

Edgar Filing: National Western Life Group, Inc. - Form 10-K

National Western Life Group, Inc.
Form 10-K
March 11, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2015

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-55522

NATIONAL WESTERN LIFE GROUP, INC.
(formerly NATIONAL WESTERN LIFE INSURANCE COMPANY)
(Exact name of Registrant as specified in its charter)

DELAWARE
(State of Incorporation)

47-3339380
(I.R.S. Employer Identification Number)

850 EAST ANDERSON LANE, AUSTIN, TEXAS 78752-1602
(Address of Principal Executive Offices)

(512) 836-1010
(Telephone Number)

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class to be so registered:	Name of each exchange on which each class is to be registered:
Class A Common Stock, \$0.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12 (g) of the Act:

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated file" in Rule 12b-2 of the Exchange Act. (Check One)
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the common stock (based upon the closing price) held by non-affiliates of the Registrant on June 30, 2015 was \$545,566,144.

As of March 10, 2016, the number of shares of Registrant's common stock outstanding was: Class A - 3,436,166 and Class B - 200,000.

DOCUMENTS INCORPORATED BY REFERENCE

Documents incorporated by reference: Portions of the registrant's definitive proxy statement for the annual meeting of shareholders to be held June 15, 2016, which will be filed within 120 days after December 31, 2015 are incorporated by reference into Part III of this report.

(formerly NATIONAL WESTERN LIFE INSURANCE COMPANY)

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Cautionary Statement Regarding Forward Looking Information

This Form 10-K includes statements pertaining to anticipated financial performance, business endeavors, product development, and other similar matters. These statements, which may include words such as "may," "likely," "projected," "expect," "anticipate," "believe," "intend," and other like expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. A variety of factors could cause actual results and experiences to differ materially from the anticipated results or other expectations expressed in forward-looking statements. The risks and uncertainties that may affect the operations, performance, and results of business include, but are not limited to, the following:

Difficult conditions globally and in the U.S. economy may materially and adversely affect our business and results of operations.

Our investment portfolio is subject to several risks which may lessen the value of our invested assets and the amounts credited to policyholders.

The determination of valuation and impairments of fixed income securities include estimations and assumptions that are subjective and prone to differing interpretations and could materially impact our results of operations or financial condition.

Changing interest rates and credit spreads, market volatility and general economic conditions affect the risks and the returns on both our investment portfolio and our products.

We are subject to incurring difficulties in marketing and distributing our products through our current and future distribution channels.

We are subject to a downgrade in our financial strength ratings which may negatively affect our ability to attract and retain independent distributors, make our products less attractive to consumers, and may have an adverse effect on our operations.

We are subject to competition from new sources as well as companies having substantially greater financial resources, higher ratings, and more expansive product offerings which could have an adverse impact upon our business levels and profitability.

We are subject to regulation, changes to existing laws, and investigations which may affect our profitability or means of operation.

Changes in accounting standards issued by standard-setting bodies may adversely affect our financial statements and affect the management of business operations.

We may be subject to unfavorable judicial developments, including the time and expense of litigation, which potentially could affect our financial position and results of operations.

We could be liable with respect to liabilities ceded to reinsurers if the reinsurers fail to meet the obligations assumed by them.

We are subject to policy claims experience which can fluctuate from period to period and vary from past results or expectations.

We are subject to assumption inaccuracies regarding future mortality, persistency, and interest rates used in determining deferred policy acquisition costs which may require us to accelerate our amortization.

Occurrence of natural or man-made disasters and catastrophes could adversely affect our ability to conduct business operations and the financial condition and results of operations.

Our enterprise risk management practices and procedures may prove to be ineffective exposing us to unidentified or unanticipated risks.

We are dependent upon effective information technology systems and the development and implementation of new technologies.

The Company could be adversely affected by changes to tax law or interpretations of existing tax law which could reduce the demand for certain insurance products.

The Company may be required to establish a valuation allowance against its deferred tax assets which could materially affect the Company's results of operations and financial condition.

Competition for employees is intense and the Company may not be able to attract and retain highly skilled people needed to support its business.

See Part 1A, Risk Factors, for additional information.

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PART I

ITEM 1. BUSINESS

General

National Western Life Insurance Company (hereinafter referred to as "National Western" or "company" where insurance operations are being discussed) is a stock life insurance company, chartered in the State of Colorado in 1956, and doing business in forty-nine states, the District of Columbia, and four U.S. territories or possessions. National Western is also licensed in Haiti, and although not otherwise licensed, accepts applications from and issues policies to residents of various international countries. Such policies are underwritten, accepted, and issued in the United States based upon applications submitted by independent contractors. National Western provides life insurance products for the savings and protection needs of approximately 123,000 policyholders and for the asset accumulation and retirement needs of 137,900 annuity contract holders.

On October 1, 2015, National Western completed its previously announced holding company reorganization pursuant to the Agreement and Plan of Merger, dated April 6, 2015, which was approved by the shareholders of National Western at its Annual Meeting of Shareholders held on June 19, 2015. As a result of the reorganization, National Western became a wholly owned subsidiary of National Western Life Group, Inc. (hereinafter referred to as "NWLGI", "Company", or "Registrant"), a Delaware Corporation, and NWLGI replaced National Western as the publicly held company. Consequently, all filings with the Securities and Exchange Commission ("SEC") from October 2, 2015 and forward will be filed by NWLGI under CIK No. 0001635984. For purposes of filing this Form 10-K, the accompanying consolidated financial statements and notes thereto have been titled "National Western Life Group, Inc." to reflect the current name of the public registrant with the parenthetical notation "formerly National Western Life Insurance Company and Subsidiaries" to reflect the reporting entity for the periods covered herein.

The Company's total assets increased to \$11.6 billion at December 31, 2015, from \$11.4 billion at December 31, 2014. The Company generated revenues of \$589.8 million, \$708.8 million and \$860.3 million in 2015, 2014 and 2013, respectively. In addition, NWLGI generated net income of \$98.4 million, \$105.6 million and \$96.2 million in 2015, 2014 and 2013, respectively.

Products

National Western offers a broad portfolio of individual whole life, universal life and term insurance plans, and annuities, including supplementary riders. In the following discussion, the Company reports sales and other statistical information. These statistics are derived from various sales tracking and administrative systems and are not derived from the Company's financial reporting systems or financial statements. These statistics are used to measure the relative progress of our marketing and acquisition efforts. Sales data for traditional life insurance is based upon annualized premiums, while universal life sales are based on annualized "target" premiums which are those premiums upon which full first year commissions are paid. Sales of annuities are measured based on the amount of deposits received. These statistics attempt to measure only some of the many factors that may affect future profitability, and therefore, are not intended to be predictive of future profitability.

Life Products. The company's life products provide protection for the life of the insured and, in some cases, allow for cash value accumulation on a tax-deferred basis. These product offerings include universal life insurance ("UL"), interest-sensitive whole life, and traditional products such as term insurance coverage. Interest sensitive products such as UL accept premiums that are applied to an account value. Deducted from the account value are costs of insurance

charges which vary by age, gender, plan, and class of insurance, as well as various expense charges. Interest is credited to account values at a fixed interest rate generally determined in advance and guaranteed for a policy year at a time, subject to minimum guaranteed rates specified in the policy contract. A slight variation to this general interest crediting practice involves equity-index universal life ("EIUL") policies whose credited interest may be linked in part to an outside index such as the S&P 500[®] Composite Stock Price Index ("S&P 500 Index[®]") at the election of the policyholder. These products offer both flexible and fixed premium modes and provide policyholders with flexibility in the available coverage, the timing and amount of premium payments and the amount of the death benefit, provided there are sufficient policy funds to cover all policy charges for the coming year. Traditional products generally provide for a fixed death benefit payable in exchange for regular premium payments.

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Annuity Products. Annuity products sold include flexible premium and single premium deferred annuities, equity-index (fixed-index) annuities, and single premium immediate annuities. These products can be tax qualified or nonqualified annuities. A fixed single premium deferred annuity ("SPDA") provides for a single premium payment at the time of issue, an accumulation period, and an annuity payout period commencing at some future date. A flexible premium deferred annuity ("FPDA") provides the same features but allows, generally with some conditions, additional payments into the contract. Interest is credited to the account value of the annuity initially at a current rate of interest which is guaranteed for a period of time, typically the first year. After this period, the interest credited is subject to change based upon market rates and product profitability subject to a minimum guaranteed rate specified in the contract. Interest accrues during the accumulation period generally on a tax-deferred basis to the contract holder. After a number of years specified in the annuity contract, the owner may elect to have the proceeds paid as a single payment or as a series of payments over a period of time. The owner is permitted at any time during the accumulation period to withdraw all or part of the annuity account balance subject to contract provisions such as surrender charges and market value adjustments. A fixed-index deferred annuity performs essentially in the same manner as SPDAs and FPDAs with the exception that, in addition to a fixed interest crediting option, the contract holder has the ability to elect an interest crediting mechanism that is linked, in part, to an outside index such as the S&P 500 Index[®]. A single premium immediate annuity ("SPIA") foregoes the accumulation period and immediately commences an annuity payout period.

The following table sets forth information regarding the company's sales activity by product type. Life insurance sales are measured by annualized first year premiums.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Annuities:			
Fixed-index deferred	\$685,928	730,693	717,258
Other deferred	52,001	70,505	74,834
Single premium immediate	5,839	15,313	13,380
Total annuities	\$743,768	816,511	805,472
Life:			
Fixed-index universal life insurance	\$31,972	34,239	35,643
Other universal life insurance	2,805	4,748	5,223
Traditional life and other	2,995	3,597	3,312
Total life	\$37,772	42,584	44,178

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The table below sets forth information regarding the company's life insurance in force for each date presented.

	Insurance In Force as of December 31,	
	2015	2014
	(\$ in thousands)	
Universal life:		
Number of policies	47,660	50,950
Face amounts	\$5,497,270	\$6,819,120
Traditional life:		
Number of policies	35,710	37,310
Face amounts	\$3,618,290	\$3,585,380
Fixed-index life:		
Number of policies	39,600	38,480
Face amounts	\$9,781,290	\$9,693,530
Rider face amounts	\$3,129,350	\$2,982,970
Total life insurance:		
Number of policies	122,970	126,740
Face amounts	\$22,026,200	\$23,081,000

The following table sets forth information regarding annuities in force for each date presented.

	Annuities In Force as of December 31,	
	2015	2014
	(\$ in thousands)	
Fixed-index annuities		
Number of policies	72,450	68,840
GAAP annuity reserves	\$5,506,213	\$5,221,891
Other deferred annuities		
Number of policies	50,510	54,460
GAAP annuity reserves	\$2,078,845	\$2,286,489
Immediate annuities		
Number of policies	14,900	15,830
GAAP annuity reserves	\$360,769	\$369,065
Total annuities		
Number of policies	137,860	139,130
GAAP annuity reserves	\$7,945,827	\$7,877,445

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Operating Segments

The company manages its business between Domestic Insurance Operations and International Insurance Operations. For segment reporting purposes, the company's annuity business, which is predominantly domestic, is separately identified. The Company also has a Corporate segment, which consists of the assets and activities of wholly-owned subsidiaries that have not been allocated to any other operating segment.

Domestic Insurance Operations. The company is currently licensed to do business in all states and the District of Columbia, except for New York. Products marketed are annuities, universal life insurance, and traditional life insurance, which include both term and whole life products. The majority of domestic sales are the company's annuities. National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the company in recruiting, contracting, and managing independent agents. The company's agents are independent contractors who are compensated on a commission basis. At December 31, 2015, the company's NMO relationships had contracted approximately 21,000 independent agents with the company. Over 13% of these contracted agents submitted policy applications to the company in the past twelve months. At December 31, 2015, the company had 54,270 domestic life insurance policies in force representing \$3.1 billion in face amount of coverage and 137,900 annuity contracts representing account balances of \$7.9 billion.

The following table sets forth the company's domestic life insurance sales as measured in annualized first year premium for the last three years.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Fixed-index life	\$ 18,317	\$ 17,131	19,122
Universal life	55	177	211
Traditional life	162	96	67
Total	\$ 18,534	17,404	19,400

International Insurance Operations. National Western's international operations generally focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, the Pacific Rim, Eastern Europe, and Asia. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain annuity and investment contracts are also available. At December 31, 2015, the company had approximately 68,700 international life insurance policies in force representing nearly \$19.0 billion in face amount of coverage.

International applications are submitted by independent contractors, consultants and broker-agents, many of whom have been submitting policy applications to National Western for 20 or more years. The company had relationships with approximately 2,500 of these independent international individuals at December 31, 2015, 39% of which submitted policy applications to the company in the past twelve months.

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The following table sets forth the company's international life insurance sales as measured in annualized first year premium for the past three years.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Fixed-index life	\$ 13,655	\$ 17,108	16,521
Universal life	2,750	4,571	5,012
Traditional life	2,833	3,501	3,245
Total	\$ 19,238	25,180	24,778

There are some inherent risks of accepting international applications which are not present within the domestic market that are reduced substantially by the company in several ways. As previously described, National Western accepts applications from foreign nationals in upper socioeconomic classes who have substantial financial resources. This targeted customer base coupled with National Western's conservative underwriting practices have historically resulted in claims experience, due to natural causes, similar to that in the United States. The company minimizes exposure to foreign currency risks by requiring payment of premiums and claims in United States dollars. In addition, experience with the international products for over fifty years and the company's longstanding business relationships further serve to minimize risks.

The company's implementation of commission caps on domestic policies in 2009 discouraged sales of larger face amounts resulting in lower levels in amounts of insurance per policy. However, the increased domestic sales activity, particularly in the past several years, has produced a modest upward trend in this figure. National Western's sales to international residents witnessed a steady growth in the average face amount of insurance coverage per policy over the same time period until 2015 when the company ceased accepting applications from residents of several countries, most notably Brazil. Empirical evidence suggests that policy persistency generally improves with larger face amounts of insurance.

	Average New Policy Face Amount	
	Domestic	International
Year ended December 31, 2009	201,400	315,300
Year ended December 31, 2010	164,800	338,600
Year ended December 31, 2011	178,500	363,600
Year ended December 31, 2012	254,900	380,200
Year ended December 31, 2013	286,000	384,000
Year ended December 31, 2014	286,600	382,600
Year ended December 31, 2015	274,500	342,500

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Geographical Distribution of Business. The following table depicts the distribution of the company's premium revenues and deposits.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
United States domestic products:			
Annuities	\$773,315	828,982	811,339
Life insurance	154,824	142,640	155,620
Total domestic products	928,139	971,622	966,959
International products:			
Annuities	1,694	4,290	2,530
Life insurance	145,567	160,992	162,829
Total international products	147,261	165,282	165,359
Total direct premiums and deposits collected	\$1,075,400	1,136,904	1,132,318

Although many agents sell National Western's products, the company's annuity sales in any year typically reflect several NMOs whose contracted independent agents sold 10% or more of the company's total annuity sales. In 2015, there were two NMOs that exceeded this threshold accounting for approximately 14% and 10%, respectively, of the company's annuity sales. Similarly, domestic life insurance sales in any year may include several NMOs who accounted for 10% or more of total domestic life insurance sales. In 2015, there were two NMOs who generated 21% and 19%, respectively, of total domestic life insurance sales. Given the historically lower level of domestic life insurance sales relative to international life sales and annuity sales, the proportionate percentage of domestic life sales for these particular NMOs is not considered a significant concentration of business within the total context of new business. In addition, with the independent distribution model National Western employs, the concentration of sales within a particular NMO is not as an acute concern as compared to other distribution channels given that the underlying agents are free to contract with the company through any NMO the company has a relationship with.

Applications submitted from residents of Latin America and the Pacific Rim perennially have comprised the majority of the company's international life insurance sales. As noted previously, National Western's international sales by geographic market tend to fluctuate with the socio and economic climates in these regions. The company's mix of international sales by geographic region is as follows.

	Years Ended December 31,			
	2015	2014		
Percentage of International Sales:				
Latin America	83.9	% 84.4		%
Pacific Rim	13.3	12.5		
Eastern Europe	2.8	3.1		