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Allstate Life Insurance Company
Management Discussion and Analysis
For the Year Ended December 31, 2020

Allstate Life Insurance Company (the “Company”), an Illinois domiciled insurer, 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 authorized to sell life insurance and retirement products in 49 states, the District of Columbia and Puerto Rico. The Company's business consists of traditional, interest-sensitive and variable life insurance. Term and whole life insurance offer basic life protection solutions. Universal life and retirement products cover more advanced needs. Allstate exclusive agents partner with exclusive financial specialists to deliver life and retirement solutions to their customers. Sales of proprietary life insurance products are expected to be discontinued during the second quarter of 2021.

The Company discontinued the sale of proprietary 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 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 (primarily limited partnership investments) in which it has ownership interests and a greater proportion of return is derived from idiosyncratic assets or operating performance.

On January 26, 2021, AIC and Allstate Financial Insurance Holdings Corporation entered into a Stock Purchase Agreement with Antelope US Holdings Company, an affiliate of an investment fund associated with The Blackstone Group Inc. to sell the Company and certain affiliates for approximately $2.8 billion in cash. AIC or an affiliate will retain ownership of Allstate Life Insurance Company of New York (“ALNY”) while pursuing alternatives to sell or otherwise transfer risk to a third party. The transaction is expected to close in the second half of 2021 subject to regulatory approvals and other customary closing conditions.

FINANCIAL POSITION

BALANCE SHEET

(in millions)		2020		2019
Cash and invested assets	$	27,024	$	26,634
Premiums and considerations		196		213
Other assets		422		354
From Separate Accounts, Segregated Accounts and Protected Cell Accounts		3,201		2,965
Total assets	$	30,843	$	30,166
Aggregate reserves for life contracts	$	19,153	$	18,674
Aggregate reserves for accident and health contracts		77		82
Liability for deposit-type contracts		1,738		1,880
Contract claims and liabilities		191		121
Asset valuation reserve		973		1,008
Funds held under coinsurance		805		776
Other liabilities		778		843
From Separate Accounts Statement		3,201		2,965
Total liabilties		26,916		26,349
Capital and surplus		3,927		3,817
Total liabilties and capital and surplus	$	30,843	$	30,166

Cash and invested assets
Total cash and invested assets increased $390 million, or 1%, as of December 31, 2020 primarily due to an asset transfer of $591 million from Allstate Assurance Company ("AAC"), an affiliate, due to the reinsurance agreement effective December 1, 2020 and cash from operations of $114 million, partially offset by cash outlays on deposit-type contracts of $239 million and decrease in cash liabilities of $82 million mostly attributed to a decrease in securities lending. Explanations of significant items to follow.

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

	2020						2019
(in millions)		Market-based		Performance-based		Total	Total
Bonds	$	17,865	$	24	$	17,889	$ 16,628
Preferred stocks		12		14		26	29
Common stocks		1,319		67		1,386	1,558
Mortgage loans on real estate		2,746		-		2,746	3,197
Real estate		-		158		158	169
Cash and cash equivalents		599		-		599	454
Short-term investments		92		-		92	439
Contract loans		578		-		578	556
Other invested assets		517		2,862		3,379	3,489
Derivatives		152		1		153	103
Securities lending reinvested collateral assets		15		-		15	7
Other		3		-		3	5
Total	$	23,898	$	3,126	$	27,024	$ 26,634
% of total		88%		12%			

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 equity securities.

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 strategy includes investments primarily in corporate 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. It seeks to deliver predictable earnings aligned to business needs and take advantage of short-term opportunities. As of December 31, 2020, 88% of the portfolio follows this strategy with 86% in bonds and commercial mortgage loans and 6% 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 these 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, 2020, 12% of the portfolio follows this strategy with 12% in other invested assets primarily invested in limited partnerships.

During 2020, strategic actions focused on optimizing portfolio yield, return and risk in the low interest rate environment. Invested assets and market-based income declined with reductions in contractholder funds. The Company continues to allocate performance-based investments and equity securities 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 increased $1.26 billion, or 8%, to $17.89 billion as of December 31, 2020. The increase included $409 million of bonds transferred from AAC to the Company due to the reinsurance agreement effective December 1, 2020. Excluding this one-time impact, bonds increased $852 million primarily due to investment reallocation from mortgage loans and common stocks to bonds driven by the strategic actions to increase the maturity profile of long term bonds.

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

As of December 31, 2020, 84% 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 $14.60 billion and $13.58 billion as of December 31, 2020 and 2019, respectively. The bond portfolio contained $10.35 billion and $9.29 billion of publicly traded corporate bonds as of December 31, 2020 and 2019, respectively. As of December 31, 2020, 90% of the publicly traded corporate bonds were rated investment grade. As of December 31, 2020, the portfolio also contained $4.25 billion of privately placed corporate securities compared to $4.29 billion as of December 31, 2019. 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, 2020, 63% of the privately placed securities were rated investment grade.

The bond portfolio also contained $1.22 billion and $1.20 billion of ABS as of December 31, 2020 and 2019, respectively. 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 features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance. As of December 31, 2020, 79% of the ABS securities were rated investment grade.

Municipal bonds totaled $1.21 billion as of December 31, 2020 compared to $1.00 billion as of December 31, 2019. 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, 2020, almost all of the municipal bonds were rated investment grade. The municipal bond portfolio as of December 31, 2020 consisted of 311 issues from 171 issuers. The largest exposure to a single issuer was 8% of the municipal bond portfolio.

U.S. government bonds totaled $0.83 billion and $0.73 billion as of December 31, 2020 and 2019, respectively. As of December 31, 2020, 100% of the U.S government bonds were rated investment grade.

Foreign government bonds totaled $13 million as of December 31, 2020 compared to $18 million as of December 31, 2019. As of December 31, 2020, 61% of the foreign government bonds were rated investment grade.

As of December 31, 2020 and 2019, $11 million and $113 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. CMBS investments are traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area. As of December 31, 2020, 100% of the MBS portfolio was rated investment grade.

The fair value of all bonds was $19.59 billion and $17.72 billion as of December 31, 2020 and 2019, respectively. Unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value, were $1.70 billion and $1.09 billion as of December 31, 2020 and 2019, respectively.

Common stocks

Common stocks decreased $173 million, or 11%, to $1.39 billion as of December 31, 2020 primarily driven by the risk-reduction strategy to reduce equity exposure.

Mortgage loans on real estate

Mortgage loans on real estate decreased $451 million, or 14%, to $2.75 billion as of December 31, 2020 primarily driven by the risk-reduction strategy to reduce real estate exposure. 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 decreased $110 million, or 3%, to $3.38 billion as of December 31, 2020. Other invested assets primarily consist of limited partnerships which include investments in private equity funds, real estate funds and other funds.

Derivatives

Derivatives increased $50 million, or 49%, to $153 million as of December 31, 2020 primarily due to an increase in the value of purchased options used to hedge the equity indexed annuity universal life product driven by the increase in S&P 500 index.

Off-balance sheet financial instruments

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

(in millions)	2020	2019
Commitments to invest in limited partnership interests	$ 819	$ 930
Other loan commitments	$ 14	$ 39
Commitments to invest in real estate(1)	$ -	$ 5
Private placement commitments	$ -	$ 1

(1) Beginning December 31, 2020, commitments to invest in real estate are included within commitments to invest in limited partnership interests.

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 funding at predetermined interest rates. Commitments have either fixed or varying expiration dates or other termination clauses. Commitments to invest in real estate represent an agreement to provide additional capital for the development of real estate property. The Company enters into these agreements in the normal course of business. 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 increased $236 million, or 8%, to $3.20 billion as of December 31, 2020. The increase was primarily due to positive investment results. Substantially all of the products are closed to new business and only additional deposits are accepted on existing contracts.

Aggregate reserve for life contracts

(in millions)	2020	2019
Structured settlements	$ 5,795	$ 5,546
Interest sensitive life (“ISL”)	6,539	5,998
Fixed annuities	3,097	3,331
Indexed annuities	848	886
Traditional life	798	771
Indexed life	610	479
Annuity buyouts	564	610
Payout annuities	396	437
Modified guaranteed annuity (“MGA”) contracts	210	271
Single premium immediate annuities	210	257
Other	86	88
Total	$ 19,153	$ 18,674

Aggregate reserves for life contracts increased $479 million to $19.15 billion as of December 31, 2020 and were primarily attributed to the increases in reserves of $541 million for ISL, $249 million for structured settlements and $131 million for indexed life, partially offset by the decreases in reserves of $234 million for fixed annuities, $61 million for MGA contracts, $47 million for single premium immediate annuities, $46 million for annuity buyout and $41 million for payout annuities. The increase in reserves for ISL was primarily driven by an increase of $340 million reserves assumed from AAC in addition to the AXXX reserve growth. The increase in reserves for structured settlements was primarily due to an increase in asset adequacy reserves. The increase in indexed life was mostly driven by account value growth. The decrease in reserves for fixed annuities and MGA contracts was primarily driven by a decrease in account value as the blocks are in run-off. The decrease in reserves for annuity buyouts and payout annuities was primarily due to continued run-off for these closed blocks of business.

Liability for deposit-type contracts

Liability for deposit-type contracts decreased $142 million, or 8%, to $1.74 billion as of December 31, 2020 primarily due to run-off of structured settlements and the single premium immediate annuities.

Asset valuation reserve

Asset valuation reserve ("AVR") decreased $35 million, or 3%, to $973 million as of December 31, 2020 primarily driven by lower valuations and sales of other invested assets with underlying characteristics of common stocks and decrease in AVR on common stock due to the decision to reduce the equity exposure at year end.

Other liabilities

Other liabilities decreased $65 million, or 8%, to $778 million as of December 31, 2020 primarily due to $110 million in payable for securities lending, partially offset by $50 million increase in derivatives liabilities. The decrease in payable for securities lending was primarily driven by the decision to reduce the securities lending program during the Novel Coronavirus Pandemic or COVID-19 ("Coronavirus"). The increase in derivatives liability was primarily due to a decrease in the value of written options used to hedge the equity indexed annuity universal life product.

Capital and surplus

(in millions)	2020	2019
Capital and surplus, December 31, prior year	$ 3,817	$ 3,471
Net income	57	487
Change in net unrealized capital gains (losses)	(130)	36
Change in net unrealized foreign exchange capital gains (losses)	25	(16)
Change in net deferred income tax	75	(21)
Change in non-admitted assets	48	36
Change in AVR	35	(101)
Dividends to stockholders	-	(75)
Capital and surplus, December 31, current year	$ 3,927	$ 3,817

Capital and surplus increased $110 million to $3.93 billion as of December 31, 2020. The increase was due to the $57 million in net income, $75 million increase in net deferred income tax assets, $48 million decrease in non-admitted assets and $35 million decrease in AVR, partially offset by a $105 million increase in net unrealized capital losses. The increase in deferred taxes was due to change in life reserves and tax deferred acquisition costs. The decrease in non-admitted assets was primarily due to lower negative IMR as of December 31, 2020 compared to 2019 due to realized gains transferred into the reserve and IMR adjustment received from AAC due to the reinsurance agreement effective December 1, 2020. The increase in net unrealized capital losses was primarily due to lower valuations on limited partnership investments.

RESULTS OF OPERATIONS

(in millions)	2020	2019
Premiums and annuity considerations	$ 1,484	$ 925
Net investment income including interest maintenance reserve ("IMR") amortization	1,162	1,187
Commissions and expense allowances on reinsurance ceded	101	97
Reserve adjustments on reinsurance ceded	(370)	(413)
Experience refund on reinsurance ceded	168	127
Other income	70	80
Total revenue	2,615	2,003
Provision for benefits	2,654	1,689
Commissions and general insurance expenses, including insurance taxes, licenses and fees	315	303
Net transfers to or (from) Separate Accounts	(415)	(446)
Funds withheld expense	33	31
Total expense	2,587	1,577
Net gain from operations before dividends to policyholders and before federal income taxes	28	426
Federal and foreign income taxes incurred (excluding tax on capital gains)	-	7
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	28	419
Realized gains (losses), net of IMR and federal income taxes	29	68
Net income	$ 57	$ 487

Net income

The Company reported net income of $57 million and $487 million for 2020 and 2019, respectively. The $430 million decrease in net income was primarily due to $965 million increase in provision for benefits, $39 million decrease in realized capital gains and $31 million decrease in net transfers from Separate Accounts, partially offset by $612 million increase in total revenue. The increase in total revenue was primarily due to $559 million increase in premiums and annuity considerations, $43 million decrease in reserve adjustments on reinsurance ceded and $41 million increase in experience refund on reinsurance ceded, partially offset $25 million decrease in net investment income including IMR amortization.

Premiums and annuity considerations

Premiums and annuity considerations increased $559 million compared to 2019. Current year premiums included $608 million associated with the reinsurance agreement with AAC effective December 1, 2020. Excluding this one-time impact of the reinsurance transaction, the Company reported a $49 million decrease in premiums compared to the prior year, as overall premiums are expected to decline as these blocks continue to run off.

Net investment income including IMR amortization

Net investment income including IMR amortization decreased $25 million, or 2%, primarily attributed to the decrease in income from bonds of $42 million, derivative instruments of $31 million, common stocks of $22 million and short-term investments of $20 million, partially offset by an increase in income from other invested assets of $74 million and IMR amortization of $13 million. The overall decrease in net investment income was primarily due to lower average investment balances excluding the impact of $591 million assets transferred from AAC due to the reinsurance transaction effective December 1, 2020. The increase in net investment income from other invested assets was primarily driven by the sale of underlying assets in two limited partnerships in 2020 where the undistributed earnings were recognized as net investment income upon liquidation.

Reserve adjustments on reinsurance ceded

Reserve adjustments on reinsurance ceded related to a modified coinsurance reinsurance agreement decreased $43 million to $370 million in 2020. The decrease is expected to continue as it relates to the closed variable annuity contract.

Experience refund on reinsurance ceded

Experience refund on reinsurance ceded increased $41 million, or 30%, to $168 million in 2020. Under the terms of the coinsurance agreement with ALIC Reinsurance Company ("ALIC Re), a wholly-owned subsidiary, an experience refund account balance is calculated as of the last day of each calendar year in accordance with a specific formula defined in the agreement and is payable to the Company provided that certain financial benchmarks are attained. The increase was due to favorable mortality and a smaller than expected increase in the funds held under coinsurance balance in 2020, primarily driven by favorable mortality and expense assumption updates, which lowered the Actuarial Guideline XLVIII reserves. Current year income included a $8 million true-up for 2019.

Provision for benefits

Provision for benefits increased $965 million, or 57%, compared to 2019 primarily due to a $1.02 billion unfavorable change in reserves. Current year change in reserves included $570 million associated with the reinsurance agreement with AAC effective December 1, 2020. Excluding this one-time impact of the reinsurance transaction with AAC, the Company recorded a $452 million unfavorable change in reserves compared to the prior year, primarily attributed to structured settlements driven by a $300 million increase in asset adequacy reserves. Fixed annuities reserves and MGA reserves increased $92 million and $76 million, respectively, mostly due to an increase in account value and an increase in the reserves calculated according to Title 50 of the Illinois Administrative Code, Part 1410 over formula reserves.

Realized gains net of IMR and federal income taxes

The Company recorded realized gains net of IMR and federal income taxes of $29 million and $68 million in 2020 and 2019, respectively. The decrease in net realized capital gains was primarily attributed to other invested assets, which had realized capital loss of $23 million in 2020 compared to realized capital gains of $18 million in 2019.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)	2020	2019
Net cash from operations	$ 114	$ (10)
Net cash from investments	5	650
Net cash from financing and miscellaneous sources	(321)	(359)
Net change in cash, cash equivalents and short-term investments	$ (202)	$ 281

The principal sources of cash from operations were net investment income, premiums, net transfers from Separate Accounts and miscellaneous income. The principal uses were the payment of benefits, commissions and operating expenses and federal income taxes. Net cash from operations increased $124 million in 2020 compared to 2019 primarily due to the lower benefits and loss related payments.

Cash flows from investments were driven by sales proceeds in excess of new investment purchases. 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 66% 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 was primarily due to a decline in net deposits 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, 2020, excluding Separate Accounts, consisted of $12.53 billion, or 59%, of total reserves in force. Of the total annuity reserves, including liability for deposit-type contracts, $9.23 billion, or 66%, 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

In June 2020, A.M. Best affirmed the insurance financial strength rating of A+. Subsequent to the announcement of the pending sale of the Company in January 2021, A.M. Best affirmed the insurance financial strength rating of A+ and placed the rating under review with negative implications. In January 2021, subsequent to the announcement of the pending sale of the Company, Moody's downgraded the insurance financial strength rating to A3 from A2 and placed the rating under review for potential further downgrade. Effective June 25, 2020, a rating from S&P was no longer requested, which was rated A+ with a stable outlook at the time of withdrawal.

Dividend restriction
The ability of the Company 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 Illinois Department of Insurance ("IL DOI"). Dividends are not cumulative. As of December 31, 2020, the maximum ordinary dividend that can be declared and paid in 2021 by the Company is limited to $393 million, less dividends paid during the preceding twelve months measured at that point in time. The payment of a dividend in excess of this amount requires 30 days advance written notice to the IL DOI. The dividend is deemed approved, unless the IL DOI disapproves it within the 30-day notice period. Additionally, any dividend must be paid out of unassigned surplus excluding unrealized appreciation from investments, which for the Company totaled $864 million as of December 31, 2020, 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 the total adjusted 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, 2020, the Company's total adjusted capital that was significantly above the company action level RBC.

Insurance Regulatory Information System ("IRIS") ratios
The NAIC has also developed a set of financial relationships or tests known as IRIS to assist state regulators in monitoring the financial condition of insurance companies that require special attention or action. 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, 2020, the Company had three ratios that were outside of the usual range.

Reinsurance
The Company's reinsurance ceded on life insurance in force decreased $19.94 billion to $205.31 billion as of December 31, 2020 compared to $225.25 billion as of December 31, 2019. Of the $205.31 billion life insurance in force ceded as of December 31, 2020, $149.51 billion were ceded to ALIC Re, while the rest was ceded to unaffiliated reinsurers. Of the $225.25 billion life insurance in force ceded as of December 31, 2019, $158.19 billion and $4.40 billion were ceded to ALIC Re and AAC, respectively, while the rest was ceded to unaffiliated reinsurers. The business ceded to ALIC Re was pursuant to the Amended and Restated Reinsurance Agreement entered into by the Company and ALIC Re effective January 1, 2017. The business ceded to AAC was pursuant to the reinsurance agreement entered into by the Company and AAC effective April 1, 2015. Pursuant to a recapture and termination agreement dated December 1, 2020, the Company recaptured 100% of the universal life insurance policies ceded to AAC and terminated the original reinsurance agreement effective April 1, 2015. AAC transferred assets of $401 million, which equal the policy liabilities plus an adjustment for IMR of $25 million, to the Company in connection with the Recapture and Termination Agreement. Effective December 1, 2020, the Company and AAC entered into a reinsurance agreement whereby AAC transferred assets of $184 million to the Company and ceded on a 100% coinsurance basis corresponding term life and universal life general account policy liabilities plus an adjustment for IMR of $12 million. Under the terms of the agreement, $25 million of variable life separate account liabilities were also assumed from AAC on a modified coinsurance basis. 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, 2020 and 2019, 52% and 65%, respectively, of the Company's face amount of life insurance in force was reinsured. The Company also cedes substantially all risk associated with variable annuity contracts to non-affiliates.

The credit worthiness of external reinsurers is continuously monitored. As of December 31, 2020, 43% and 16% 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 two companies with a rating of B++, respectively. The rest was ceded to companies that were not rated by A.M. Best.

Other

The Coronavirus resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which have included the implementation of travel restrictions, government-imposed shelter-in-place orders, quarantine periods, social distancing and restrictions on large gatherings, have caused material disruption to businesses globally, resulting in increased unemployment, a recession and increased economic uncertainty. Additionally, there is no way of predicting with certainty how long the pandemic might last, including the potential for restrictions being restored or new restrictions being implemented that could result in further economic volatility.

The Coronavirus has affected the Company's operations and depending on its length and severity may continue to significantly affect the Company's results of operations, financial condition and liquidity, including sales of new and retention of existing policies, life insurance mortality and hospital and outpatient claim costs, annuity reserves, investment valuations and returns, and increases in bad debts and credit risk.

The magnitude and duration of the global pandemic and the impact of actions taken by governmental authorities, businesses and consumers, including timing of vaccine distribution, to mitigate health risks create significant uncertainty. The Company will continue to closely monitor and proactively adapt to developments and changing conditions. Currently, it is not possible to reliably estimate the length and severity of the pandemic or its impact to the Company's operations, but the effects could be material and may continue, emerge, evolve or accelerate into 2021.