

# First Quarter 2020 Financials



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From the time our 2019 annual financial report was issued, most of us were under strict stay-at-home orders to slow the spread of the Coronavirus (COVID-19). GCU invoked certain risk management practices to enable employees to work remotely and continue servicing members needs during these uncertain times. Our economy and a significant portion of the workforce were hard hit but there is light ahead as states begin to reopen. Certain business sectors were hit the hardest particularly the energy, retail, travel, and leisure industries. GCU saw, like many insurance companies, a large number of corporate bonds downgraded by the rating agencies to non-investment grade status. We believe this will be temporary and bond ratings will recover along with the economy.

Highlights of the first quarter 2020 results are as follows: Income before net capital gains (losses) totaled \$4.9 million in the first quarter and fell slightly short of the \$5.8 million reported in 2019. Net realized capital losses were \$4.0 million in 2020 compared to \$65 thousand in 2019. We impaired an energy company's bond that filed for bankruptcy protection due to low demand and low energy prices exacerbated by COVID-19. As a result, net income after net realized losses was \$1 million in 2020 compared to \$5.8 million in 2019. Notwithstanding the adverse impact on net income, surplus was relatively unaffected by a release of the asset valuation reserve (AVR). Our goal is to insure GCU maintains its financial strength to meet member obligations well into the future!

Total Assets increased \$37.1 million to \$2.1 billion at March 31st from year-end 2019. The increase in assets is primarily attributed to investing excess cash flows in investment grade bonds, preferred and common stocks. We strategically allo-

cated \$10 million toward public equities. This modest allocation allows GCU to participate in the upside market potential while reducing overall risk through asset diversification.

Liabilities grew commensurate with sales volume and totaled \$1.926 billion at March 31 compared to \$1.890 billion at year-end 2019. The \$36.1 million increase in total liabilities is due primarily to a \$34.5 million increase in life and annuity reserves and a \$1.3 million increase in the interest maintenance reserve (IMR) from net gains on bond sales. The decrease in AVR of \$6.6 million offset the increase in pending investment trades of \$6.6 million.

Total Income for the first quarter 2020 was \$91 million compared to \$88 million in 2019. The \$3 million increase reflects the growth in life and annuity premiums and investment income. Life sales have more than doubled in 2020 benefitting from new agent relationships and favorable repricing.

Operating expenses, before increase in reserves, totaled \$51.8 million in 2020 versus \$43.5 million in 2019 representing an increase of \$8.3 million or 19.0%. In support of our members during this health crisis, GCU paid out \$7.2 million more in annuity benefits (death claims, full and partial withdrawals), and certain members exchanged their current annuity contract into new contracts totaling \$1.3 million. General insurance and other expenses had a net decrease of \$0.2 million.

The increase in reserves in the first quarter totaled \$34.2 million compared to \$38.7 million in 2019. Reserve changes are primarily a function of premiums received, death and annuity benefits paid out, and interest accumulation.

Surplus grew to \$163.7 million at the end of the first quarter compared to \$162.7 million at year-end. The \$1 million increase in surplus is attributable to net income of \$1 million. Other offsetting changes in surplus include: (\$5.6 million) change in unrealized gains/losses from lower equity and

## Summary of Financial Statistics

<i>(000's omitted)</i>	<u>3/31/20</u>	<u>3/31/19</u>	<u>Change</u>
Total Income	\$91,010	\$88,017	\$2,993
Total Expenses	85,998	82,115	3,883
Net Income (Loss)	967	5,771	(4,804)
	<u>3/31/20</u>	<u>12/31/19</u>	<u>Change</u>
Assets	\$2,089,452	\$2,052,334	\$37,118
Asset Valuation Reserve	12,152	18,747	(6,595)
Interest Maintenance Reserve	22,844	21,539	1,305
Surplus (Net Worth)	163,739	162,742	997
Total Adjusted Capital (TAC)	176,041	181,639	(5,598)
Solv. Ratio by Total Adj. Capital	109.2%	109.7%	-0.51%

## Reconciliation of Change in Surplus

<i>(000's omitted)</i>	<u>3/31/20</u>
Beginning Surplus	\$162,742
Net Income/(loss)	967
Change in Unrealized Gain/(Loss)	(5,621)
GCU Holding Company & Other	(346)
Changes in Non-Admitted Assets	(598)
Changes in Asset Valuation Reserve	6,595
Net Change in Surplus	997
<b>Ending Surplus</b>	<b>\$163,739</b>

bonds valuations; (\$0.6 million) charge for an increase in non-admitted assets from software development costs; (\$0.4 million) reduction for GCU Holding Company's net loss; offset by the \$6.6 million positive change in AVR discussed above.

Total Adjusted Capital (TAC) at March 31, 2019 is \$176 million. TAC starts with surplus of \$163.7 million and adds back the asset valuation reserve of \$12.2 million and one-half the dividend

liability of \$150,000. TAC is used as a financial strength measure by rating agencies. The solvency ratios based on TAC at March 31, 2020 and 2019 are 109.2% and 109.7%, respectively. These ratios reflect the continued financial strength of GCU.

Please remain safe and stay healthy during this difficult time.

Tim

## GCU INCOME STATEMENT

### Three Months 2020 vs. 2019

INCOME (000's omitted)	3/31/2020	3/31/2019	Change
Life Premium	\$ 1,421	\$ 676	\$ 745
Annuity Premium	57,897	57,724	173
Annuity Exchanges	5,613	4,302	1,311
Accident & Health	164	184	(20)
Sub Total	65,095	62,886	2,209
Net Investment Income	24,703	23,565	1,138
Amort. of Int. Maint. Resrv.	564	717	(153)
Commission/Reinsurance	515	670	(155)
Other	133	179	(46)
<b>Total Income</b>	<b>\$91,010</b>	<b>\$88,017</b>	<b>\$2,993</b>
<b>EXPENSES</b>			
Death Benefits	\$ 783	\$ 565	\$ 218
Annuity Benefits Paid	40,543	33,364	7,179
Annuity Exchanges	5,613	4,302	1,311
Surrender Benefits	150	249	(99)
Accident & Health Bene. Pd.	157	180	(23)
Commissions	2,320	2,613	(293)
General Insurance Exp	1,963	2,017	(54)
Ins., Taxes, Licenses and Fees	181	147	34
Pension Expense	39	3	36
Int. on Contract & Dep. Accts.	56	19	37
Sub-Total	\$ 51,805	\$43,459	\$ 8,346
Increase in Reserves	34,193	38,656	(4,463)
<b>Total Expenses</b>	<b>\$85,998</b>	<b>\$ 82,115</b>	<b>\$ 3,883</b>
<b>Net Gain/Loss Before Refunds</b>	<b>5,012</b>	<b>5,902</b>	<b>(890)</b>
<b>Refunds to Members</b>	<b>75</b>	<b>66</b>	<b>9</b>
<b>Net Gain/Loss After Refunds</b>	<b>4,937</b>	<b>5,836</b>	<b>(899)</b>
<b>Net Capital Gains (Losses)</b>	<b>(3,970)</b>	<b>(65)</b>	<b>(3,905)</b>
<b>Net Income/Loss</b>	<b>\$ 967</b>	<b>\$ 5,771</b>	<b>\$ (4,804)</b>

## BALANCE SHEETS

### March 31, 2020 vs. December 31, 2019

ASSETS (000's omitted)	3/31/2020	12/31/2019	Change
Bonds	\$ 1,948,208	\$1,922,664	\$25,544
Preferred Stocks	40,580	40,625	(45)
Common Stocks	22,613	16,093	6,520
Alternative Investments	27,052	20,776	6,276
Cash/Short Term Investments	18,349	17,624	725
Mortgages	4,386	4,129	257
Certificate Loans	577	573	4
Real Estate - Home Office	453	480	(27)
Inv. Income Due & Accrued	26,719	25,359	1,360
Other	515	4,011	(3,496)
<b>Total Assets</b>	<b>\$2,089,452</b>	<b>\$2,052,334</b>	<b>\$ 37,118</b>

Percentage Total Change Year to Year—1.8%

### LIABILITIES

Life Reserves	\$ 72,935	\$ 71,515	\$ 1,420
Annuity Reserves	1,800,026	1,766,905	33,121
Accident & Health Reserves	233	191	42
Employee Pension Liability	6,932	6,839	93
Convention Reserve	279	279	—
Adv. Prem. & Fut. Ref. Resrvs.	367	373	(6)
Pending Investment Trades	6,550	—	6,550
Accounts Payable	958	996	(38)
Refund Accumulations	2,439	2,209	230
Asset Valuation Resrv.-AVR	12,152	18,747	(6,595)
Interest Maint. Reserve-IMR	22,844	21,539	1,305
<b>Total Liabilities</b>	<b>\$ 1,925,713</b>	<b>\$1,889,592</b>	<b>\$36,121</b>
<b>Surplus Fund</b>	<b>163,739</b>	<b>162,742</b>	<b>997</b>
<b>Total Liabilities &amp; Surplus</b>	<b>\$2,089,452</b>	<b>\$2,052,334</b>	<b>\$ 37,118</b>
<b>Solvency Ratio*</b>	<b>109.2%</b>	<b>109.7%</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.