par, plus accrued interest, were terminated.

FINANCIAL POSITION

BALANCE SHEET

(in millions)		2018		2017
Cash and invested assets	$	32,070	$	33,010
Premiums and considerations		455		446
Net deferred tax assets		35		32
Credit linked note		1,302		1,300
Other assets		348		354
From Separate Accounts, Segregated Accounts and Protected Cell Accounts		3,155		3,851
Total assets	$	37,365	$	38,993
Aggregate reserves for life contracts	$	25,632	$	26,357
Aggregate reserves for accident and health contracts		111		112
Liability for deposit-type contracts		2,399		2,586
Contract claims and liabilities		189		211
Asset valuation reserve		1,030		1,052
Other liabilities		924		962
From Separate Accounts Statement		3,155		3,851
Total liabilties		33,440		35,131
Capital and surplus		3,925		3,862
Total liabilties and capital and surplus	$	37,365	$	38,993

Cash and invested assets

Total cash and invested assets decreased $940 million, or 3%, as of December 31, 2018 primarily due to a $315 million decrease in net deposits on deposit-type contracts, $295 million negative cash from operations and $250 million dividends paid to AIC.

Portfolio composition by investment strategy

The following table presents the investment portfolio by strategy as of December 31:

	2018				2017
(in millions)	Market-based core	Market-based active	Performance-based	Total	Total
Bonds	$ 20,429	$ 1,042	$ 10	$ 21,481	$ 22,430
Preferred stocks	17	3	21	41	42
Common stocks	1,000	102	120	1,222	1,451
Mortgage loans on real estate	3,900	-	-	3,900	3,805
Real estate	-	-	124	124	110
Cash and cash equivalents	563	-	-	563	528
Short-term investments	110	23	-	133	187
Contract loans	598	-	-	598	595
Other invested assets	144	-	3,822	3,966	3,732
Derivatives	18	1	10	29	93
Securities lending reinvested collateral assets	7	-	-	7	7
Other	6	-	-	6	30
Total	$ 26,792	$ 1,171	$ 4,107	$ 32,070	$ 33,010
% of total	84%	3%	13%		

The return on the investment portfolio is an important component of the Company's ability to offer good value to customers and earn an acceptable return on capital. The Company identifies a strategic asset allocation which considers both the nature of the liabilities and the risk and return characteristics of the various asset classes in which it invests. This allocation is informed by long-term market expectations, as well as other considerations such as risk appetite, portfolio diversification, duration, desired liquidity and capital. Within appropriate ranges relative to strategic allocations, tactical allocations are made in consideration of prevailing and potential future market conditions. The Company manages risks that involve uncertainty related to interest rates, credit spreads, equity returns and currency exchange rates.

The Company's portfolio is comprised of assets chosen to generate returns to support corresponding liabilities, within an asset-liability framework that targets an appropriate return on capital. For shorter-term annuity liability cash flows and life insurance liabilities, the Company invests primarily in bonds and commercial mortgage loans with maturity profiles aligned with liability cash flow requirements. For longer-term immediate annuity liability cash flows, the Company invests primarily in performance-based investments, such as limited partnerships, and common stocks.

The Company utilizes two primary strategies to manage risks and returns and to position the portfolio to take advantage of market opportunities while attempting to mitigate adverse effects. As strategies and market conditions evolve, the asset allocation may change or assets may be moved between strategies.

Market-based strategies include investments primarily in publicly traded bonds and common stocks. Private fixed income assets, such as commercial mortgages, bank loans and privately placed debt that provide liquidity premiums are also included in this category. Market-based core seeks to deliver predictable earnings aligned to business needs and returns consistent with the markets in which the Company invests. As of December 31, 2018, 84% of the portfolio follows this strategy with 91% in bonds and commercial mortgage loans and 4% in common stocks. Market-based active seeks to outperform within the public markets through tactical positioning and by taking advantage of short-term opportunities. This category may generate results that meaningfully deviate from those achieved by market indices, both favorably and unfavorably. As of December 31, 2018, 3% of the portfolio follows this strategy with 89% in bonds and 9% in common stocks.

Performance-based strategy seeks to deliver attractive risk-adjusted returns and supplement market risk with idiosyncratic risk. Returns are impacted by a variety of factors including general macroeconomic and public market conditions as public benchmarks are often used in the valuation of underlying investments. Variability in earnings will also result from the performance of the underlying assets or business and the timing of sales of those investments. Earnings from the sales of investments may be recorded as net investment income or realized capital gains and losses. The portfolio, which primarily includes private equity and real estate with a majority being limited partnerships, is diversified across a number of characteristics, including managers or partners, vintage years, strategies, geographies (including international) and industry sectors or property types. These investments are generally illiquid in nature, often require specialized expertise, typically involve a third party manager, and often enhance returns and income through transformation at the company or property level. A portion of these investments seek returns in markets or asset classes that are dislocated or special situations, primarily in private markets. As of December 31, 2018, 13% of the portfolio follows this strategy with 93% in other invested assets primarily invested in limited partnerships.

Invested assets and market-based income are expected to decline with reductions in contractholder funds and income related to performance-based investments will result in variability of earnings. Performance-based investments and equity securities will continue to be allocated primarily to the longer-term immediate annuity liabilities to reduce the risk that investment returns are below levels required to meet their funding needs while shorter-term annuity liabilities will be invested in market-based investments.

The Company has a comprehensive portfolio monitoring process to identify and evaluate each security whose carrying value may be other-than-temporarily impaired. The portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its amortized cost (for bonds) or cost (for stocks) is below established thresholds. The process also includes monitoring of other impairment indicators such as ratings, rating downgrades and payment defaults.

Bonds

Bonds decreased $949 million from the prior year primarily due to proceeds from long term bonds in excess of cost used to fund a $315 million decrease in net deposits on deposit-type contracts, $295 million negative cash from operations primarily due to higher operating and benefit payments and $250 million of dividends paid to AIC.

The bond portfolio consists of corporate bonds including privately placed securities, municipal bonds, asset-backed securities ("ABS"), U.S. government bonds, mortgage-backed securities ("MBS"), and foreign government bonds.

As of December 31, 2018, 85% of the consolidated bond portfolio was rated investment grade, which is defined as a security having an National Association of Insurance Commissioners ("NAIC") designation of 1 or 2, a rating of Aaa, Aa, A, or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P Global Ratings, a comparable rating from another nationally recognized rating agency or a comparable internal rating if an externally provided rating is not available. There was no significant change in the bond portfolio quality distribution from the prior year.

Bonds with an NAIC designation of 1 through 5, including loan-backed and structured securities and excluding Securities Valuation Office-identified investments, are reported at amortized cost using the effective yield method.

Bonds with an NAIC designation of 6 are reported at the lower of amortized cost or fair value, with the difference reflected in unassigned surplus as unrealized capital loss.

Corporate bonds totaled $17.05 billion and $17.70 billion as of December 31, 2018 and 2017, respectively. The bond portfolio contained $11.63 billion and $12.31 billion of publicly traded corporate bonds as of December 31, 2018 and 2017, respectively. As of December 31, 2018, 87% of the publicly traded corporate bonds were rated investment grade. As of December 31, 2018, the portfolio also contained $5.42 billion of privately placed corporate securities compared to $5.39 billion as of December 31, 2017. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form. Privately placed corporate obligations contain structural security features such as financial covenants and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. As of December 31, 2018, 74% of the privately placed securities were rated investment grade.

Municipal bonds totaled $1.94 billion as of December 31, 2018 compared to $1.95 billion as of December 31, 2017. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest). As of December 31, 2018, 100% of the municipal bonds were rated investment grade. The municipal bond portfolio as of December 31, 2018 consisted of 302 issues from 175 issuers. The largest exposure to a single issuer was 6% of the municipal bond portfolio.

The bond portfolio also contained $1.31 billion of ABS as of both December 31, 2018 and 2017. The ABS portfolio includes collateralized debt obligations and consumer and other ABS. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance. As of December 31, 2018, 83% of the ABS securities were rated investment grade.

U.S. government bonds totaled $0.93 billion and $1.02 billion as of December 31, 2018 and 2017, respectively. As of December 31, 2018, 100% of the U.S government bonds were rated investment grade.

As of December 31, 2018 and 2017, $187 million and $297 million, respectively, of the bond portfolio were invested in MBS, which consisted of residential MBS ("RMBS") and commercial MBS ("CMBS"). The RMBS portfolio is subject to interest risk, but unlike other fixed income securities, is additionally subject to prepayment risk from the underlying residential mortgage loans. All of the CMBS investments are traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area. As of December 31, 2018, 90% of the MBS portfolio were rated investment grade.

Foreign government bonds totaled $65 million as of December 31, 2018 compared to $146 million as of December 31, 2017. As of December 31, 2018, 83% of the foreign government bonds were rated investment grade.

The fair value of all bonds was $21.81 billion and $23.70 billion as of December 31, 2018 and 2017, respectively. Unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value, were $0.33 billion and $1.27 billion as of December 31, 2018 and 2017, respectively.

Common stocks

Common stocks decreased $229 million to $1.22 billion as of December 31, 2018 primarily driven by the decrease in valuations due to the equity market decline at the end of 2018 and reinvestment of proceeds to other asset categories.

Mortgage loans on real estate

Mortgage loans on real estate increased $95 million to $3.90 billion as of December 31, 2018. The increase was due to reallocation from other investments. Mortgage loans are secured by first mortgages on developed commercial real estate. Geographical and property type diversification are key considerations used to manage exposure. Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable the Company will not collect the contractual principal and interest.

Other invested assets

Other invested assets increased $235 million to $3.97 billion as of December 31, 2018 mostly attributed to limited partnerships due to increased investment in support of the long-term performance based strategy. The limited partnership portfolio consisted of investments in private equity funds, real estate funds and other funds.

Off-balance sheet financial instruments

The contractual amounts of off-balance-sheet financial instruments as of December 31 were as follows:

(in millions)	2018	2017
Commitments to invest in limited partnership interests	$ 1,195	$ 1,345
Other loan commitments	$ 107	$ 17
Private placement commitments	$ 7	$ 47

Commitments to invest in limited partnership interests represent agreements to acquire new or additional participation in certain limited partnership investments. The Company enters into these agreements in the normal course of business.

Other loan commitments are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters into these agreements to commit to future loan fundings at predetermined interest rates. Commitments have either fixed or varying expiration dates or other termination clauses.

Private placement commitments represent commitments to purchase private placement debt and private equity securities at a future date. The Company enters into these agreements in the normal course of business.

The contractual amounts represent the amount at risk if the contract was fully drawn upon, the counterparty defaults and the value of any underlying security becomes worthless. The Company does not require collateral or other security to support off-balance-sheet financial instruments with credit risk.

Non-investment-grade Investments

The Company's investment policy allows it to purchase and hold below investment grade securities. The Company believes with quality research and underwriting, these securities complement its broader investment strategy and provide the appropriate level of return for the increased risk.

From Separate Accounts

Separate Accounts assets decreased $696 million, or 18%, to $3.16 billion as of December 31, 2018. The decrease was primarily due to surrender and benefit activities as well as lower investment results due to equity markets decline in 2018 compared to 2017. Substantially all of the products are closed to new business and only additional deposits are accepted on existing contracts.

Credit linked note

As of December 31, 2018 and 2017 the CLN was $1.30 billion between ALIC Re and Bueller issued in conjunction with the MTA described previously. The increase of $2 million over the prior year was primarily due to the aging of the XXX block of business.

Aggregate reserve for life contracts

(in millions)	2018	2017
Structured settlements	$ 7,405	$ 7,449
Interest sensitive life	6,817	6,771
Fixed annuities	4,857	5,379
Traditional life	3,143	2,923
Indexed annuities	949	968
Annuity buyouts	654	699
Payout annuities	558	579
Indexed life	463	404
Modified guaranteed annuity contracts	409	759
Single premium immediate annuities	293	343
Other	84	83
Total	$ 25,632	$ 26,357

Aggregate reserves for life contracts decreased $725 million to $25.63 billion as of December 31, 2018 and were primarily attributed to decrease in reserves of $522 million for fixed annuities, $350 million for modified guaranteed annuity ("MGA") contracts, $50 million for single premium immediate annuities, $45 million for annuity buyouts and $44 million for structured settlements, partially offset by an increase in reserves of $220 million for traditional life, $59 million for indexed life and $46 million for interest sensitive life. The decrease in reserves for fixed annuities and MGA contracts was primarily driven by surrenders. 2018 had elevated surrenders on fixed annuities resulting from an increased number of contracts reaching the 30-45 day period (typically at their 5, 7 or 10 year anniversary) during which there was no surrender charge. The decreases in reserves for single premium immediate annuities, annuity buyouts and structured settlements were primarily due to continued run-off for these closed blocks of business. The increase in reserves for traditional life was primarily due to aging of the in force, especially the term business issued by LBL and AAC from 2010 to 2017. The increase in reserves for indexed life was primarily driven by premiums and credited interest exceeding surrenders and withdrawals. The increase in reserves for interest sensitive life was primarily driven by AXXX reserve growth.

Liability for deposit-type contracts

Liability for deposit-type contracts decreased $187 million to $2.40 billion as of December 31, 2018 primarily due to run-off of structured settlements and the single premium immediate annuities.

Capital and surplus

(in millions)	2018	2017
Capital and surplus, December 31, prior year	$ 3,862	$ 3,143
Net income	409	279
Change in net unrealized capital gains (losses)	(20)	415
Change in net unrealized foreign exchange capital gains (losses)	4	63
Change in net deferred income tax	(18)	(208)
Change in nonadmitted assets	(86)	(15)
Change in asset valuation reserve	22	(190)
Change in surplus notes	-	(325)
Dividends to stockholders	(250)	(600)
Aggregate write-ins for gains and losses in surplus (credit linked note)	2	1,300
Capital and surplus, December 31, current year	$ 3,925	$ 3,862

Capital and surplus increased $63 million to $3.93 billion as of December 31, 2018. The increase was mainly due to the $409 million current year net income, partially offset by $250 million dividends paid to AIC, and $86 million increase in nonadmitted assets.

RESULTS OF OPERATIONS

(in millions)	2018	2017
Premiums and annuity considerations	$ 1,497	$ 1,598
Net investment income including IMR amortization	1,501	1,599
Commissions and expense allowances on reinsurance ceded	65	67
Reserve adjustments on reinsurance ceded	(509)	(527)
Other income	77	39
Total revenue	2,631	2,776
Provision for benefits	2,352	2,532
Commissions and general insurance expenses, including insurance taxes, licenses and fees	404	459
Net transfers to or (from) Separate Accounts	(570)	(586)
Transfer of IMR due to reinsurance agreement	-	1
Total expense	2,186	2,406
Net gain from operations before dividends to policyholders and before federal income taxes	445	370
Federal and foreign income taxes incurred (excluding tax on capital gains)	22	88
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	423	282
Realized gains (losses), net of IMR and federal income taxes	(14)	(3)
Net income	$ 409	$ 279

Net income
The Company reported net income of $409 million and $279 million for 2018 and 2017, respectively. The $130 million increase in net income was primarily due to $180 million decrease in provision for benefits, $66 million decrease in federal and foreign income taxes incurred and $18 million decrease in reserve adjustments on reinsurance ceded, partially offset by $101 million decrease in premiums and annuity considerations, $98 million decrease in net investment income including IMR amortization and $11 million increase in realized capital losses. Non-proprietary product revenue of $38 million was reported as other income in 2018 compared to an offset to general expenses in 2017. The net decrease of $17 million in commission and general insurance expenses including the impact of non-proprietary product revenue also contributed to the increase in net income for 2018.

Premiums and annuity considerations
Prior year activity included a $53 million increase in traditional life premiums due to the Amended Reinsurance Agreement between ALIC and AAC effective January 1, 2017. Excluding this one-time impact, premiums and annuity considerations decreased $48 million compared to 2017. Traditional life premiums decreased $21 million driven by a decline in new first-year premiums assumed from AAC as sales of a product issued by AAC are retained with the implementation of principle-based reserving effective January 1, 2018. Interest sensitive life decreased $20 million due to the organizational decision to use AAC as the primary writing company for new business.

Net investment income including IMR amortization
Net investment income including IMR amortization decreased $98 million, or 6%, primarily attributed to the decrease in bonds of $62 million and derivative instruments of $53 million, partially offset by a $13 million increase in other invested assets. The decrease in net investment income was primarily due to lower average investment balances. The increase in other invested assets was primarily due to final distributions received from limited partnerships.

Provision for benefits
Prior year activity included $70 million increase in provision for benefits due to the Amended Reinsurance Agreement between ALIC and AAC effective January 1, 2017. Excluding this one-time impact, provision for benefits decreased $110 million compared to 2017 primarily due to decreases in change in reserves, annuity benefits and interest on deposit-type funds of $241 million, $42 million and $10 million, respectively, partially offset by an increase in surrenders and death benefits of $141 million and $38 million, respectively. The decrease in change in reserves of $241 million was mostly attributed to MGA, structured settlements, interest sensitive life and traditional life products of $155 million, $45 million, $23 million and $20 million, respectively. The decrease in change in reserves was driven by decrease in MGA due to increased surrenders and structured settlements due to increased benefit payments. The decrease in annuity benefits was primarily attributed to fixed annuities due to run off of the annuity block. The increase in surrenders was primarily attributed to MGA, due to several blocks of policies entering a surrender-charge-free period. The increase in death benefits was primarily driven by higher claim experience on traditional life of $26 million and interest sensitive life of $13 million.

Federal and foreign income taxes incurred
Federal and foreign incomes taxes incurred decreased $66 million compared to 2017 primarily due to the tax adjustments related to life reserves and the reduction of the tax rate from 35% to 21%. This was partially offset by an increase in pre-tax operating income including IMR.

Realized losses net of IMR and federal income taxes
The $11 million increase in realized losses net of IMR and federal income taxes was mostly due to an increase in write-downs for common stocks and limited partnerships in 2018 compared to 2017.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)	2018	2017
Net cash from operations	$ (295)	$ 127
Net cash from investments	896	843
Net cash from financing and miscellaneous sources	(620)	(1,001)
Net change in cash, cash equivalents and short-term investments	$ (19)	$ (31)

The principal sources of cash flows from operations were premiums, investment income, and net transfers from Separate Accounts. The principal uses were the payment of benefits and commissions and operating expenses. Net cash from operations decreased $422 million in 2018 compared to 2017 primarily due to the lower net investment income and premiums and higher benefits and loss related payments.

Higher cash provided by investing activities in 2018 compared to 2017 was the result of proceeds from bonds in excess of acquisition cost. The net cash from investments was primarily attributed to bonds, stocks, other invested assets and mortgage loans. The maturity structure of the Company's bonds, which represent 67% of the Company's total investments, is managed to meet the anticipated cash flow requirements of the underlying liabilities. A portion of the diversified product portfolio, primarily fixed deferred annuities and universal life insurance policies, is subject to discretionary surrender and withdrawal by customers.

The negative cash flows from financing and miscellaneous sources decreased $381 million from the prior year primarily due to lower dividends paid to AIC in 2018, partially offset by increased payments for surrenders and withdrawals on deposit type contracts.

Liquidity for life insurance companies is measured by the ability to pay contractual benefits and operating expenses, and fund investment commitments. Annuity reserves, including liability for deposit-type contracts, as of December 31, 2018, excluding Separate Accounts, consisted of $17.55 billion, or 62%, of total reserves in force. Of the total annuity reserves, including liability for deposit-type contracts, $11.99 billion, or 63%, are not subject to discretionary withdrawal. The Company maintains a strong liquidity position and is well positioned to meet its policyholders' obligations.

Financial strength ratings and outlook

The Company's financial strength ratings were A+ (superior), A+ (good) and A1 (good) by A.M. Best, S&P Global Ratings and Moody's, respectively; all with a stable outlook.

Dividend restriction

The ability of ALIC to pay dividends is generally dependent on business conditions, income, cash requirements, receipt of dividends and other relevant factors. More specifically, the Illinois Insurance Code ("Code") provides a two-step process. First, no dividend may be declared or paid except from earned (unassigned) surplus, as distinguished from contributed surplus, nor when the payment of a dividend reduces surplus below the minimum amount required by the Code. Secondly, a determination of the ordinary versus extraordinary dividends that can be paid is formula based and considers net income and capital and surplus, as well as the timing and amounts of dividends paid in the preceding twelve months as specified by the Code. Ordinary dividends to shareholders do not require prior approval of the IL DOI. Dividends are not cumulative. As of December 31, 2018, the maximum ordinary dividend that can be declared and paid in 2019 by ALIC is limited to $347 million. Additionally, any dividend must be paid out of unassigned surplus excluding unrealized gains from investments, which for ALIC totaled $323 million as of December 31, 2018, and cannot result in capital and surplus being less than the minimum amount required by law.

Risk-based capital

The NAIC has a uniform capital adequacy standard, referred to as risk-based capital ("RBC"), that serves as one of the solvency monitoring regulatory tools to measure and assess the amount of capital that is appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The standard utilizes a formula to calculate a company's minimum capital requirement ("company action level RBC") based on the insurance, business, asset, interest rate, health credit and market risk associated with its business. There is no regulatory action required if a company maintains an actual capital level greater than the company action level RBC. A RBC model law does, however, mandate four levels of regulatory action based on a company's degree of capital impairment. As of December 31, 2018, each of the insurers comprising the Company had actual capital that was significantly above the company action level RBC.

IRIS ratios

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System ("IRIS") to assist state regulators in monitoring the financial condition of insurance companies that require special attention or action. IRIS ratios are not applicable to ALIC Re, a special purpose financial captive insurance company domiciled in South Carolina. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined usual range. Additional regulatory scrutiny may occur if a company's ratio results fall outside the usual range for four or more of the twelve ratios. As of December 31, 2018, none of the companies had more than two ratios outside of the usual ranges.

Reinsurance

The Company's reinsurance ceded on life insurance in force decreased $6.43 billion to $83.17 billion as of December 31, 2018 compared to $89.60 billion as of December 31, 2017. Of the $83.17 billion life insurance in force ceded as of December 31, 2018, $4.84 billion was ceded to AAC pursuant to the reinsurance agreement entered into by ALIC and AAC effective April 1, 2015 while the rest was ceded to unaffiliated reinsurers. Of the $89.60 billion life insurance in force ceded as of December 31, 2017, $5.18 billion was ceded to AAC pursuant to the reinsurance agreement entered into by ALIC and AAC effective April 1, 2015 while the rest was ceded to unaffiliated reinsurers. The

Company enters into reinsurance agreements with unaffiliated reinsurers to limit aggregate and single exposure to losses on large risks, while retaining primary liability as a direct insurer for all risks ceded to reinsurers.

As of December 31, 2018 and 2017, 20% and 21%, respectively of the Company's face amount of life insurance in force was reinsured. The Company also cedes substantially all of the risk associated with variable annuity contracts to non-affiliates.

The credit worthiness of external reinsurers is continuously monitored. As of December 31, 2018, 80% and 12% of ceded premiums under uncollateralized external reinsurance treaties were ceded to companies that currently have an A.M. Best financial strength rating of A- or better and three companies with a rating of B+, respectively. The rest was ceded to companies that are not rated by A.M. Best.