

# Third Quarter 2020 Financials



**Tim Demetres**  
Chief Financial Officer

**D**uring these uncertain times brought on by the COVID-19 pandemic, GCU is committed to serving our members and maintaining our financial strength. We are firmly positioned to withstand the impact of the pandemic because of our dedicated employees and members' loyalty. The economy is improving with unemployment levels dropping, historic low interest rates, and a vaccine is close on the horizon. While certain industries have been negatively impacted and continue to struggle, we are prudently managing our investments and will impair those securities unlikely to recover in value, particularly certain energy sector holdings. By doing so, we place these exposures behind us.

Highlights of the financial results are as follows:

Income before net capital gains (losses) totaled \$21.1 million surpassing the comparable prior year period by \$2.9 million. Net realized capital losses were \$18 million in 2020 compared to \$4.0 million in 2019. Due to low energy prices and demand, a situation that was exacerbated by COVID-19, we wrote down the value of three energy bonds because of bankruptcy filings and disposed another bond seeking bankruptcy protection. As a result, net income after net realized losses was \$3.1 million in 2020 compared to \$14.2 million in 2019. Notwithstanding the impact realized losses had on net income, surplus was largely preserved by a release of the asset valuation reserve (AVR). The AVR is a liability accumulated over time and used to soften the negative impact from realized losses. Our goal is to insure GCU maintains its finan-

cial strength to meet member obligations well into the future!

Total Assets increased \$114.2 million to \$2.167 billion at September 30<sup>th</sup> from year-end 2019. The increase in assets reflects the growth in invested assets. As the low interest rate environment persists, we have been strategically focused on asset allocation to generate higher risk adjusted returns in support of our life and annuity products. A key component of this strategy is to complement our fixed income holdings by increasing exposure to public equities and alternative assets (investments in LLC's and limited partnerships).

Liabilities grew commensurate with life and annuity sales and totaled \$1.992 billion at September 30<sup>th</sup> compared to \$1.890 billion at year-end 2019. The \$102.3 million increase in total liabilities is due primarily to a \$113 million increase in life and annuity reserves reduced by an AVR release of \$12.5 million.

Total Income for the nine months in 2020 was \$272.5 million compared to \$270.1 million in 2019. Life sales have increased 56.9% over prior year and continued growth is expected for the full year with the introduction of GCU's life final expense product.

Operating expenses, before increase in reserves, totaled \$141.8 million versus \$130.0 million in 2019 representing an increase of \$11.9 million or 9.1%. To support of our members during the pandemic, GCU paid \$8.4 million more in annuity benefits (death claims, full and partial withdrawals), as well as exchanged certain annuity contracts to new contracts totaling \$4.8 million. General insurance expenses were lower by \$252,706 compared to 2019.

The increase in reserves totaled \$109.5 million compared to \$121.8 million in 2019. Reserve changes are primarily a function of premiums received, death and annuity benefits paid out, and interest accumulation.

Surplus grew to \$174.6 million at September 30<sup>th</sup> com-

## Summary of Financial Statistics

<i>(000's omitted)</i>	<b>9/30/2020</b>	<b>9/30/2019</b>	<b>Change</b>
Total Income	\$272,506	\$270,104	\$2,402
Total Expenses	251,215	251,685	(470)
Inc. Bef. Real. Gains (Losses)	21,080	18,213	2,867
Net Income (Loss)	3,079	14,181	(11,102)
	<b>9/30/2020</b>	<b>12/31/2019</b>	<b>Change</b>
Assets	\$2,166,527	\$2,052,335	\$114,192
Surplus (Net Worth)	174,598	162,742	11,856
Asset Valuation Reserve	6,290	18,747	(12,457)
Interest Maintenance Reserve	22,005	21,539	466
Total Adjusted Capital (TAC)	181,038	181,639	(601)
Solv. Ratio by Total Adj. Capital	109.1	109.7	(0.6)

## Change in Surplus

*(000's omitted)*

Surplus Previous Year (12/31/2019)	\$162,742
Net Income	3,079
Change in Unrealized Gain/(Loss)	(1,189)
GCU Holding Company & Other	(727)
Changes in Non-Admitted Assets	(1,764)
Changes in Asset Valuation Reserve	12,456
Net Change in Surplus	11,856
<b>Ending Surplus</b>	<b>\$174,598</b>

pared to \$162.7 million at year-end. The \$11.9 million increase in surplus is attributable to the additions of net income and the change in AVR of \$3.1 million and \$12.5 million, respectively, reduced by changes in unrealized gains/losses (\$1.2 million); (\$1.8 million) charge for an increase in non-admitted assets from software development costs; and (\$0.7 million) reduction for GCU Holding Company's net loss.

Total Adjusted Capital (TAC) at September 30, 2020 is

\$181 million. TAC starts with surplus of \$174.6 million and adds back the asset valuation reserve of \$6.3 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 September 30, 2020 and 2019 are 109.1% and 109.7%, respectively. These ratios reflect the continued financial strength of GCU.

Please be safe and stay healthy during the holiday season.

Tim

## GCU INCOME STATEMENT

### Nine Months 2020 vs. 2019

INCOME (000's omitted)	9/30/2020	9/30/2019	Change
Life Premium	\$ 3,881	\$ 2,473	\$ 1,408
Annuity Premium	170,376	174,010	(3,634)
Annuity Exchanges	18,175	13,343	4,832
Accident & Health	503	537	(34)
Subtotal	192,935	190,363	2,572
Net investment income	76,325	75,148	1,177
Amort. of Int. Maint. Resrv.	1,399	2,121	(722)
Commissions-Reinsurance	1,426	1,931	(505)
Other	421	541	(120)
<b>Total income</b>	<b>\$272,506</b>	<b>\$270,104</b>	<b>\$ 2,402</b>
<b>EXPENSES</b>			
Death Benefits Life	\$ 2,194	\$ 1,686	\$ 508
Annuity Benefits Paid	107,683	99,747	7,936
Annuity Exchanges	18,175	13,343	4,833
Surrender Benefits	430	653	(223)
Accident/Health Benefits Pd.	384	499	(115)
Commissions	6,788	7,805	(1,016)
General Insurance Expenses	5,424	5,677	(253)
Ins., Taxes, Licenses & Fees	421	378	44
Pension expense	95	56	39
Int. on Contract & Dep. Accts.	173	54	118
Subtotal	\$ 141,767	\$ 129,896	\$ 11,870
Changes to Reserves	109,448	121,789	(12,340)
<b>Total Expenses</b>	<b>\$251,215</b>	<b>\$251,685</b>	<b>\$ (470)</b>
<b>Net Gain/Loss Before Refunds</b>	<b>21,291</b>	<b>18,419</b>	<b>2,872</b>
<b>Refunds to Members</b>	<b>211</b>	<b>206</b>	<b>5</b>
<b>Net Gain/Loss After Refunds</b>	<b>21,080</b>	<b>18,213</b>	<b>2,867</b>
<b>Net Realized Gains/(Losses)</b>	<b>(18,001)</b>	<b>(4,032)</b>	<b>(13,969)</b>
<b>Net Income/Loss</b>	<b>\$ 3,079</b>	<b>\$ 14,181</b>	<b>\$ (11,102)</b>

## BALANCE SHEETS

### September 30, 2020 vs. December 31, 2019

ASSETS (000's omitted)	9/30/2020	12/31/2019	Change
Bonds	\$2,020,944	\$ 1,925,657	\$95,287
Preferred Stocks	40,562	40,625	(63)
Common Stocks	25,421	16,093	9,328
Alternative investments	29,220	20,776	8,444
Cash//Short Term Investments	17,601	17,624	(23)
Mortgages	3,462	4,129	(667)
Certificate Loans	554	573	(19)
Real Estate - Home Office	473	455	18
Inv. Income Due & Accrued	27,430	25,359	2,071
Other	859	1,042	(183)
<b>Total Assets</b>	<b>\$2,166,527</b>	<b>\$2,052,334</b>	<b>\$114,192</b>

**Percentage Total Change Year to Year 5.6%**

## LIABILITIES

Life Reserve Fund	\$ 74,171	\$ 71,515	\$ 2,656
Annuity Reserve Fund	1,877,311	1,766,905	110,406
Accident & Health Reserves	186	191	(4)
Employee Pension Fund	7,138	6,839	299
Symposium Reserve	262	279	(17)
Adv. Prem. & Fut. Ref. Resrvs.	370	373	(3)
Pending Investment Trade	1,488	—	1,488
Accounts Payable	897	996	(99)
Refund Accumulations	1,809	2,209	(400)
Asset Valuation Resrv.-AVR	6,290	18,747	(12,456)
Interest Maint. Resrv.-IMR	22,005	21,539	466
<b>Total Liabilities</b>	<b>\$1,991,929</b>	<b>\$1,889,593</b>	<b>\$102,336</b>
Surplus Fund	174,598	162,742	11,856
<b>Total Liabilities &amp; Surplus</b>	<b>\$2,166,527</b>	<b>\$2,052,334</b>	<b>\$114,192</b>

**Solvency Ratio 109.1% 109.7%**

\*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.