

# 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 slowdown 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. Reserv. | 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.