

# Third Quarter 2019 Financials



**Tim Demetres**  
Chief Financial Officer

**G**CU is committed to the goodness of community and providing members with life insurance protection and retirement benefit products. Notwithstanding the strength in the U.S. economy, we continue to see low interest rates from a slow-down in global growth and trade wars with China. After three consecutive rate cuts by the Fed, we are hopeful the yield curve and, therefore, our crediting rates will improve in the not too distant future. Highlights of the third quarter ended September 30, 2019 are as follows:

Net Income after realized gains (losses) was \$14.2 million in 2019 compared to \$17.2 million in 2018. In 2019, we realized capital losses of \$4.0 million on sales of certain energy related securities. In 2018, we recognized capital losses of \$1.9 million resulting in a year-over-year change of (\$2.1) million. The net change in Surplus was a decrease of \$2.3 million to \$152.0 million compared to \$154.3 million at year-end 2018. In the third quarter we recorded a prior period adjustment of \$17.1 million to increase annuity reserves for potential annuitizations/settlements. Although most of our annuity holders do not settle or annuitize their contracts, annuity reserves must be established as if they do.

Assets grew to \$2.035 billion, an increase of \$143.9 million or 7.6% from \$1.891 billion at year end 2018. The increase is attributed to continued positive operating cash flows from life and annuity sales, investment earnings and controlled spending.

Liabilities grew by \$146.2 million to \$1.883 billion at September 30, 2019 compared to \$1.736 billion as of December

31, 2018. This increase is due primarily to increased annuity reserves of \$123.2 million from net new deposits; an increase of \$1.5 million for life reserves; and an increase of \$21.3 million for potential annuitization settlements.

Total Income increased \$25.4 million or 10.4% to \$270.1 million from \$244.7 million in 2018. Revenue from life and annuity premiums increased by \$17.7 million from the prior year. This increase is mostly driven by the \$16.6 million increase in annuity premiums. Net investment income increased \$8.0 million from growth in invested assets.

Operating expenses, before the change in reserves, increased \$16.5 million or 14.5% for the nine months of 2019 and totaled \$129.9 million compared to \$113.4 million in 2018. The increase is primarily due to higher annuity benefits paid and exchanges of \$17.3 million offset by a \$1.3 million decrease in pension expense from retirements in 2018. General insurance expenses increased modestly by \$268 thousand from increased fraternal giving, technology improvements and business development activities.

The Change in Reserves increased \$9.8 million for the nine months and totaled \$121.8 million compared to \$112.0 million in 2018. Reserve changes are a function of premium deposits, mortality & settlement benefits, payment of death & annuity benefits and interest accumulation.

Financial strength and stability are foundational pillars of GCU. After adjusting Surplus by \$17.1 million for the prior year's impact of providing additional annuity settlement reserves, Surplus now stands at \$152.0 million compared to 2018 year-end surplus of \$154.3 million for a net decrease of \$2.3 million. The prior period adjustment was mostly offset

## Summary of Financial Statistics

(000's omitted)	9/30/19	9/30/18	Change
Total Income	\$ 270,104	\$ 244,676	\$ 25,428
Total Expenses	251,685	225,358	26,327
Net Income (Loss)	14,181	17,191	(3,010)
(000's omitted)	9/30/19	12/31/18	Change
Assets	2,034,790	1,890,844	143,946
Asset Valuation Reserve	17,122	19,311	(2,189)
Interest Maintenance Reserve	22,558	22,583	(25)
Surplus (Net Worth)	152,009	154,269	(2,260)
Total Adjusted Capital (TAC)	169,281	173,730	(4,449)
Normal Solvency Ratio	108.1%	108.9%	-0.8%
Solv. Ratio by Total Adj. Capital	109.1%	110.1%	-1.0%

## Change in Surplus

(000's omitted)	
Beginning Surplus-12/31/18	\$154,269
Net Income/(loss)	14,181
Prior Period Adjustment	(17,083)
Change in Unrealized Gain/(Loss)	(218)
GCU Holding Company & Other	(846)
Changes in Non-Admitted Assets	(484)
Changes in Asset Valuation Reserve	2,189
Net Change in Surplus	(2,260)
<b>Ending Surplus-9/30/19</b>	<b>\$152,009</b>

by \$14.2 million in net income.

Total surplus is the amount we set aside for unexpected losses from operations and financial protection against business volatility. Total Adjusted Capital decreased \$4.5 million to \$169.3 million September 30, 2019. The solvency ratios based on total adjusted capital at September 30, 2019 and Decem-

ber 31, 2018 are 109.12% and 110.1%, respectively. These ratios continue to reflect a strong and stable balance sheet.

Falling leaves and cooling temperatures bring holiday cheer. Wishing everyone a Merry Christmas and a wonderful holiday season!

Tim

## INCOME STATEMENTS

### Nine Months 2019 vs. 2018

INCOME (000's omitted)	9/30/2019	9/30/2018	Change
Life Premium	\$ 2,473	\$ 1,413	\$ 1,059
Annuity Premium	174,010	157,807	16,203
Annuity Exchanges	13,343	12,938	405
Accident & Health	537	510	27
Sub Total	190,363	172,668	17,695
Net Investment Income	75,148	67,116	8,033
Amort. of Int. Maint. Resrv.	2,121	2,396	(276)
Commission-Reinsurance	1,931	2,076	(145)
Other	541	419	121
<b>Total Income</b>	<b>\$270,104</b>	<b>\$244,676</b>	<b>\$25,428</b>

## EXPENSES

Death Benefits	\$ 1,686	\$ 1,963	\$ (277)
Annuity Benefits Paid	99,747	82,820	16,926
Annuity Exchanges	13,343	12,938	405
Surrender Benefits	653	731	(78)
Accident & Health Benefits Pd.	499	450	50
Commissions	7,805	7,451	354
General Insurance Exp	5,677	5,409	268
Ins., Taxes, Licenses and Fees	378	243	135
Pension Expense	56	1,339	(1,283)
Int. Contract & Deposit Accts.	54	57	(2)
Sub-Total	\$ 129,896	\$ 113,400	\$ 16,497
Increase in Reserves	121,789	111,958	9,830
<b>Total Expenses</b>	<b>\$251,685</b>	<b>\$225,358</b>	<b>\$26,327</b>
<b>Net Gain/Loss Before Refunds</b>	<b>18,419</b>	<b>19,318</b>	<b>(899)</b>
<b>Refunds to Members</b>	<b>206</b>	<b>203</b>	<b>3</b>
<b>Net Gain/Loss After Refunds</b>	<b>18,213</b>	<b>19,115</b>	<b>(902)</b>
<b>Net Capital Gains (Losses)</b>	<b>(4,032)</b>	<b>(1,924)</b>	<b>(2,108)</b>
<b>Net Income/Loss</b>	<b>\$ 14,181</b>	<b>\$ 17,191</b>	<b>\$(3,010)</b>

## BALANCE SHEETS

### September 30, 2019 vs. December 31, 2018

ASSETS (000's omitted)	9/30/2019	12/31/2018	Change
Bonds	\$1,900,426	\$ 1,762,021	\$138,405
Preferred Stocks	43,622	49,821	\$(6,199)
Common Stocks	15,737	13,990	\$1,747
Alternative Investments	20,129	15,908	
Cash/Short Term Invest.	21,306	18,882	\$2,424
Mortgages	5,091	4,770	\$321
Certificate Loans	571	648	\$(77)
Real Estate	483	490	(7)
Inv. Income Due & Accrued	26,621	23,960	2,661
Other	805	355	450
<b>Total Assets</b>	<b>\$2,034,791</b>	<b>\$1,890,844</b>	<b>\$143,947</b>

### Percentage Change—7.6%

## LIABILITIES

Life Reserves	\$ 71,485	\$ 70,023	\$ 1,462
Annuity Reserves	1,750,568	1,606,084	144,484
Accident & Health Reserves	195	200	(5)
Employee Pension Liability	6,769	6,311	458
Convention Reserve	279	279	0
Adv. Prem. & Fut. Ref. Resrvs.	358	367	(9)
Pending Investment Trades	10,286	7,415	2,871
Accounts Payable	906	985	(79)
Refund Accumulations	2,254	3,018	(764)
Asset Valuation Reserve-AVR	17,122	19,311	(2,189)
Interest Maint. Reserve-IMR	22,558	22,583	(25)
<b>Total Liabilities</b>	<b>\$1,882,780</b>	<b>\$1,736,576</b>	<b>\$146,204</b>
Surplus Fund	152,009	154,269	(2,260)
<b>Total Liabilities &amp; Surplus</b>	<b>\$2,034,789</b>	<b>\$1,890,844</b>	<b>\$143,945</b>
<b>Normal Solvency</b>	<b>108.1%</b>	<b>108.9%</b>	
<b>Solvency Ratio*</b>	<b>109.1%</b>	<b>110.1%</b>	

\*Adds AVR + 1/2 of dividend liability to surplus.

Financial information is unaudited and presented on the statutory basis of accounting.

Totals may vary slightly due to rounding.