NATIONAL WESTERN LIFE INSURANCE CO
Form 10-K
March 16, 2009

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2008

o 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: 2-17039

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Exact name of Registrant as specified in its charter)

COLORADO	84-0467208
(State of Incorporation)	(I.R.S. Employer Identification Number)

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

(512) 836-1010
(Telephone Number)

Securities registered pursuant to Section 12 (b) of the Act:
None

Securities registered pursuant to Section 12 (g) of the Act:
None
(Title of Class)

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

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

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

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the common stock (based upon the closing price) held by non-affiliates of the Registrant on June 30, 2008 was $748,573,529.

As of March 12, 2009, the number of shares of Registrant's common stock outstanding was: Class A – 3,425,966 and Class B - 200,000.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. BUSINESS

General

National Western Life Insurance Company (hereinafter referred to as "National Western", "Company", or "Registrant") is a stock life insurance company, chartered in the State of Colorado in 1956, and doing business in forty-nine states, the District of Columbia, and four U.S. territories or possessions. National Western is also licensed in Haiti, and although not otherwise licensed, accepts applications from and issues policies to residents of various countries in Central and South America, the Caribbean, the Pacific Rim, Eastern Europe and Asia. Such policies are underwritten, accepted, and issued in the United States upon applications submitted by independent contractors. The Company provides life insurance products for the savings and protection needs of approximately 148,000 policyholders and for the asset accumulation and retirement needs of 117,000 annuity contractholders.

In 2008, the Company's total assets remained at $6.8 billion at December 31, 2008, the same level as December 31, 2007. The Company generated revenues of $411.1 million, $474.5 million, and $521.9 million in 2008, 2007, and 2006, respectively. In addition, National Western generated net income of $33.6 million, $85.4 million, and $76.3 million in 2008, 2007, and 2006, respectively.

The Company's financial information, including information in this report filed on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to the above reports, are accessible free of charge through the Company's Internet site at www.nationalwesternlife.com or may be viewed at the United States Securities and Exchange Commission ("SEC") Public Reference Room in Washington, D.C. or at the SEC's Internet site at www.sec.gov.

Products

National Western offers a broad portfolio of individual whole life, universal life and term insurance plans, and annuities, including supplementary riders.

Life Products. The Company's life products provide protection for the life of the insured and, in some cases, allow for cash value accumulation on a tax-deferred basis. These product offerings include universal life insurance ("UL"), interest-sensitive whole life, and traditional products such as term insurance coverage. Interest sensitive products such as UL accept premiums that are applied to an account value. Deducted from the account value are cost of insurance charges which vary by age, gender, plan, and class of insurance, as well as various expense charges. Interest is credited to account values at a fixed interest rate generally determined in advance and guaranteed for a policy year at a time, subject to minimum guaranteed rates specified in the policy contract. A slight variation to this general interest crediting practice involves equity-indexed universal life ("EIUL") policies whose credited interest may be linked in part to an outside index such as the S&P 500® Composite Stock Price Index ("S&P 500 Index®") at the election of the policyholder. These products offer both flexible and fixed premium modes and provide policyholders with flexibility in the available coverage, the timing and amount of premium payments and the amount of the death benefit, provided there are sufficient policy funds to cover all policy charges for the coming year. Traditional products generally provide for a fixed death benefit payable in exchange for regular premium payments.

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

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Distributions of the Company's direct premium revenues and deposits by product type are provided below.

		Years Ended December 31,	
	2008	2007	2006
		(In thousands)	
Annuities:			
Single premium deferred	$ 4,417	3,808	8,216
Flexible premium deferred	116,902	112,472	163,415
Fixed indexed deferred	281,649	316,848	303,613
Single premium immediate	7,165	4,637	10,750
Total annuities	410,133	437,765	485,994
Universal life insurance	170,933	168,279	146,742
Traditional life and other	20,698	22,310	18,046
Total direct premiums and deposits collected	$ 601,764	628,354	650,782

Operating Segments

The Company manages its business between Domestic Insurance Operations and International Insurance Operations. For segment reporting purposes, the Company's annuity business, which is predominantly domestic, is separately identified.

Domestic Insurance Operations. The Company is currently licensed to do business in all states and the District of Columbia, except for New York. Products marketed are annuities, universal life insurance, and traditional life insurance, which include both term and whole life products. The majority of domestic sales are the Company's annuities. National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMO"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company's agents are independent contractors who are compensated on a commission basis. At December 31, 2008, the Company's NMO relationships had contracted approximately 4,300 independent agents with the Company. Over 31% of these contracted agents submitted policy applications to the Company in the past twelve months.

International Insurance Operations. National Western's international operations generally focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, the Pacific Rim, Eastern Europe, and Asia. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain annuity and investment contracts are also available. At December 31, 2008, the Company had 74,860 international life insurance policies in force representing nearly $15.9 billion in face amount of coverage.

International applications are submitted by independent contractors, consultants and broker-agents, many of whom have been submitting policy applications to National Western for 20 or more years. The Company had relationships with approximately 4,800 independent international individuals at December 31, 2008, nearly 45% of which submitted policy applications to the Company in the past twelve months.

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

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

		Years Ended December 31,	
	2008	2007	2006
		(In thousands)	
United States domestic products:			
Annuities	$ 398,312	421,497	475,867
Life insurance	59,412	57,770	35,780
Total domestic products	457,724	479,267	511,647
International products:			
Annuities	11,821	16,268	10,127
Life insurance	132,219	132,819	129,008
Total international products	144,040	149,087	139,135
Total direct premiums and deposits collected	$ 601,764	628,354	650,782

Although many agents sell National Western's products, the Company's annuity sales in any year typically reflect one or two NMOs whose agents sold 10% or more of the Company's total annuity sales. In 2008, there was just one NMO who accounted for more than 10% of the Company's annuity sales with 23.3% of the total annuity sales. Similarly, domestic life insurance sales in any year may include one or two NMOs who accounted for 10% or more of total domestic life insurance sales. In 2008, there were three NMOs who generated 27.6%, 21.2% and 15.2%, respectively, of total domestic life insurance sales. The NMO accounting for 21.2% of domestic life sales was also the same NMO who produced 23.3% of total annuity sales. With the independent distribution model the Company employs, the concentration of sales within a particular NMO is not as an acute concern as with other distribution channels given the underlying agents are free to contract with the Company through any NMO the Company has a relationship with. International life insurance sales are much more diversified by independent consultants and contractors and in 2008 were geographically attributed to Latin America (73%), the Pacific Rim (16%), and Eastern Europe (11%).

Segment Financial Information. A summary of financial information for the Company's segments is as follows:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Revenues, excluding realized gains (losses):					
2008	$ 48,193	115,073	252,511	21,530	437,307
2007	44,783	113,598	292,402	20,227	471,010
2006	43,222	106,613	350,665	18,697	519,197
Segment earnings: (A)					
2008	$ 717	15,350	27,842	6,781	50,690
2007	342	20,179	56,299	6,278	83,098
2006	297	12,191	56,559	5,566	74,613

Segment assets: (B)						
2008	$	397,413	842,119	5,369,920	127,189	6,736,641
2007		399,097	796,012	5,500,226	106,039	6,801,374
2006		381,490	715,064	5,467,733	103,087	6,667,374

Notes to Table:

(A) Amounts exclude realized gains and losses on investments, net of taxes.
(B) Amounts exclude other unallocated assets.

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Additional information concerning these industry segments is included in Note 13, Segment and Other Operating Information, of the accompanying consolidated financial statements.

Competition and Ratings

National Western competes with hundreds of life and health insurance company groups in the United States as well as other financial intermediaries such as banks and securities firms who market insurance products. Competitors in our international markets include Pan-American Life Insurance, American Fidelity Life Insurance, Manhattan Life Insurance Company and Best Meridian Insurance while domestic market competitors include, among others, American Equity Investment Life, Sammons Financial Group (Midland, NACOLAH), AVIVA, Allstate (Lincoln Benefit), Lincoln National Life, Equitrust Life Insurance Company and Old Mutual Financial Network (F&G). Competitive factors are primarily the breadth and quality of products offered, established positions in niche markets, pricing, relationships with distribution, commission structures, perceived stability of the insurer, quality of underwriting and customer service, scale and cost efficiency. Operating results of life insurers are subject to fluctuations not only from this competitive environment but also due to economic conditions, interest rate levels and changes, performance of investments, and the maintenance of strong insurance ratings from independent rating agencies.

In order to compete successfully, life insurers have turned their attention toward distribution, technology, defined end market targets, speed to the market in terms of product development, and customer relationship management as ways of gaining a competitive edge. The Company's management believes that it competes primarily on the basis of its longstanding reputation for commitment in serving international markets, its financial strength and stability, and its ability to attract and retain distribution based upon product and compensation.

Ratings with respect to financial strength are an important factor in establishing the competitive position of insurance companies. Financial strength ratings are generally defined as a rating agency’s opinion as to a company’s financial strength and ability to meet ongoing obligations to policyholders. Accordingly, ratings are important to maintaining public confidence and impact the ability to market products. The following summarizes the Company's financial strength ratings.

Rating Agency	Rating	Outlook
Standard & Poor's	A (Strong)	Stable
A.M. Best	A - (Excellent)	Positive

A.M. Best and Standard & Poor’s ratings are a consideration of the Company’s claims paying ability and are not a rating of the Company’s investment worthiness. The rating agencies formally review the Company's rating on an annual basis with interim analysis performed as necessary. The above ratings and outlooks were assigned during 2008 maintaining the stable outlook from Standard & Poor’s and positive outlook from A.M. Best assigned to the Company in 2007. This is particularly noteworthy given the financial crisis backdrop that framed the 2008 calendar year and the number of companies who were negatively impacted, often significantly, in this environment. The positive outlook from A.M. Best signifies the rating agency’s bias toward a rating upgrade sometime in the future. However, there is no assurance that the Company's ratings will continue for a certain period of time. In the event the Company's ratings are downgraded, the Company's business may be negatively impacted.

Risk Management

Similar to other insurers, the Company is exposed to a wide spectrum of financial, operational, and other risks as described in Item 1A “Risk Factors”. Effective enterprise risk management is a key concern for identifying, monitoring, measuring, communicating, and managing risks within limits and risk tolerances. The Company’s Board of Directors and senior management are knowledgeable of and accountable for key risks. The Board meets at least every other month and regularly hears reports from the President and Chief Operating Officer, the Chief Financial and Administrative Officer, the Chief Actuary, the Chief Investment Officer, and the Chief Compliance Officer. In addition, the Board has several committees which include the Audit Committee, the Investment Committee, and the Compensation and Stock Option Committee that regularly convene to address various aspects of risk.

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The Company also has several management groups and committees that meet regularly to discuss a variety of issues and risks associated with the business. These groups and committees include numerous areas such as regulatory compliance, fraud unit investigations, product spread management, and business strategy. Many key members of senior management are involved with these groups and committees providing direction and oversight.

The Company maintains a system of disclosure controls and procedures, including internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, executed and recorded. The Company recognizes the importance of full and open presentation of its financial position and operating results and to this end maintains a Disclosure Controls and Procedures Committee comprised of senior executives who possess comprehensive knowledge of the Company's business and operations. This Committee is responsible for evaluating disclosure controls and procedures and for the gathering, analyzing, and disclosing of information as required to be disclosed under the securities laws. It assists the Chief Executive Officer and Chief Financial Officer in their responsibilities of making the certifications required under the securities laws regarding the Company's disclosure controls and procedures. It ensures that material financial information is properly communicated up the Company's hierarchy to the appropriate person or persons and that all disclosures are made in a timely fashion. This Committee reports directly to the Audit Committee of the Company.

The Company's product designs, underwriting standards and risk management techniques are utilized to protect against disintermediation risk and greater than expected mortality and morbidity risk. Disintermediation risk is limited through the use of surrender charges, certain provisions not allowing discretionary withdrawals, and market value adjustment features. Investment guidelines including duration targets, asset allocation tolerances and return objectives help to ensure that disintermediation risk is managed within the constraints of profitability criteria. Prudent underwriting is applied to select and price insurance risks and the Company regularly monitors mortality experience relative to its product pricing assumptions. Enforcement of disciplined claims management serves to further protect against greater than expected mortality.

A significant aspect of the Company’s business is managing the linkage of its asset characteristics with the anticipated behavior of its policy obligations and liabilities, a process commonly referred to as asset-liability matching. The Company maintains an Asset-Liability Committee (“ALCO”) consisting of senior level members of the Company who assist and advise the Company’s Board of Directors in monitoring the level of risk the Company is exposed to in managing its assets and liabilities in order to attain the risk-return profile desired. Certain members of the ALCO meet as frequently as necessary, to review and recommend for board of director ratification, current period interest crediting rates to policyholders based upon existing and anticipated investment opportunities. These rates apply to new sales and to products after an initial guaranteed period, if applicable. Rates are established after the initial guaranteed period based upon asset portfolio yields and each product’s required interest spread, taking into consideration current competitive market conditions.

Substantially all international products contain a currency clause stating that premium and claim "dollars" refer to lawful currency of the United States. Policy applications submitted by international insurance brokers are generally associated with individuals in upper socioeconomic classes who desire the stability and inflationary hedge of dollar denominated insurance products issued by the Company. The favorable demographics of this group typically results in a higher average policy size, and persistency and claims experience (from natural causes) similar to that in the United States. By accepting applications submitted on residents outside the United States, the Company is able to further diversify its revenue, earnings, and insurance risk.

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Reinsurance

The Company follows the industry practice of reinsuring (ceding) portions of its insurance risks with a variety of reinsurance companies. We do not use financial or surplus relief reinsurance. The use of reinsurance allows the Company to underwrite policies larger than the risk it is willing to retain on any single life and to continue writing a larger volume of new business. The maximum amount of life insurance the Company normally retains is $250,000 on any one life subject to a minimum reinsurance session of $50,000. However, the use of reinsurance does not relieve the Company of its primary liability to pay the full amount of the insurance benefit in the event of the failure of a reinsurer to honor its contractual obligation. Consequently, the Company avoids concentrating reinsurance risk with any one reinsurer and only participates in reinsurance treaties with reputable carriers. No reinsurer of business ceded by the Company has failed to pay policy claims (individually or in the aggregate) with respect to our ceded business. The Company continuously monitors the financial strength of our reinsurers and has been able to obtain replacement coverages from financially responsible reinsurers when making changes. The Company's primary reinsurers as of December 31, 2008 were as follows.

Reinsurer	A.M. Best Rating	Amount of In Force Ceded ($000's)
Hannover Life Reassurance Company	A	$ 1,572,315
SCOR Rueckversicherung (Cologne)	A-	1,266,975
Transamerica Life Insurance Company	A+	1,191,601
SCOR Global Life (Paris)	A-	897,274
Mapfre Re (Madrid)	A+	440,512
All others		492,954
		$ 5,861,631

Regulatory and Other Issues

Regulation. The Company's insurance business is subject to comprehensive state regulation in each of the states it is licensed to conduct business. The laws enforced by the various state insurance departments provide broad administrative powers with respect to licensing to transact business, licensing and appointing agents, approving policy forms, regulating unfair trade and claims practices, establishing solvency standards, fixing minimum interest rates for the accumulation of surrender values, and regulating the type, amounts, and valuations of permitted investments, among other things. The Company is required to file detailed annual statements with each of the state insurance supervisory departments in which it does business. Annually, our board-appointed qualified actuary must submit an opinion to state insurance regulators where the Company is licensed to do business on whether the statutory assets held backing the statutory reserves are sufficient to meet contractual obligations and related expenses of the insurer. The Company's operations and financial records are subject to examination by these departments at regular intervals. Statutory financial statements are prepared in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance, the Company's principal insurance regulator. Prescribed statutory accounting practices are largely dictated by the Statutory Accounting Principles adopted by the National Association of Insurance

Commissioners ("NAIC").

The NAIC, as well as state regulators, continually evaluates existing laws and regulations pertaining to the operations of life insurers. To the extent that initiatives result as a part of this process, they may be adopted in the various states in which the Company is licensed to do business. It is not possible to predict the ultimate content and timing of new statutes and regulations adopted by state insurance departments and the related impact upon the Company's operations although it is conceivable that they may be more restrictive.

Although the federal government does not directly regulate the life insurance industry, federal measures previously considered or enacted by Congress, if revisited, could affect the insurance industry and the Company's business. These measures include the tax treatment of life insurance companies and life insurance products, as well as changes in individual income tax structures and rates. Even though the ultimate impact of any of these changes, if implemented, is uncertain, the persistency of the Company's existing products and the ability to sell products could be materially affected.

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Risk-Based Capital Requirements. In order to enhance the regulation of insurer solvency, the NAIC established risk-based capital ("RBC") requirements to help state regulators monitor the financial strength and stability of life insurers by identifying those companies that may be inadequately capitalized. Under the NAIC's requirements, each insurer must maintain its total capital above a calculated threshold or take corrective measures to achieve the threshold. The threshold of adequate capital is based on a formula that takes into account the amount of risk each company faces on its products and investments. The RBC formula takes into consideration four major areas of risk which are: (i) asset risk which primarily focuses on the quality of investments; (ii) insurance risk which encompasses mortality and morbidity risk; (iii) interest rate risk which involves asset-liability matching issues; and (iv) other business risks. For each category, the RBC requirements are determined by applying specified factors to various assets, premiums, reserves, and other items, with the factor being higher for items with greater underlying risk and lower for items with less risk. The standards require life insurers to submit a report to state regulators on an annual basis regarding their risk-based capital. The Company's statutory capital and surplus at December 31, 2008, was significantly in excess of the threshold RBC requirements.

Effects of Inflation. The rate of inflation as measured by the change in the average consumer price index has not had a material effect on the revenues or operating results of the Company during the three most recent fiscal years.

Employees. The Company had 296 employees as of December 31, 2008 substantially all of which worked in the Company’s home office in Austin, Texas. None of the employees are subject to collective bargaining agreements governing their employment with the Company.

ITEM 1A. RISK FACTORS

Company performance is subject to varying risk factors. This section provides an overview of possible risk exposures at this point in time that could impact Company performance in the future. While these scenarios do not represent expectations of future experience, they are intended to illustrate the potential impacts if any of the following risks were to manifest into actual occurrences.

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

The Company’s results of operations are materially affected by economic conditions both in the U.S. and elsewhere around the world. The stress experienced by financial markets that began in the second half of 2007 continued and substantially increased throughout 2008. Volatility and disruption in the financial markets reached unfamiliar levels such that the availability and cost of credit has been materially impacted. When combined with a declining real estate market, volatile oil prices, sinking business and consumer confidence, rising unemployment, and falling equity market values it has precipitated a severe recession. The market for fixed income securities has experienced decreased liquidity, increased price volatility, credit downgrades, and an increasing probability of default. Consequently, these securities are less liquid, more difficult to value, and may be harder to dispose of if situations dictate. These events have had an adverse effect on the value of our investment portfolio and may continue to do so in the event of a prolonged economic downturn.

Demand for our products and ultimately the profitability of our business may be adversely affected by such factors as lower consumer spending, negative investor sentiment, higher unemployment, lower corporate earnings, falling consumer confidence, and ongoing volatility in capital markets. We may also experience a higher incidence of claims, lapses or surrenders of policies. Our policyholders may opt to defer or stop paying insurance premiums. Adverse changes as detailed above could negatively affect our net income and have a material effect on our business, results of operations and financial condition.

The recent actions taken by the U.S. government, Federal Reserve and other governmental and regulatory bodies to stabilize the financial markets may not have the intended effect.

The federal government, Federal Reserve and other governmental and regulatory bodies, in light of the ongoing financial and economic crisis, have taken and are considering taking actions to address the current plight. There can be no assurances as to the near-term and ultimate impact these actions will have on the economy and financial markets, especially the extreme volatility levels currently being experienced. Continued volatility could materially and adversely affect our business, financial condition and results of operations, or the trading price of our Class A common shares.

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

The Company substantially invests monies received in investment grade, fixed income investment securities in order to meet its obligations to policyholders and provide a return on its deployed capital. Consequently, we are subject to the risk that issuers of these securities may default on principal and interest payments, particularly in the event of an ongoing downturn in the economic and/or business climate. At December 31, 2008, approximately 1% of the Company's $5.6 billion fixed income securities portfolio was comprised of issuers who were investment grade at the time the Company acquired them but were subsequently downgraded for various reasons. A substantial increase in defaults from these or other issuers could negatively impact the Company's financial position and results.

For the Company's fixed-indexed products, over the counter derivative instruments are purchased from a number of highly rated counterparties to fund the index credit to policyholders. In the event that any of these counterparties fails to meet their contractual obligations under these derivative instruments, the Company would be financially at risk for providing the credits due that the counterparty reneged on. The failure of the counterparty to perform could negatively impact the Company's financial position and results.

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

The determination of whether to impair an investment is based upon our evaluation of known and inherent risks which we revise as conditions change and new information becomes available. During periods of market disruption and volatility, it becomes more difficult to evaluate securities particularly if trading becomes less frequent or market data becomes less observable. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. We also consider a wide range of factors about security issuers in evaluating the cause of a decline in the estimated fair value of a security and in assessing the prospects for recovery. The decision on whether to record an other-than-temporary impairment is determined by our assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability as well as our ability and intent to hold the securities to recovery or maturity. There can be no assurance that we have accurately assessed the level of impairments in our financial statements or that additional impairments may not need to be taken in the future.

We are subject to changing interest rates, market volatility, and general economic conditions which may affect the risk and returns on both our investment portfolio and our products.

We are exposed to significant capital market risk related to changes in interest rates. Substantial and sustained changes, up or down, in market interest rate levels can materially affect the profitability of our products, the market value of our investments, and ultimately the reported amount of stockholders' equity.

A rise in interest rates will increase the net unrealized loss position of our investment portfolio and may subject the Company to disintermediation risk. Disintermediation risk is the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring the Company to liquidate investments in an unrealized loss position (i.e. the market value less than the carrying value of the investments). With respect to fixed income security investments the Company maintains in an "Available for Sale" category, rising interest rates will cause declines in the market value of these securities. These declines are reported in our financial statements as an unrealized investment loss and a reduction of stockholders' equity.

There may be occasions, especially in the current climate, where the Company could encounter difficulty selling some of its investments due to a lack of liquidity in the marketplace. If the Company required significant amounts of cash on short notice during such a period, it may have difficulty selling investments at attractive prices, in a timely manner or both.

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A decline in interest rates could expose the Company to reduced profitability due to minimum interest rate guarantees that are required in our products by regulation. A key component of profitability is investment spread, or the difference between the yield on our investments and the rates we credit to policyholders on our products. A narrowing of investment spreads could negatively affect operating results. Although the Company has the ability to adjust the rates credited on products in order to maintain our required investment spread, a significant decline in interest rate levels could affect investment yields to the point where the investment spread is compromised due to minimum interest rate guarantees. In addition, the potential for increased policy surrenders and cash withdrawals, competitor activities, and other factors could further limit the Company's ability to maintain crediting rates on its products at levels necessary to avoid sacrificing investment spread.

The profitability of the Company's fixed-indexed products linked in part to market indices is significantly affected by the cost of underlying call options purchased to fund the credits owed to contract holders selecting this form of interest crediting. If there are little or no gains on the call options purchased over the expected life of these fixed-indexed products, the Company would incur expenses for credited interest over and above the option costs. In addition, if the Company does not successfully match the terms of the underlying call options purchased with the terms of the fixed-indexed products, the index credits could exceed call option proceeds. This would serve to reduce the Company's spread on the products and decrease profits.

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

The Company distributes its life and annuity products through independent broker-agents. There is substantial competition, particularly in the Company's domestic market, for independent broker-agents with the demonstrated ability to market and sell insurance products. Competition for these individuals or organizations typically centers on products, compensation, home office support and the insurer's financial strength ratings. The Company's future sales and financial condition are dependent upon avoiding significant interruptions in attracting and retaining independent broker-agents.

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

Financial strength ratings are an important criteria in establishing the competitive position of insurers. Ratings generally reflect the rating agencies' view of a particular company's financial strength, operating performance, and ability to meet its obligations to policyholders. However, some of the rating factors often relate to the particular views of the rating agency, their independent economic modeling, the general economic climate, and other circumstances outside of the insurer's control. Accordingly, we cannot predict with any certainty what actions rating agencies may take. A downgrade in our financial strength rating, or an announced potential downgrade, could affect our competitive position and make it more difficult to market our products vis-à-vis competitors with higher financial strength ratings. In extreme situations, a significant downgrade action by one or more rating agency could induce existing policyholders to cancel their policies and withdraw funds from the Company. These events could have a material adverse effect on our financial position and liquidity.

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

In recent years, there has been considerable consolidation among companies in the insurance and financial sectors resulting in large, well-capitalized entities that offer products comparable to the Company. Frequently, these larger organizations are not domiciled in the United States or are financial services entities attempting to establish a position in the insurance industry. These larger competitors often enjoy economies of scale which produce lower operating costs and the wherewithal to absorb greater risk allowing them to price products more competitively and, in turn, attract independent distributors. Consequently, the Company may encounter additional product pricing pressures and be challenged to maintain profit margin targets and profitability criteria. Because of these competitive presences, the Company may not be able to effectively compete without negative affects on our financial position and results.

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We are subject to regulation and changes to existing laws that may affect our profitability or means of operations.

The Company is subject to extensive laws and regulations which are complex and subject to change. In addition, these laws and regulations are enforced by a number of different authorities including, but not limited to, state insurance regulators, the Securities and Exchange Commission, state attorney generals, and the U.S. Department of Justice. Compliance with these laws and regulations is time consuming and any changes may materially increase our compliance costs and other expenses of doing business. The regulatory framework at the state and, increasingly, federal level pertaining to insurance products and practices is advancing and could affect not only the design of our products but our ability to continue to sell certain products.

Life insurer products generally offer tax advantages to policyholders via the deferral of income tax on policy earnings during the accumulation phase of the product, be it an annuity or a life insurance product. Taxes, if any, are payable on income attributable to a distribution under a policy/contract for the year in which the distribution is made. Periodically, Congress has considered legislation that would reduce or eliminate this tax deferral advantage inherent to the life insurance industry and subject the industry's products to treatment more equivalent with other investments. In the event that the tax-deferred status of life insurance products is revised or reduced by Congress all life insurers would be adversely impacted.

In January 2009, the SEC published its newly adopted rule 151A, Indexed Annuities and Certain Other Insurance Contracts. This rule defines "indexed annuities to be securities and thus subject to regulation by the SEC and under federal securities laws". Currently indexed annuities sold by life insurance companies are regulated by the States as Insurance products and Section 3(a)(8) of the Securities Act of 1933 provides an exemption for certain "annuity contracts," "optional annuity contracts," and other insurance contracts. The new rule is not effective until January 12, 2011. The Company and others have filed suit in the U. S. Court of Appeals for the District of Columbia to overturn this rule. In the event rule 151A is not overturned, it could have a material effect on our business, results of operations and financial condition.

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

In the ordinary course of business, we are involved in various legal actions common to the life insurance industry, some of which may occasionally assert claims for large amounts. These actions, for example, could include allegations of improper sales practices in connection with the sale of life insurance or bad faith in the handling of insurance claims. While at this time we are not a party to any lawsuit that we believe will have a material adverse effect on our financial position or operations, given the inherent unpredictability of litigation, there can be no assurance that such litigation, current or in the future, will not have such a material adverse effect on the Company's results of operation or cash flows in any particular reporting period.

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

The Company cedes material amounts of insurance to other unaffiliated insurance companies through reinsurance. However, these reinsurance arrangements do not fully discharge the Company's obligation to pay benefits on the reinsured business. If a reinsurer fails to meet its obligations, the Company would be forced to cover these claims. In addition, if a reinsurer becomes insolvent, it may cause the Company to lose its reserve credits on the ceded business which require the establishment of additional reserves. To mitigate the risks associated with the use of reinsurance, the Company carefully monitors the ratings and financial condition of its reinsurers on a regular basis and attempts to avoid concentration of credit risks in order to diversify its risk exposure.

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

The Company's earnings are significantly influenced by policy claims received and will vary from period to period depending upon the amount of claims incurred. In any given quarter or year, there is very limited predictability of claims experience. The liability established for future policy benefits is based upon a number of different factors. In the event our future claim experience does not match our past results or pricing assumptions, our operating results could be materially and adversely affected.

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

Deferred policy acquisition costs (and deferred sales inducement amounts) are calculated using a number of assumptions related to policy persistency, mortality and interest rates. They represent costs that vary with and are primarily related to the acquisition of new insurance and annuity contracts. Amortization of deferred policy acquisition expenses is dependent upon actual and expected profits generated by the lines of business that incurred the related expenses and they are amortized over the expected lives of the corresponding contracts. The deferred policy acquisition costs recorded on the balance sheet are tested to determine if they are recoverable under current assumptions. The estimates and assumptions used to amortize deferred policy acquisition costs proportional to expected gross profits are also regularly reviewed. Due to the uncertainty associated with establishing these assumptions, the Company cannot, with precision, determine the exact pattern of profit emergence. Increases in actual or future withdrawals or surrenders or investment losses, often associated with severe economic recessions, could result in an acceleration of amortization. Accordingly, actual results could differ from the related assumptions which could have a material and adverse impact on the Company's operating results.

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

The Company's business operations are technology dependent for maintaining accurate records, administering complex contract provisions, and complying with increasingly demanding regulation. While systems developments can streamline many processes and in the long term reduce the cost of doing business, these initiatives can present short-term cost and implementation risks. Projections of expenses, implementation time frames and the ultimate enhancement values may be different from expectations and escalate over time. The Company also faces rising costs and time constraints in meeting data security compliance requirements of new and proposed regulations. These increased risks and expanding requirements expose the Company to potential data loss and damages and significant increases in compliance and litigation costs.

The Company relies on its computer systems to conduct business and produce financial statements. While policies, procedures and back-up plans designed to prevent or minimize the effect of incapacity or failure are maintained, the Company's computer systems may be vulnerable to disruptions or breaches as a result of natural disasters, man-made disasters, criminal activity or other events beyond the Company's control. The failure or incapacity of any of the Company's computer systems could disrupt operations and adversely impact our profitability.

The Company retains confidential information on its systems, including customer information and proprietary business information. The increasing volume and sophistication of computer viruses, hackers and other external threats may increase the vulnerability of the Company's systems to data breaches. Any compromise of the security of the Company's technology systems that results in the disclosure of personally identifiable customer information could damage the Company's reputation, expose it to litigation, and result in significant technical, legal and other expenses.

Some of the Company's information technology systems are older legacy-type systems and require an ongoing commitment of resources to maintain current standards. These legacy systems are written in older programming languages with which fewer and fewer individuals are knowledgeable of and trained in. The Company's success is in large part dependent on maintaining and enhancing the effectiveness of existing legacy systems and failure of these systems for any reason could disrupt our operations, result in the loss of business and adversely impact our profitability.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Westcap Corporation, a wholly owned subsidiary, owns the Company's principal office location in Austin, Texas and two buildings adjacent to it, totaling approximately 93,000 square feet that are leased and utilized by the Company. The Company's affiliate, Regent Care Building, Limited Partnership, owns a 65,000 square foot building in Reno, Nevada, which is leased and utilized by another of the Company's affiliates, Regent Care Operations, Limited Partnership, for use in its nursing home operations. The Company's subsidiary Regent Care San Marcos Holdings, LLC completed construction of a 74,000 square foot building in San Marcos, Texas that will be utilized in nursing home operations beginning in 2009. Lease costs and related operating expenses for facilities of the Company's subsidiaries are currently not significant in relation to the Company's consolidated financial statements. The intercompany lease costs related to The Westcap Corporation and the nursing home have been eliminated for consolidated reporting purposes.

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in two class action lawsuits. In one case, the Court has certified a class consisting of certain California policyholders age 65 and older alleging violations under California Business and Professions Code section 17200. The Court has additionally certified a subclass of 36 policyholders alleging fraud against their agent, and vicariously, against the Company but it is expected that a motion for class certification will be filed in early 2009. A second class action lawsuit is in discovery with no class certification motion pending. Management believes that the Company has good and meritorious defenses and intends to continue to vigorously defend itself against these claims.

The Company is involved or may become involved in various other legal actions, in the normal course of business, in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from potential, pending, or threatened legal actions, will have a material adverse effect on the financial condition or operating results of the Company.

In January 2009, the SEC published its newly adopted rule 151A, Indexed Annuities and Certain Other Insurance Contracts. This rule defines "indexed annuities to be securities and thus subject to regulation by the SEC and under federal securities laws". Currently indexed annuities sold by life insurance companies are regulated by the States as Insurance products and Section 3(a)(8) of the Securities Act of 1933 provides an exemption for certain "annuity contracts," "optional annuity contracts," and other insurance contracts. The new rule is not effective until January 12, 2011. The Company and others have filed suit in the U. S. Court of Appeals for the District of Columbia to overturn this rule. In the event rule 151A is not overturned, it could have a material effect on our business, results of operations and financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 2008.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The principal market on which the Class A common stock of the Company trades is The NASDAQ Stock Market® under the symbol "NWLI". The high and low sales prices for the Class A common stock for each quarter during the last two years are shown in the following table.

			High	Low
2008:	First Quarter	$	221.67	173.55
	Second Quarter		259.97	199.00
	Third Quarter		258.46	193.20
	Fourth Quarter		275.00	111.06
2007:	First Quarter	$	235.25	223.05
	Second Quarter		271.60	249.05
	Third Quarter		268.00	228.56
	Fourth Quarter		246.95	199.53

Equity Security Holders

The number of stockholders of record on March 12, 2009 was as follows:

Class A Common Stock	4,390
Class B Common Stock	2

Dividends

During 2008, the Company paid cash dividends on its Class A and Class B common stock in the amounts of $1,233,348 and $36,000, respectively. During 2007, the Company paid cash dividends on its Class A and Class B common stock in the amounts of $1,232,037 and $36,000, respectively. Payment of dividends is within the discretion of the Company's Board of Directors. The Company's general policy is to reinvest earnings internally to finance the development of new business.

Securities Authorized For Issuance Under Equity Compensation Plans

The Company has two equity compensation plans that were approved by security holders. Under the two plans, a total of 105,812 shares of the Company's Class A common stock may be issued upon exercise of the outstanding options at December 31, 2008. The weighted average exercise price of the outstanding options is $174.33 per option. Excluding the outstanding options, 291,400 shares of the common stock remain available for future issuance under the plan at December 31, 2008. The Company's equity compensation plans have all been approved by security holders.

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Performance Graph

The following graph compares the change in the Company's cumulative total stockholder return on its common stock with the NASDAQ - U.S. Companies Index and the NASDAQ Insurance Stock Index. The graph assumes that the value of the Company's common stock and each index was $100 at December 31, 2003, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

Effective March 10, 2006, the Company adopted and implemented a limited stock buy-back program associated with the Company's 1995 Stock Option and Incentive Plan ("Plan") which provides Option Holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. Option Holders may elect to sell such acquired shares back to the Company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election.

Effective August 22, 2008 the Company adopted and implemented another limited stock buy-back program substantially similar to the 2006 program for shares issued under the 2008 Incentive Plan.

There were no purchases of shares from option holders during the fourth quarter of 2008. Purchased shares are reported in the Company's condensed consolidated financial statements as authorized and unissued.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following five-year financial summary includes comparative amounts derived from the audited consolidated financial statements.

		Years Ended December 31,				
		2008	2007	2006	2005	2004
		(In thousands except per share amounts)				
Earnings Information:						
Revenues:						
Life and annuity premiums	$	17,752	19,513	15,805	14,602	14,025
Universal life and annuity contract revenues		133,424	119,677	106,320	96,765	89,513
Net investment income		273,362	318,137	379,768	310,213	315,843
Other income		12,769	13,683	17,304	9,579	11,259
Realized gains (losses) on investments		(26,228)	3,497	2,662	9,884	3,506
Total revenues		411,079	474,507	521,859	441,043	434,146
Benefits and expenses:						
Life and other policy benefits		39,759	41,326	35,241	39,162	34,613
Amortization of deferred policy acquisition costs		127,161	88,413	90,358	87,955	88,733
Universal life and investment annuity contract interest		138,960	164,391	213,736	150,692	173,315
Other operating expenses		55,630	55,130	65,709	46,349	35,441
Total expenses		361,510	349,260	405,044	324,158	332,102
Earnings before Federal income taxes and cumulative effect of change in accounting principle		49,569	125,247	116,815	116,885	102,044
Federal income taxes		15,927	39,876	40,472	39,618	34,572
Earnings before cumulative effect of change in accounting principle		33,642	85,371	76,343	77,267	67,472
Cumulative effect of change in accounting principle, net of tax		-	-	-	-	54,697
Net earnings	$	33,642	85,371	76,343	77,267	122,169
Diluted Earnings Per Share:						
Earnings from operations:						
Class A	$	9.48	23.95	21.46	21.83	19.26
Class B	$	4.77	12.12	10.84	11.00	9.68
Cumulative effect of change in accounting principle:						
Class A	$	-	-	-	-	15.61
Class B	$	-	-	-	-	7.85
Net earnings:						
Class A	$	9.48	23.95	21.46	21.83	34.87
Class B	$	4.77	12.12	10.84	11.00	17.53
Balance Sheet Information:						

Total assets	$	6,786,480	6,835,326	6,693,443	6,369,008	5,991,685
Total liabilities	$	5,800,267	5,823,641	5,760,459	5,495,000	5,183,013
Stockholders’ equity	$	986,213	1,011,685	932,984	874,008	808,672
Book value per common share	$	271.99	279.29	257.67	241.89	225.62

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information contained herein or in other written or oral statements made by or on behalf of National Western Life Insurance Company or its subsidiaries are or may be viewed as forward-looking. Although the Company has taken appropriate care in developing any such information, forward-looking information involves risks and uncertainties that could significantly impact actual results. These risks and uncertainties include, but are not limited to, matters described in the Company's SEC filings such as exposure to market risks, anticipated cash flows or operating performance, future capital needs, and statutory or regulatory related issues. However, National Western, as a matter of policy, does not make any specific projections as to future earnings, nor does it endorse any projections regarding future performance that may be made by others. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments. Also, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

Management's discussion and analysis of financial condition and results of operations ("MD&A") of National Western Life Insurance Company for the three years ended December 31, 2008 follows. This discussion should be read in conjunction with the Company's consolidated financial statements and related notes beginning on page 81 of this report.

Overview

The Company provides life insurance products on a global basis for the savings and protection needs of policyholders and annuity contracts for the asset accumulation and retirement needs of contractholders both domestically and internationally. The Company accepts funds from policyholders or contractholders and establishes a liability representing future obligations to pay the policy or contract-holders and their beneficiaries. To ensure the Company will be able to pay these future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities.

Due to the business of accepting funds to pay future obligations in later years, the underlying economics and relevant factors affecting the life insurance industry include the following:

- level of premium revenues collected
- persistency of policies and contracts
- returns on investments
- investment credit quality
- levels of policy benefits and costs to acquire business
- effect of interest rate changes on revenues and investments including asset and liability matching
- adequate levels of capital and surplus

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item includes these indicators and presents information useful to an overall understanding of the Company's business performance in 2008, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.

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Critical Accounting Policies

Accounting policies discussed below are those considered critical to an understanding of the Company's financial statements.

Impairment of Investment Securities. The Company's accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the reasons for the decline in value (credit event, interest rate related, credit spread widening), (c) the overall financial condition as well as the near-term prospects of the issuer, (d) whether the debtor is current on contractually obligated principal and interest payments, and (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous purchase or prior impairment, then an other-than-temporary impairment charge is recognized. The Company would recognize impairment of securities due to changing of interest rates or market dislocations only if the Company no longer had the ability to hold the securities until recovery or maturity. When a security is deemed to be impaired a charge is recorded as a realized loss equal to the difference between the fair value and amortized cost basis of the security. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. However, the new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value.

Deferred Acquisition Costs ("DAC"). The Company is required to defer certain policy acquisition costs and amortize them over future periods. These costs include commissions and certain other expenses that vary with and are primarily associated with acquiring new business. The deferred costs are recorded as an asset commonly referred to as deferred policy acquisition costs. The DAC asset balance is subsequently charged to income over the lives of the underlying contracts in relation to the anticipated emergence of revenue or profits. Actual revenue or profits can vary from Company estimates resulting in increases or decreases in the rate of amortization. The Company does regular evaluations to determine if actual experience or other evidence suggests that earlier estimates should be revised. Assumptions considered significant include surrender and lapse rates, mortality, expense levels, investment performance, and estimated interest spread. Should actual experience dictate that the Company change its assumptions regarding the emergence of future revenues or profits (commonly referred to as "unlocking"), the Company would record a charge or credit to bring its DAC balance to the level it would have been if using the new assumptions from the inception date of each policy.

DAC is also subject to periodic recoverability and loss recognition testing. These tests ensure that the present value of future contract-related cash flows will support the capitalized DAC balance to be amortized in the future. The present value of these cash flows, less the benefit reserve, is compared with the unamortized DAC balance and if the DAC balance is greater, the deficiency is charged to expense as a component of amortization and the asset balance is reduced to the recoverable amount. For more information about accounting for DAC including the discussion of the adoption of Statement of Position ("SOP") 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts, see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Deferred Sales Inducements. Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability. For more information about accounting for DAC including the discussion of the adoption of Statement of Position ("SOP") 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts, see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

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Future Policy Benefits. Because of the long-term nature of insurance contracts, the Company is liable for policy benefit payments many years into the future. The liability for future policy benefits represents estimates of the present value of the Company's expected benefit payments, net of the related present value of future net premium collections. For traditional life insurance contracts, this is determined by standard actuarial procedures, using assumptions as to mortality (life expectancy), morbidity (health expectancy), persistency, and interest rates, which are based on the Company's experience with similar products. The assumptions used are those considered to be appropriate at the time the policies are issued. An additional provision is made on most products to allow for possible adverse deviation from the assumptions assumed. For universal life and annuity products, the Company's liability is the amount of the contract's account balance. Account balances are also subject to minimum liability calculations as a result of minimum guaranteed interest rates in the policies. While management and Company actuaries have used their best judgment in determining the assumptions and in calculating the liability for future policy benefits, there is no assurance that the estimate of the liabilities reflected in the financial statements represents the Company's ultimate obligation. In addition, significantly different assumptions could result in materially different reported amounts. A discussion of the assumptions used to calculate the liability for future policy benefits is reported in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Revenue Recognition. Premium income for the Company's traditional life insurance contracts is generally recognized as the premium becomes due from policyholders. For annuity and universal life contracts, the amounts collected from policyholders are considered deposits and are not included in revenue. For these contracts, fee income consists of policy charges for policy administration, cost of insurance charges and surrender charges assessed against policyholders' account balances which are recognized in the period the services are provided.

Investment activities of the Company are integral to its insurance operations. Since life insurance benefits may not be paid until many years into the future, the accumulation of cash flows from premium receipts are invested with income reported as revenue when earned. Anticipated yields on investments are reflected in premium rates, contract liabilities, and other product contract features. These anticipated yields are implied in the interest required on the Company's net insurance liabilities (future policy benefits less deferred acquisition costs) and contractual interest obligations in its insurance and annuity products. The Company benefits to the extent actual net investment income exceeds the required interest on net insurance liabilities and manages the rates it credits on its products to maintain the targeted excess or "spread" of investment earnings over interest credited. The Company will continue to be required to provide for future contractual obligations in the event of a decline in investment yield. For more information concerning revenue recognition, investment accounting, and interest sensitivity, please refer to Note 1, Summary of Significant Accounting Policies, Note 3, Investments, in the Notes to Consolidated Financial Statements and the discussions under Investments in Item 7 of this report.

Pension Plans and Other Postretirement Benefits. The Company sponsors a qualified defined benefit pension plan, which was frozen effective December 31, 2007, covering substantially all employees, and three nonqualified defined benefit plans covering certain senior officers. In addition, the Company has postretirement health care benefits for certain senior officers. The freeze of the qualified benefit pension plan ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. In accordance with prescribed accounting standards, the Company annually reviews plan assumptions.

The Company annually reviews its pension benefit plans assumptions which include the discount rate, the expected long-term rate of return on plan assets, and the compensation increase rate. The assumed discount rate is set based on the rates of return on high quality long-term fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on the long-term investment policy of the plans, the various classes of the invested funds, based on the input of the plan's investment advisors and consulting actuary, and the plan's historic rate of return. The compensation rate increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation. These assumptions involve uncertainties and judgment, and therefore actual performance may not be reflective of the assumptions.

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Other postretirement benefit assumptions include future events affecting retirement age, mortality, dependency status, per capita claims costs by age, health care trend rates, and discount rates. Per capita claims cost by age is the current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Health care trend rates involve assumptions about the annual rate(s) of change in the cost of health care benefits currently provided by the plan, due to factors other than changes in the composition of the plan population by age and dependency status. These rates implicitly consider estimates of health care inflation, changes in utilization, technological advances and changes in health status of the participants.

Share-Based Payments. Liability awards under a share-based payment arrangement have been measured based on the award's fair value at the reporting date. The Black-Scholes valuation method has been used to estimate the fair value of the options. This fair value calculation of the options include assumptions relative to the following:

Ÿ exercise price
Ÿ expected term based on contractual term and perceived future behavior relative to exercise
Ÿ current price
Ÿ expected volatility
Ÿ risk-free interest rates
Ÿ expected dividends

These assumptions are continually reviewed by the Company and adjustments may be made based upon current facts and circumstances.

Other significant accounting policies, although not involving the same level of measurement uncertainties as those discussed above, but nonetheless important to an understanding of the financial statements, are described in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Impact of Recent Business Environment

The financial markets began experiencing stress during the second half of 2007 which significantly increased during 2008 and on into 2009. The volatility and disruption in the financial markets has caused the availability and cost of credit to be materially affected. Combined with volatile oil prices, depressed home prices, increasing foreclosures, falling equity market values, declining business and consumer confidence, and higher unemployment, these factors have precipitated a severe recession. The combination of economic conditions began to negatively impact our sales in 2008, particularly in the international markets, and may continue to adversely impact the demand for our products in the future. We also may experience a higher incidence of claims, lapses or surrenders of policies.

The fixed income markets, our primary investment source, are experiencing a high level of volatility and limited market liquidity conditions. Credit downgrade events have begun and there is an increased probability of default for many fixed income instruments. These volatile market conditions have also increased the difficulty of valuing certain securities as trading is less frequent and/or market data is less observable. Certain securities that were in active markets with significant observable data became illiquid due to the current financial environment resulting in valuations that require greater estimation and judgment as well as valuation methods which are more complex. Such valuations may not ultimately be realizable in a market transaction and may change very rapidly as market conditions change and valuation assumptions need to be modified.

Credit spreads (difference between bond yields and risk-free interest rates) on fixed maturity securities increased markedly during 2008 given the market conditions. While the increase in credit spreads generated higher yields making our products more attractive to consumers, the higher rate levels also caused a reduction in the carrying value of our marked-to-market investments negatively impacting our financial condition and reported book value per share. It also caused us to hold a higher amount of cash and short-term investments in order to maintain a more liquid position during uncertain times.

Our operating strategy is to maintain capital levels substantially above regulatory and rating agency requirements. While not significant, our capital levels were nonetheless negatively impacted during 2008 as a result of impairment losses on our investments due to the downturn in economic activity, the increased level of credit spreads and limited liquidity conditions.

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RESULTS OF OPERATIONS

The Company's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate derivative and realized investment gains and losses from operating revenues and earnings. Similar measures are commonly used in the insurance industry in order to assess profitability and results from ongoing operations. The Company believes that the presentation of these non-GAAP financial measures enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates derivative and realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business. Therefore, in the following sections discussing consolidated operations and segment operations, appropriate reconciliations have been included to report information management considers useful in enhancing an understanding of the Company's operations to reportable GAAP balances reflected in the consolidated financial statements.

Consolidated Operations

Revenues. The following details Company revenues.

	Years Ended December 31,		
	2008	2007	2006
		(In thousands)	
Universal life and annuity contract revenues	$ 133,424	119,677	106,320
Traditional life and annuity premiums	17,752	19,513	15,805
Net investment income (excluding derivatives)	339,038	334,799	336,489
Other income	12,769	13,683	17,304
Operating revenues	502,983	487,672	475,918
Derivative income (loss)	(65,676)	(16,662)	43,279
Realized gains (losses) on investments	(26,228)	3,497	2,662
Total revenues	$ 411,079	474,507	521,859

Universal life and annuity contract revenues – Revenues for universal life and annuity contract revenues increased 11.5% in 2008 compared to 2007. Revenues for these products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums. Cost of insurance charges were $82.9 million in 2008 compared to $74.3 million in 2007 and $67.7 million in 2006. Administrative charges were $25.0 million, $20.9 million, and $17.1 million for the years ended December 31, 2008, 2007, and 2006, respectively. Surrender charges assessed against policyholder account balances upon withdrawal were $39.1 million in 2008 compared to $33.4 million in 2007 and $28.7 million in 2006.

Traditional life and annuity premiums – Traditional life and annuity premiums decreased 9.0% in 2008 compared to 2007. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. The Company's life insurance sales focus has been primarily centered around universal life products.

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Net investment income - A detail of net investment income is provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Gross investment income:			
Debt securities	$ 320,275	309,708	306,129
Mortgage loans	7,223	8,513	8,480
Policy loans	6,096	6,302	6,354
Short-term investments	1,915	7,059	3,118
Other investment income	5,934	6,087	15,289
Total investment income	341,443	337,669	339,370
Less: investment expenses	2,405	2,870	2,881
Net investment income (excluding derivatives)	339,038	334,799	336,489
Derivative income (loss)	(65,676)	(16,662)	43,279
Net investment income	$ 273,362	318,137	379,768

Investment grade debt securities generated approximately 94.5% of total investment income, excluding derivatives in 2008. The decrease in short-term investment income in 2008 is attributable to fewer asset holdings on these investments compared to prior years when the yield curve was flat or slightly inverted and the Company did not sacrifice yield holding shorter term securities and lower short-term yields. There was no other investment income from profit participation agreements in 2008. Other investment income received on various profit participation arrangements of $0.9 million and $1.2 million were recorded in 2007 and 2006, respectively. In addition, proceeds of $0.9 million and $4.3 million were received in 2008 and 2006, respectively from a class action settlement on a disposed debt security.

Net investment income performance is analyzed excluding derivative income (loss), which is a common practice in the insurance industry, in order to assess underlying profitability and results from ongoing operations. Net investment income performance is summarized as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In thousands except percentages)		
Excluding derivatives:			
Net investment income	$ 339,038	334,799	336,489
Average invested assets, at amortized cost	$ 5,762,688	5,732,212	5,514,196
Yield on average invested assets	5.88%	5.84%	6.10%
Including derivatives:			
Net investment income	$ 273,362	318,137	379,768
Average invested assets, at amortized cost	$ 5,814,439	5,789,502	5,548,266
Yield on average invested assets	4.70%	5.50%	6.84%

The average invested asset yield increase in 2008 is due to the Company obtaining higher yields on newly invested funds as well as re-investing prepayments, calls, and maturities of debt securities at higher rates. The additional income recognized from the other invested assets in 2006, as discussed below, contributes to a higher yield for that year. Refer to the Derivatives discussion following this section for a more detailed explanation.

Other income - Other income consists primarily of gross income associated with nursing home operations of $12.5 million, $12.6 million, and $11.2 million in 2008, 2007, and 2006, respectively. In addition, the Company received $0.5 million and $5.5 million related to lawsuit settlements during 2007 and 2006, respectively.

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Derivatives income (loss) - Index options are derivative financial instruments used to fully hedge the equity return component of the Company's fixed-indexed products, which were first introduced for sale in 1997. In 2002, the Company began selling an fixed-indexed universal life product in addition to its fixed indexed annuities. Any income or loss from the sale or expiration of the options, as well as period-to-period changes in fair values, are reflected as a component of net investment income. However, increases or decreases in income from these options are substantially offset by corresponding increases or decreases in amounts credited to indexed annuity and life policyholders.

Income and losses from index options are due to market conditions. Index options are intended to act as hedges to match the returns on the product's underlying reference index and the rise or decline in the index causes option values to likewise rise or decline. While income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company's fixed-indexed products also fluctuates in a similar manner and direction. In 2008 and 2007, the reference indices decreased resulting in index option losses and a reduction in contract interest expenses. In 2006, the reference indices increased and the Company recorded income from index options and likewise increased contract interest expenses.

Derivative components included in net investment income and the corresponding contract interest amounts are detailed below.

		Years Ended December 31,		
		2008	2007	2006
			(In thousands)	
Derivatives:				
Unrealized income (loss)	$	(17,480)	(56,204)	27,108
Realized income (loss)		(48,196)	39,542	16,171
Total income (loss) included in net investment income	$	(65,676)	(16,662)	43,279
Total contract interest	$	138,960	164,391	213,736

Realized gains (losses) on investments - The net losses reported in 2008 of $26.2 million consisted of gross gains of $2.2 million primarily from calls and sales of debt securities, offset by gross losses of $28.4 million, which includes the other-than-temporary impairment losses highlighted in the table below.

Realized losses on investments have primarily resulted from impairment writedowns on investments in debt securities and valuation allowances recorded on mortgage loans. The Company records impairment writedowns when a decline in value is considered other-than-temporary and full recovery of the investment is not expected. Impairment writedowns are summarized in the following table.

		Years Ended December 31,		
		2008	2007	2006
			(In thousands)	
Impairment or valuation writedowns:				
Bonds	$	21,803	67	99
Equities		5,412	-	-
Mortgage loans		1,020	1,467	2,100
	$	28,235	1,534	2,199

For the year, the Company recorded other-than-temporary impairment writedowns on debt securities consisting of Washington Mutual ($9.3 million), Clear Channel Communications ($8.7 million), GMAC ($2.3 million), and Greentree ($1.5 million). Due to the events leading to the writedowns also providing evidence of a significant deterioration in the issuers' credit worthiness, the Washington Mutual, Greentree Financial and two GMAC securities were transferred from held to maturity to available for sale.

The $5.4 million of equity impairments in 2008 include Fannie Mae and Freddie Mac preferred stock holdings ($4.6 million) and mark-to-market writedowns on various other equity holdings.

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The mortgage loan valuation writedown in 2008 principally involves one property located in Ft. Smith, Arkansas. The 2007 and 2006 mortgage loan valuation write downs involve a New Orleans property whose value was negatively impacted by Hurricane Katrina.

Benefits and Expenses. The following details benefits and expenses.

		Years Ended December 31,		
		2008	2007	2006
			(In thousands)	
Life and other policy benefits	$	39,759	41,326	35,241
Amortization of deferred policy acquisition costs		127,161	88,413	90,358
Universal life and annuity contract interest		138,960	164,391	213,736
Other operating expenses		55,630	55,130	65,709
Totals	$	361,510	349,260	405,044

Life and other policy benefits - Life and other policy benefits include death claims of $29.6 million, $28.5 million, and $26.2 million for 2008, 2007, and 2006, respectively.

Amortization of deferred policy acquisition costs - Life insurance companies are required to defer certain expenses associated with acquiring new business. The majority of these acquisition expenses consist of commissions paid to agents, underwriting costs, and certain marketing expenses and sales inducements. The Company defers sales inducements in the form of first year interest bonuses on annuity and universal life products that are directly related to the production of new business. These charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. Recognition of these deferred policy acquisition costs in the consolidated financial statements is to occur over future periods in relation to the expected emergence of profits priced into the products sold. This emergence of profits is based upon assumptions regarding premium payment patterns, mortality, persistency, investment performance, and expense patterns. Companies are required to review these assumptions periodically to ascertain whether actual experience has deviated significantly from that assumed. If it is determined that a significant deviation has occurred, the emergence of profit patterns is to be "unlocked" and reset based upon the actual experience.

Amortization of deferred policy acquisition costs increased to $127.1 million for the year ended December 31, 2008 compared to $88.4 million and $90.4 million reported in 2007 and 2006. An unlocking adjustment was recorded in the current year which resulted in an increase of amortization by $6.3 million. This unlocking adjustment was based upon changes to future annuitizations and full surrenders reflecting current experience studies. An unlocking adjustment was recorded in 2007 which resulted in a decrease in amortization of $10.4 million. This unlocking adjustment was based upon changes to (1) future mortality assumptions reflecting current experience studies and (2) assumption changes to future cost of insurance rates. There were no unlocking adjustments recognized during 2006. True-up adjustments were also recorded in 2008 and 2007 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience resulting in a $16.2 million and $1.0 million increase in amortization, respectively. Amortization for 2006 includes a true-up adjustment relative to partial surrenders, mortality assumptions, annuitizations, credited rates and earned rates which increased amortization in that year by approximately $5.4 million.

During the fourth quarter of 2008, during a detailed review of Deferred Acquisition Cost assets, the Company identified that it a had over capitalized $2.4 million of deferred acquisition costs during the first three quarters of 2008, and an additional $3.5 million for periods prior to 2008. This immaterial error was corrected during the fourth quarter and resulted in a decrease in the deferred acquisition cost asset and an increase in amortization.

In accordance with the adoption of SOP 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ("SOP 05-1"), beginning in 2007 the Company’s amortization of deferred policy acquisition costs is expected to increase. Under this pronouncement, annuitizations and certain internal replacements of contracts result in the associated contract’s unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets being written off.

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Universal life and annuity contract interest - The Company closely monitors its credited interest rates on interest sensitive policies, taking into consideration such factors as profitability goals, policyholder benefits, product marketability, and economic market conditions. As long-term interest rates change, the Company's credited interest rates are often adjusted accordingly, taking into consideration the factors described above. The difference between yields earned on investments over policy credited rates is often referred to as the "interest spread". Raising policy credited rates can typically have an impact sooner than higher market rates on the Company's investment portfolio yield, making it more difficult to maintain the current interest spread.

The Company's approximated average credited rates are as follows:

	December 31,			December 31,		
	2008	2007	2006	2008	2007	2006
	(Excluding equity-indexed products)			(Including equity-indexed products)		
Annuity	3.01%	3.41%	3.39%	2.42%	2.84%	3.86%
Interest sensitive life	3.92%	3.23%	4.30%	3.39%	4.28%	5.41%

Contract interest includes the performance of the derivative component of the Company's equity-indexed products. As previously noted, the recent market performance of these derivative features decreased contract interest expense in 2008 and 2007, while also decreasing the Company's investment income given the hedge nature of the options. During 2006, the reverse was noted, as the underlying reference index performance was up resulting in higher investment income and contract interest expense. With these credited rates, the Company generally realized its targeted interest spread on its products.

Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, commissions not subject to deferral, and expenses of nursing home operations. Nursing home expenses amounted to $11.4 million, $11.0 million, and $10.2 million in 2008, 2007, and 2006, respectively. Compensation costs related to stock options totaled negative $1.4 million in 2008 and negative $1.1 million in 2007 as a result of marking the options to fair value under the liability method of accounting. In 2006, $13.1 million of increased compensation costs resulted from a change to liability classification for the Company’s stock option plan.

Federal Income Taxes - Federal income taxes on earnings from continuing operations for 2008, 2007, and 2006 reflect effective tax rates of 32.1%, 31.8%, and 34.6%, respectively, which are lower than the expected Federal rate of 35% primarily due to tax-exempt investment income related to investments in municipal securities and dividends-received deductions on income from stock investments.

During 2008, the Company was notified that its 2005 tax return amendment, which was filed September 2007, was being audited by the IRS. The audit is currently in progress. Adjustments to the amended return are not expected to have a material effect on the financial condition or operating results of the Company.

During the second quarter of 2007, upon the completion of a detailed review of the deferred tax items, the Company identified a $2.3 million error in the net deferred tax liability. The error, which occurred during various periods prior to 2005, was corrected in the second quarter of 2007 and resulted in a decrease in the net deferred tax liability and deferred tax expense. The adjustment was not material to 2007 or any prior period financial statements.

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Segment Operations

Summary of Segment Earnings

A summary of segment earnings from continuing operations for the years ended December 31, 2008, 2007, and 2006 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Segment earnings:					
2008	$ 717	15,350	27,842	6,781	50,690
2007	342	20,179	56,299	6,278	83,098
2006	297	12,191	56,559	5,566	74,613

Domestic Life Insurance Operations

A comparative analysis of results of operations for the Company's domestic life insurance segment is detailed below.

	Years Ended December 31, 2008	2007	2006
		(In thousands)	
Premiums and other revenue:			
Premiums and contract revenues	$ 27,919	25,879	22,731
Net investment income	20,254	18,863	20,462
Other income	20	41	29
Total premiums and other revenue	48,193	44,783	43,222
Benefits and expenses:			
Life and other policy benefits	14,478	14,922	13,656
Amortization of deferred policy acquisition costs	12,416	7,998	7,313
Universal life insurance contract interest	9,171	9,463	9,168
Other operating expenses	11,057	11,898	12,630
Total benefits and expenses	47,122	44,281	42,767
Segment earnings before Federal income taxes	1,071	502	455
Federal income taxes	354	160	158
Segment earnings	$ 717	342	297

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Revenues from domestic life insurance operations include life insurance premiums on traditional type products and revenues from universal life insurance. Revenues from traditional products are simply premiums collected, while revenues from universal life insurance consist of policy charges for the cost of insurance, policy administration fees, and surrender charges assessed during the period. A comparative detail of premiums and contract revenues is provided below.

		Years Ended December 31,		
		2008	2007	2006
			(In thousands)	
Universal life insurance revenues	$	26,978	23,028	18,286
Traditional life insurance premiums		5,849	6,629	6,906
Reinsurance premiums		(4,908)	(3,778)	(2,461)
Totals	$	27,919	25,879	22,731

The Company’s premiums and contract revenues have increased 8% from 2007 as efforts have been made to promote domestic life products. It is the Company's marketing plan to increase domestic life product sales through increased recruiting of new distribution and the development of new life insurance products. The Company had approximately 4,300 contracted agents as of December 31, 2008.

In accordance with generally accepted accounting principles, premiums collected on universal life products are not reflected as revenues in the Company's consolidated statements of earnings. Actual domestic universal life premiums are detailed below.

		Years Ended December 31,		
		2008	2007	2006
			(In thousands)	
Universal life insurance:				
First year and single premiums	$	15,272	15,592	14,640
Renewal premiums		19,948	16,639	14,118
Totals	$	35,220	32,231	28,758

Policy benefits in 2006 through 2008 were consistent with Company expectations. Net investment income increased to $20.3 million in 2008 as compared to $18.9 million in 2007, consistent with the growth of the volume of insurance in force. Other operating expenses increased significantly in 2006 due to an increase in compensation costs resulting from the change to liability classification for the Company’s stock option plan. Compensation costs totaled $0.3 million in both 2008 and 2007 and $3.0 million 2006.

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International Life Insurance Operations

A comparative analysis of results of operations for the Company's international life insurance segment is detailed below.

	Years Ended December 31, 2008	2007	2006
		(In thousands)	
Premiums and other revenue:			
Premiums and contract revenues	$ 97,661	88,782	78,005
Net investment income	17,350	24,690	28,530
Other income	62	126	78
Total premiums and other revenue	115,073	113,598	106,613
Benefits and expenses:			
Life and other policy benefits	21,292	22,810	18,161
Amortization of deferred policy acquisition costs	37,525	24,959	23,075
Universal life insurance contract interest	16,803	20,993	25,675
Other operating expenses	16,502	15,271	21,051
Total benefits and expenses	92,122	84,033	87,962
Segment earnings before Federal income taxes	22,951	29,565	18,651
Federal income taxes	7,601	9,386	6,460
Segment earnings	$ 15,350	20,179	12,191

As with domestic operations, revenues from the international life insurance segment include both premiums on traditional type products and revenues from universal life insurance. A comparative detail of premiums and contract revenues is provided below.

	Years Ended December 31, 2008	2007	2006
		(In thousands)	
Universal life insurance revenues	$ 98,458	85,633	78,008
Traditional life insurance premiums	14,727	15,692	11,027
Reinsurance premiums	(15,524)	(12,543)	(11,030)
Totals	$ 97,661	88,782	78,005

International operations have emphasized universal life policies over traditional life insurance products. In accordance with generally accepted accounting principles, premiums collected on universal life products are not reflected as revenues in the Company's consolidated statements of earnings. Actual international universal life premiums collected are detailed below.

Years Ended December 31,

		2008	2007	2006
			(In thousands)	
Universal life insurance				
First year and single premiums	$	39,257	44,426	36,758
Renewal premiums		96,456	91,621	81,226
Totals	$	135,713	136,047	117,984

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The Company's international life operations historically have been a significant contributor to the Company's overall growth and represent a market niche where the Company believes it has a competitive advantage. A productive agency force has been developed given the Company's longstanding reputation for supporting its international life products coupled with the instability of competing companies in international markets. In particular, the Company has experienced growth with its fixed-indexed universal life products and has collected premiums of $78.5 million, $76.8 million, and $60.5 million for the years ended 2008, 2007, and 2006, respectively.

The largest selling product in the international life insurance segment for the past five years has been a fixed-indexed universal life policy with the equity component linked in part to an equity index. With the growth in this block of business, the period-to-period changes in fair values of the underlying options have had an increasingly greater impact on net investment and contract interest. A detail of net investment income for international life insurance operations is provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Net investment income (excluding derivatives)	$ 28,687	26,519	25,893
Derivative income (loss)	(11,337)	(1,829)	2,637
Net investment income	$ 17,350	24,690	28,530

Derivative income and losses fluctuate from period to period based on the Company’s international equity-indexed universal life product and the applicable performance of the S&P 500 Index®.

Life and other policy benefits in 2006 through 2008 were generally consistent with Company expectations. Amortization of deferred policy acquisition costs in 2008, were impacted as the Company recorded true-up adjustments that reduced the DAC asset and increased amortization by $3.7 million. The Company recorded an unlocking adjustment benefit in 2007 totaling $9.0 million relative to improved mortality assumptions that resulted in an increase to the deferred asset balance and a decrease in amortization expense. In addition, a true-up adjustment of $1.7 million was also recorded in 2007 resulting in a decrease to amortization. Offsetting the decrease to 2007 amortization for the unlocking and true-up adjustments was an increase in amortization due primarily to the application of SOP 05-1 which requires the write-off of deferred balances on contracts that are considered substantially changed. These balances were previously carried and amortized over the projected life of the contract. In 2006, a true-up of amortization assumptions resulted in increased amortization of $1.0 million.

Contract interest expense includes fluctuations primarily the result of the S&P 500 Index® performance relative to the equity-indexed universal life products. The associated stock market gains and losses increase or decrease the amounts the Company credited to policyholders.

As the international life insurance in force continues to grow, the Company anticipates operating earnings to increase as well. The amount of international life insurance in force has grown from $13.3 billion at December 31, 2006 to $14.8 billion at December 31, 2007 and $15.9 billion at December 31, 2008.

Other operating expenses reported in 2008 were 8% higher compared to 2007. The lower level in 2007 resulted from negative compensation costs related to stock options recorded under liability accounting. Compensation costs totaled $0.6 million, $0.4 million, and $5.1 million in 2008, 2007, and 2006, respectively.

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Annuity Operations

The Company's annuity operations are almost exclusively in the United States. Although some of the Company's investment contracts are available to international residents, current sales are small relative to total annuity sales. A comparative analysis of results of operations for the Company's annuity segment is detailed below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Premiums and other revenue:			
Premiums and contract revenues	$ 25,596	24,529	21,389
Net investment income	226,683	266,953	323,326
Other income	232	920	5,950
Total premiums and other revenue	252,511	292,402	350,665
Benefits and expenses:			
Life and other policy benefits	3,990	3,594	3,424
Amortization of deferred policy acquisition costs	77,219	55,456	59,970
Annuity contract interest	112,986	133,935	178,893
Other operating expenses	16,685	16,931	21,847
Total benefits and expenses	210,880	209,916	264,134
Segment earnings before Federal income taxes	41,631	82,486	86,531
Federal income taxes	13,789	26,187	29,972
Segment earnings	$ 27,842	56,299	56,559

Revenues from annuity operations primarily include surrender charges and recognition of deferred revenues relating to immediate or payout annuities. A comparative detail of the components of premiums and annuity contract revenues is provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Surrender charges	$ 20,502	20,238	17,260
Payout annuity and other revenues	5,071	4,263	4,098
Traditional annuity premiums	23	28	31
Totals	$ 25,596	24,529	21,389

In accordance with generally accepted accounting principles, deposits collected on annuity contracts are not reflected as revenues in the Company's consolidated statements of earnings. Actual annuity deposits collected are detailed below.

		Years Ended December 31,	
	2008	2007	2006
		(In thousands)	
Fixed indexed annuities	$ 281,649	316,848	303,613
Other deferred annuities	121,319	116,280	171,631
Immediate annuities	7,165	4,637	10,750
Totals	$ 410,133	437,765	485,994

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Fixed-indexed products are more attractive for consumers when interest rate levels remain low as has been the market environment the past few years. Fixed indexed annuity deposits as a percentage of total annuity deposits recorded were 68.7%, 72.4%, and 62.5% for the years ended December 31, 2008, 2007, and 2006, respectively. Since the Company does not offer variable products or mutual funds, fixed-indexed products provide an important alternative to the Company's existing fixed interest rate annuity products. The performance of equity markets in 2008 had a dampening effect on sales of these products.

Other deferred annuity deposits increased 4.3% in 2008 compared to 2007. These product sales had been trending lower over the past few years due to low interest rates and investor preferences. As a selling inducement, many fixed-rate annuity products include a first year premium or interest rate bonus in addition to the base first year deposit interest rate. These bonuses are credited to the policyholder account but are deferred by the Company and amortized over future periods. The amount deferred was approximately $19.4 million, $20.8 million, and $19.8 million for the years ended December 31, 2008, 2007, and 2006, respectively.

A detail of net investment income for annuity operations is provided below.

		Years Ended December 31,		
		2008	2007	2006
		(In thousands)		
Net investment income (excluding derivatives)	$	279,925	281,553	282,684
Derivative income (loss)		(53,242)	(14,600)	40,642
Net investment income	$	226,683	266,953	323,326

Derivative income and losses fluctuate from period to period based on the performance of the indices underlying the Company's fixed-indexed products.

As previously described, derivatives are used to hedge the equity return component of the Company's fixed indexed annuity products with any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, reflected in net investment income. Net investment income for 2006 included additional income from other income items as previously discussed in the consolidated operations section of this filing.

With respect to deferred policy acquisition costs, the Company recorded an unlocking adjustment of $6.3 million and a true-up adjustment of $11.1 million that together increased amortization by $17.4 million in 2008. During 2007 the Company recorded an unlocking adjustment of $1.8 million and true-up adjustments of $3.3 million resulting in decreased amortization of deferred acquisition costs. A true-up of assumptions in 2006 resulted in increased amortization of deferred policy acquisition costs of $3.1 million.

During the fourth quarter of 2008, during a detailed review of Deferred Acquisition Cost assets, the Company identified that it had over capitalized $ 2.4 million of cost during the first three quarters of 2008, and $3.5 million for periods prior to 2008. This immaterial error was corrected during the fourth quarter and resulted in a decrease in the deferred acquisition cost and an increase in amortization.

The Company is required to periodically adjust for actual experience that varies from that assumed. While management does not currently anticipate any impact from unlocking in 2009, facts and circumstances may arise in the future which require that the factors be reexamined.

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Annuity contract interest includes the equity component return associated with the Company's fixed indexed annuities. The detail of fixed indexed annuity contract interest compared to contract interest for all other annuities is as follows:

		Years Ended December 31,		
		2008	2007	2006
			(In thousands)	
Fixed indexed annuities	$	42,224	50,743	88,094
All other annuities		74,596	94,632	101,619
Gross contract interest		116,820	145,375	189,713
Bonus interest deferred and capitalized		(19,442)	(20,796)	(19,700)
Bonus interest amortization		15,608	9,356	8,880
Total contract interest	$	112,986	133,935	178,893

In comparison by year, the fluctuation in reported contract interest amounts for fixed-indexed annuities is due to sales and the positive or negative performance of the stock market on option values as noted previously. In the fourth quarter of 2008, the Company increased its amortization of bonus interest (deferred sales inducements) by approximately $3.5 million for updates in future expected gross profit assumptions.

Other operating expenses in 2008 were level compared to 2007. The 2006 expense includes an additional $5.0 million due to increased compensation cost on stock options resulting from the change to liability classification for the Company’s plan. Compensation costs were $0.5 million in 2008.

Other Operations

National Western's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, the Company also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Most of the income from the Company's subsidiaries is from a life interest in a trust. Gross income distributions from the trust totaled $4.1 million, pre-tax, in both 2008 and 2007, and $4.5 million in 2006.

The Company owns a nursing home facility which is operated by an affiliated limited partnership, whose financial operating results are consolidated with those of the Company. Daily operations and management of the nursing home are performed by an experienced management company through a contract with the limited partnership. Nursing home operations generated $1.1 million, $1.6 million, and $1.0 million of operating earnings in 2008, 2007, and 2006, respectively.

INVESTMENTS

General

The Company's investment philosophy emphasizes the careful handling of policyowners' and stockholders' funds to achieve security of principal, to obtain the maximum possible yield while maintaining security of principal, and to maintain liquidity in a measure consistent with current and long-term requirements of the Company.

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The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below as of December 31, 2008 and 2007. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans.

	2008		2007	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Debt securities	$ 5,563,000	96.3	$ 5,659,604	95.9
Mortgage loans	90,733	1.6	99,033	1.7
Policy loans	79,277	1.4	83,772	1.4
Derivatives	11,920	0.2	25,907	0.4
Equity securities	13,683	0.2	19,713	0.3
Real estate	10,828	0.2	11,994	0.2
Other	3,340	0.1	4,568	0.1
Totals	$ 5,772,781	100.0	$ 5,904,591	100.0

Debt and Equity Securities

The Company maintains a diversified portfolio which consists primarily of corporate, mortgage-backed, and public utility fixed income securities. Investments in mortgage-backed securities primarily include U.S. government agency pass-through securities and collateralized mortgage obligations ("CMO"). As of December 31, 2008 and 2007, the Company's debt securities portfolio consisted of the following:

	2008		2007	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	$ 2,453,404	44.0	$ 2,429,753	43.0
Mortgage-backed securities	2,001,060	36.0	1,909,405	33.7
Public utilities	790,419	14.2	689,447	12.2
U.S. Agencies	119,674	2.2	429,373	7.6
U.S. Treasury	1,923	-	1,930	-
Asset-backed securities	88,278	1.6	107,019	1.9
States & political subdivisions	86,962	1.6	61,794	1.1
Foreign governments	21,280	0.4	30,883	0.5
Totals	$ 5,563,000	100.0	$ 5,659,604	100.0

The Company's investment guidelines prescribe limitations as a percent of the total investment portfolio by type of security and all holdings were within these threshold limits at December 31, 2008 and 2007. Because the Company's holdings of mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing in collateralized mortgage obligations, which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I"), very accurately defined maturity ("VADM") and sequential tranches are designed to amortize in a more predictable manner than other CMO classes or pass-throughs. The Company does not purchase tranches, such as PAC II and support tranches, that subject the portfolio to greater than average prepayment risk. Using this strategy, the Company can more effectively manage and reduce prepayment and extension risks, thereby helping to maintain the appropriate matching of the Company's assets and liabilities.

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Due to recent negative news relative to the mortgage industry and in particular subprime mortgages the Company has included detailed information below related to the exposure at December 31, 2008 in the debt securities portfolio. The Company holds approximately $88.3 million in asset-backed securities at December 31, 2008. This portfolio includes $41.3 million of manufactured housing bonds and $47.0 million of home equity loans (also referred to as subprime securities). The Company does not have any holdings in collaterized bond obligations (CBOs), collateralized debt obligations (CDOs), or collateralized loan obligations (CLOs). Principal risks in holding asset-backed securities are structural, credit, and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral and the potential for prepayments. Credit risks include corporate credit risks or consumer credit risks for financing such as subprime mortgages. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace.

The mortgage-backed portfolio includes one Alt-A security with a carrying value of $3.8 million. The Alt-A sector is a sub-sector of the jumbo prime MBS sector. The average FICO for an Alt-A borrower is approximately 715 compared to a score of 730 for a jumbo prime borrower. The Company's exposure to the Alt-A and subprime sectors is limited to investments in the senior tranches of structured securities collateralized by Alt-A or subprime residential mortgage loans. The asset-backed portfolio includes thirteen subprime securities, totaling $47.0 million. The subprime sector is generally categorized under the asset-backed sector. This sector lends to borrowers who do not qualify for prime interest rates due to poor or insufficient credit history. Subprime borrowers generally have FICO scores of 660 or below. The slowing housing market, rising interest rates, and relaxed underwriting standards for loans originated after 2005 resulted in higher delinquency rates and losses beginning in 2007. These events caused illiquidity in the market and volatility in the market prices of subprime securities. All of the loans classified as Alt-A or subprime in the Company's portfolio as of December 31, 2008 were underwritten prior to 2005 as noted in the table below.

Investment	December 31, 2008		December 31, 2007	
Origination Year	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Subprime:				
1998	$ 12,125	11,157	14,026	14,045
2002	1,123	556	1,312	1,290
2003	6,894	3,779	7,761	7,232
2004	26,817	21,970	31,186	30,278
Subtotal subprime	$ 46,959	37,462	54,285	52,845
Alt A:				
2004	$ 3,821	3,821	4,665	4,665

As of December 31, 2008, nine of the subprime securities were rated AAA, two were rated AA, one was rated A, and one was rated BBB.

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In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investments in debt securities. Thorough credit analysis is performed on potential corporate investments including examination of a company's credit and industry outlook, financial ratios and trends, and event risks. This emphasis is reflected in the high average credit rating of the Company's portfolio with 98.7% held in investment grade securities. In the table below, investments in debt securities are classified according to credit ratings by Standard and Poor's ("S&P®"), or other nationally recognized statistical rating organizations if securities were not rated by S&P®.

	2008		2007	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
AAA and U.S. government	$ 2,306,694	41.5	$ 2,564,975	45.3
AA	205,729	3.7	301,469	5.3
A	1,431,703	25.7	1,399,581	24.7
BBB	1,546,720	27.8	1,293,358	22.9
BB and other below investment grade	72,154	1.3	100,221	1.8
Totals	$ 5,563,000	100.0	$ 5,659,604	100.0

National Western does not purchase below investment grade securities. Investments held in debt securities below investment grade are the result of subsequent downgrades of the securities. These holdings are summarized below.

	Below Investment Grade Debt Securities			
	Amortized Cost	Carrying Value	Fair Value	% of Invested Assets
	(In thousands except percentages)			
December 31, 2008	$ 84,229	72,154	67,375	1.2%
December 31, 2007	$ 105,067	100,221	97,618	1.7%

As of December 31, 2008, the Company's percentage of below investment grade securities compared to total invested assets totaled 1.2%. The decrease from 2007 is primarily due to maturities, tenders, principal payments, and one issue being upgraded during the year. The Company's holdings of below investment grade securities as a percentage of total invested assets is relatively small compared to industry averages.

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Holdings in below investment grade securities by category as of December 31, 2008 are summarized below, including 2008 and 2007 fair values for comparison. The Company is continually monitoring developments in these industries that may affect security valuation issues.

	Below Investment Grade Debt Securities			
Industry Category	Amortized Cost 2008	Carrying Value 2008	Fair Value 2008	Fair Value 2007
	(In thousands)			
Retail	$ 17,980	13,181	12,420	17,639
Telecommunications	6,323	4,850	4,850	13,064
Medical	13,000	12,255	11,050	11,960
Utilities/energy	12,184	11,654	11,219	12,117
Asset-backed	8,718	8,717	6,337	9,227
Auto finance	4,031	4,031	4,031	2,630
Banking/finance	1	1	1	7,986
Manufacturing	7,520	6,999	7,001	7,438
Transportation	1,984	1,769	1,769	2,395
Other	12,488	8,697	8,697	9,433
Totals	$ 84,229	72,154	67,375	93,889

The Company closely monitors its below investment grade holdings by reviewing investment performance indicators, including information such as issuer operating performance, debt ratings, analyst reports and other economic factors that may affect these specific investments. While additional losses are not currently anticipated, based on the existing status and condition of these securities, continued credit deterioration of some securities or the markets in general is possible, which may result in further writedowns.

Generally accepted accounting principles require that investments in debt securities be written down to fair value when declines in value are judged to be other than temporary. As defined in SFAS No. 157, Fair Value Measurement, ("SFAS 157") 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 (an exit price methodology). SFAS 157 establishes a framework for measuring fair value that includes a hierarchy used to classify inputs used in measuring fair value. The hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels which are either observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect an entity's view of market assumptions in the absence of observable market information. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Company's Level 1 assets include equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs. The Company's Level 2 assets include fixed maturity debt securities (corporate and private bonds, government or agency securities, asset-backed and mortgage-backed securities), preferred stock, certain equity securities, and over-the-counter derivative contracts. The Company's Level 2 liabilities consist of certain product-related embedded derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or determined through use of valuation methodologies using observable market inputs.

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Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service assumptions about the assumptions market participants would use in pricing an asset or liability. The Company's Level 3 assets include certain equity securities and certain less liquid or private fixed maturity debt securities where significant valuation inputs cannot be corroborated with market observable data. The Company's Level 3 liabilities consist of share-based compensation obligations. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

The following table sets forth the Company's assets and liabilities that are measured at fair value on a recurring basis as of the date indicated:

	December 31, 2008			
Description	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$ 1,731,583	-	1,721,341	10,242
Equity securities, available for sale	13,683	302	6,191	7,190
Derivatives	11,920	-	11,920	-
Total assets	$ 1,757,186	302	1,739,452	17,432
Policyholder account balances (a)	$ 19,377	-	19,377	-
Other liabilities (b)	3,787	-	-	3,787
Total liabilities	$ 23,164	-	19,377	3,787

(a) Represents the fair value of certain product-related embedded derivatives that were recorded at fair value.
(b) Represents the liability for share-based compensation.

The following table provides additional information about fair value measurements for which significant unobservable (Level 3) inputs were utilized to determine fair value.

	For the Twelve Months Ended December 31, 2008			
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
	(In thousands)			
Beginning balance, January 1, 2008	$ 1,618	7,147	8,765	7,712
Total realized and unrealized gains (losses):				
Included in net income	-	-	-	(1,424)
Included in other comprehensive loss	(2,773)	43	(2,730)	-
Purchases, sales, issuances and settlements, net	(527)	-	(527)	(2,501)
Transfers into (out of) Level 3	11,924	-	11,924	-
Ending balance, December 31, 2008	$ 10,242	7,190	17,432	3,787
Amount of total gains (losses) for the period included in net income attributable to the change				

in unrealized gains (losses) relating to assets still					
held as of December 31, 2008	$	-	-	-	(2,321)

Realized gains (losses) on Level 3 assets and liabilities are reported in the consolidated statements of earnings as net investment gains (losses), while unrealized gain (losses) on debt and equity securities are reported as other comprehensive income (loss) within stockholders' equity.

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The fair value hierarchy classifications are reviewed each reporting period. Reclassification of certain financial assets and liabilities may result based on changes in the observability of valuation attributes. Reclassifications are reported as transfers into and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

The Company is required to classify its investments in debt and equity securities into one of three categories: (a) trading securities, (b) securities available for sale, or (c) securities held to maturity. The Company purchases securities with the intent to hold to maturity and accordingly does not maintain a portfolio of trading securities. Of the remaining two categories, available for sale and held to maturity, the Company makes a determination as to which category based on various factors including the type and quality of the particular security and how it will be incorporated into the Company's overall asset/liability management strategy. As shown in the table below, at December 31, 2008, approximately 31.9% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. These holdings provide flexibility to the Company to react to market opportunities and conditions and to practice active management within the portfolio to provide adequate liquidity to meet policyholder obligations and other cash needs.

	Fair Value	Amortized Cost	Unrealized Gains (Losses)
		(In thousands)	
Securities held to maturity:			
Debt securities	$ 3,727,353	3,831,417	(104,064)
Securities available for sale:			
Debt securities	1,731,583	1,896,946	(165,363)
Equity securities	13,683	7,107	6,576
Totals	$ 5,472,619	5,735,470	(262,851)

In accordance with the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company may under certain conditions transfer a debt security from held to maturity to available for sale. For the year 2008, the Company recorded other-than-temporary impairment writedowns on debt securities consisting of Washington Mutual ($9.3 million), Clear Channel Communications ($8.7 million), GMAC ($2.3 million), and Greentree Financial ($1.5 million) and on equity securities totaling $5.4 million including Freddie Mac and Fannie Mae preferred stock ($4.6 million). Due to the events leading to the writedowns also providing evidence of a significant deterioration in the issuers' credit worthiness, the Washington Mutual, Greentree Financial and two GMAC securities were transferred from held to maturity to available for sale. No transfers were made in 2007 or 2006. During 2007, one security was sold from the held to maturity portfolio due to credit deterioration, with an amortized cost of $5.2 million, resulting in a minimal realized gain. No held to maturity sales were made during 2006.

Mortgage Loans and Real Estate

In general, the Company originates loans on high quality, income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial and sales or service facilities, selected apartment buildings, motels, and health care facilities. The location of these properties is typically in major metropolitan areas that offer a potential for property value appreciation. Credit and default risk is minimized through strict underwriting guidelines and diversification of underlying property types and geographic locations. In addition to being secured by the property, mortgage loans with leases on the underlying property are often guaranteed by the lessee. This approach has proven to result in quality mortgage loans with few defaults.

The Company requires a minimum specified yield on mortgage loan investments. In the loan interest rate environment of the past few years, fewer loan opportunities have been available which met the Company's required rate of return. As a result, the Company's portfolio has declined.

The Company's direct investments in real estate are not a significant portion of its total investment portfolio as many of these investments were acquired through mortgage loan foreclosures. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties. These investments have enhanced the Company's overall investment portfolio returns.

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The Company held net investments in mortgage loans totaling $90.7 million and $99.0 million at December 31, 2008 and 2007, respectively. The diversification of the portfolio by geographic region and by property type was as follows:

Geographic Region:	2008 Amount (In thousands)	2008 %	2007 Amount (In thousands)	2007 %
West South Central	$ 62,123	68.5	$ 62,160	62.8
East North Central	12,030	13.3	11,572	11.7
Mountain	7,919	8.7	8,240	8.3
South Atlantic	3,666	4.0	4,590	4.6
Pacific	2,562	2.8	9,970	10.1
All Other	2,433	2.7	2,501	2.5
Totals	$ 90,733	100.0	$ 99,033	100.0

Property Type:	2008 Amount (In thousands)	2008 %	2007 Amount (In thousands)	2007 %
Retail	$ 70,954	78.2	$ 71,893	72.6
Hotel/Motel	6,320	7.0	6,490	6.5
Office	5,971	6.6	16,721	16.9
Land/Lots	3,885	4.3	3,923	4.0
Apartments	3,600	3.9	-	-
All other	3	-	6	-
Totals	$ 90,733	100.0	$ 99,033	100.0

The Company does not recognize interest income on loans past due ninety days or more. The Company had two mortgage loans past due six months or more with the principal balance totaling $7.0 million at December 31, 2008, 2007 and 2006. Interest income not recognized for past due loans totaled approximately $0.4 million in 2008, 2007, and 2006.

The Company recognized valuation losses of $1.0 million, $1.5 million, and $2.1 million for the years ended December 31, 2008, 2007, and 2006 respectively, based on information which indicated that the Company may not collect all amounts in accordance with the mortgage agreement. While the Company closely manages its mortgage loan portfolio, future changes in economic conditions can result in impairments beyond those currently identified.

The contractual maturities of mortgage loan principal balances at December 31, 2008 are as follows:

	Principal Due (In thousands)
Due in one year or less	$ 6,541

Due after one year through five years		42,133
Due after five years through ten years		48,770
Due after ten years through fifteen years		3,221
Due after fifteen years		-
Total	$	100,665

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The Company's real estate investments totaled approximately $10.8 million and $12.0 million at December 31, 2008 and 2007, respectively, and consist primarily of income-producing properties which are being operated by a wholly-owned subsidiary of the Company. The Company recognized operating income on these properties of approximately $0.9 million, $1.0 million, and $0.8 million for the years ended December 31, 2008, 2007, and 2006, respectively. The Company monitors the conditions and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition. The Company recorded net realized investment losses of $0.1 million in 2008 and gains of $0.2 million and $0.6 million in 2007 and 2006, respectively, associated with these properties.

Market Risk

Market risk is the risk of change in market values of financial instruments due to changes in interest rates, currency exchange rates, commodity prices, or equity prices. The most significant market risk exposure for National Western is interest rate risk. The fair values of fixed income debt securities correlate to external market interest rate conditions. Because interest rates are fixed on almost all of the Company's debt securities, market values typically increase when market interest rates decline, and decrease when market interest rates rise. However, market values may fluctuate for other reasons, such as changing economic conditions, market dislocations or increasing event-risk concerns.

The correlation between fair values and interest rates for debt securities is reflected in the tables below.

		December 31, 2008	2007
		(In thousands except percentages)	
Debt securities - fair value	$	5,458,936	5,655,194
Debt securities - amortized cost	$	5,728,363	5,670,827
Fair value as a percentage of amortized cost		95.30 %	99.72 %
Unrealized losses at year-end	$	(269,427)	(15,633)
Ten-year U.S. Treasury bond – decrease in yield for the year		(1.81)%	(0.68)%

		Unrealized Losses Net Balance at December 31, 2008	Net Balance at December 31, 2007	Change in Net Balance
			(In thousands)	
Debt securities held to maturity	$	(104,064)	(4,410)	(99,654)
Debt securities available for sale		(165,363)	(11,223)	(154,140)
Totals	$	(269,427)	(15,633)	(253,794)

Changes in interest rates typically have a significant impact on the fair values of the Company's debt securities. During 2008, market interest rates of the ten-year U.S. Treasury bond decreased 181 basis points from year end 2007 while there was a substantial increase in corporate spreads over the treasury yield. This increase in spread contributed to the increase in the unrealized loss balance of $253.8 million on a portfolio of approximately $5.6 billion. This amount is reasonable based upon the current market factors and the current investment portfolio characteristics. The Company would expect similar results in the future from a significant upward or downward movement in market rates. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have relatively small effects on the Company's financial results.

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The Company manages interest rate risk through ongoing cash flow testing required for insurance regulatory purposes. Business models are used to perform cash flow testing under various commonly used stress test interest rate scenarios to determine if existing assets would be sufficient to meet projected liability outflows. Sensitivity analysis allows the Company to measure the potential gain or loss in fair value of its interest-sensitive instruments and to protect its economic value and achieve a predictable spread between what is earned on invested assets and what is paid on liabilities. The Company seeks to minimize the impact of interest rate risk through surrender charges that are imposed to discourage policy surrenders and to offset unamortized acquisition costs. Interest rate changes can be anticipated in the computer models and the corresponding risk addressed by management actions affecting asset and liability instruments. However, potential changes in the values of financial instruments indicated by hypothetical interest rate changes will likely be different from actual changes experienced, and the differences could be significant.

The following table illustrates the market risk sensitivity of the Company's interest rate-sensitive assets. The table shows the effect of a change in interest rates on the fair value of the portfolio using models that measure the change in fair value arising from an immediate and sustained change in interest rates in increments of 100 basis points.

	Fair Values of Assets Changes in Interest Rates in Basis Points				
	-100	0	+ 100	+ 200	+ 300
			(In thousands)		
Debt and equity securities	$ 5,681,585	5,472,619	5,201,005	4,916,196	4,647,935
Mortgage loans	93,944	90,884	87,996	85,268	82,689
Other loans	1,584	1,572	1,560	1,548	1,536
Derivatives	11,668	11,920	12,170	12,421	12,674

Expected maturities of debt securities may differ from contractual maturities due to call or prepayment provisions. The models assume that prepayments on mortgage-backed securities are influenced by agency and pool types, the level of interest rates, loan age, refinancing incentive, month of the year, and underlying coupon. During periods of declining interest rates, principal payments on mortgage-backed securities and collateralized mortgage obligations tend to increase as the underlying mortgages are prepaid. Conversely, during periods of rising interest rates, the rate of prepayment slows. Both of these situations can expose the Company to the possibility of asset-liability cash flow and yield mismatch. The model uses a proprietary method of sampling interest rate paths along with a mortgage prepayment model to derive future cash flows. The initial interest rates used are based on the current U.S. Treasury yield curve as well as current mortgage rates for the various types of collateral in the portfolio.

Mortgage and other loans were modeled by discounting scheduled cash flows through the scheduled maturities of the loans, starting with interest rates currently being offered for similar loans to borrowers with similar credit ratings. Policy loans were modeled by discounting estimated cash flows using U.S. Treasury Bill interest rates as the base rates at December 31, 2008. The estimated cash flows include assumptions as to whether such loans will be repaid by the policyholders or settled upon payment of death or surrender benefits on the underlying insurance contracts and incorporate both Company experience and mortality assumptions associated with such contracts.

In addition to the securities analyzed above, the Company invests in index options which are derivative financial instruments used to hedge the equity return component of the Company's indexed annuity and life products. The values of these options are primarily impacted by equity price risk, as the options' fair values are dependent on the performance of the underlying reference index. However, increases or decreases in investment returns from these options are substantially offset by corresponding increases or decreases in amounts paid to indexed policyholders, subject to minimum guaranteed policy interest rates.

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The Company's market risk liabilities, which include policy liabilities for annuity and supplemental contracts, are managed for interest rate risk through cash flow testing as previously described. As part of this cash flow testing, the Company has analyzed the potential impact on net earnings of a 100 basis point decrease and increases in increments of 100 basis points in the U.S. Treasury yield curve as of December 31, 2008. The potential impact on net earnings from these interest rate changes are summarized below.

	Changes in Interest Rates in Basis Points			
	-100	+100	+200	+300
	(In thousands)			
Impact on net earnings	$ (1,087)	1,767	746	(897)

These estimated impacts in earnings are net of tax effects and the estimated effects of deferred policy acquisition costs.

The above described scenarios produce estimated changes in cash flows as well as cash flow reinvestment projections. Estimated cash flows in the Company's model assume cash flow reinvestments, which are representative of the Company's current investment strategy. Calls and prepayments include scheduled maturities and those expected to occur which would benefit the security issuers. Assumed policy surrenders consider differences and relationships between credited interest rates and market interest rates as well as surrender charges on individual policies. The impact to earnings also includes the expected effects on amortization of deferred policy acquisition costs. The model considers only annuity and supplemental contracts in force at December 31, 2008, and does not consider new product sales or the possible impact of interest rate changes on sales.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and annuity considerations, investment income, and investment maturities and prepayments are the primary sources of funds while investment purchases, policy benefits in the form of claims, and payments to policyholders and contract holders in connection with surrenders and withdrawals as well as operating expenses are the primary uses of funds. To ensure the Company will be able to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities. Funds are invested with the intent that the income from investments, plus proceeds from maturities, will meet the ongoing cash flow needs of the Company. The approach of matching asset and liability durations and yields requires an appropriate mix of investments. Although the Company historically has not been put in the position of liquidating invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company may also borrow up to $40 million on its bank line of credit for short-term cash needs.

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A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. The Company includes provisions within its annuity and universal life insurance policies, such as surrender and market value adjustment charges, that help limit and discourage early withdrawals. The following table sets forth withdrawal characteristics of the Company's annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	December 31, 2008		December 31, 2007	
	Amount	% of Total	Amount	% of Total
	($ Amounts in thousands)			
Not subject to discretionary withdrawal provisions	$ 369,405	8.3%	$ 307,133	6.8%
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	1,305,478	29.3%	1,368,899	30.6%
At contract value less current surrender charge of 5% or more	2,347,156	52.6%	2,295,358	51.3%
Subtotal	4,022,039	90.2%	3,971,390	88.7%
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	440,694	9.8%	506,247	11.3%
Total annuity reserves and deposit liabilities	$ 4,462,733	100.0%	$ 4,477,637	100.0%

The actual amounts paid by product line in connection with surrenders and withdrawals for the years ended December 31 are noted in the table below.

	2008	2007	2006
		(In thousands)	
Product Line:			
Traditional Life	$ 5,763	6,408	4,845
Universal Life	41,430	34,356	30,566
Annuities	391,879	435,800	363,407
Total	$ 439,072	476,564	398,818

The above contractual withdrawals, as well as the level of surrenders experienced, were generally consistent with the Company's assumptions in asset-liability management, and the associated cash outflows did not have an adverse impact on overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and tests under various market interest rate scenarios are also performed to assist in evaluating liquidity needs and adequacy. The Company currently expects available liquidity sources and future cash flows to be more than adequate to meet the demand for funds.

In the past, cash flows from the Company's insurance operations have been sufficient to meet current needs. Cash flows from operating activities were $195 million, $260 million, and $224 million in 2008, 2007, and 2006, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled $729 million, $517 million, and $399 million in 2008, 2007, and 2006, respectively. Cash flows from security maturities, redemptions, and prepayments were relatively higher over the last three years due to the decline in interest rates. These cash flow items could be reduced if interest rates rise in 2009. Net cash flows from the Company's universal life and annuity deposit product operations totaled inflows (outflows) of $(118) million, $(93) million, and $25 million in 2008, 2007, and 2006, respectively.

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Capital Resources

The Company relies on stockholders' equity for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. As of December 31, 2008, the Company had commitments of approximately $2.5 million which were approved by the Company's Board of Directors for the construction of a nursing home facility in Central Texas. The construction of the new facility began in 2007.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

It is Company practice not to enter into off-balance sheet arrangements or to issue guarantees to third parties, other than in the normal course of issuing insurance contracts. Commitments related to insurance products sold are reflected as liabilities for future policy benefits. Insurance contracts guarantee certain performances by the Company.

Insurance reserves are the means by which life insurance companies determine the liabilities that must be established to assure that future policy benefits are provided for and can be paid. These reserves are required by law and based upon standard actuarial methodologies to ensure fulfillment of commitments guaranteed to policyholders and their beneficiaries, even though the obligations may not be due for many years. Refer to Note (1) in the Notes to Consolidated Financial Statements for a discussion of reserving methods.

The table below summarizes future estimated cash payments under existing contractual obligations.

		Payment due by Period				
			Less Than	1 – 3	3 – 5	More Than
		Total	1 Year	Years	Years	5 Years
				(In thousands)		
Operating lease obligations (1)	$	1,342	988	354	-	-
Construction commitments		2,461	2,461	-	-	-
Life claims payable (2)		51,905	51,905	-	-	-
Other long-term reserve liabilities reflected on the balance sheet under GAAP (3)		7,875	800	1,456	1,788	3,831
Total	$	63,583	56,154	1,810	1,788	3,831

(1) Refer to Note 9 in the Notes to Consolidated Financial Statements relating to Company leases.
(2) Life claims payable include benefit and claim liabilities for which the Company believes the amount and timing of the payment is essentially fixed and determinable. Such amounts generally relate to incurred and reported death and critical illness claims including an estimate of claims incurred but not reported.
(3) Other long-term liabilities include estimated life and annuity obligations related to death claims, policy surrenders, policy withdrawals, maturities and annuity payments based on mortality, lapse, annuitization, and withdrawal assumptions consistent with the Company’s historical experience. These estimated life and annuity obligations are undiscounted projected cash outflows that assume interest crediting and market growth consistent with assumptions used in amortizing deferred acquisition costs. They do not include any offsets for future premiums or deposits. Other long-term liabilities also include determinable payout patterns related to immediate annuities. In contrast to this table, the majority of the Company’s liabilities for future obligations recorded on the consolidated balance sheet do not incorporate future credited interest and market growth. Therefore, the estimated life and annuity

obligations presented in this table significantly exceed the life and annuity liabilities recorded in the reserves for future life and annuity obligations. Due to the significance of the assumptions used, the actual cash outflows will differ both in amount and timing, possibly materially, from these estimates.

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ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING

Recently Issued Accounting Standards

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 establishes accounting and reporting standards for entities that have equity investments that are not attributable directly to the parent, called noncontrolling interests or minority interests. Specifically, SFAS 160 states where and how to report noncontrolling interests in the consolidated statements of financial position and operations, how to account for changes in noncontrolling interests and provides disclosure requirements. The provisions of SFAS 160 are effective beginning January 1, 2009. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), Business Combinations. SFAS 141(R) establishes how an entity accounts for the identifiable assets acquired, liabilities assumed, and any noncontrolling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, early adoption is prohibited. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years and interim periods beginning after November 15, 2008.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. This statement requires enhanced disclosures regarding an entity's derivative and hedging activity to enable investors to better understand the effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 is not expected to have a material impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. The provisions of FSP FAS 142-3 are to be applied prospectively to intangible assets acquired after January 1, 2009 although the disclosure provisions are required for all intangible assets as of or subsequent to January 1, 2009. The adoption of FSP FAS 142-3 is not expected to impact the Company's consolidated financial condition and results of operations.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. This FSP amends SFAS 133 to require disclosures by entities that assume credit risk through the sale of credit derivatives including credit derivatives embedded in a hybrid instrument to enable users of financial statements to assess the potential effect on its financial position, financial performance, and cash flows from these credit derivatives. This FSP also amends FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, to require additional disclosure about the current status of the payment/performance risk of a guarantee. FSP FAS 133-1 and FIN 45-4 are effective for financial statements issued for fiscal years and interim periods ending after

November 15, 2008. The Company does not expect the adoption of FSP FAS 133-1 and FIN 45-4 to have an effect on the Company’s consolidated financial condition and results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

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Change in Accounting

In September 2005, the AICPA issued Statement of Position ("SOP") 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts, which is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The Company has an impact related to the adoption of SOP 05-1 for contracts which have annuitized and relative to reinstatements of contracts in that the unamortized deferred acquisition costs and deferred sales inducement assets must be written-off at the time of annuitization and may not be continued related to reinstatements. SOP 05-1 results in changes in assumptions relative to estimated gross profits which affects unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement balances as of the beginning of the year. The effect of this SOP on beginning retained earnings as of January 1, 2007 was a decrease of $2.2 million, net of tax, as detailed below.

	Amounts (In thousands)
Write-off of deferred acquisition costs	$ 3,321
Adjustment to deferred annuity revenue	56
	3,377
Federal income tax	(1,182)
Cumulative effect of change in accounting for internal replacements and investment contracts	$ 2,195

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by Item 7A is set forth in the Investments section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Attachment A, Index to Financial Statements and Schedules, on page 81.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in auditors or disagreements with auditors that are reportable pursuant to Item 304 of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information to be disclosed in reports filed or submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding disclosure matters.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

The management of National Western Life Insurance Company ("Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. The Company's management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control - Integrated Framework. Based on the Company's assessment under this framework, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2008.

Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting change as the Company modifies and enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment. While changes have taken place in internal controls during the quarter ended December 31, 2008, there have been no changes that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

There have been no significant changes in the Company’s internal controls or in other factors that could significantly affect these controls subsequent to the date of this examination.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
National Western Life Insurance Company:

We have audited National Western Life insurance Company’s (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, our audit included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, National Western Life Insurance Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Western Life Insurance Company and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of earnings, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated March 16, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP
Dallas, Texas
March 16, 2009

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ITEM 9B. OTHER INFORMATION

There is no information required to be disclosed on Form 8-K for the quarter ended December 31, 2008 which has not been previously reported.

PART III

ITEM 10. DIRECTORS, AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Identification of Directors

The following information as of January 31, 2009, is furnished with respect to each director. All terms expire in June of 2009.

Name of Director	Principal Occupation During Last Five Years and Directorships	First Elected	Age
Robert L. Moody (1) (3)	Chairman of the Board and Chief Executive Officer of the Company	1963	73
Ross R. Moody (1) (3)	President and Chief Operating Officer of the Company	1981	46
Stephen E. Glasgow (2) (4)	Partner, G-2 Development, L.P. Austin, Texas	2004	46
E. Douglas McLeod	Director of Development, The Moody Foundation, Galveston, Texas	1979	67
Charles D. Milos (1) (3)	Senior Vice President of the Company	1981	63
Frances A. Moody-Dahlberg	Executive Director, The Moody Foundation, Dallas, Texas	1990	39
Russell S. Moody	Investments, League City, Texas	1988	47
Louis E. Pauls, Jr. (2) (4)	President, Louis Pauls & Company; Investments, Galveston, Texas	1971	73
E. J. Pederson (2) (4)	Former Executive Vice President, The University of Texas Medical Branch, Galveston, Texas	1992	61

(1) Member of Executive Committee; (2) Member of Audit Committee; (3) Member of Investment Committee; (4) Member of Compensation and Stock Option Committee.

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Under the Company's Articles of Incorporation, respective members of the Board of Directors are elected by the Company's two classes of common stockholders. One-third (1/3) of the directors, plus one director for any remaining fraction, are elected by the Class A stockholders and the remaining directors are elected by the Class B stockholders. The Board of Directors, as elected by the respective classes of stockholders, is as follows.

Class A	Class B
Robert L. Moody	E. Douglas McLeod
Stephen E. Glasgow	Charles D. Milos
E. J. Pederson	Frances A. Moody-Dahlberg
	Ross R. Moody
	Russell S. Moody
	Louis E. Pauls, Jr.

Committees

The Company's Board of Directors has the following standing committees:

Executive Committee. The Company's Executive Committee may exercise all of the authority of the Board of Directors in the management of the business and affairs of the corporation, except where action of some or all members of the Board of Directors is required by statute or the Articles of Incorporation or the Bylaws or resolution of the Board. The Chairman of the Board serves as Chairman of the Executive Committee.

Audit Committee. The Audit Committee of the Board of Directors consists of three non-employee directors. The committee is primarily responsible for oversight of the Company's financial statements and controls; assessing and ensuring the independence, qualifications and performance of the independent auditors; approving the independent auditor's services and fees; reviewing and approving all related party transactions; reviewing potential conflict of interest situations where appropriate; overseeing and directing internal audit activities; reviewing the Company's financial risk assessment process and ethical, legal, and regulatory compliance programs; and reviewing and approving the annual audited financial statements for the Company before issuance. Mr. Louis E. Pauls, Jr. serves as Chairman of the Audit Committee.

The Company has at least one person that it believes is qualified to be the Audit Committee Financial Expert. However, the Company has not designated anyone as an Audit Committee Financial Expert at this time as the Company's Board of Directors has concluded that the ability of the Audit Committee to perform its duties would not be impaired by the failure to designate one of the committee members as an "Audit Committee Financial Expert" if its members otherwise satisfied the NASDAQ standards and rules and regulations of the SEC.

Investment Committee. The Investment Committee of the Board of Directors is comprised of three directors (and one Company officer) and has the responsibility for oversight of the Company's investment transactions including compliance with investment guidelines approved by the full Board of Directors. The Chairman of the Board serves as Chairman of the Investment Committee.

Compensation and Stock Option Committee. The Compensation and Stock Option Committee consists of three independent, outside directors and the committee has oversight responsibility for the compensation programs for the Company's independent named executive officers as well as all other officers. Mr. E.J. Pederson serves as Chairman of the Compensation and Stock Option Committee. The Committee's report on executive compensation is included in Item 11 of this report on Form 10-K.

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Identification of Executive Officers

The following is a list of the Company's executive officers, their ages, and their positions and offices as of January 31, 2009.

Name of Officer	Age	Position (Year elected to position)
Robert L. Moody	73	Chairman of the Board and Chief Executive Officer (1963-1968, 1971-1980, 1981), Director
Ross R. Moody	46	President and Chief Operating Officer (1992), Director
Scott E. Arendale	64	Senior Vice President - International Marketing (2006)
Paul D. Facey	57	Senior Vice President - Chief Actuary (1992)
Michael P. Hydanus	57	Senior Vice President – Chief Information Officer (2008)
S. Christopher Johnson	40	Senior Vice President - Chief Marketing Officer (2006)
Charles D. Milos	63	Senior Vice President - Mortgage Loans and Real Estate (1990), Director
James P. Payne	64	Senior Vice President - Secretary (1998)
Brian M. Pribyl	50	Senior Vice President - Chief Financial & Administrative Officer and Treasurer (2001)
Patricia L. Scheuer	57	Senior Vice President - Chief Investment Officer (1992)

There are no arrangements or understandings pursuant to which any officer was elected. All officers hold office for a term of one year or until their successors are elected and qualified, unless otherwise specified by the Board of Directors.

Identification of Certain Significant Employees

None in addition to the individuals identified as Executive Officers above.

Family Relationships

Robert L. Moody is the father of Frances A. Moody-Dahlberg, Ross R. Moody, and Russell S. Moody, and the brother-in-law of E. Douglas McLeod.

Business Experience

All of the Executive Officers listed above have served in various executive capacities with the Company for more than five years, with the exception of the following:

Mr. Arendale was Vice President of International Sales Development with the Company for the preceding five years prior to being promoted to his current position in June 2006.

Mr. Johnson was National Promotions Director of National Fitness Corp. from 1992 to 1993; Branch Manager of Hooper Holmes/Portamedic from 1993 to 1994; Agent/Consultant with Financial Facts & Services from 1994 to 1995; Field Sales Manager of Financial Brokerage from 1995 to 1998; Senior Sales Representative with Mutual of Omaha from 1998 to 1999 and Senior Regional Vice President of Allstate - Lincoln Benefit Life from 1999 to 2006.

Mr. Hydanus was previously with Financial Industries Corporation (Austin, TX) serving as Chief Operations Officer from 2005 to 2007 and Interim President and Chief Executive Officer from 2007 to 2008. Prior to that Mr. Hydanus was a principal in Sage Consulting Group (California and Tennessee) from 2001 to 2005 providing information technology improvements and corporate operations consulting services.

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Involvement in Certain Legal Proceedings

During the past five years there have been no criminal proceedings, judgments, injunctions or bankruptcy petitions material to an evaluation of the ability or integrity of any of the Company's directors or executive officers.

Code of Ethics

The Company has adopted a Code of Ethics and Conduct for all directors, officers, and employees. This Code is intended to comply with the requirement of the Federal Securities Laws and the requirements of NASDAQ. The Code of Ethics and Conduct has been posted to the Company's website at www.nationalwesternlife.com and is available upon request.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Purpose

The Compensation and Stock Option Committee ("Compensation Committee") is appointed by and serves at the discretion of the Company's Board of Directors. The Compensation Committee consists of no fewer than three members who meet the independence requirements of the listing standards of NASDAQ. The purpose of the Compensation Committee is to discharge the Board of Directors' responsibilities for reviewing and establishing the compensation not just for the Chief Executive Officer, Chief Financial Officer, and the other three most highly paid executive officers, but for all of the Company's officers. These compensation elements include base salary, annual incentive bonuses, discretionary bonuses and awards, stock option grants, and any other officer compensation arrangements.

To assist the Compensation Committee with its responsibilities, it is supported by the Company's Human Resource, Legal and Financial departments. The Compensation Committee may retain, and has retained, independent compensation consultants who report directly to the members of the Compensation Committee. Meetings of the Compensation Committee are scheduled during the year with additional meetings on an as-necessary interim basis and include sessions without members of management present. The Compensation Committee reports to the Board of Directors on its actions and recommendations.

Compensation Philosophy and Objectives

The Company's overall philosophy in setting compensation policies is to align pay with performance while at the same time providing a competitive compensation that allows the Company to retain and attract talented individuals. Within this overall philosophy, the Compensation Committee has adopted several key principles to help guide compensation decisions for executive officers:

- Provide a competitive total compensation package so the Company can attract, retain, and motivate talented individuals;
- Tie compensation in part to overall Company financial performance so that executives are held accountable through their compensation for the performance of the business;
- Tie compensation in part to the Company's stock performance through stock options to align executives' interests with those of the Company's stockholders; and
-

Maintain a committee of the Board of Directors independent of senior management that may engage independent compensation consultants as needed to review and establish compensation for executive officers.

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Elements of Executive Compensation

Officer compensation arrangements, including executive officers, are reviewed and approved annually by the Compensation Committee typically at its April meeting. The Compensation Committee focuses primarily on the following components in forming the total compensation package for each Company executive officer:

- Base salary;
- Annual cash incentive bonus based on Company performance versus predetermined targets;
- Discretionary cash bonus based upon individual performance; and
- Long-term incentive compensation in the form of stock options.

The mix of executive compensation elements is based upon a philosophy of correlating a portion of executive compensation with the Company's financial and stock performance thus putting a segment of executive officer annual and long-term compensation at-risk. This structure provides upside potential and downside risk for senior executive positions in recognition that these roles have greater influence on the Company's performance.

Base Salaries

To ensure that compensation levels are reasonably competitive with market rates, the Compensation Committee engages independent compensation consultants from time-to-time to conduct a survey of executive compensation in a defined group of companies comparable to the Company. The surveyed companies are selected based on similar products and product lines, comparable financial size in terms of assets and revenues, and other known competitive factors. This process was most recently completed during 2008. While the primary focus of the survey was upon base salaries, the independent consultants were also asked to provide total compensation data for the various officer positions and levels in order to target current and future appropriate compensation levels. The Compensation Committee's past practice has been to generally target base salaries between the 25th and 75th percentile range of the identified peer group.

For the most recent survey, the Company engaged independent compensation consultants (Towers Perrin) to update the work previously performed in 2005 following the same criteria and scope as was done at the time of a previous study. Companies to be considered in the benchmarking process include, among others, American Equity Investment Life, American Fidelity Life, AVIVA, Best Meridian Insurance, Citizens Insurance Company, Lincoln National Life, Old Mutual Financial Network, Pan-American Life, and Sammons Financial Group.

In addition to market information, the Compensation Committee also subjectively reviews and evaluates the level of performance of the Company and of each officer. In approving salary and incentive compensation for individuals other than the Chief Executive Officer and the President and Chief Operating Officer, the Compensation Committee considers recommendations from these two individuals concerning the other Company officers incorporating such factors as individual performance, the scope and complexity of their current responsibilities, length of time in their current positions, value of the executive's position to the market, and difficulty of replacement of the officer. This evaluation focuses most heavily on the base salary levels for each officer.

Annual Incentive Compensation

For certain executive officer positions, the Compensation Committee has determined that annual incentive bonuses are an integral part of the executive's compensation package as the cash bonuses create a direct link between executive compensation and individual and business performance. Consequently, there are four bonus programs in effect which are reviewed and approved annually by the Compensation Committee:

- Executive Officer Bonus Program
- Domestic Marketing Officer Bonus Program
- International Marketing Officer Bonus Program
- Senior Vice President Bonus Program

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Executive Officer Bonus Program. Currently, the participants in the Executive Officer Bonus Program ("Executive Bonus") are the Chairman and Chief Executive Officer (Mr. Robert Moody), the President and Chief Operating Officer (Mr. Ross Moody), the Senior Vice President, Chief Financial & Administrative Officer (Mr. Brian Pribyl), and the Senior Vice President, Chief Information Officer (Mr. Michael Hydanus). In order to tie the compensation under the program with the Company's financial performance, the Executive Bonus includes metrics associated with the Company's annual sales performance, expense management and profitability. In accordance with the program, the Compensation Committee set performance targets for each metric at various levels equating to various bonus level percentages as follows:

Financial Performance Metric	Bonus % Range
Sales	0% to 15%
Expense Management	0% to 12%
Profitability	0% to 12%

The sum of the achieved bonus percentages for each metric, subject to a maximum aggregate percentage of 30%, is applied to the weighted average base salary for each participant to determine the earned bonus amount. The profitability metric is based upon the Company's audited financial statements for the year. Bonus awards are generally paid in the year following the annual financial performance metrics concurrent with the completion of the Company's audit of the year-end financial statements and approval of the award amounts by the Compensation Committee. Accordingly, the Executive Bonus payments in 2008 were primarily based upon the results achieved for 2007 financial performance metrics established by the Compensation Committee. The bonus percentage achieved under the program was 18% and 30% in 2008 and 2007, respectively.

Domestic Marketing Officer Bonus Program. Participants in the Domestic Marketing Officer Bonus Program ("Domestic Bonus") are all domestic marketing officers including assistant vice presidents, vice presidents, and the senior vice president (Mr. Chris Johnson). As these individuals are most able to influence the outcome of the Company's financial performance in terms of sales, the program is heavily weighted toward this metric. The measures associated with this program include the Company's annual sales performance, persistency of policies sold and expense management. These measures were incorporated into the program to award not only the amount of sales but the quality of sales and the management of the costs incurred to acquire the business sold. Unlike the Executive Bonus, the Domestic Bonus metrics assume a targeted level of performance or "par" level to which the Compensation Committee assigned a targeted bonus percentage in order to reflect a disproportionate weighting of the potential bonus award toward the sales metric. If the targeted level for each metric is attained, the sum of the metrics is equal to a bonus percentage of 100% which is applied to the weighted average base salary of each participant. The performance metrics set by the Compensation Committee equating to various bonus level percentages under the program are as follows:

Financial Performance Metric	Par Bonus Level	Bonus % Range
Sales	70%	0% to no limit

Persistency	15%	0% to 30%
Expense Management	15%	0% to 30%

The Domestic Bonus also differs from the Executive Bonus in that the bonus percentage is not subject to a cap and bonus amounts may be advanced quarterly based upon the year-to-date results achieved. Sales metric amounts under the program above the par level increase incrementally with an additional bonus percentage added for every increment of additional sales established by the Compensation Committee. However, if the aggregate sum of the three performance metrics exceeds 100%, the bonus award paid at the end of the calendar year is limited to 100% for each participant. The bonus percentage above 100% is applied to the weighted average base salaries of all participants to create a pool which is paid out to participants in the subsequent calendar year based upon the recommendation of the Domestic Marketing senior vice president and subject to approval by the President and Chief Operating Officer. The Domestic Bonus percentage achieved under the program was 32.5% and 100.5% in 2008 and 2007, respectively.

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International Marketing Officer Bonus Program. Participants in the International Marketing Officer Bonus Program ("International Bonus") are all international marketing officers including assistant vice presidents, vice presidents, and the senior vice president (Mr. Scott Arendale). The International Bonus is identical in format to the Domestic Bonus with the exception that the metric targets established by the Compensation Committee are customized for the differences between the domestic and international lines of business. The weighting of the three performance metrics (annual sales, persistency of policies sold, expense management) is the same as in the Domestic Bonus and all other features are similarly administrated. The International Bonus percentage achieved under the program was 44.0% and 214.0% in 2008 and 2007, respectively.

Senior Vice President Bonus Program. Participants in the Senior Vice President Bonus Program ("Senior VP Bonus") are all Senior Vice Presidents not otherwise included in any of the other three officer bonus programs. Currently, these individuals include the Senior Vice President, Chief Actuary (Mr. Paul Facey), the Senior Vice President, Mortgage Loans and Real Estate (Mr. Charles Milos), the Senior Vice President, Secretary (Mr. James Payne) and the Senior Vice President, Chief Investment Officer (Ms. Patricia Scheuer). In order to tie compensation under the program with the Company's financial performance, the Senior VP Bonus is based entirely upon a profitability metric, namely GAAP operating earnings as a percentage of beginning stockholder's equity. The Compensation Committee set performance targets for this metric equating to various bonus level percentages as follows:

Financial Performance Metric	Bonus %
0.00% to 7.49%	0%
7.50% to 8.49%	6%
8.50% to 9.49%	8%
9.50% and above	10%

The achieved bonus percentage is applied to the weighted average base salary for each participant to determine the earned bonus amount. The bonus determination under the program is based upon the Company's audited financial statements for the year. Bonus awards are paid in the year following the annual financial performance concurrent with the completion of the Company's audit of the year-end financial statements and approval of the award amount by the Compensation Committee. The bonus percentage achieved under the program was 0% in 2008.

Discretionary Bonus Awards

For officers who are not participants in any of three bonus programs, the Compensation Committee considers from time-to-time circumstances which merit the need to recognize outstanding performance in the form of a discretionary bonus. Although many of these situations may be deemed within the normal responsibilities of officers, the Compensation Committee on occasion may provide one-time recognition bonuses to identified officers where the demands of the situation and the results of the effort warrant such recognition. There were no discretionary bonuses awarded in 2008. In 2007, none of the $14,500 total discretionary bonuses awarded to officers was paid to named executive officers. In 2006, total discretionary bonuses awarded to officers totaled $88,000 of which $75,000 was targeted to Mr. Charles Milos for his efforts involving the Company's real estate and investment properties and subsidiary operations.

Long-Term Incentive Compensation

Under the Company's 1995 Stock and Incentive Plan and 2008 Incentive Plan, the Compensation Committee provides Company officers with long-term incentive awards through grants of stock options or stock appreciation rights ("SARs") directly aligning the interest of the officers with stockholder interests. The stock options and SARs have a graded five-year vesting period that begins on the third anniversary date of the grant in order to promote a long-term perspective and to encourage key employees to remain at the Company. All options and SARs to date have been granted at the fair market value of the Company's Class A common stock on the date of the grant. The Compensation Committee believes that stock options and SARs are inherently performance-based and a form of at-risk compensation since the recipient does not benefit unless the Company's common stock price subsequently rises.

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The Compensation Committee is responsible for determining the recipients of the grants, when the grants should be made, and the number of shares to be granted. The size of the awards generally reflect each officer's position relative to other officers in the Company with consideration to total compensation targets obtained from the peer group information previously discussed. In addition, as is the case with base salaries, the Compensation Committee considers the grant recommendations of the Chairman and Chief Executive and the President and Chief Operating Officer for other Company officers.

The normal practice of the Compensation Committee has been to grant stock options awards or SARs every three years at the time of its annual review of officer compensation. In April 2008 the Compensation Committee approved the issuance of 28,268 stock options to selected officers. The Compensation Committee approved the issuance of 2,750 shares to new officers during the third quarter of 2008.

Retirement and Other Benefits

The Company's executive officers are eligible to participate in the health and welfare, 401(k) and defined benefit retirement benefit plans that are offered to other Company employees. In addition, if eligible, executive officers may participate in the following plans:

Group Excess Benefit Plan

Company officers at the senior vice president level and above, as well as those hired or promoted to the vice president level prior to May 1, 2007, including named executive officers, are eligible to participate in a group excess benefit plan which supplements the Company's core medical insurance plan. Administered by a third party insurer, the group excess benefit plan provides coverage for co-pays, deductibles and other out-of-pocket expenses not covered by the core medical insurance plan. Offering such a plan to the selected Company officer levels is viewed as a key component of the overall compensation strategy for attracting and retaining talented executive officers. The benefits provided to each named executive officer are reported in the "All Other Compensation Column" of the Summary Compensation Table.

Non-Qualified Defined Benefit Plan

This plan covers those officers of the Company who were in a senior vice president position or above prior to 1991. The plan provides retirement benefits to those individuals affected by the revisions to the Company's qualified defined benefit pension plan precipitated by the limitations imposed by Internal Revenue Code Section 401(a)(17) and 415. As of December 31, 2008 and 2007, the active officers participating in this plan were Mr. Robert Moody and Mr. Charles Milos. Benefits associated with this plan are disclosed in the Pension Benefits table in the Pension Benefits section.

Non-Qualified Deferred Compensation Plan

This plan allows Company senior officers, including named executive officers, to defer payment of a percentage of their compensation and to provide for up to a 2% matching and 2% profit sharing contribution on plan compensation that exceeds certain qualified plan limits, and additional Company discretionary matching contribution of up to 2% of plan compensation. Company contributions are subject to a vesting schedule based upon the officer's years of service. Benefit information associated with this plan is disclosed in the Non-Qualified Deferred Compensation table included in this Item 11 of the report on Form 10-K and Company contributions are included in the "All Other Compensation" column in the Summary Compensation Table.

Non-Qualified Defined Benefit Plan for Robert L. Moody

This plan specifically covers the Company's Chairman of the Board and Chief Executive Officer, Mr. Robert L. Moody, and is intended to supplement the retirement benefits of the Non-Qualified Defined Benefit Plan, mentioned above, that were limited by the American Jobs Creation Act of 2004. Mr. Moody's benefits associated with this plan are disclosed in the Pension Benefits table in the Pension Benefits section.

Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company

Similar to the previously discussed plan, this plan specifically covers the Company's President and Chief Operating Officer, Mr. Ross R. Moody, and is intended to provide the retirement benefits that comply with the American Jobs Creation Act of 2004. Mr. Moody's benefits associated with this plan are disclosed in the Pension Benefits table in the Pension Benefits section.

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National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody

This program provides an annual payment to Mr. Robert L. Moody equal to 2% of his compensation. The payment made in 2008 related to 2007 compensation is reported in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation table.

Postretirement Benefits

The Company's basic health plan and group excess benefit plan have a provision for individuals serving in the positions of Chairman of the Board or President for seven years or more subsequent to 1980 to continue to receive lifetime health benefits for themselves and their dependents upon retirement. Mr. Robert L. Moody and Mr. Ross R. Moody, currently meet this eligibility criteria.

Perquisites and Other Personal Benefits

The Compensation Committee periodically reviews executive officer perquisites and other benefits based upon information supplied to it by the Company's Human Resources, Legal and Financial departments. In addition to base salaries and annual and long-term bonus incentives, the Company provides its executive officers with certain and varying perquisites and benefits.

The perquisites and personal benefits provided to each named executive officer are reported in the "All Other Compensation Column" of the Summary Compensation Table included in this Item 11 of the report on Form 10-K and are described in further detail in the footnotes to that table.

Stock Ownership Guidelines

The Company does not require its directors or executive officers to own a particular amount of the Company's common stock and accordingly has not established a set of stock ownership guidelines. The Compensation Committee is satisfied that the long-term incentive compensation offered to directors and officers in the form of stock options adequately aligns this group's interest with those of the Company's stockholders.

Employment Agreements

The Company does not utilize employment agreements with its executive officers or other employees. The Company's practice has been to issue offer letters to executive officer candidates when recruited to their positions. In addition to outlining the executive officer's responsibilities, each offer letter specifies the beginning base salary and eligibility for any additional compensation programs overseen by the Compensation Committee. Accordingly, the Company does not have any contractual obligations to its executive officers for severance payments in connection with any termination or change-in-control.

Financial Restatements

The Compensation Committee has not formally adopted a policy with respect to whether retroactive adjustments to any form of compensation paid under arrangements for executive officers will be made where the prior payment was related to financial results of the Company that are subsequently restated. As this situation has not previously been experienced, the Compensation Committee believes that such an issue is best addressed at the time it occurs and all facts and circumstances surrounding the restatement are known.

Tax and Accounting Treatment of Compensation

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for non-performance based compensation over $1 million paid in any one year to each of the individuals who were, at the end of the year, the corporation's chief executive officer and the four other most highly compensated executive officers. Except for the Chairman and Chief Executive Officer of the Company, the levels of non-performance based salary, bonus and other compensation paid do not typically exceed this level. As an insurance company subject to the laws and regulations of the State of Colorado, the Company is currently exempt from the requirements of Section 162(m) of the Internal Revenue Code pursuant to Section 12(g)(2)(G) of the Securities Exchange Act of 1934 until such time as the Company completes a registration filing as a NASDAQ exchange listed registrant.

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The Compensation Committee reserves the right to award compensation to executive officers that may not qualify under Section 162(m) as deductible compensation, however, it will continue to consider all elements of cost to the Company of providing such compensation, including the potential impact, if any, of Section 162(m).

The Company accounts for long-term incentive compensation in the form of stock options to executive officers under the rules set forth within SFAS No. 123(R) which requires the Company to estimate and expense each award of equity compensation over the service period of the award. Other accounting rules require that cash compensation be recorded as an expense at the time the obligation is accrued.

Compensation Committee Report

The Compensation Committee has reviewed each element of executive officer compensation and believes that the compensation philosophy and practices are designed to serve the best interests of the Company and its stockholders. The Compensation Committee also believes that the compensation of the Company's executive officers is both appropriate and consistent with the objectives set by this committee.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth with the Company's management. Based on its reviews and discussions, the Compensation Committee approved and recommended to the Company's Board of Directors that the Compensation Discussion and Analysis be included in this report on Form 10-K for the year ended December 31, 2008.

Members of the Compensation Committee

E. J. Pederson (Chairman)
Stephen E. Glasgow
Louis E. Pauls

Summary Compensation Table

The following table sets forth all of the compensation awarded to, earned by, or paid to the Company's principal executive officer, principal financial officer, and the three other highest paid executive officers for the years ended December 31, 2008, 2007 and 2006.

Name and Principal Position	Year	Salary (a)	Option Awards (b)	Non-Equity Incentive Plan Compen-sation	Change in Pension Value and Nonqualified Deferred Compensation Earnings (e)	All Other Compen-sation (f)	Total
Robert L. Moody	2008	$ 1,648,582	$ (579,747)	$ 263,757 (c)	$ 1,100,754	$ 703,007	$ 3,136,353

Chairman of the Board	2007	1,588,653	(259,064)	495,251	2,733,499	686,181	5,244,520
and Chief Executive	2006	1,536,875	5,705,108	373,001	3,041,422	757,891	11,414,297
Officer							
Ross R. Moody	2008	588,956	(360,998)	90,490 (c)	123,587	60,630	502,665
President and Chief	2007	565,534	(238,177)	160,520	126,568	121,963	736,408
Operating Officer	2006	550,925	2,870,250	118,903	14,951	74,171	3,629,200
Brian M. Pribyl	2008	253,165	16,678	41,863 (c)	4,580	34,937	351,223
Senior Vice President,	2007	252,665	(13,538)	74,695	15,239	36,405	365,466
Chief Financial and	2006	240,600	145,571	54,433	13,409	40,627	494,640
Administrative Officer							
Scott E. Arendale	2008	158,878	(8,878)	321,700 (d)	15,271	20,403	507,374
Senior Vice President,	2007	150,050	5,445	178,101	33,595	17,570	384,761
International Marketing	2006	117,456	123,872	117,085	25,853	12,354	396,620
Charles D. Milos	2008	249,130	(341,443)	-	88,350	44,980	41,017
Senior Vice President,	2007	239,569	(385,385)	-	81,780	50,598	(13,438)
Mortgage Loans and	2006	232,732	1,054,108	-	77,788	43,167	1,407,795
Real Estate							

Note: Columns with no data have been omitted.

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(a) The 2008 amounts in this column include Company and subsidiary Board of Director fees of $27,700 for Mr. Robert L. Moody, $3,750 for Mr. Pribyl, $30,450 for Mr. Ross R. Moody, and $31,200 for Mr. Milos.

(b) The amounts in this column represent the dollar amount recognized for financial statement purposes in accordance with SFAS No. 123(R) for all stock options and SARs granted and outstanding. Negative amounts in this column result from recording the options and SARs at fair value under liability accounting. For a discussion of the assumptions made in the valuation of these option and SARs awards, refer to the Notes to Consolidated Financial Statements section of this Annual Report on Form 10-K.

(c) The amounts for Mr. Robert L. Moody, Mr. Ross R. Moody, and Mr. Pribyl represent bonuses earned under the 2008 Executive Officer Bonus Program. Also included in Mr. Robert L. Moody's amount is $27,373 representing the bonus earned under the NWLIC Retirement Bonus Program.

(d) The amount for Mr. Arendale represents the bonus earned, excluding pool amount, under the 2008 International Marketing Officer Bonus Program plus the pool amount under the 2007 International Marketing Officer Bonus Program paid during 2008.

(e) The amounts in this column represent the change in the accumulated pension benefit under the Company's qualified defined benefit plan for Messrs. Pribyl and Arendale and the change in the accumulated pension benefit under the Company's qualified and non-qualified defined benefit plans for Messrs. Robert L. Moody and Ross R. Moody. For a discussion of the assumptions made in the calculation of these amounts, refer to the Notes to Consolidated Financial Statements section of this Annual Report on Form 10-K.

(f) The amounts in this column include the items summarized in the following table:

All Other Compensation

Name and Principal Position	Year	Company Paid Benefit Premiums (1)	Excess Benefit Claims Paid (2)	Company Contributions To Savings Plans (3)	Company Paid Taxes/ Insurance	Other Perquisites	Total All Other Compen-sation
Robert L. Moody	2008	$ 5,264	$ 8,613	$ 2,300	$ 670,684 (4)	$ 16,146 (5)	$ 703,007
Chairman of the	2007	4,995	2,021	4,500	669,135	5,530	686,181
Board and Chief	2006	4,391	48,850	4,400	667,775	32,475	757,891
Executive Officer							
Ross R. Moody	2008	4,284	7,296	32,557	-	16,493 (6)	60,630
President and Chief	2007	3,884	64,032	34,057	-	19,990	121,963
Operating Officer	2006	3,540	5,649	32,980	-	32,002	74,171

Brian M. Pribyl	2008	8,540	9,638	13,854	-	2,905 (7)	34,937
Senior Vice President,	2007	8,040	10,499	15,435	-	2,431	36,405
Chief Financial and	2006	7,206	15,023	14,661	-	3,737	40,627
Administrative Officer							
Scott E. Arendale	2008	5,305	3,065	8,286	-	3,747 (8)	20,403
Senior Vice President,	2007	4,943	-	9,297	-	3,330	17,570
International	2006	4,314	-	6,412	-	1,628	12,354
Marketing							