

# Second Quarter 2023 Financials



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Chief Financial Officer

**F**ollowing a prolonged period of historic low interest rates, the Federal Reserve raised rates 11 times to lower stubbornly high inflation. Accordingly, GCU adjusts crediting rates based on market conditions for newly issued contracts as well as existing contracts when the underlying investments can prudently support it. GCU's primary goal is to maintain the financial health of the organization in changing rate environments. Our members trust GCU to "*do-the-right-thing*" knowing their investments in annuity and life products will remain safe and secure for the long term.

The financial results for the six months ended June 30, 2023, are as follows:

GCU's total assets increased \$52.6 million to \$2.7 billion and surplus decreased \$1.8 million to \$217.7 million as of June 30, 2023.

Income before net realized capital gains (losses) totaled \$3.1 million for the six months ended June 30, 2023 compared to \$15.4 million reported in 2022. The net gain from operations was lower in 2023 primarily due to increased annuity crediting rates and lower net investment income from increased outflows on annuity products. Net income after realized capital gains (losses) was \$2.7 million in 2023 compared to \$15.8 million in 2022. We had \$463 thousand in net realized losses in 2023.

The increase in Total Assets primarily reflect increases in invested assets: bonds; alternative assets; cash and derivative assets.

Liabilities totaling \$2.48 billion on June 30, 2023 increased relative to life and annuity sales, net of outflows from surrender activity. The \$54.4 million increase in total liabilities is due primarily to the \$52.2 million increase in life and annuity reserves, a \$4.5 million increase in Asset Valuation Reserve (AVR), offset by a \$1 million decrease in the interest maintenance reserve (IMR).

Total Income was \$244.5 million in the first half, a decrease of \$10.1 million compared to \$254.6 million in 2022. Annuity new business sales and exchanges decreased \$8 million over the prior year. Net investment income decreased modestly to \$58.7 million.

Operating expenses, before the change in reserves, totaled \$192 million versus \$116.2 million in 2022, an increase of \$75.8 million or 65%. GCU disbursed \$50.3 million more in annuity benefits for death claims, full and partial surrenders. Annuity exchanges increased \$25.7 million. General insurance expenses were \$1 million higher in 2023 when compared to 2022 primarily due to the timing of when certain fraternal activities are funded.

The change in reserves totaled \$49.2 million in 2023 compared to \$122.8 million in 2022. Reserve changes are a function of premiums received, death claims, annuity benefits paid and interest accumulation.

Surplus on June 30, 2023 decreased \$1.8 million to \$217.7 million versus year-end at \$219 million. The changes in surplus reflect the addition of net income and unrealized gains totaling \$3.8 million offset by decreases of \$4.5 million to fund additional AVR and \$1.2 million for non-admitted assets and the net loss of GCU Holding Company, Inc.

## Summary of Financial Statistics

(000's omitted)	6/30/2023	6/30/2022	Change
Total Income	\$244,500	\$254,580	\$(10,080)
Total Expenses	241,212	239,002	2,210
Inc. Bef. Real. Gains (Losses)	3,137	15,430	(12,293)
Net Income (Loss)	2,674	15,828	(13,154)
<b>Balance Sheet Summary</b>	<b>6/30/2023</b>	<b>12/31/2022</b>	<b>Change</b>
Assets	\$2,694,339	\$2,641,748	\$52,591
Surplus (Net Worth)	217,685	219,484	(1,799)
Asset Valuation Reserve	23,348	18,876	4,472
Interest Maintenance Reserve	15,869	16,929	(1,060)
Total Adjusted Capital (TAC)*	241,188	238,510	2,678
Solv. Ratio by Total Adj. Capital	109.8	109.9	(0.1)
Financial Strength Rating - KBRA	A-	A-	
Financial Strength Rating - AM Best	A-	n/a	

## Change in Surplus

(000's omitted)	
Beginning Surplus 12/31/2022	\$219,484
Net Income	2,674
Change in Unrealized Gain/(Loss)	1,162
GCU Holding Company & Other	(724)
Changes in Non-Admitted Assets	(439)
Changes in Asset Valuation Reserve	(4,472)
Net Change in Surplus	(1,799)
<b>Ending Surplus 6/30/2023</b>	<b>\$217,685</b>

Total Adjusted Capital (TAC), a risk metric used by regulators and rating agencies, increased \$2.7 million to \$241.2 million as of June 30, 2023, from \$238.5 million on December 31, 2022. TAC starts with surplus of \$217.7 million and adds back the asset valuation reserve of \$23.3 million and one-half the dividend liability of \$155,000. The

solvency ratios based on TAC\* was 109.8% on June 30, 2023 and 109.9% at December 31, 2022. These ratios reflect GCU's stable financial strength.

Autumn is a season of change, vibrant colors give way to shorter days. Enjoy!

Tim

## GCU INCOME STATEMENT

### Six Months 2023 vs. 2022

INCOME (000's omitted)	6/30/2023	6/30/2022	Change
Life Premium	\$ 4,939	\$ 5,915	\$ (976)
Annuity Premium	146,685	180,653	(33,968)
Annuity Exchanges	32,570	6,819	25,751
Accident & Health	206	233	(27)
Subtotal	184,400	193,620	(9,220)
Net investment income	58,687	59,288	(601)
Amort. of Int. Maint. Resrv.	805	980	(174)
Commissions-Reinsurance	232	496	(264)
Other	375	196	179
<b>Total income</b>	<b>\$244,500</b>	<b>\$254,581</b>	<b>\$(10,080)</b>

## EXPENSES

Death Benefits - Life Ins.	\$ 2,396	\$ 2,238	\$ 158
Annuity Benefits Paid	141,125	90,983	50,142
Annuity Exchanges	32,570	6,819	25,751
Life Insurance Surrenders	543	105	439
Accident/Health Benefits Paid	198	210	(12)
Commissions	8,652	10,354	(1,702)
General Insurance Exp.	5,916	4,932	984
Ins., Taxes, Bank & Audit Fees	339	358	(19)
Pension Expense	109	8	101
Int. on Contract & Dep. Accts.	178	155	23
Subtotal	\$192,026	\$ 116,162	\$ 75,864
Changes to Reserves	49,186	122,840	(73,654)
<b>Total Expenses</b>	<b>\$241,212</b>	<b>\$239,002</b>	<b>\$ 2,210</b>
<b>Net Gain/Loss Bef. Refunds</b>	<b>3,287</b>	<b>15,578</b>	<b>(12,291)</b>
<b>Refunds to Members</b>	<b>150</b>	<b>148</b>	<b>2</b>
<b>Net Gain/Loss after Refunds</b>	<b>3,137</b>	<b>15,430</b>	<b>(12,292)</b>
<b>Net Realized Gains/(Losses)</b>	<b>(463)</b>	<b>398</b>	<b>(861)</b>
<b>Net Income</b>	<b>\$ 2,674</b>	<b>\$ 15,828</b>	<b>\$(13,154)</b>

## BALANCE SHEETS

### June 30, 2023 vs. December 31, 2022

ASSETS (000's omitted)	6/30/2023	12/31/2022	Change
Bonds	\$ 2,512,388	\$2,472,932	\$39,456
Preferred Stocks	17,731	18,626	(895)
Common Stocks	29,538	27,985	1,553
Alternative investments	61,758	55,912	5,846
Cash//Short Term Investments	19,807	15,575	4,232
Mortgages	2,580	3,473	(893)
Certificate Loans	637	630	7
Derivatives	2,693	1,115	1,578
Real Estate	16,076	15,059	1,017
Inv. Income Due & Accrued	30,284	29,829	455
Other	847	611	236
<b>Total Assets</b>	<b>\$2,694,339</b>	<b>\$2,641,748</b>	<b>\$52,591</b>
<b>% Total Change Year to Year</b>	<b>2%</b>		

## LIABILITIES

Life Reserve Fund	\$ 92,023	\$ 89,472	\$ 2,551
Annuity Reserve Fund	2,335,671	2,286,024	49,647
Accident Health Reserve Fund	124	120	4
Employee Pension Fund	6,824	6,595	229
Symposium Reserve	127	127	—
Adv. Prem. & Fut. Rfnd. Resrvs.	356	356	—
Pending investment trade	15	—	15
Accounts Payable	1,243	1,211	32
Refund Accumulations and Other	1,054	2,555	(1,501)
Asset Valuation Resrv. - AVR	23,348	18,876	4,472
Interest Maint. Reserve - IMR	15,869	16,929	(1,060)
<b>Total Liabilities</b>	<b>\$2,476,654</b>	<b>\$2,422,266</b>	<b>\$54,388</b>
Surplus Fund	217,685	219,484	(1,799)
<b>Total Liabilities &amp; Surplus</b>	<b>\$2,694,339</b>	<b>\$2,641,749</b>	<b>\$52,590</b>
<b>Solvency Ratio</b>	<b>109.8%</b>	<b>109.9%</b>	<b>-0.1%</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.