

Primerica, Inc.
Form 10-Q
November 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

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: 001-34680

Primerica, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

27-1204330
(I.R.S. Employer Identification No.)

1 Primerica Parkway
Duluth, Georgia
(Address of principal executive offices)

30099
(ZIP Code)

(770) 381-1000
(Registrant's telephone number, including area code)

Not applicable.

(Former name, former address and former fiscal year, if changed since last report)

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	As of October 31, 2013
Common Stock, \$0.01 Par Value	54,829,477 shares

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	September 30, 2013 (unaudited) (In thousands)	December 31, 2012
Assets		
Investments:		
Fixed-maturity securities available for sale, at fair value (amortized cost: \$1,581,341 in 2013 and \$1,711,582 in 2012)	\$1,688,096	\$1,887,014
Equity securities available for sale, at fair value (cost: \$30,852 in 2013 and \$29,955 in 2012)	37,016	37,147
Trading securities, at fair value (cost: \$11,208 in 2013 and \$7,740 in 2012)	11,185	7,762
Policy loans	25,795	24,613
Total investments	1,762,092	1,956,536
Cash and cash equivalents	147,468	112,216
Accrued investment income	19,595	19,540
Due from reinsurers	4,033,138	4,005,194
Deferred policy acquisition costs, net	1,179,143	1,066,422
Premiums and other receivables	182,702	170,656
Intangible assets, net (accumulated amortization: \$64,173 in 2013 and \$61,621 in 2012)	69,432	69,816
Income taxes	31,999	17,256
Other assets	261,225	302,126
Separate account assets	2,512,886	2,618,115
Total assets	\$10,199,680	\$10,337,877
Liabilities and Stockholders' Equity		
Liabilities:		
Future policy benefits	\$5,022,048	\$4,850,488
Unearned premiums	4,501	6,056
Policy claims and other benefits payable	248,592	254,533
Other policyholders' funds	334,553	345,721
Notes payable	374,469	374,433
Income taxes	101,708	114,611
Other liabilities	329,566	358,577
Payable under securities lending	75,852	139,927
Separate account liabilities	2,512,886	2,618,115
Commitments and contingent liabilities (see Commitments and Contingent Liabilities note)		
Total liabilities	9,004,175	9,062,461
Stockholders' equity:		
Common stock (\$0.01 par value; authorized 500,000 in 2013 and 2012; and issued 54,687 shares in 2013 and 56,374 shares in 2012)	547	564
Paid-in capital	464,783	602,269
Retained earnings	609,778	503,173

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Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	48,671	55,487
Net unrealized investment gains (losses):		
Net unrealized investment gains not other-than-temporarily impaired	72,773	114,958
Net unrealized investment losses other-than-temporarily impaired	(1,047)	(1,035)
Total stockholders' equity	1,195,505	1,275,416
Total liabilities and stockholders' equity	\$10,199,680	\$10,337,877
See accompanying notes to condensed consolidated financial statements.		

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income - Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per-share amounts)			
Revenues:				
Direct premiums	\$576,095	\$567,273	\$1,724,202	\$1,698,383
Ceded premiums	(407,488)	(414,991)	(1,235,543)	(1,248,969)
Net premiums	168,607	152,282	488,659	449,414
Commissions and fees	118,443	104,607	347,899	315,974
Net investment income	22,103	26,881	66,345	76,583
Realized investment gains (losses), including other-than-temporary impairment losses	(407)	3,872	5,347	10,324
Other, net	10,711	11,446	31,958	33,919
Total revenues	319,457	299,088	940,208	886,214
Benefits and expenses:				
Benefits and claims	81,912	70,738	225,927	207,596
Amortization of deferred policy acquisition costs	32,192	29,234	93,556	83,970
Sales commissions	58,388	49,370	171,074	150,562
Insurance expenses	25,083	23,744	80,319	70,777
Insurance commissions	5,329	6,684	16,818	21,638
Interest expense	8,726	8,828	26,314	24,244
Other operating expenses	41,273	39,934	131,968	121,485
Total benefits and expenses	252,903	228,532	745,976	680,272
Income before income taxes	66,554	70,556	194,232	205,942
Income taxes	23,364	24,957	68,707	72,407
Net income	\$43,190	\$45,599	\$125,525	\$133,535
Earnings per share:				
Basic	\$0.78	\$0.74	\$2.20	\$2.09
Diluted	\$0.78	\$0.72	\$2.16	\$2.05
Weighted-average shares used in computing earnings per share:				
Basic	54,957	60,060	56,019	62,241
Diluted	54,958	61,563	57,069	63,519
Supplemental disclosures:				
Total impairment losses	\$(347)	\$(162)	\$(438)	\$(1,066)
Impairment losses recognized in other comprehensive income before income taxes	—	—	19	563
Net impairment losses recognized in earnings	(347)	(162)	(419)	(503)
Other net realized investment gains (losses)	(60)	4,034	5,766	10,827
Realized investment gains (losses), including other-than-temporary impairment losses	\$(407)	\$3,872	\$5,347	\$10,324

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Dividends declared per share	\$0.11	\$0.07	\$0.33	\$0.15
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See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income - Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	\$43,190	\$45,599	\$125,525	\$133,535
Other comprehensive income (loss) before income taxes:				
Unrealized investment gains (losses):				
Change in unrealized holding gains (losses) on investment securities	(3,004)	) 24,139	(60,502)	) 45,584
Reclassification adjustment for realized investment (gains) losses included in net income	(184)	) (3,654)	(4,416)	) (10,115)
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses)	5,586	7,867	(6,907)	) 6,998
Total other comprehensive income (loss) before income taxes	2,398	28,352	(71,825)	) 42,467
Income tax expense (benefit) related to items of other comprehensive income (loss)	(1,044)	) 7,260	(22,812)	) 12,426
Other comprehensive income (loss), net of income taxes	3,442	21,092	(49,013)	) 30,041
Total comprehensive income (loss)	\$46,632	\$66,691	\$76,512	\$163,576
See accompanying notes to condensed consolidated financial statements.				

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity - Unaudited

	Nine months ended September 30,	
	2013	2012
	(In thousands)	
Common stock:		
Balance, beginning of period	\$564	\$649
Repurchases of common stock	(29)	(65)
Net issuance of common stock	12	13
Balance, end of period	547	597
Paid-in capital:		
Balance, beginning of period	602,269	835,232
Share-based compensation	31,161	24,643
Net issuance of common stock	(12)	(13)
Repurchases of common stock	(101,044)	(169,938)
Repurchases of warrants	(68,399)	—
Adjustments to paid-in capital, other	808	1,961
Balance, end of period	464,783	691,885
Retained earnings:		
Balance, beginning of period	503,173	344,104
Net income	125,525	133,535
Dividends	(18,920)	(9,416)
Balance, end of period	609,778	468,223
Accumulated other comprehensive income (loss):		
Balance, beginning of period	169,410	146,665
Change in foreign currency translation adjustment, net of income tax expense (benefit) of \$(91) in 2013 and \$12 in 2012	(6,816)	6,986
Change in net unrealized investment gains (losses) during the period, net of income taxes:		
Change in net unrealized investment gains (losses) not-other-than temporarily impaired, net of income tax expense (benefit) of \$(22,713) in 2013 and \$12,251 in 2012	(42,185)	22,754
Change in net unrealized investment losses other-than-temporarily impaired, net of income tax expense (benefit) of \$(8) in 2013 and \$163 in 2012	(12)	301
Balance, end of period	120,397	176,706
Total stockholders' equity	\$1,195,505	\$1,337,411
See accompanying notes to condensed consolidated financial statements.		

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows - Unaudited

	Nine months ended September 30,	
	2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 125,525	\$ 133,535
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Change in future policy benefits and other policy liabilities	166,936	174,134
Deferral of policy acquisition costs	(200,082)	(204,283)
Amortization of deferred policy acquisition costs	93,556	83,970
Change in income taxes	(4,117)	2,666
Realized investment (gains) losses, including other-than-temporary impairments	(5,347)	(10,324)
Accretion and amortization of investments	(2,924)	(1,686)
Depreciation and amortization	8,182	7,555
Change in due from reinsurers	(39,379)	(125,965)
Change in premiums and other receivables	(12,627)	(11,208)
Trading securities sold, matured, or called (acquired), net	(3,448)	26,434
Share-based compensation	10,689	14,122
Change in other operating assets and liabilities, net	(46,407)	13,720
Net cash provided by (used in) operating activities	90,557	102,670
Cash flows from investing activities:		
Available-for-sale investments sold, matured or called:		
Fixed-maturity securities - sold	88,332	229,523
Fixed-maturity securities - matured or called	207,445	203,256
Equity securities	4,694	1,965
Available-for-sale investments acquired:		
Fixed-maturity securities	(156,360)	(370,141)
Equity securities	(461)	(5,632)
Purchases of property and equipment and other investing activities, net	(18,473)	(4,622)
Cash collateral received (returned) on loaned securities, net	(64,075)	28,308
Sales (purchases) of short-term investments using securities lending collateral, net	64,075	(28,308)
Net cash provided by (used in) investing activities	125,177	54,349
Cash flows from financing activities:		
Dividends paid	(18,920)	(9,416)
Common stock repurchased	(101,073)	(170,003)
Warrants repurchased	(68,399)	—
Excess tax benefits on share-based compensation	8,440	4,723
Proceeds from issuance of Senior Notes, net of discount	—	374,411
Payment of note issued to Citigroup	—	(300,000)
Payments of deferred financing costs	—	(7,729)
Net cash provided by (used in) financing activities	(179,952)	(108,014)
Effect of foreign exchange rate changes on cash	(530)	740
Change in cash and cash equivalents	35,252	49,745
Cash and cash equivalents, beginning of period	112,216	136,078
Cash and cash equivalents, end of period	\$ 147,468	\$ 185,823
See accompanying notes to condensed consolidated financial statements.		

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PRIMERICA, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited

(1) Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies

Description of Business. Primerica, Inc. (the "Parent Company") together with its subsidiaries (collectively, "we", "us" or the "Company") is a leading distributor of financial products to middle income households in the United States and Canada. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. Our primary subsidiaries include the following entities: Primerica Financial Services, Inc. ("PFS"), a general agency and marketing company; Primerica Life Insurance Company ("Primerica Life"), our principal life insurance company; Primerica Financial Services (Canada) Ltd., a holding company for our Canadian operations, which includes Primerica Life Insurance Company of Canada ("Primerica Life Canada") and PFS Investments Canada Ltd. ("PFS Investments Canada"); and PFS Investments, Inc. ("PFS Investments"), an investment products company and broker-dealer. Primerica Life, domiciled in Massachusetts, owns National Benefit Life Insurance Company ("NBLIC"), a New York life insurance company.

We capitalized Peach Re, Inc. ("Peach Re"), a special purpose financial captive insurance company and wholly owned subsidiary of Primerica Life, and Primerica Life ceded to Peach Re certain level premium term life insurance policies pursuant to a coinsurance agreement (the "Peach Re Coinsurance Agreement") effective March 31, 2012.

Basis of Presentation. We prepare our financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These principles are established primarily by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect financial statement balances, revenues and expenses and cash flows, as well as the disclosure of contingent assets and liabilities. Management considers available facts and knowledge of existing circumstances when establishing the estimates included in our financial statements.

The accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of September 30, 2013 and December 31, 2012, the statements of income and comprehensive income for the three and nine months ended September 30, 2013 and 2012, and the statements of stockholders' equity and cash flows for the nine months ended September 30, 2013 and 2012. Results of operations for interim periods are not necessarily indicative of results for the entire year or of the results to be expected in future periods.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated and combined financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2012 ("2012 Annual Report").

Use of Estimates. The most significant items that involve a greater degree of accounting estimates and actuarial determinations subject to change in the future are the valuation of investments, deferred policy acquisition costs ("DAC"), and liabilities for future policy benefits and unpaid policy claims. Estimates for these and other items are subject to change and are reassessed by management in accordance with U.S. GAAP. Actual results could differ from those estimates.

Consolidation. The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and those entities required to be consolidated under applicable accounting standards. All material intercompany profits, transactions, and balances among the consolidated entities have been eliminated.

Reclassifications. Certain reclassifications have been made to prior-period amounts to conform to current-period reporting classifications. These reclassifications had no impact on net income or total stockholders' equity.

Subsequent Events. The Company has evaluated subsequent events for recognition and disclosure for occurrences and transactions after the date of the condensed consolidated financial statements at September 30, 2013.

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Significant Accounting Policies. All significant accounting policies remain unchanged from the 2012 Annual Report. New Accounting Principles. In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (“ASU 2013-02”). The amendments of ASU 2013-02 require an entity to provide additional information about the amounts reclassified out of accumulated other comprehensive income. The amendments in ASU 2013-02 were applied prospectively for our fiscal year beginning January 1, 2013. The disclosures required by this update are included in this report and had no impact on our financial position, results of operations, or cash flows.

Future Application of Accounting Standards. Recently issued accounting guidance not otherwise disclosed is not applicable, is immaterial to our financial statements, or did not or will not have an impact on our business.

(2) Segment Information

We have two primary operating segments – Term Life Insurance and Investment and Savings Products. We also have a Corporate and Other Distributed Products segment. Total assets and results of operations by segment were as follows:

	September 30, 2013	December 31, 2012
	(In thousands)	
Assets:		
Term life insurance segment	\$6,678,705	\$6,400,126
Investment and savings products segment	2,722,684	2,810,137
Corporate and other distributed products segment	798,291	1,127,614
Total assets	\$10,199,680	\$10,337,877

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Revenues:				
Term life insurance segment	\$177,811	\$163,028	\$514,828	\$475,960
Investment and savings products segment	114,723	101,163	336,805	304,264
Corporate and other distributed products segment	26,923	34,897	88,575	105,990
Total revenues	\$319,457	\$299,088	\$940,208	\$886,214
Income (loss) before income taxes:				
Term life insurance segment	\$50,136	\$47,593	\$147,159	\$141,996
Investment and savings products segment	31,498	31,608	85,339	89,922
Corporate and other distributed products segment	(15,080)	(8,645)	(38,266)	(25,976)
Total income before income taxes	\$66,554	\$70,556	\$194,232	\$205,942

The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, the Investment and Savings Products segment assets were approximately \$210.4 million and \$192.8 million as of September 30, 2013 and December 31, 2012, respectively.

In the second quarter of 2013, Primerica changed its measurement of segment information to reclassify the deposit asset underlying the 10% reinsurance agreement with Citigroup Inc. ("Citigroup"), as well as the related mark-to-market adjustments included in the calculation of its effective yield, to the Corporate and Other Distributed Products segment instead of the Term Life Insurance segment. The deposit asset reflects a unique corporate financing-related asset, changes in the market value of which are no longer viewed by management for purposes of making decisions about allocating resources to the Term Life Insurance segment and assessing its performance. All prior period information has been adjusted to consistently reflect this change in segment measurement. The change does not impact the Company's consolidated financial statements.

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The change in measurement of segment information increased total assets in the Corporate and Other Distributed Products segment and decreased total assets in the Term Life Insurance segment by approximately \$91.5 million as of December 31, 2012. The amount of segment revenues and segment income (loss) before income taxes reclassified from the Term Life Insurance segment to the Corporate and Other Distributed Products segment was approximately \$1.0 million and \$2.6 million for the three and nine months ended September 30, 2012, respectively.

Long-lived assets and results of operations by country were as follows:

			September 30, 2013	December 31, 2012
			(In thousands)	
Long-lived assets by country:				
United States			\$95,551	\$82,724
Canada			643	450
Total long-lived assets			\$96,194	\$83,174
	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Revenues by country:				
United States	\$262,925	\$245,574	\$767,759	\$723,034
Canada	56,532	53,514	172,449	163,180
Total revenues	\$319,457	\$299,088	\$940,208	\$886,214
Income before income taxes by country:				
United States	\$50,951	\$54,587	\$145,143	\$156,625
Canada	15,603	15,969	49,089	49,317
Total income before income taxes	\$66,554	\$70,556	\$194,232	\$205,942

(3) Investments

The period-end cost or amortized cost, gross unrealized gains and losses, and fair value of fixed-maturity and equity securities available for sale follow:

	September 30, 2013			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available for sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	\$7,370	\$574	\$(80)	) \$7,864
Foreign government	112,041	9,697	(1,550)	) 120,188
States and political subdivisions	32,522	2,148	(436)	) 34,234
Corporates	1,187,752	91,959	(10,419)	) 1,269,292
Mortgage- and asset-backed securities	241,656	15,632	(770)	) 256,518
Total fixed-maturity securities ⁽¹⁾	1,581,341	120,010	(13,255)	) 1,688,096
Equity securities	30,852	6,888	(724)	) 37,016
Total fixed-maturity and equity securities available for sale	\$1,612,193	\$126,898	\$(13,979)	) \$1,725,112

(1) Includes approximately \$1.6 million of other-than-temporary impairment losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

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	December 31, 2012			
	Cost or amortized cost (In thousands)	Gross unrealized gains	Gross unrealized losses	Fair value
Securities available for sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	\$6,722	\$812	\$—	\$7,534
Foreign government	101,171	16,238	(17	) 117,392
States and political subdivisions	31,176	3,596	(19	) 34,753
Corporates	1,265,179	134,710	(2,763	) 1,397,126
Mortgage- and asset-backed securities	307,334	23,999	(1,124	) 330,209
Total fixed-maturity securities ⁽¹⁾	1,711,582	179,355	(3,923	) 1,887,014
Equity securities	29,955	7,529	(337	) 37,147
Total fixed-maturity and equity securities available for sale	\$1,741,537	\$186,884	\$(4,260	) \$1,924,161

⁽¹⁾ Includes approximately \$1.6 million of other-than-temporary impairment losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

The net effect on stockholders' equity of unrealized gains and losses on available-for-sale securities was as follows:

	September 30, 2013	December 31, 2012
	(In thousands)	
Net unrealized investment gains (losses) including foreign currency translation adjustment and other-than-temporary impairments:		
Fixed-maturity and equity securities	\$112,919	\$182,624
Currency swaps	81	97
Foreign currency translation adjustment	(2,653	) (7,456
Other-than-temporary impairments	1,612	1,592
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments	111,959	176,857
Deferred income taxes	(39,186	) (61,899
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments, net of tax	\$72,773	\$114,958

We also maintain a portfolio of fixed-maturity securities that are classified as trading securities. The carrying value of the fixed-maturity securities classified as trading securities were approximately \$11.2 million and \$7.8 million as of September 30, 2013 and December 31, 2012, respectively.

All of our available-for-sale mortgage- and asset-backed securities represent investments in variable interest entities ("VIEs"). We are not the primary beneficiary of these VIEs because we do not have the power to direct the activities that most significantly impact the entities' economic performance. The maximum exposure to loss as a result of our involvement in these VIEs equals the carrying value of the securities.

As required by law, we have investments on deposit with governmental authorities and banks for the protection of policyholders. The fair values of investments on deposit were approximately \$19.6 million and \$20.5 million as of September 30, 2013 and December 31, 2012, respectively.

We participate in securities lending transactions with broker-dealers and other financial institutions to increase investment income with minimal risk. We require minimum collateral on securities loaned equal to 102% of the fair value of the loaned securities. We accept collateral in the form of securities, which we are not able to sell or encumber, and to the extent the collateral declines in value below 100%, we require additional collateral from the borrower. Any securities collateral received is not reflected on our balance sheet. We also accept collateral in the form

of cash, all of which we reinvest. For loaned securities involving unrestricted cash collateral, the collateral is reported as an asset with a corresponding liability representing our obligation to return the collateral. We continue to carry the lent securities as investment assets on our balance sheet during the terms of the loans, and we do not

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report them as sales. Cash collateral received and reinvested was approximately \$75.9 million and \$139.9 million as of September 30, 2013 and December 31, 2012, respectively.

The scheduled contractual maturity distribution of the available-for-sale fixed-maturity portfolio at September 30, 2013 follows:

	September 30, 2013	
	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	\$162,789	\$168,096
Due after one year through five years	471,070	509,900
Due after five years through 10 years	664,430	708,301
Due after 10 years	41,396	45,281
	1,339,685	1,431,578
Mortgage- and asset-backed securities	241,656	256,518
Total fixed-maturity securities	\$1,581,341	\$1,688,096

Actual maturities may differ from scheduled contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment Income. The components of net investment income were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Fixed-maturity securities	\$21,785	\$26,601	\$67,643	\$76,160
Equity securities	277	245	841	712
Policy loans and other invested assets	325	315	972	926
Cash and cash equivalents	54	103	215	349
Market return on deposit asset underlying 10% reinsurance agreement	829	983	331	2,587
Gross investment income	23,270	28,247	70,002	80,734
Investment expenses	(1,167) (1,366) (3,657) (4,151
Net investment income	\$22,103	\$26,881	\$66,345	\$76,583

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The components of net realized investment gains (losses) as well as details on gross realized investment gains and losses and proceeds from sales or other redemptions were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net realized investment gains (losses):				
Gross gains from sales	\$ 1,234	\$ 3,843	\$ 5,989	\$ 10,385
Gross losses from sales	(703	) (27	) (1,154	) (84
Gross gains from securities transferred from available-for-sale to trading	—	—	—	323
Gross losses from securities transferred from available-for-sale to trading	—	—	—	(6
Other-than-temporary impairment losses	(347	) (162	) (419	) (503
Gains (losses) from bifurcated options	(591	) 218	931	209
Net realized investment gains (losses)	\$ (407	) \$ 3,872	\$ 5,347	\$ 10,324
Supplemental information:				
Gross realized investment gains (losses) reclassified from accumulated other comprehensive income into earnings	\$ 184	\$ 3,654	\$ 4,416	\$ 10,115
Tax expense (benefit) associated with realized investment gains (losses) reclassified from accumulated other comprehensive income into earnings	\$ 64	\$ 1,279	\$ 1,546	\$ 3,540
Proceeds from sales or other redemptions	\$ 79,864	\$ 95,861	\$ 300,471	\$ 434,744

Other-Than-Temporary Impairment. We conduct a review each quarter to identify and evaluate impaired investments that have indications of possible other-than-temporary impairment ("OTTI"). An investment in a debt or equity security is impaired if its fair value falls below its cost. Factors considered in determining whether an unrealized loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects for the issue, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery, which may be maturity. For additional information, see Note 3 (Investments) to the consolidated and combined financial statements in our 2012 Annual Report.

Investments in fixed-maturity and equity securities with a cost basis in excess of their fair values were approximately \$331.3 million and \$111.9 million as of September 30, 2013 and December 31, 2012, respectively.

The following tables summarize, for all securities in an unrealized loss position, the aggregate fair value and the gross unrealized loss by length of time such securities have continuously been in an unrealized loss position:

	September 30, 2013			September 30, 2012		
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	\$ 3,122	\$ (69	) 3	\$ 244	\$ (11	) 1
Foreign government	33,360	(1,312	) 45	3,483	(238	) 8
States and political subdivisions	10,673	(384	) 14	164	(52	) 1
Corporates	213,962	(8,885) 243	11,170	(1,534) 13
Mortgage- and asset-backed securities	27,057	(363) 31	7,640	(407) 7

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Total fixed-maturity securities	288,174	(11,013)	22,701	(2,242)
Equity securities	6,469	(724)	—	—
Total fixed-maturity and equity securities	\$294,643	\$(11,737)	\$22,701	\$(2,242)

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	December 31, 2012			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
Foreign government	\$5,146	\$(17)			