CITIZENS INC
Form 10-Q
November 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2018
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: 000-16509
CITIZENS, INC.
(Exact name of registrant as specified in its charter)

Colorado	84-0755371
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2900 Esperanza Crossing, 2nd Floor	
Austin, Texas	78758
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code:) (512) 837-7100
(Former name, former address and former fiscal year, if changed since last report:) N/A

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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). x Yes o No

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

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨	Smaller reporting company ¨	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with

any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
¨

Indicate by check mark whether the registrant is a shell company (as defined in
Rule 12b-2 of the Exchange Act). ¨ Yes x No
As of November 2, 2018, the Registrant had 49,080,114 shares of Class A common stock, no par value, outstanding and 1,001,714 shares of Class B common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Financial Position
(In thousands)

Assets	September 30, 2018 (Unaudited)	December 31, 2017
Investments:		
Fixed maturities available-for-sale, at fair value (cost: $1,193,211 and $935,977 in 2018 and 2017, respectively)	$ 1,200,154	974,609
Fixed maturities held-to-maturity, at amortized cost (fair value: $241,377 in 2017)	—	233,961
Equity securities, at fair value (cost: $15,289 in 2017)	15,529	16,164
Mortgage loans on real estate	188	195
Policy loans	79,012	73,735
Real estate held for investment (less $1,258 and $5,479 accumulated depreciation in 2018 and 2017, respectively)	5,743	7,416
Real estate held for sale (less $4,411 accumulated depreciation in 2018)	1,483	—
Other long-term investments	22	36
Total investments	1,302,131	1,306,116
Cash and cash equivalents	68,753	46,064
Accrued investment income	18,389	19,062
Reinsurance recoverable	3,626	3,715
Deferred policy acquisition costs	158,253	167,063
Cost of customer relationships acquired	16,163	17,499
Goodwill	12,624	12,624
Other intangible assets	958	961
Deferred tax asset	—	50,797
Property and equipment, net	6,329	6,624
Due premiums, net (less $1,564 and $1,611 allowance for doubtful accounts in 2018 and 2017, respectively)	12,338	12,765
Prepaid expenses	1,134	251
Other assets	1,214	912
Total assets	$ 1,601,912	1,644,453

(Continued)

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Financial Position
(In thousands, except share amounts)

Liabilities and Stockholders' Equity	September 30, 2018 (Unaudited)	December 31, 2017
Liabilities:		
Policy liabilities:		
Future policy benefit reserves:		
Life insurance	$ 1,165,443	1,133,875
Annuities	75,803	73,688
Accident and health	923	990
Dividend accumulations	25,513	23,713
Premiums paid in advance	50,651	51,431
Policy claims payable	7,327	8,610
Other policyholders' funds	10,159	8,483
Total policy liabilities	1,335,819	1,300,790
Commissions payable	1,947	2,430
Federal income tax payable	47,637	93,365
Deferred federal income tax liability	10,374	—
Other liabilities	25,396	24,355
Total liabilities	1,421,173	1,420,940
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class A, no par value, 100,000,000 shares authorized, 52,215,852 shares issued and outstanding in 2018 and 2017, including shares in treasury of 3,135,738 in 2018 and 2017	259,693	259,383
Class B, no par value, 2,000,000 shares authorized, 1,001,714 shares issued and outstanding in 2018 and 2017	3,184	3,184
Accumulated deficit	(75,812)	(54,375)
Accumulated other comprehensive income:		
Unrealized gains on securities, net of tax	4,685	26,332
Treasury stock, at cost	(11,011)	(11,011)
Total stockholders' equity	180,739	223,513
Total liabilities and stockholders' equity	$ 1,601,912	1,644,453

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Three Months Ended September 30,
(In thousands, except per share amounts)
(Unaudited)

	2018	2017
Revenues:		
Premiums:		
Life insurance	$45,898	48,644
Accident and health insurance	323	360
Property insurance	1,208	1,243
Net investment income	13,587	13,828
Realized investment losses, net	(498)	(404)
Other income	643	660
Total revenues	61,161	64,331
Benefits and expenses:		
Insurance benefits paid or provided:		
Claims and surrenders	25,076	21,454
Increase in future policy benefit reserves	1,653	19,597
Policyholders' dividends	1,595	1,613
Total insurance benefits paid or provided	28,324	42,664
Commissions	8,656	10,801
Other general expenses	12,402	7,254
Capitalization of deferred policy acquisition costs	(5,561)	(7,756)
Amortization of deferred policy acquisition costs	11,412	7,623
Amortization of cost of customer relationships acquired	366	635
Total benefits and expenses	55,599	61,221
Income before federal income tax	5,562	3,110
Federal income tax expense (benefit)	20,316	(339)
Net income (loss)	(14,754)	3,449
Per Share Amounts:		
Basic and diluted earnings (losses) per share of Class A common stock	$(0.30)	0.07
Basic and diluted earnings (losses) per share of Class B common stock	(0.14)	0.03
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale debt securities:		
Unrealized holding gains (losses) arising during period	(2,236)	3,875
Reclassification adjustment for losses included in net income	656	370
Unrealized gains (losses) on available-for-sale debt securities, net	(1,580)	4,245
Income tax expense on unrealized gains (losses) on available-for-sale debt securities	454	1,486
Other comprehensive income (loss)	(2,034)	2,759
Total comprehensive income (loss)	$(16,788)	6,208

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Nine Months Ended September 30,
(In thousands, except per share amounts)
(Unaudited)

	2018	2017
Revenues:		
Premiums:		
Life insurance	$133,058	138,603
Accident and health insurance	915	1,033
Property insurance	3,615	3,731
Net investment income	41,169	39,640
Realized investment gains (losses), net	(1,251)	742
Other income	930	1,015
Total revenues	178,436	184,764
Benefits and expenses:		
Insurance benefits paid or provided:		
Claims and surrenders	66,844	62,130
Increase in future policy benefit reserves	32,816	51,953
Policyholders' dividends	4,516	4,418
Total insurance benefits paid or provided	104,176	118,501
Commissions	26,284	30,620
Other general expenses	33,375	26,765
Capitalization of deferred policy acquisition costs	(17,164)	(21,540)
Amortization of deferred policy acquisition costs	26,218	22,640
Amortization of cost of customer relationships acquired	1,517	1,629
Total benefits and expenses	174,406	178,615
Income before federal income tax	4,030	6,149
Federal income tax expense	21,305	72
Net income (loss)	(17,275)	6,077
Per Share Amounts:		
Basic and diluted earnings (losses) per share of Class A common stock	$(0.35)	0.12
Basic and diluted earnings (losses) per share of Class B common stock	(0.17)	0.06
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale debt securities:		
Unrealized holding gains (losses) arising during period	(32,663)	13,585
Reclassification adjustment for losses included in net income	1,002	329
Unrealized gains (losses) on available-for-sale debt securities, net	(31,661)	13,914
Income tax expense (benefit) on unrealized gains (losses) on available-for-sale debt securities	(5,852)	4,870
Other comprehensive income (loss)	(25,809)	9,044
Total comprehensive income (loss)	$(43,084)	15,121

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2018 and 2017
(In thousands)
(Unaudited)

	Common Stock			Accumulated		
	Class A	Class B	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock	Total Stockholders' equity
Balance at December 31, 2016	$259,383	3,184	(16,248)	13,792	(11,011)	249,100
Comprehensive income:						
Net income	—	—	6,077	—	—	6,077
Unrealized investment gains, net	—	—	—	9,044	—	9,044
Total comprehensive income	—	—	6,077	9,044	—	15,121
Balance at September 30, 2017	259,383	3,184	(10,171)	22,836	(11,011)	264,221
Balance at December 31, 2017	259,383	3,184	(54,375)	26,332	(11,011)	223,513
Accounting standards adopted January 1, 2018	—	—	(4,162)	4,162	—	—
Balance at January 1, 2018	259,383	3,184	(58,537)	30,494	(11,011)	223,513
Comprehensive loss:						
Net loss	—	—	(17,275)	—	—	(17,275)
Unrealized investment losses, net	—	—	—	(26,629)	—	(26,629)
Unrealized gain from held-to-maturity securities transferred to available-for-sale, net	—	—	—	820	—	820
Total comprehensive loss	—	—	(17,275)	(25,809)	—	(43,084)
Stock-based compensation	310	—	—	—	—	310
Balance at September 30, 2018	$259,693	3,184	(75,812)	4,685	(11,011)	180,739

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Cash Flows
Nine Months Ended September 30,
(In thousands)
(Unaudited)

	2018	2017
Cash flows from operating activities:		
Net income (loss)	$(17,275)	6,077
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Realized (gains) losses on sale of investments and other assets	1,251	(742)
Net deferred policy acquisition costs	9,054	1,100
Amortization of cost of customer relationships acquired	1,517	1,629
Depreciation	921	763
Amortization of premiums and discounts on investments	12,781	12,398
Stock-based compensation	310	—
Deferred federal income tax benefit	67,040	(2,975)
Change in:		
Accrued investment income	673	(340)
Reinsurance recoverable	89	(55)
Due premiums	427	1,947
Future policy benefit reserves	33,425	51,876
Other policyholders' liabilities	1,413	5,619
Federal income tax payable	(45,744)	2,532
Commissions payable and other liabilities	558	(10,307)
Other, net	(1,205)	(663)
Net cash provided by operating activities	65,235	68,859
Cash flows from investing activities:		
Purchase of fixed maturities, available-for-sale	(109,642)	(135,538)
Sale of fixed maturities, available-for-sale	1,084	508
Maturities and calls of fixed maturities, available-for-sale	51,190	65,456
Maturities and calls of fixed maturities, held-to-maturity	20,699	7,685
Sale of equity securities, available-for-sale	—	1,940
Calls of equity securities, available-for-sale	—	450
Purchase of equity securities, available-for-sale	(9)	—
Principal payments on mortgage loans	7	35
Increase in policy loans, net	(5,277)	(4,543)
Sale of other long-term investments and real estate	14	3,040
Sale of property and equipment	—	41
Purchase of property and equipment	(437)	(1,223)
Maturity of short-term investments	—	500
Net cash used in investing activities	(42,371)	(61,649)

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
Nine Months Ended September 30,
(In thousands)
(Unaudited)

	2018	2017
Cash flows from financing activities:		
Annuity deposits	$5,222	7,240
Annuity withdrawals	(5,397)	(4,960)
Net cash provided by (used in) financing activities	(175)	2,280
Net increase in cash and cash equivalents	22,689	9,490
Cash and cash equivalents at beginning of year	46,064	35,510
Cash and cash equivalents at end of period	$68,753	45,000
Supplemental disclosures of operating activities:		
Cash paid (received) during the period for income taxes, net	$—	515

Supplemental disclosures of noncash investing and financing activities:

During 2018 and 2017, various fixed maturity issuers exchanged securities with book values of $2.5 million and $4.8 million, respectively, for securities of equal value.

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2018
(Unaudited)

(1) Financial Statements

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts and operations of Citizens, Inc. ("Citizens"), a Colorado corporation, and its wholly-owned subsidiaries, CICA Life Insurance Company of America ("CICA"), CICA Life Ltd. ("CICA Ltd."), Security Plan Life Insurance Company ("SPLIC"), Security Plan Fire Insurance Company ("SPFIC"), Citizens National Life Insurance Company ("CNLIC"), Magnolia Guaranty Life Insurance Company ("MGLIC"), Computing Technology,, Inc. ("CTI"), and Insurance Investors, Inc. ("III"). Citizens and its wholly-owned subsidiaries are collectively referred to as "the Company," "we," "us" or "our."

The consolidated statements of financial position as of September 30, 2018, the consolidated statements of comprehensive income for the three and nine-months ended September 30, 2018 and September 30, 2017 and the consolidated statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2018 and September 30, 2017, have been prepared by the Company without audit. In the opinion of management, all normal and recurring adjustments to present fairly the financial position, results of operations, and changes in cash flows at September 30, 2018 and for comparative periods have been made. The consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the consolidated financial statements do not include all the information and footnotes required for complete financial statements and should be read in conjunction with the Company’s consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

We provide primarily life insurance and a small amount of health insurance policies through our insurance subsidiaries: CICA, CICA Ltd., SPLIC, MGLIC and CNLIC. Until the end of 2016, CICA and CNLIC issued ordinary whole-life policies, credit life and disability, burial insurance, pre-need policies, and accident and health related policies, throughout the Midwest and southern United States. Beginning January 1, 2017, CICA and CNLIC ceased selling life products domestically. Prior to July 1, 2018, CICA primarily issued ordinary whole-life and endowment policies to non-U.S. residents. From and after July 1, 2018, CICA Ltd. will issue such policies. Effective on July 1, 2018, the Company effected a novation of all of the international policies issued by CICA to CICA Ltd., a newly established Bermuda entity that began operations in July 2018. While this novation transaction has been eliminated in consolidation of affiliated entities, there are tax effects reflected in the consolidated financial statements as a result of the transaction being executed between our subsidiaries that reside in different tax jurisdictions. The tax accounting implications of the novation transaction are further described in Note 9 - Income Taxes in these notes to the consolidated financial statements. SPLIC offers final expense and home service life insurance in Louisiana, Arkansas and Mississippi, and SPFIC, a wholly-owned subsidiary of SPLIC, writes a limited amount of property insurance in Louisiana. MGLIC provides industrial life policies through independent funeral homes in Mississippi.

CTI provides data processing systems and services, as well as furniture and equipment, to the Company. III is currently not active. We plan to dissolve III and merge it into Citizens.

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As of July 1, 2018, we implemented a new actuarial valuation software solution impacting the life segment that provides enhanced modeling capabilities for ordinary whole life and endowment policies of CICA and CICA Ltd., which are included in the life insurance segment. The impact of this system conversion resulted in changes in estimates due to refinements reflected as a decrease in reserves of $10.2 million and a decrease in DAC of $4.3 million, before tax. The total impact of this system conversion reflected in the accompanying consolidated financial statements as of and for the three and nine months ended September 30, 2018 is summarized in the table below.

Impact on financial balances:	Increase (Decrease)
Consolidated Statements of Financial Position	(In thousands)
Deferred policy acquisition costs	$ (4,339)
Future policy benefit reserves:	
Life insurance	(10,197)
Consolidated Statements of Comprehensive Income	
Decrease in future policy benefit reserves	(10,197)
Amortization of deferred policy acquisition costs	4,339
Income (loss) before federal income tax	5,858
Federal income tax expense	1,230
Net income (loss)	$ 4,628

We are continuing to convert other information to the new valuation system and will report those items as information becomes available and in accordance with applicable accounting guidance. It is our expectation that we will convert SPLIC's insurance products to the new valuation system during 2019.

Use of Estimates

The preparation of consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in the evaluation of other-than-temporary impairments on debt and equity securities, actuarially determined assets and liabilities and assumptions, tests of goodwill impairment, valuation allowance on deferred tax assets, valuation of uncertain tax positions and contingencies relating to litigation and regulatory matters. Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the worldwide debt or equity markets could have a material impact on the consolidated financial statements.

Significant Accounting Policies

For a description of significant accounting policies, see Note 1 of the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017, which should be read in conjunction with these accompanying consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
September 30, 2018
(Unaudited)

(2) Accounting Pronouncements

Accounting Standards Recently Adopted

On February 14, 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. It allows a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings of the stranded tax effects that occurred due to the enactment of the Tax Cuts and Jobs Act of 2017 (the "New Tax Act"). The updated guidance is effective for reporting periods beginning after December 15, 2018 and is to be applied retrospectively to each period in which there are items impacted by the New Tax Act remaining in AOCI or at the beginning of the period of adoption. Early adoption is permitted. The Company adopted the updated guidance effective January 1, 2018 and elected to reclassify the income tax effects of the New Tax Act from AOCI to accumulated deficit as of January 1, 2018. This reclassification resulted in an increase in accumulated deficit of $4.7 million as of January 1, 2018 and an increase in AOCI by the same amount.

In January 2016, the FASB released ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair values to be measured at fair value with any changes in fair value recognized in net income. Equity securities that do not have readily determinable fair values may be measured at estimated fair value or cost less impairment, if any, adjusted for subsequent observable price changes, with changes in the carrying value recognized in net income. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The updated guidance was effective for the first quarter ended March 31, 2018. The adoption of this guidance resulted in the recognition of $560,000 of net after-tax unrealized gains on equity investments as a cumulative effect adjustment that decreased retained deficit as of January 1, 2018 and decreased AOCI by the same amount. The Company elected to report changes in the fair value of equity investments in realized investment gains (losses), net. At December 31, 2017, equity investments were classified as available-for-sale on the Company's balance sheet. However, upon adoption, the updated guidance eliminated the available-for-sale balance sheet classification for equity investments.

Accounting Standards Not Yet Adopted

The FASB’s new lease accounting standard, ASU 2016-02, Leases (Topic 842), was issued on February 25, 2016. The ASU will require organizations that lease assets, referred to as “lessees”, to recognize the rights and obligations created by those leases on the balance sheet. The ASU also will require additional disclosures so investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the consolidated financial statements. The accounting by organizations that own the assets leased by the lessee, also known as lessor accounting, will remain largely unchanged from current GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The ASU on leases will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

The Company has several lease agreements, such as district office locations related to our Home Service segment, which are currently considered operating leases, and therefore, not recognized on the Company's balance sheet. The Company intends to adopt this standard effective January 1, 2019 and expects the new guidance will require these lease agreements to be recognized on the balance sheet as a right-of-use asset and a corresponding lease liability. The Company is nearing completion of its effort to compile a complete inventory of arrangements containing a lease and accumulating the lease data necessary to apply the amended guidance. The Company is evaluating the impact this guidance will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326), with the main objective to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The ASU requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. Credit losses on available-for-sale debt securities should be measured in a manner similar to current U.S. GAAP; however, the credit losses are recorded through an allowance for credit losses rather than as a write-down. This approach is an improvement to current U.S. GAAP because an entity will be able to record reversals of credit losses (in situations in which the estimate of credit losses declines) in current period net income, which in turn should align the income statement recognition of credit losses with the reporting period in which changes occur. Current U.S. GAAP prohibits reflecting those improvements in current-period earnings. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is evaluating the impact this guidance will have on our consolidated financial statements, but it is not expected to have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20). The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The Company has a large portfolio of callable debt securities purchased at a premium. As such, the Company had already been amortizing the premium to the earliest call date to reduce volatility in earnings by eliminating reporting large realized losses when debt securities are called. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

In June 2018, the FASB issued ASU No. 2018-07, Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. ASU 2018-07 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted but no earlier than an entity’s adoption date of Topic 606. We will adopt the provisions of this ASU in the first quarter of 2019. The Company is evaluating the impact this guidance will have on our consolidated financial statements.

In September 2018, the FASB issued ASU No. 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU requires an entity in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs should be presented in the same line item on the balance sheet as amounts prepaid for the hosted service, if any (generally as an “other asset”). The capitalized costs will be amortized over the term of the hosting arrangement, with the amortization expense being presented in the same income statement line item as the fees paid for the hosted service. ASU 2018-15 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. We are evaluating the impact of this guidance on our limited cloud computing arrangements and our consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-11, Leases - Targeted Improvements to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU No. 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (January 1, 2019 for the Company). The Company expects to elect both transition options. ASU 2018-11 is not expected to have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-12, Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. This ASU amends four key areas of the accounting and impacts disclosures for long-duration insurance and investment contracts:

Requires updated assumptions for liability measurement. Assumptions used to measure the liability for traditional insurance contracts, which are typically determined at contract inception, will now be reviewed at least annually, and, if there is a change, updated, with the effect recorded in net income;

Standardizes the liability discount rate. The liability discount rate will be a market-observable discount rate (upper-medium grade fixed-income instrument yield), with the effect of rate changes recorded in other comprehensive income;

Provides greater consistency in measurement of market risk benefits. The two previous measurement models have been reduced to one measurement model (fair value), resulting in greater uniformity across similar market-based benefits and better alignment with the fair value measurement of derivatives used to hedge capital market risk;

Simplifies amortization of deferred acquisition costs. Previous earnings-based amortization methods have been replaced with a more level amortization basis; and

Requires enhanced disclosures. The new disclosures include rollforwards and information about significant assumptions and the effects of changes in those assumptions.

For calendar-year public companies, the changes will be effective in 2021. The Company is evaluating the impact this guidance will have on our consolidated financial statements and will begin planning for adoption in 2019. This new guidance is expected to have a material impact on our consolidated financial statements as we consider this to be one of the most substantial changes in the insurance industry guidance in the last 40 years.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Company’s consolidated financial statements.

No other new accounting pronouncement issued or effective during the fiscal year had, or is expected to have, a material impact on our consolidated financial statements.

(3) Segment Information

The Company has two reportable segments: Life Insurance and Home Service Insurance. The Life Insurance and Home Service portions of the Company constitute separate businesses. In addition to the Life Insurance and Home Service business, the Company also operates other non-insurance ("Other Non-Insurance Enterprises") portions of the

Company, which primarily include the Company's IT and Corporate-support functions, which are included in the tables presented below to properly reconcile the segment information with the consolidated financial statements of the Company.

The accounting policies of the segments and other non-insurance enterprises are in accordance with U.S. GAAP and are the same as those used in the preparation of the consolidated financial statements. The Company evaluates profit and loss performance based on U.S. GAAP income before federal income taxes for its two reportable segments.

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The Company's Other Non-Insurance Enterprises are the only reportable difference between segments and consolidated operations.

	Three Months Ended September 30, 2018			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$35,784	11,645	—	47,429
Net investment income	10,062	3,276	249	13,587
Realized investment gains (losses), net	(475)	(32)	9	(498)
Other income	643	—	—	643
Total revenue	46,014	14,889	258	61,161
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	19,212	5,864	—	25,076
Increase in future policy benefit reserves	544	1,109	—	1,653
Policyholders' dividends	1,581	14	—	1,595
Total insurance benefits paid or provided	21,337	6,987	—	28,324
Commissions	4,712	3,944	—	8,656
Other general expenses	6,583	4,502	1,317	12,402
Capitalization of deferred policy acquisition costs	(3,873)	(1,688)	—	(5,561)
Amortization of deferred policy acquisition costs	10,132	1,280	—	11,412
Amortization of cost of customer relationships acquired	150	216	—	366
Total benefits and expenses	39,041	15,241	1,317	55,599
Income (loss) before income tax expense	$6,973	(352)	(1,059)	5,562

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	Nine Months Ended September 30, 2018			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$102,537	35,051	—	137,588
Net investment income	30,331	9,894	944	41,169
Realized investment losses, net	(684)	(535)	(32)	(1,251)
Other income (loss)	931	(1)	—	930
Total revenue	133,115	44,409	912	178,436
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	49,522	17,322	—	66,844
Increase in future policy benefit reserves	29,509	3,307	—	32,816
Policyholders' dividends	4,483	33	—	4,516
Total insurance benefits paid or provided	83,514	20,662	—	104,176
Commissions	14,717	11,567	—	26,284
Other general expenses	12,607	15,438	5,330	33,375
Capitalization of deferred policy acquisition costs	(12,663)	(4,501)	—	(17,164)
Amortization of deferred policy acquisition costs	22,912	3,306	—	26,218
Amortization of cost of customer relationships acquired	434	1,083	—	1,517
Total benefits and expenses	121,521	47,555	5,330	174,406
Income (loss) before income tax expense	$11,594	(3,146)	(4,418)	4,030

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	Three Months Ended September 30, 2017			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$38,472	11,775	—	50,247
Net investment income	10,051	3,355	422	13,828
Realized investment losses, net	(355)	(49)	—	(404)
Other income	561	—	99	660
Total revenue	48,729	15,081	521	64,331
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	15,700	5,754	—	21,454
Increase in future policy benefit reserves	18,045	1,552	—	19,597
Policyholders' dividends	1,602	11	—	1,613
Total insurance benefits paid or provided	35,347	7,317	—	42,664
Commissions	6,892	3,909	—	10,801
Other general expenses	2,200	4,025	1,029	7,254
Capitalization of deferred policy acquisition costs	(6,242)	(1,514)	—	(7,756)
Amortization of deferred policy acquisition costs	6,431	1,192	—	7,623
Amortization of cost of customer relationships acquired	118	517	—	635
Total benefits and expenses	44,746	15,446	1,029	61,221
Income (loss) before income tax expense	$3,983	(365)	(508)	3,110

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	Nine Months Ended September 30, 2017			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$107,995	35,372	—	143,367
Net investment income	28,678	9,864	1,098	39,640
Realized investment gains (losses), net	(419)	1,161	—	742
Other income	856	2	157	1,015
Total revenue	137,110	46,399	1,255	184,764
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	45,218	16,912	—	62,130
Increase in future policy benefit reserves	47,818	4,135	—	51,953
Policyholders' dividends	4,387	31	—	4,418
Total insurance benefits paid or provided	97,423	21,078	—	118,501
Commissions	18,765	11,855	—	30,620
Other general expenses	10,399	13,182	3,184	26,765
Capitalization of deferred policy acquisition costs	(16,843)	(4,697)	—	(21,540)
Amortization of deferred policy acquisition costs	19,350	3,290	—	22,640
Amortization of cost of customer relationships acquired	434	1,195	—	1,629
Total benefits and expenses	129,528	45,903	3,184	178,615
Income (loss) before income tax expense	$7,582	496	(1,929)	6,149

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(4) Earnings Per Share

The following tables set forth the computation of basic and diluted earnings per share.

	Three Months Ended	
	September 30, 2018	September 30, 2017
	(In thousands, except per share amounts)	
Basic and diluted earnings per share:		
Numerator:		
Net income (loss)	$(14,754)	3,449
Net income (loss) allocated to Class A common stock	$(14,605)	3,415
Net income (loss) allocated to Class B common stock	(149)	34
Net income (loss)	$(14,754)	3,449
Denominator:		
Weighted average shares of Class A outstanding - basic	49,080	49,080
Weighted average shares of Class A outstanding - diluted	49,127	49,080
Weighted average shares of Class B outstanding - basic and diluted	1,002	1,002
Basic and diluted earnings (loss) per share of Class A common stock	$(0.30)	0.07
Basic and diluted earnings (loss) per share of Class B common stock	(0.14)	0.03

	Nine Months Ended	
	September 30, 2018	September 30, 2017
	(In thousands, except per share amounts)	
Basic and diluted earnings per share:		
Numerator:		
Net income (loss)	$(17,275)	6,077
Net income (loss) allocated to Class A common stock	$(17,101)	6,016
Net income (loss) allocated to Class B common stock	(174)	61
Net income (loss)	$(17,275)	6,077
Denominator:		
Weighted average shares of Class A outstanding - basic	49,080	49,080
Weighted average shares of Class A outstanding - diluted	49,127	49,080
Weighted average shares of Class B outstanding - basic and diluted	1,002	1,002
Basic and diluted earnings (loss) per share of Class A common stock	$(0.35)	0.12
Basic and diluted earnings (loss) per share of Class B common stock	(0.17)	0.06

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(5) Investments

The Company invests primarily in fixed maturity securities, which totaled 87.6% of total cash, cash equivalents and investments at September 30, 2018. The Company's cash, cash equivalents and investments are listed below.

	September 30, 2018		December 31, 2017	
	Carrying Value	% of Total Carrying Value	Carrying Value	% of Total Carrying Value
	(In thousands)		(In thousands)	
Fixed maturity securities	$1,200,154	87.6	$1,208,570	89.3
Equity securities	15,529	1.1	16,164	1.2
Mortgage loans	188	—	195	—
Policy loans	79,012	5.8	73,735	5.5
Real estate and other long-term investments	7,248	0.5	7,452	0.6
Cash and cash equivalents	68,753	5.0	46,064	3.4
Total cash, cash equivalents and investments	$1,370,884	100.0	$1,352,180	100.0

Cash and cash equivalents increased during the current quarter ended September 30, 2018 as we held cash in anticipation of the novation transaction accounting settlement and those funds had not yet been reinvested into fixed maturities as of the end of the current reporting period.

The following tables represent the cost, gross unrealized gains and losses and fair value for fixed maturities as of the periods indicated.

	September 30, 2018			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Fixed maturities:				
Available-for-sale:				
U.S. Treasury securities	$9,887	1,250	6	11,131
U.S. Government-sponsored enterprises	3,546	662	—	4,208
States and political subdivisions	740,333	4,973	4,376	740,930
Foreign governments	118	—	1	117
Corporate	404,183	9,655	4,706	409,132
Commercial mortgage-backed	3,662	13	49	3,626
Residential mortgage-backed	31,482	105	577	31,010
Total fixed maturities	$1,193,211	16,658	9,715	1,200,154

We reclassified all of our fixed maturity holdings that were previously classified as held-to-maturity to available-for-sale based upon our intent and investment strategy as of September 30, 2018. The net carrying value of the fixed maturities held-to-maturity reclassified as available-for-sale amounted to $209.7 million and resulted in a net unrealized gain of $0.5 million being recorded in other comprehensive income before tax.

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	December 31, 2017			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Fixed maturities:				
Available-for-sale securities:				
U.S. Treasury securities	$9,860	1,948	—	11,808
U.S. Government-sponsored enterprises	3,570	926	—	4,496
States and political subdivisions	550,536	18,507	1,540	567,503
Foreign governments	103	18	—	121
Corporate	370,043	20,212	1,552	388,703
Residential mortgage-backed	1,865	118	5	1,978
Total available-for-sale securities	935,977	41,729	3,097	974,609
Held-to-maturity securities:				
States and political subdivisions	213,054	7,585	629	220,010
Corporate	20,907	1,118	658	21,367
Total held-to-maturity securities	233,961	8,703	1,287	241,377
Total fixed maturity securities	$1,169,938	50,432	4,384	1,215,986

The majority of the Company's equity securities are diversified stock and bond mutual funds.

	September 30, 2018	December 31, 2017
	Fair Value	Fair Value
	(In thousands)	
Equity securities:		
Stock mutual funds	$3,196	3,217
Bond mutual funds	12,096	12,367
Common stock	96	24
Preferred stock	141	556
Total equity securities	$15,529	16,164

The Company recognized net realized gain of $156,000 and net realized losses of $232,000 on equity securities held for the three and nine months ended September 30, 2018, respectively.

Valuation of Investments in Fixed Maturity and Equity Securities

Held-to-maturity securities are reported in the consolidated financial statements at amortized cost and available-for-sale securities are reported at fair value. Equity securities are measured at fair value with the change in fair value recorded through net income pursuant to the adoption of ASU 2016-01 as described in Note 2.

The Company monitors all debt securities on an on-going basis relative to changes in credit ratings, market prices, earnings trends and financial performance, in addition to specific region or industry reviews. The assessment of whether other-than-temporary impairments ("OTTI") have occurred is based on a case-by-case evaluation of underlying reasons for the decline in fair value. The Company determines other-than-temporary impairment by reviewing relevant evidence related to the specific security issuer as well as the Company's intent to sell the security, or if it is more likely than not that the Company would be required to sell a security before recovery of its amortized cost.

When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or it is more likely that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is separated into the following: (a) the amount representing the credit loss; and (b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings becomes the new amortized cost basis of the investment. The new amortized cost basis is not adjusted for subsequent recoveries in fair value.

The Company evaluates whether a credit impairment exists for fixed maturity securities by considering primarily the following factors: (a) changes in the financial condition of the security's underlying collateral; (b) whether the issuer is current on contractually obligated interest and principal payments; (c) changes in the financial condition, credit rating and near-term prospects of the issuer; (d) the length of time to which the fair value has been less than the amortized cost of the security; and (e) the payment structure of the security. The Company's best estimate of expected future cash flows used to determine the credit loss amount is a quantitative and qualitative process. Quantitative review includes information received from third party sources such as financial statements, pricing and rating changes, liquidity and other statistical information. Qualitative factors include judgments related to business strategies, economic impacts on the issuer and overall judgment related to estimates and industry factors. The Company's best estimate of future cash flows involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, and current delinquency rates. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries, which may include estimating the underlying collateral value. In addition, projections of expected future debt security cash flows may change based upon new information regarding the performance of the issuer.

There were other-than-temporary impairments recorded on several bond issuers for the three and nine months ended September 30, 2018 of $551,000 and $776,000, respectively. No impairments were recognized on equity securities for the three and nine months ended September 30, 2018.

No other-than-temporary impairments were recorded for the three months ended September 30, 2017 but one equity security totaling $17,000 was impaired during the nine months ended September 30, 2017.

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The following tables present the fair values and gross unrealized losses of fixed maturity securities that have remained in a continuous unrealized loss position for the periods indicated.

	September 30, 2018								
	Less than 12 months			Greater than 12 months			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
	(In thousands, except for # of securities)								
Fixed maturities:									
Available-for-sale securities:									
U.S. Treasury securities	$757	6	2	—	—	—	757	6	2
States and political subdivisions	494,116	3,659	479	31,452	717	42	525,568	4,376	521
Corporate	206,965	4,193	160	6,366	513	6	213,331	4,706	166
Commercial mortgage-backed	2,725	49	4	—	—	—	2,725	49	4
Residential mortgage-backed	27,048	574	21	101	3	3	27,149	577	24
Foreign	117	1	1	—	—	—	117	1	1
Total available-for-sale securities	$731,728	8,482	667	37,919	1,233	51	769,647	9,715	718

As of September 30, 2018, the Company had 51 available-for-sale fixed maturity securities that were in an unrealized loss position for greater than 12 months.

	December 31, 2017								
	Less than 12 months			Greater than 12 months			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
	(In thousands, except for # of securities)								
Fixed maturities:									
Available-for-sale securities:									
States and political subdivisions	$49,408	312	46	47,233	1,228	46	96,641	1,540	92
Corporate	61,071	732	39	7,651	820	10	68,722	1,552	49
Residential mortgage-backed	132	3	4	157	2	4	289	5	8
Total available-for-sale securities	110,611	1,047	89	55,041	2,050	60	165,652	3,097	149
Held-to-maturity securities:									
States and political subdivisions	14,178	45	15	7,460	584	14	21,638	629	29
Corporate	—	—	—	2,169	658	2	2,169	658	2
Total held-to-maturity securities	14,178	45	15	9,629	1,242	16	23,807	1,287	31
Total fixed maturities	$124,789	1,092	104	64,670	3,292	76	189,459	4,384	180
Equity securities:									
Redeemable preferred stock	95	6	1	—	—	—	95	6	1
Total equity securities	$95	6	1	—	—	—	95	6	1

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We have reviewed these securities in an unrealized loss position for the periods ended September 30, 2018 and December 31, 2017 and determined that no other-than-temporary impairment exists that have not been recognized based on our evaluation of the credit worthiness of the issuers and the fact that we do not intend to sell the investments nor is it likely that we will be required to sell the securities before recovery of their amortized cost bases which may be maturity. We continue to monitor all securities on an on-going basis and future information may become available which could result in other-than-temporary impairments being recorded.

The amortized cost and fair value of fixed maturity securities at September 30, 2018 by contractual maturity are shown in the table below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date have been reflected based upon final stated maturity.

	September 30, 2018	
	Amortized Cost	Fair Value
	(In thousands)	
Fixed maturity securities:		
Due in one year or less	$43,088	43,190
Due after one year through five years	142,943	146,280
Due after five years through ten years	230,995	232,627
Due after ten years	776,185	778,057
Total fixed maturity securities	$1,193,211	1,200,154

The Company uses the specific identification method of the individual security to determine the cost basis used in the calculation of realized gains and losses related to security sales.

	Fixed Maturities, Available-for-Sale				Equity Securities			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
	(In thousands)							
Proceeds	$1,084	—	1,084	508	—	—	—	1,940
Gross realized gains	$54	—	53	6	—	—	—	—
Gross realized losses	$—	—	—	—	—	—	—	30

There was one sale of available-for-sale fixed maturity securities for the three and nine months ended September 30, 2018. No available-for-sale fixed maturity securities were sold during the three months ended September 30, 2017. One available-for-sale fixed maturity security was sold during the nine months ended September 30, 2017. No equity securities or held-to-maturity securities were sold during the three and nine months ended September 30, 2018 and 2017.

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(6) Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We hold available-for-sale fixed maturity securities, which are carried at fair value. We also report our equity securities at fair value with changes in fair value reported through the consolidated statements of comprehensive income.

Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. All assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs or whose significant value drivers are observable.
- Level 3 - Instruments whose significant value drivers are unobservable.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as U.S. Treasury securities and actively traded mutual fund and stock investments.

Level 2 includes those financial instruments that are valued by independent pricing services or broker quotes. These models are primarily industry-standard models that consider various inputs, such as interest rates, credit spreads and foreign exchange rates for the underlying financial instruments. All significant inputs are observable, or derived from observable information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include corporate securities, U.S. Government-sponsored enterprise securities, municipal securities and certain mortgage and asset-backed securities.

Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker prices utilizing significant inputs not based on or corroborated by readily available market information. There were no securities in this category at September 30, 2018.

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The following tables set forth our assets that are measured at fair value on a recurring basis as of the dates indicated.

	September 30, 2018			
Financial Assets	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Available-for-sale investments				
Fixed maturities:				
U.S. Treasury and U.S. Government-sponsored enterprises	$11,131	4,208	—	15,339
States and political subdivisions	—	740,930	—	740,930
Corporate	211	408,921	—	409,132
Commercial mortgage-backed	—	3,626	—	3,626
Residential mortgage-backed	—	31,010	—	31,010
Foreign governments	—	117	—	117
Total fixed maturities available-for-sale	11,342	1,188,812	—	1,200,154
Equity securities				
Stock mutual funds	3,196	—	—	3,196
Bond mutual funds	12,096	—	—	12,096
Common stock	96	—	—	96
Non-redeemable preferred stock	141	—	—	141
Total equity securities	15,529	—	—	15,529
Total financial assets	$26,871	1,188,812	—	1,215,683

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	December 31, 2017			
Financial Assets	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Available-for-sale investments				
Fixed maturities:				
U.S. Treasury and U.S. Government-sponsored enterprises	$11,808	4,496	—	16,304
States and political subdivisions	—	567,503	—	567,503
Corporate	—	388,703	—	388,703
Residential mortgage-backed	—	1,978	—	1,978
Foreign governments	—	121	—	121
Total fixed maturities available-for-sale	11,808	962,801	—	974,609
Equity securities				
Stock mutual funds	3,217	—	—	3,217
Bond mutual funds	12,367	—	—	12,367
Common stock	24	—	—	24
Preferred stock	556	—	—	556
Total equity securities	16,164	—	—	16,164
Total financial assets	$27,972	962,801	—	990,773

Financial Instruments Valuation

Fixed maturity securities, available-for-sale. At September 30, 2018, our fixed maturity securities, valued using a third-party pricing source, totaled $1,188.8 million for Level 2 assets and comprised 97.8% of total reported fair value of our financial assets. The Level 1 and Level 2 valuations are reviewed and updated quarterly through random testing by comparisons to separate pricing models, other third-party pricing services, and back tested to recent trades. In addition, we obtain information annually relative to the third-party pricing models and review model parameters for reasonableness. There were no Level 3 assets at September 30, 2018. For the nine months ended September 30, 2018, there were no material changes to the valuation methods or assumptions used to determine fair values, and no broker or third-party prices were changed from the values received.

Equity securities. Our equity securities are classified as Level 1 assets as their fair values are based upon quoted market prices.

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. There were no transfers in or out of Level 3.

Financial Instruments not Carried at Fair Value

Estimates of fair values are made at a specific point in time, based on relevant market prices and information about the financial instruments. The estimated fair values of financial instruments presented below are not necessarily indicative of the amounts the Company might realize in actual market transactions.

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The carrying amount and fair value for the financial assets and liabilities on the consolidated balance sheets not otherwise disclosed for the periods indicated are as follows:

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Financial assets:				
Fixed maturities, held-to-maturity	$ —	—	233,961	241,377
Mortgage loans	188	224	195	228
Policy loans	79,012	79,012	73,735	73,735
Cash and cash equivalents	68,753	68,753	46,064	46,064
Financial liabilities:				
Annuity - investment contracts	56,082	58,247	55,035	57,575

Fair values for fixed income securities, which are characterized as Level 2 assets in the fair value hierarchy, are based on quoted market prices for the same or similar securities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other assumptions, including a discount rate and estimates of future cash flows.

Mortgage loans are secured principally by residential properties. Weighted average interest rates for these loans were approximately 6.56% at September 30, 2018 and 6.60% at December 31, 2017. At September 30, 2018, maturities ranged from 20 to 24 years. Management estimated the fair value using an annual interest rate of 6.25% at September 30, 2018. Our mortgage loans are considered Level 3 assets in the fair value hierarchy.

Policy loans had a weighted average annual interest rate of 7.7% as of September 30, 2018 and December 31, 2017, and no specified maturity dates. The aggregate fair value of policy loans approximates the carrying value reflected on the consolidated balance sheets. These loans typically carry an interest rate that is tied to the crediting rate applied to the related policy and contract reserves. Policy loans are an integral part of the life insurance policies we have inforce, cannot be valued separately and are not marketable. Therefore, the fair value of policy loans approximates the carrying value and policy loans are considered Level 3 assets in the fair value hierarchy.

The fair value of cash and cash equivalents approximate carrying value and are characterized as Level 1 assets in the fair value hierarchy.

The fair value of the Company's liabilities under annuity contract policies, which are considered Level 3 assets, was estimated at September 30, 2018 using discounted cash flows based upon spot rates ranging from 2.56% to 4.32% based upon swap rates adjusted for various risk adjustments. The fair value of liabilities under all insurance contracts are taken into consideration in the overall management of interest rate risk, which seeks to minimize exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

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(7) Short Duration Contracts

The Company's short duration contracts consist of credit life and credit disability in the Life segment and property insurance in the Home Service segment. The following table presents information on changes in the liability for credit life, credit disability, and property policy and contract claims for the periods ended September 30, 2018 and September 30, 2017.

	September 30,	
	2018	2017
	(In thousands)	
Policy claims payable at January 1,	$570	543
Less: reinsurance recoverable	—	—
Net balance at January 1,	570	543
Add claims incurred, related to:		
Current year	1,441	1,435
Prior years	(176)	(11)
	1,265	1,424
Deduct claims paid, related to:		
Current year	1,163	1,106
Prior years	310	407
	1,473	1,513
Net balance September 30,	362	454
Plus: reinsurance recoverable	—	—
Policy claims payable, September 30,	$362	454

Prior year development is due to normal claim settlements and actuarial changes in claims payable estimates.

(8) Commitments and Contingencies

Qualification of Life Products

As of December 31, 2014, we determined that a portion of the life insurance policies issued by our subsidiary insurance companies failed to qualify for the favorable U.S. federal income tax treatment afforded by Section 7702 of the Internal Revenue Code ("IRC") of 1986. This tax code section allows for qualifying products sold to clients to have favorable tax treatment such as the product's inside build up being not taxable unless distributions are made. Because these policies were sold with the intention that they would qualify for this favorable tax treatment, holders of these policies and the Company may now be subject to additional tax liabilities. The policies at issue were sold most substantially to non-U.S. citizens residing abroad and to a lesser extent domestically. Based upon a review of the options available to the Company, we have determined that we will not remediate our endowments and life products under IRC Section 7702 that we have sold to non-U.S. citizens but will propose an offer to the Internal Revenue Service ("IRS") to settle potential liabilities. We do intend to remediate the domestic products we have sold to U.S. citizens. Accordingly, we submitted an offer to enter into a Closing Agreement for CICA and CNLIC in May 2017. We have not received a response from the IRS on this submission. In addition, as part of our continuing review, we determined in July 2015 that certain annuity contracts do not contain qualifying language under IRC 72(s) as intended that would have provided for favorable tax treatment of the annuities. This issue affects both our domestic and international contract holders. We endorsed the majority of the affected domestic annuity contracts to comply with the IRC in December 2017 and we have initiated discussions with the IRS to address past non-compliance. The Company has continued to refine the understanding of the tax failures as previously reported by preparing an individual policy calculation and has reflected the related exposure for the current reporting period as noted below. Failure of these policies to qualify under IRC Sections 7702 and 72(s) has resulted in additional liabilities and expenses as described below. The products have been and continue to be appropriately reported as life insurance under U.S. GAAP for financial reporting.

The failure of these policies to qualify under Sections 7702 and 72(s) results in an estimated liability as of September 30, 2018 of $8.9 million comprised of projected IRS toll charges and fees reported in other general expenses of $7.8 million and reserve increases to bring policies into compliance totaling $1.1 million. The range of financial estimates relative to this issue is $4.5 million to $52.5 million. At December 31, 2017, the best estimate liability was $12.5 million and the probability weighted range of financial estimates relative to this issue was $5.9 million to $48.2 million. Our liability and range disclosures are evaluated each reporting period and reflect our continued refinement of estimates and considerations as we prepare to submit settlement offers to the IRS related to these matters.

The estimated range includes projected toll charges and fees payable to the IRS, as well as any other costs attributed to remediation of non-compliant domestic life insurance policies. The estimated liability and the estimated range will be updated as we continue to refine our estimates. The amount of our liabilities and expenses depends on a number of uncertainties, including the number of prior tax years for which we may be liable to the IRS, the number of domestic life insurance policies we will be required to remediate, and the methodology applicable to the calculation of the toll charges for non-compliant policies. Given the range of potential outcomes and the significant variables assumed in establishing our estimates, actual amounts incurred may exceed our reserve and could exceed the high end of our estimated range of liabilities and expenses. To the extent the amount reserved by the Company is insufficient to meet the actual amount of our liability and expenses, or if our estimates of those liabilities and expenses change in the future, our financial condition and results of operation may be materially adversely affected. Management believes that based upon current information we have recorded the best estimate liability to date.

Accruals for loss contingencies are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. The process of determining our best estimate and the estimated range was a complex undertaking including insight from external consultants and involve management’s judgment based upon a variety of factors known at the time. We expect to incur additional costs in 2018 associated with these issues. We believe these costs could be an additional $0.5 million to $1.5 million. Due to the uncertainty of actions, there may be additional costs, but they cannot be estimated with any reliability. Actual amounts incurred may exceed this estimate and will be recorded as they become probable and can be reasonably estimated.

Unclaimed Property Contingencies

The Company was informed in 2012 by the Louisiana Department of Treasury, Arkansas Auditor of State and the Texas State Comptroller, that they authorized an audit of Citizens, Inc. and its affiliates for compliance with unclaimed property laws. This audit is being conducted by Verus Financial LLC on behalf of the states. This audit is not active and there has been no activity related to this audit for several years.

If the external audit was performed, it could result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, administrative penalties, interest, and changes to the Company's procedures for the identification and escheatment of abandoned property. The Company believes additional escheatment of funds in Arkansas or Texas will not be material to its financial condition or results of operations. However, additional escheatment of funds in Louisiana, which may subsequently be deemed abandoned under the Louisiana Department of Treasury’s audit, could be substantial for SPLIC if the Louisiana Department of Treasury chooses to disregard recent court decisions regarding unclaimed property litigation in favor of the insurance industry. At this time, the Company is not able to reasonably estimate any of these possible amounts.

Litigation

From time to time we are subject to legal and regulatory actions relating to our business. We defend all claims vigorously. As a result, we incur defense costs, including attorneys' fees, other direct litigation costs and the expenditure of management time that otherwise would be devoted to our business. If we suffer an adverse judgment as a result of litigation claims, it could have a material adverse effect on our business, results of operations and financial condition.

(9) Income Taxes

Beginning in 2018, the statutory tax rate is 21%. In accordance with the SEC's Staff Accounting Bulletin No. 118 ("SAB 118"), the Company recorded provisional amounts related to the impacts of the New Tax Act as of December 31, 2017, including but not

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limited to the change in corporate tax rate and immediate expensing of certain capital assets. During the current quarter, the Company has recorded provisional amounts related to the impacts of measuring tax reserves under IRC Section 807, as revised by the New Tax Act. As of September 30, 2018, the impacts recorded related to the New Tax Act continue to be considered provisional estimates due to complexities and ambiguities in the New Tax Act which resulted in incomplete accounting for the tax effects of these provisions. Further guidance, either legislative or interpretive, and analysis will be required to complete the accounting for these items. A final determination is required to be made within a measurement period not to extend beyond one year from the enactment date of the New Tax Act. We will continue our analysis of the New Tax Act and will record an update to our provisional amount if needed during the measurement period allowed by SAB 118.

CICA Ltd., a wholly owned subsidiary of Citizens, is considered a controlled foreign corporation for federal tax purposes. As a result, the insurance activity of CICA Ltd. is subject to Subpart F of the IRC and is included in Citizens' taxable income. As of September 30, 2018, the Subpart F income inclusion generated $18.7 million of federal income tax expense and this amount was largely driven by the impact of the novation transaction. The novation transaction also resulted in somewhat offsetting adjustments to the current tax liability for CICA, notably an increased amortization of DAC under Section 848 of the IRC, a reduction of premium income and a release of the $52.1 million uncertain tax position related to tax reserves on product qualification issues.

Our provision for income taxes may not have the customary relationship of taxes to income. A reconciliation between the U.S. corporate income tax rate and the effective income tax rate is as follows:

	Nine Months Ended September 30,			
	2018		2017	
	Amount	%	Amount	%
	(In thousands, except for %)			
Expected tax expense (benefit)	$846	21.0 %	$2,152	35.0 %
Tax-exempt interest and dividends-received deduction	(126)	(3.1)%	(336)	(5.5)%
Effect of graduated rates	—	— %	(35)	(0.6)%
Effect of uncertain tax position	2,688	66.7 %	(1,011)	(16.4)%
Nondeductible costs to remediate tax compliance issue	(735)	(18.2)%	(997)	(16.2)%
CICA Ltd. Subpart F income	18,657	462.9 %	—	— %
Other	(25)	(0.6)%	299	4.9 %
Total income tax expense	$21,305	528.7 %	$72	1.2 %

A reconciliation of federal income tax expense above is computed by applying the federal income tax rate of 21% in 2018 and 35.0% in 2017 to income before federal income tax expense.

Income tax expense consists of:

	Nine Months Ended September 30,	
	2018	2017
	(In thousands)	
Current	$(45,736)	3,047

Deferred	67,041	(2,975)
Total income tax expense	$21,305	72

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The components of deferred federal income taxes are as follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Deferred tax assets:		
Future policy benefit reserves	$20,307	78,372
Net operating and capital loss carryforwards	249	485
Accrued expenses	68	65
Investments	8,941	6,002
Other	347	276
Total gross deferred tax assets	$29,912	85,200
Deferred tax liabilities:		
Deferred policy acquisition costs, cost of customer relationships acquired and intangible assets	$(33,859)	(25,518)
Unrealized gains on investments available-for-sale	(2,366)	(8,297)
Accrued policyholder dividends	(2)	(441)
Tax reserves transition liability	(3,883)	—
Other	(176)	(147)
Total gross deferred tax liabilities	(40,286)	(34,403)
Net deferred tax asset (liability)	$(10,374)	50,797

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(10) Stock Compensation

In January 2018, the Company's Board of Directors approved awards of restricted stock units under the Citizens, Inc. Omnibus Incentive Plan for non-employee directors and the executive management team, with grant date fair values totaling $10,500 per director and $976,000 in total to the executive management team. The grant date was February 15, 2018 with a one-year vesting schedule for the directors and a two-year vesting schedule for the executive management team. Vesting of the units is subject to the recipient’s continued employment with the Company through the applicable vesting date. In addition, the Board also approved equity grants for 2018 not to exceed $1.2 million for other employees with a delegation to the CEO to determine the value to be awarded.

	Restricted Stock Units	
	Units	Aggregate Fair Value [1]
Outstanding at January 1, 2018	—	$ —
Granted	148,883	1,070,500
Less:		
Vested	—	—
Forfeited	22,322	160,495
Outstanding at September 30, 2018	126,561	$ 910,005

[1] Fair value per share of restricted stock units on September 30, 2018 was equal to Grant Date fair value per share.

Restricted stock awards give the participant the right to receive common stock in the future, subject to certain restrictions and a risk of forfeiture. Compensation expense of $310,000 was recognized as of September 30, 2018 related to these awards.

(11) Related Party Transactions

The Company has various routine related party transactions in conjunction with our holding company structure, such as a management service agreement related to costs incurred, a tax sharing agreement between entities, and inter-company dividends and capital contributions. A reinsurance assumption and novation transaction was completed effective July 1, 2018 between CICA and CICA Ltd. to transfer the international policies to the Bermuda entity. As part of this transaction, the Company has agreed to infuse capital into CICA as required by the Colorado Department of Insurance to keep CICA's risk-based capital above 350% in any future calendar year-end periods. There were no other changes related to these relationships during the nine months ended September 30, 2018. See our Annual Report on Form 10-K for the year ended December 31, 2017 for a comprehensive discussion of related party transactions.

In the first nine months of 2018, CICA made a capital contribution to CNLIC of $450,000 and SPLIC made a capital contribution of $450,000 to MGLIC.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are not statements of historical fact and constitute forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements specifically identified as forward-looking statements within this document. Many of these statements contain risk factors as well. In addition, certain statements in future filings by the Company with the Securities and Exchange Commission, in press releases, and in oral and written statements made by us or with the approval of the Company, which are not statements of historical fact, constitute forward-looking statements. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, income or loss, earnings or loss per share, the payment or non-payment of dividends, capital structure, and other financial items, (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services, (iii) statements of future economic performance and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "assumes," "estimates," "plans," "projects," "could," "expects," "intends," "targeted," "may," "will" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause the Company's future results to differ materially from expected results include, but are not limited to:

- Changes in the application, interpretation or enforcement of foreign insurance laws that impact our business, which derives the majority of its revenues from residents of foreign countries;
- Potential changes in amounts reserved for in connection with the noncompliance of a portion of our insurance policies with Sections 7702 under the Internal Revenue Code, the failure of certain annuity contracts to qualify under Section 72(s) of the Internal Revenue Code and the anticipated timing of finalization of our proposed closing agreements with the IRS to address these matters;
- The transition of our international business to a new Bermuda-based entity, the adoption of our international business to regulatory oversight by the Bermuda Monetary Authority and potential shifts in policyholder behavior arising from these changes;
- Changes in foreign and U.S. general economic, market, and political conditions, including the performance of financial markets and interest rates;
- Changes in consumer behavior or regulatory oversight, which may affect our ability to sell our products and retain business;
- The timely development of and acceptance of our new products and the perceived overall value of these products and services by existing and potential customers;
- Fluctuations in experience regarding current mortality, morbidity, persistency and interest rates relative to expected amounts used in pricing our products;
- The performance of our investment portfolio, which may be adversely affected by changes in interest rates, adverse developments and ratings of issuers whose debt securities we may hold, and other adverse macroeconomic events;
- Results of litigation we may be involved in;
- Changes in assumptions related to deferred acquisition costs and the value of any businesses we may acquire;
- Regulatory, accounting or tax changes that may affect the cost of, or the demand for, our products or services;
- Our concentration of business from persons residing in Latin America and the Pacific Rim;
- Changes in tax laws;

- Effects of acquisitions and restructuring, including possible difficulties in integrating and realizing the projected results of acquisitions;
- Changes in statutory or U.S. Generally Accepted Accounting Principles ("U.S. GAAP"), policies or practices;
- Changes in leadership among our board and senior management team;
- Our success at managing risks involved in the foregoing; and
- The risk factors discussed in "Part II-Item 1A-Risk Factors" of this report.

Such forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

We make available, free of charge, through our Internet website (www.citizensinc.com), our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Section 16 Reports filed by officers and directors, news releases, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such reports with, or furnish such reports to, the Securities and Exchange Commission. We are not including any of the information contained on our website as part of, or incorporating it by reference into, this report.

Overview

Citizens, Inc. (“Citizens” or the "Company") is an insurance holding company incorporated in Colorado serving the life insurance needs of individuals in the United States since 1969 and internationally since 1975. Through our insurance subsidiaries, we pursue a strategy of offering traditional insurance products in niche markets where we believe we can achieve competitive advantages. As of September 30, 2018, we had approximately $1.6 billion of total assets and approximately $4.4 billion of insurance inforce. Our core insurance operations include issuing and servicing:

- U.S. Dollar-denominated ordinary whole life insurance and endowment policies predominantly sold to foreign residents, located principally in Latin America and the Pacific Rim through independent marketing consultants;
- Ordinary whole life insurance policies to middle income households concentrated in the Midwest, Mountain West and southern United States through independent marketing consultants; and
- Final expense and limited liability property policies to middle and lower income households in Louisiana, Arkansas and Mississippi through employee and independent agents in our home service distribution channel and funeral homes.

We were formed in 1969 and historically, our Company has experienced growth through acquisitions in the domestic market and through organic market expansion in the international market. We strive to generate bottom line returns using knowledge of our niche markets and our well-established distribution channels.

Strategic Initiatives

The Company's Board of Directors and new executive management team are continuing their assessment of the Company's domestic and international business models and business strategies with the assistance and support of external consultants and advisors. Our strategic realignment of the Company's international business model is ongoing under the leadership of our CEO, Chief Legal Officer and Chief Marketing Officer. Specifically, we are focused on (1) new products and our profitability in both the domestic and international markets of our Life Segment as well as our Homes Service Segment; (2) a potential restructuring of our international business and operations which may include withdrawals from certain markets; (3) a strategic modernization and upgrade from our legacy technology systems and IT operations with a focus on digitization, our future business needs and cyber risk; (4) effectively operating our international life insurance business offshore in Bermuda through CICA Ltd.; and (5) assessing and optimizing our investment portfolio strategy.

As a result of the Company’s strategic review of its international business model, the Company announced in April 2018 that it had decided to discontinue accepting life insurance applications from Brazilian residents or citizens. Although the financial impact of this change is uncertain, the Company does not currently anticipate the impact of withdrawal in this single market to be material since less than 6% of premiums and less than 1% of the Company's inforce policies stem from applications underwritten on Brazilian residents or citizens as of December 31, 2017. The Company is continuing to assess the financial impacts of this change and has no further update as of September 30, 2018. The Company intends to continue fulfilling commitments under existing policies and to refocus its resources on other more attractive potential markets, products and opportunities.

In another step forward to execute our strategic initiatives, the Company recently completed a novation of all of the international policies issued by CICA to CICA Ltd., effective July 1, 2018. As previously disclosed, Bermuda was chosen for its strong regulatory environment and suitability with the Company's priorities to protect our customers. We expect to operate our international business exclusively from this entity going forward. As the Company continues its strategic review, it may make further changes to its business model in the future.

As expected, the implementation of these international business model changes, while necessary for compliance and strategic reasons, is disrupting our international markets, resulting in declining initial policy applications and corresponding premiums in certain countries. The pace, extent and ultimate impact of these disruptions are not yet clear. The markets may stabilize over the long term after a period of transition, or the Company's legacy business model may be undergoing a fundamental shift. We are actively monitoring quantitative changes in sales patterns as well as qualitative feedback from our independent sales consultants and policyholders to identify and analyze longer term business trends, while simultaneously exploring opportunities to mitigate negative impacts and put the Company on a path to profitable growth.

As a result of the Company's strategic review of its technology systems, the Company has implemented technology improvements to support its ongoing operations and initiatives. During the third quarter of 2018, the Company completed the implementation of a new Oracle Enterprise Resource Planning ("ERP") application, which replaced several of the Company's back office legacy systems, such as the general ledger, accounts payable, cash management, and fixed asset systems. The introduction of this new ERP application and the related workflow changes resulted in certain changes to the Company's financial reporting controls and procedures. These system changes were undertaken to standardize accounting systems, improve management reporting and consolidate accounting functions for the Company and its subsidiaries. In addition, the Company also implemented a new actuarial valuation and modeling system, GGY AXIS, as of July 1, 2018 for CICA and CICA Ltd. actuarial reporting to provide enhanced modeling capabilities. This implementation also resulted in changes to our financial reporting controls and procedures during the current period.

The following pages describe the operations of our two business segments: Life Insurance and Home Service. Revenues derived from any single customer did not exceed 10% of consolidated revenues in any of the last three years.

Current Financial Highlights

Financial highlights for the three and nine month periods ended September 30, 2018, compared to the same periods in 2017 were:

- Insurance premiums totaling $47.4 million and $137.6 million for the three and nine month periods ended September 30, 2018, respectively, were down from $50.2 million and $143.4 million for the corresponding periods in 2017, a decrease of 5.6% and 4.0%, respectively, driven by declines in first year and renewal premiums in our Life segment.
- Net investment income decreased 1.7% and increased 3.9% for the three and nine month periods ended September 30, 2018, respectively, compared to the corresponding periods in 2017. The decrease for the three months ended September 30, 2018 is due to a decline in make-whole calls in the three months ended September 30, 2018 than we experienced in 2017 (which resulted in less net income from the make-whole premiums in 2018) while the increase for the nine months ended September 30, 2018 is due to a growing asset base from cash flows from our insurance operations. The average yield on the consolidated portfolio as of the nine months ended September 30, 2018 was an annualized rate of 4.29% compared to 4.31% for the same period in 2017.
- We recorded realized gains of $156,000 and losses of $232,000 for the three and nine months periods ended September 30, 2018, respectively, due to fair value changes related to equity securities still owned at September 30, 2018. In addition, we recorded realized losses of $551,000 and $776,000 for the three and nine month periods ended

September 30, 2018 related to securities in an unrealized loss position which we do not intend to hold until recovery of value and a write-down on a single issuer. The Company recorded a gain of $1.1 million in the first quarter of 2017 on the sale of an office building in Little Rock, Arkansas.

- Claims and surrenders expense increased 16.9% and 7.6% for the three and nine month periods ended September 30, 2018, respectively, compared to corresponding periods in 2017 due primarily to an increase in matured endowments in the life segment.
- General expenses increased 71.0% and 24.7% for the three and nine month period ended September 30, 2018, respectively, compared to the corresponding periods in 2017, due primarily to increased audit related costs and $1.8 million of additional costs added to the 7702 tax liability in the three months ended September 30, 2018. We reported a decrease of expenses in the nine months ended September 30, 2018 totaling $3.6 million related to our 7702/72(s) tax compliance best estimate

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liability from the estimate at year end 2017 amount as we continue to refine our estimates and prepare to submit offers to enter into closing agreements with the IRS related to these matters. We also have additional costs reported in the nine months ended September 30, 2018 from internal and external audit fees and higher permanent salaries related to executive officers hired in 2017. These higher expenses are offset partially by the 7702/72(s) items as noted.

- Tax expense increased as our effective tax rate was 528.7% and 1.2% for the nine months ended September 30, 2018 and 2017, respectively. CICA Ltd., a wholly owned subsidiary of Citizens, is considered a controlled foreign corporation for federal tax purposes and CICA Ltd.'s activity gives rise to taxable income in the U.S. as Sub Part F Income. As of September 30, 2018, the Subpart F income inclusion generated $18.7 million of federal income tax expense, which impacted the current tax rate. Differences between our effective tax rate and the statutory tax rate result from income and expense items that are treated differently for financial reporting and tax purposes, as well as impacts from our tax compliance issues and uncertain tax positions. See Note 9 - Income Taxes in the consolidated financial statements for further discussion.

Our Operating Segments

Our business is comprised of two operating business segments, as detailed below.

- Life Insurance
- Home Service Insurance

Our insurance operations are the primary focus of the Company, as those operations generate the majority of our income. See the discussion under Segment Operations for detailed analysis. The amount of insurance, number of policies, and average face amounts of ordinary life policies issued during the periods indicated are shown below.

	Nine Months Ended September 30,					
	2018			2017		
	Amount of Insurance Issued	Number of Policies Issued	Average Policy Face Amount Issued	Amount of Insurance Issued	Number of Policies Issued	Average Policy Face Amount Issued
Life	$169,392,236	2,797	$60,562	$219,592,550	3,988	$55,063
Home Service	134,494,004	19,054	7,059	141,400,866	20,795	6,800

The number of policies issued has decreased 29.9% and 8.4% for the life and home service segments for the nine months ended September 30, 2018, respectively, compared to the same periods in 2017. We believe that the decline in new business applications in our life segment is driven by several factors but primarily the political instability in Venezuela, uncertainty around the novation to Bermuda, ceasing sales in Brazil, and slower acceptance of the new product set that was repriced and submitted to the market beginning in 2017. While the number of policies issued has declined in the home service segment during 2018, the average face amount issued has increased, which results in overall premium income not declining at the same rate as policy issuances.

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Note: All discussions below compare or state results for the three and nine month periods ended September 30, 2018 compared to the three and nine month periods ended September 30, 2017.

Consolidated Results of Operations

A discussion of consolidated results is presented below, followed by a discussion of segment operations and financial results by segment.

Revenues

Revenues are generated primarily by insurance premiums and investment income on invested assets.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Revenues:				
Premiums:				
Life insurance	$45,898	48,644	133,058	138,603
Accident and health insurance	323	360	915	1,033
Property insurance	1,208	1,243	3,615	3,731
Net investment income	13,587	13,828	41,169	39,640
Realized investment gains (losses), net	(498)	(404)	(1,251)	742
Other income	643	660	930	1,015
Total revenues	$61,161	64,331	178,436	184,764

Premium Income. Premium income derived from life, accident and health, and property insurance sales decreased 5.6% and 4.0% for the three and nine month periods ended September 30, 2018, respectively. compared to the same periods in 2017. The decrease is driven primarily by a decrease in first year and renewal premiums in our Life Segment. See the detail distribution of premiums within Segment Operations discussion below.

Net Investment Income. Net investment income performance is summarized as follows.

	September 30, 2018	December 31, 2017	September 30, 2017
	(In thousands, except for %)		
Net investment income, annualized	$54,892	53,146	52,853
Average invested assets, at amortized cost	1,280,592	1,233,580	1,225,187
Annualized yield on average invested assets	4.29 %	4.31 %	4.31 %

The annualized yield has decreased during the third quarter of 2018 compared to the same periods in 2017 due to the decrease in investment income as make-whole calls declined compared to prior year. These calls resulted in $427,000 of additional net income in 2017 compared to $141,000 in 2018. A make-whole call provision in the bond instruments allows the borrower to pay off the debt early and this option was elected by borrowers on some of our bond issues as noted.

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Investment income from debt securities accounted for approximately 86.9% of total investment income for the nine months ended September 30, 2018.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Gross investment income:				
Fixed maturity securities	$11,792	12,466	36,773	35,879
Equity securities	143	154	471	521
Mortgage loans	3	3	9	8
Policy loans	1,544	1,454	4,600	4,242
Long-term investments	3	—	3	66
Other investment income	380	20	470	44
Total investment income	13,865	14,097	42,326	40,760
Investment expenses	(278)	(269)	(1,157)	(1,120)
Net investment income	$13,587	13,828	41,169	39,640

Fixed maturity securities accounted for the majority of the increase in investment income and the decrease in consolidated investment yield from 4.31% at December 31, 2017 to 4.29% at September 30, 2018. We noted a decrease in income from our fixed maturity securities which was mainly due to the decline in the level of make-whole calls we had experienced in 2017. This decreased investment income by approximately $400,000 and $300,000 for the three and nine months ended September 30, 2018, respectively, compared to the corresponding periods in 2017. During the quarter, we held a higher amount of assets in cash equivalents as part of the novation settlement accounting for approximately $20.0 million which decreased the investment income for the current quarter related to fixed maturity securities. These funds have been reinvested into fixed maturities subsequent to September 30, 2018. In addition, the increase in policy loans, which represents policyholders utilizing their accumulated policy cash value, contributed to the increase in investment income.

Realized Investment Gains (Losses), Net. Realized net losses in the three and nine months ended September 30, 2018 were related to realized losses on equity securities adjustments to fair value of $231,000 for the nine months ended September 30, 2018. Losses were recorded totaling $551,000 and $776,000 in the three and nine months ended September 30, 2018 due to recording losses on securities that we do not intend to hold until recovery in value and one bond issuer impairment due to credit concerns. A realized gain was recorded for the nine month period ended September 30, 2017 resulting from a $1.1 million gain on the sale of an office building in Little Rock, Arkansas. One other-than-temporary impairment was recorded on a common stock equity security in 2017 of $17,000.

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Benefits and Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	$25,076	21,454	66,844	62,130
Increase in future policy benefit reserves	1,653	19,597	32,816	51,953
Policyholders' dividends	1,595	1,613	4,516	4,418
Total insurance benefits paid or provided	28,324	42,664	104,176	118,501
Commissions	8,656	10,801	26,284	30,620
Other general expenses	12,402	7,254	33,375	26,765
Capitalization of deferred policy acquisition costs	(5,561)	(7,756)	(17,164)	(21,540)
Amortization of deferred policy acquisition costs	11,412	7,623	26,218	22,640
Amortization of cost of customer relationships acquired	366	635	1,517	1,629
Total benefits and expenses	$55,599	61,221	174,406	178,615

Claims and Surrenders. A detail of claims and surrender benefits is provided below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Death claims	$6,031	6,128	17,742	17,441
Surrender benefits	11,078	9,448	29,612	27,933
Endowments	3,313	3,969	9,819	11,148
Matured endowments				