AMERICAN NATIONAL INSURANCE CO /TX/
Form 10-K
February 28, 2019

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018
or
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File No. 001- 34280

American National Insurance Company
(Exact name of registrant as specified in its charter)

Texas	74-0484030
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Moody Plaza
Galveston, Texas 77550-7999
(Address of principal executive offices) (Zip Code)
(409) 763-4661
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x Yes ¨ No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The aggregate market value on June 30, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) of the voting stock held by non-affiliates of the registrant was approximately $877.1 million. For

purposes of the determination of the above-stated amount, only directors, executive officers and 10% shareholders are presumed to be affiliates, but neither the registrant nor any such person concedes that they are affiliates of registrant.
As of February 19, 2019, there were 26,885,449 shares of the registrant’s voting common stock, $1.00 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information called for in Part III of this Form 10-K is incorporated by reference to the registrant’s Definitive Proxy Statement to be filed within 120 days of the close of the registrant’s fiscal year in conjunction with the registrant’s annual meeting of shareholders.

AMERICAN NATIONAL INSURANCE COMPANY

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Company Overview

American National Insurance Company was founded in 1905 and has always maintained its corporate headquarters in Galveston, Texas. Our core businesses are life insurance, annuities and property and casualty insurance. We also offer limited health insurance. We provide personalized service to approximately six million policyholders throughout the United States, the District of Columbia, and Puerto Rico. In addition, as of December 31, 2018, we have over $110 billion of life insurance in force.

In this document, we refer to American National Insurance Company and its subsidiaries as the "Company," "we," "our," and "us."

Our vision is to be a leading provider of financial products and services for current and future generations. For more than a century, we have maintained a conservative business approach and corporate culture. We have an unwavering commitment to serve our policyholders, agents, and shareholders by providing excellent service and competitively priced and diversified products. We are committed to profitable growth, which enables us to remain financially strong. Acquisitions that are strategic and offer synergies may be considered, but they are not our primary source of growth. We invest regularly in our distribution channels and markets to fuel our capacity for profitable growth.

We are committed to excellence and maintaining high ethical standards in all our business dealings. Disciplined adherence to our values has allowed us to deliver consistently high levels of service through talented people, who are at the heart of our business. We define our values with the acronym FIRST which stands for Financial strength, Integrity, Respect, Service and Teamwork.

Business Segments

Our family of companies includes five life insurance companies, eight property and casualty insurance companies, and numerous non-insurance subsidiaries. We run and organize our businesses in the following business segments: life segment, annuity segment, health segment, property and casualty segment and our corporate and other segment. The following discussion provides an overview of the products we offer within these segments.

Life Segment

Whole Life. Whole life products provide a guaranteed benefit upon the death of the insured in return for the periodic payment of a fixed premium over a predetermined period. Premium payments may be required for the entire life of the contract, to a specified age or a fixed number of years, and may be level or change in accordance with a predetermined schedule. Whole life insurance includes some policies that provide a participation feature in the form of dividends. Policyholders may receive dividends in cash or apply them to increase death benefits or cash values available upon surrender, or reduce the premiums required to maintain the contract in-force.

Term Life. Term life products provide a guaranteed benefit upon the death of the insured for a specified time period in return for the periodic payment of premiums. Coverage periods typically range from one to thirty years, but in no event longer than the period over which premiums are paid.

Universal Life. Universal life insurance products provide coverage through a contract that gives the policyholder flexibility in premium payments and coverage amounts. Universal life products may allow the policyholder, within certain limits, to increase or decrease the amount of death benefit coverage over the term of the contract and to adjust the frequency and amount of premium payments. Universal life products are interest rate sensitive, and we determine the interest crediting rates during the contract period, subject to policy specific minimums.

An equity-indexed universal life product is credited with interest using a return that is based, in part, on changes in an index, such as the S&P 500 Composite Stock Price Index, subject to a specified minimum.

3

Variable Universal Life. Variable universal life products provide insurance coverage on a similar basis as universal life, except that the policyholder bears the investment risk because the value of the policyholder’s account balance varies with the investment experience of the securities held in the separate account investment options selected by the policyholder.

Credit Life Insurance. Credit life insurance products are sold in connection with a loan or other credit account. Credit life insurance products are designed to pay to the lender the borrower’s remaining debt on a loan or credit account if the borrower dies during the coverage period.

Annuity Segment

Deferred Annuity. A deferred annuity is an asset accumulation product. Deposits are received as a single premium deferred annuity or in a series of payments for a flexible premium deferred annuity. Deposits are credited with interest at our determined rates subject to policy minimums. For certain limited periods of time, usually from one to ten years, interest rates are guaranteed not to change. Deferred annuities usually have surrender charges that begin at issue and reduce over time and may have market value adjustments that can increase or decrease any surrender value.

An equity-indexed deferred annuity is credited with interest using a return that is based, in part, on changes in an index, such as the S&P 500 Composite Stock Price Index, subject to a specified minimum.

Single Premium Immediate Annuity (“SPIA”). A SPIA is purchased with one premium payment, providing periodic (usually monthly or annual) payments to the annuitant for a specified period, such as for the remainder of the annuitant’s life. Return of the original deposit may or may not be guaranteed, depending on the terms of the annuity contract.

Variable Annuity. With a variable annuity the policyholder bears the investment risk because the value of the policyholder’s account balance varies with the investment experience of the separate account investment options selected by the policyholder. Our variable annuity products have no guaranteed minimum withdrawal benefits.

Health Segment

Medicare Supplement. Medicare Supplement insurance is a type of private health insurance designed to supplement or pay the costs of certain medical services not covered by Medicare.

Supplemental Insurance. Supplemental insurance is designed to provide supplemental coverage for specific events or illnesses such as cancer and accidental injury or death, or for short periods of time.

Stop-Loss. Stop-loss coverage is used by employers to limit their exposure under self-insured medical plans. Two coverages, which are usually offered concurrently, are available. Specific Stop-Loss provides coverage when claims for an individual reach a threshold; after the threshold is reached, the policy reimburses claims paid by the employer up to a coverage limit for each individual. Aggregate Stop-Loss reimburses the employer once the group’s total paid claims reach a threshold.

Credit Disability. Credit disability (also called credit accident and health) insurance pays a limited number of monthly payments on a loan or credit account if the borrower becomes disabled during the coverage period.

Medical Expense. Medical expense insurance covers most health expenses including hospitalization, surgery and outpatient services (excluding dental and vision costs). We no longer market these products and existing contracts are in run-off.

4

Property and Casualty Segment

Personal Lines. Personal lines include insurance policies sold to individuals for auto, homeowners and other exposures. Auto insurance covers specific risks involved in owning and operating an automobile. Homeowner insurance provides coverage that protects the insured owner’s or renter’s property against loss from perils. Other personal insurance provides coverage for property such as boats, motorcycles and recreational vehicles.

Commercial Lines. The majority of our commercial lines is Agricultural business insurance. This includes property and casualty coverage tailored for a farm, ranch or other agricultural or agricultural-related business within rural and suburban markets. Commercial auto insurance is typically issued in conjunction with the sale of our Agricultural business insurance and covers specific risks involved in owning and operating vehicles. Other commercial insurance is also offered and encompasses businessowners, property, liability, mortgage security insurance, and workers’ compensation coverages.

Credit-Related Property Insurance Products. We primarily offer the following credit insurance products:

Collateral or Creditor Protection Insurance (“CPI”). CPI provides insurance against loss, expense to recover, or damage to personal property pledged as collateral (typically automobiles and homes) resulting from fire, burglary, collision, or other loss occurrence that would either impair a creditor’s interest or adversely affect the value of the collateral. The coverage is purchased from us by the lender according to the terms of the credit obligation and charged to the borrower by the lender when the borrower fails to provide the required insurance.

Guaranteed Auto Protection or Guaranteed Asset Protection (“GAP”). GAP insures the excess outstanding indebtedness over the primary property insurance benefits that may occur when there is a total loss to or an unrecovered theft of the collateral. GAP can be written on a variety of assets that are used as collateral to secure credit; however, it is most commonly written on automobiles.

Corporate and Other Segment—Our Corporate and Other segment is primarily our invested assets not matched with our insurance activities. It also includes our non-insurance subsidiaries.

Marketing Channels

Product distribution is managed to satisfy the needs of the markets we serve and compete in and to minimize channel conflict across our marketing channels described below. When possible, products are cross-sold to maximize product offerings and return on investment in products and distribution.

Career Sales and Service Division’s (“CSSD”)—can be traced to the Company's founding in 1905, and offers life insurance, annuities, and limited benefit health insurance products through exclusive employee agents primarily to the lower and middle-income market. CSSD's business model is structured to enable agents located throughout the United States to efficiently distribute new products as well as provide personalized service to the customer. CSSD has evolved its operations to offer a wider variety of products and electronic processing to meet the ever changing needs of the customer and the agents that serve them.

Independent Marketing Group ("IMG")—distributes life insurance and annuities through independent agents serving middle and affluent markets, as well as niche markets such as the small pension plan sponsor. IMG provides products and services to clients in need of wealth protection, accumulation, distribution, and transfer. Products are marketed through financial institutions, large marketing organizations, employee benefit firms, broker-dealers, and independent insurance agents and brokers.

IMG also markets to individuals who favor purchasing insurance directly from an insurance company. It offers life insurance to middle-income customers through channels including internet and call centers.

Multiple Line Agencies—offers life insurance, annuities, and property and casualty insurance and a limited amount of health insurance primarily through dedicated agents. This distribution channel serves individuals, families, agricultural clients, and small business owners across the country. Policyholders can generally do all their insurance business with a single agent, which has been identified as an important driver to client satisfaction.

Health Insurance Division—through independent agents and managing general underwriters ("MGU"), serves the needs of a variety of markets including middle-income seniors, self-insured employers, and the special needs of individuals through supplemental products. The Health Division offers an array of life and health insurance products for these growing segments of the population, including group life products, Supplemental health insurance products, and health reinsurance. It remains committed to traditional Medicare Supplement products. The Health Division also administers the health insurance products sold by other marketing channels.

Specialty Markets Group—which was previously referred to as the Credit Insurance Division, offers credit related products that provide protection to borrowers and the creditors that extend credit to them. Products offer coverage against unpaid indebtedness as a result of death, disability, involuntary unemployment or untimely loss to the collateral securing a personal or mortgage loan. Credit product distribution includes general agents who market to financial institutions, automobile dealers, and furniture dealers. The Group also writes renters, aviation, and private flood insurance through managing general agents.

Policyholder Liabilities

We record the amounts for policyholder liabilities in accordance with U.S. generally accepted accounting principles ("GAAP") and the standards of practice of the American Academy of Actuaries. We carry liabilities for future policy benefits associated with base policies and riders, unearned mortality charges and future disability benefits, for other policyholder liabilities associated with unearned premiums and claims payable, and for unearned revenue and the unamortized portion of front-end fees. We also establish liabilities for unpaid claims and claim adjustment expenses, including those that have been incurred but not yet reported. In addition, we carry liabilities for secondary guarantees relating to certain life policies, and fair value reserves associated with embedded derivatives on equity indexed products.

Pursuant to state insurance laws, we establish statutory reserves, which are reported as liabilities, and which generally differ from future policy benefits determined using GAAP on our respective policies. These statutory reserves are established in amounts sufficient to meet policy and contract obligations, when taken together with expected future premiums and interest at assumed rates.

Additional information regarding our policyholder liabilities may be found in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations- Critical Accounting Estimates - Reserves section.

Risk Management

A conservative operating philosophy was a founding principle for our Company and continues to be a guiding principle for us. We manage risks throughout the Company by employing controls throughout our business operations. These controls are designed to both place limits on activities and provide internal reporting information that helps shape adjustments to existing controls. The Company's Board of Directors oversees a formal enterprise risk management program to coordinate risk management efforts and to provide reasonable assurance that risk taking activities are aligned with strategic objectives. The Board Audit Committee assists the Board in its risk management oversight. The risk management program includes a corporate risk officer who chairs a Management Risk Committee intended to ensure consistent application of the enterprise risk management process across all business segments. The Management Risk Committee is supported by two sub-committees, one focusing on life and corporate business risks and the other focusing on property and casualty business risks. In addition, several other senior management committees support the discussion and enforcement of risk controls in the management of the Company.

Our insurance products are designed to balance features desired by the marketplace with provisions that mitigate our risk exposures across our insurance portfolio. We employ underwriting standards to help ensure proper rates are charged to different classes of risks. In our life insurance and annuity products, we mitigate the risk of disintermediation through the use of surrender charges and market value adjustment features.

The process of linking the timing and the amount of paying obligations related to our insurance and annuity contracts and the cash flows and valuations of the invested assets supporting those obligations is commonly referred to as asset-liability management ("ALM"). Our ALM Committee regularly monitors the level of risk in the interaction of assets and liabilities and helps shape actions intended to attain our desired risk-return profile. Investment allocations and duration targets are also intended to manage the risk exposure in our annuity products by setting the credited rate within a range supported by these investments. Tools which help shape investment decisions include deterministic and stochastic interest rate scenario analyses using a licensed, third party economic scenario generator and detailed insurance ALM models. These models also use experience related to surrenders and death claims.

We also manage risk by purchasing reinsurance to limit exposure in our Life, Health, and Property and Casualty segments. In our Life segment, we currently retain 100% of newly developed permanent and term products up to our retention limit and cede the excess. Consistent with our corporate risk management strategy, we periodically adjust our Life reinsurance program and retention limits as market conditions warrant. In our Health segment, we use reinsurance on an excess of loss basis for our medical expense business. In our Property and Casualty segment, our reinsurance program provides coverage for some individual risks with exposures above certain amounts as well as exposure to catastrophes including hurricanes, tornadoes, wind and hail events, earthquakes, fires following earthquakes, winter storms, and wildfires. In all segments, we purchase reinsurance from many providers and regularly review the financial strength ratings of our reinsurers. Reinsurance does not remove our liability to pay our policyholders, and we remain liable to our policyholders for the risks we insure.

In our Property and Casualty segment, the use of catastrophic event models is an important element of risk management. These models assist us in the measurement and management of exposure concentrations and the amount and structure of reinsurance purchases. In addition to reinsurance, we manage exposure to catastrophic risk by limiting property exposure in coastal areas and certain other sensitive areas, implementing hurricane, wind and hail deductible requirements where appropriate, and not renewing coverage in regions where exposure to risky events exceeds our risk appetite.

Pricing

We establish premium rates for life and health insurance products using assumptions as to future mortality, morbidity, persistency, and expenses, all of which are estimates generally based on our experience, industry data, projected investment earnings, competition, regulation and legislation. Premium rates for property and casualty insurance are influenced by many factors, including the estimated frequency and severity of claims, expenses, state regulation and legislation, and general business and economic conditions, including market interest rates and inflation. Profitability is affected to the extent actual experience deviates from our pricing assumptions.

Payments we receive for certain annuity and life products are not recognized as revenues, but are deposits added to policyholder account balances. Revenues from these products are charges to the account balances for the cost of insurance risk and administrative fees and, in some cases surrender fees. Profits are earned to the extent these revenues exceed actual costs. Profits are also earned from investment income on assets invested from the deposits in excess of the amounts credited to policyholders.

Premiums for accident and health policies with medical expense components must take into account the rising utilization and cost of medical care. The annual rate of medical cost inflation has historically been higher than the general rate of inflation, requiring frequent rate increases, most of which are subject to approval by state regulatory agencies.

Credit Life and Health rates are set by each state. These rates are the maximum amounts that may be charged. We may charge a lower rate to reflect a variety of factors including better than expected experience, compensation adjustments, and competitive forces. In the event that an account experiences poor experience, we may request a rate increase from the applicable state.

Competition

We compete principally on the breadth of our product offerings, reputation, marketing expertise and support, the scope of our distribution systems, financial strength and ratings, product features and prices, customer service, claims handling, and in the case of producers, service as well as compensation. The market for insurance, retirement and investment products continues to be highly fragmented and competitive. We compete with a large number of domestic and foreign insurance companies, many of which offer one or more similar products. In addition, for products that include an asset accumulation component, our competition includes domestic and foreign securities firms, investment advisors, mutual funds, banks and other financial institutions.

Several competing insurance carriers are larger than we are, and have brands that are more commonly known and spend significantly more on advertising than we do. We remain competitive with these commonly known brands by managing costs, providing attractive coverage and service, maintaining positive relationships with our agents and our policyholders, and by maintaining our financial strength.

Ratings

Rating agencies provide independent opinions or ratings regarding the capacity of an insurance company to meet the contractual obligations of its insurance policies and contracts. These ratings are based on each rating agency’s quantitative and qualitative evaluation of a company. The rating agencies do not provide ratings as a recommendation to purchase insurance or annuities, nor as a guarantee of an insurer’s current or future ability to meet contractual obligations. Each agency’s rating should be evaluated independently of any other rating. Ratings may be changed, suspended, or withdrawn at any time.

Our current insurer financial strength rating from two of the most widely referenced rating organizations as of the date of this filing are as follows:

- A.M. Best Company: A [1]
- Standard & Poor’s (“S&P”): A [2]

(1) A.M. Best’s active company rating scale consists of thirteen ratings ranging from A++ (Superior) to D (poor).

(2) S&P’s active company ratings scale ‘AAA’ to ‘R’ may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Regulations Applicable to Our Business

Our insurance operations are subject to extensive regulation, primarily at the state level. Such regulation varies by state but generally has its source in statutes that establish requirements for the business of insurance and that grant broad regulatory authority to a state agency. Insurance regulation has a substantial effect on us and governs a wide variety of matters, such as insurance company licensing, agent and adjuster licensing, policy benefits, price setting, accounting practices, product suitability, the payment of dividends, the nature and amount of investments, underwriting practices, reserve requirements, sales and advertising practices, privacy, information systems security, policy forms, reinsurance reserve requirements, risk and solvency assessments, mergers and acquisitions, capital adequacy, transactions with affiliates, participation in shared markets and guaranty associations, claims practices, the remittance of unclaimed property, and enterprise risk management requirements. The models for state laws and regulations often emanate from the National Association of Insurance Commissioners ("NAIC").
State insurance departments monitor compliance with regulations through periodic reporting procedures and examinations. At any given time, financial, market conduct or other examinations of our insurance companies may be occurring.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") expanded the U.S. federal government presence in insurance oversight. Dodd-Frank's requirements include streamlining the state-based regulation of reinsurance and non-admitted insurance. Dodd-Frank also established the Federal Insurance Office ("FIO") within the U.S. Department of Treasury, which is authorized to, among other things, gather data and information to monitor aspects of the insurance industry, identify certain issues in the regulation of insurers, and preempt state insurance measures under certain circumstances. There may be further federal involvement in the business of insurance in the future, which may add significant legal complexity and associated costs to our business.

Regulatory matters having the most significant effects on our insurance operations and financial reporting are described further below. In addition, Item 1A, Risk Factors, Litigation and Regulation Risk Factors, below discusses significant risks presented to our business by extensive regulation and describes certain other laws and regulations that are or may become applicable to us.

Limitations on Dividends by Insurance Subsidiaries. Dividends received from our insurance subsidiaries represent one source of cash for us. Our insurance subsidiaries' ability to pay dividends is restricted by state law and impacted by federal income tax considerations.

Holding Company Regulation. We are an insurance holding company system under the insurance laws of the states where we do business. Our insurance companies are organized under the laws of Texas, Missouri, New York, Louisiana, and California. Insurance holding company system laws and regulations in such states generally require periodic reporting to state insurance regulators of various business, enterprise risk management and financial matters and advance notice to, and in some cases approval by, such regulators prior to certain transactions between insurers and their affiliates. These laws also generally require regulatory approval prior to the acquisition of a controlling interest in an insurance company. These requirements may deter or delay certain transactions considered desirable by management or our stockholders.

Rate Regulation. Nearly all states have laws that require life, health, credit, and property and casualty insurers to file rate schedules and require most insurers to file policy or coverage forms and other information with the state's regulatory authority. In many cases these must be approved prior to use. The objectives of rate laws vary, but generally a price cannot be excessive, inadequate or unfairly discriminatory. Prohibitions on discriminatory pricing apply in the context of certain products as well.

Our ability to adjust prices is often dependent on the applicable pricing law and our ability to demonstrate to the particular regulator that current or proposed pricing complies with such law. In states that significantly restrict underwriting selectivity, we can manage our risk of loss by charging a price that reflects the cost and expense of providing insurance products. In states that significantly restrict price-setting ability, we can manage our risk of loss by being more selective in underwriting. When a state has significant underwriting and pricing restrictions, it becomes more difficult to manage our risk of loss, which can adversely impact our ability to market products profitably in such states.

Guaranty Associations and Involuntary Markets. State laws allow insurers to be assessed, subject to prescribed limits, insurance guaranty fund fees to pay certain obligations of insolvent insurance companies. In addition, to maintain our licenses to write property and casualty insurance in various states, we are required to participate in assigned risk plans, reinsurance facilities, and joint underwriting associations that provide various insurance coverages to purchasers that otherwise are unable to obtain coverage from private insurers. Underwriting results related to these arrangements, which tend to be adverse, have not been material to our results of operations.

Investment Regulation. Insurance company investment regulations require investment portfolio diversification and limit the amount of investment in certain asset categories. Failure to comply with these regulations leads to the treatment of non-conforming investments as non-admitted assets for measuring statutory surplus. In some instances, these rules require sale of non-conforming investments.

Exiting Geographic Markets, Canceling and Non-Renewing Policies. Most states regulate an insurer’s ability to exit a market by limiting the ability to cancel and non-renew policies. Some states prohibit an insurer from withdrawing one or more types of insurance business from the state, except pursuant to an approved plan. These regulations could restrict our ability to exit unprofitable markets.

Statutory Accounting. Financial reports to state insurance regulators utilize statutory accounting practices as defined in the Accounting Practices and Procedures Manual of the NAIC, which are different from GAAP. Statutory accounting practices, in keeping with the intent to assure the protection of policyholders, are generally based on a solvency concept, while GAAP is based on a going-concern concept. While not a substitute for GAAP performance measures, statutory information is used by industry analysts and reporting sources to compare the performance of insurance companies. Maintaining both GAAP and Statutory financial records increases our business costs.

Insurance Reserves. State insurance laws require life and property and casualty insurers to annually analyze the adequacy of statutory reserves. Our appointed actuaries must submit opinions annually for our insurance companies that policyholder and claim reserves are adequate.

Risk-Based Capital and Solvency Requirements. The NAIC has a formula for analyzing capital levels of insurance companies called risk-based capital (“RBC”). The RBC formula has minimum capital thresholds that vary with the size and mix of a company’s business and assets. It is designed to identify companies with capital levels that may require regulatory attention. At its June 2018 meeting, the NAIC’s Capital Adequacy Task Force adopted a change to the formulas used to calculate risk-based capital to reflect the lower federal corporate income tax rate applicable under the Tax Cuts and Jobs Act of 2017. The NAIC’s risk-based capital formulas now employ a tax factor of 21%, instead of 35%. Despite this change, at December 31, 2018, American National Insurance Company and each of its insurance subsidiaries remained more than adequately capitalized and exceeded the minimum RBC requirements.

Securities Regulation. The sale and administration of variable life insurance and variable annuities are subject to extensive regulation at the federal and state level, including by the Securities and Exchange Commission (“SEC”) and the Financial Industry Regulatory Authority (“FINRA”). Our variable annuity contracts and variable life insurance policies are issued through separate accounts that are registered with the SEC as investment companies under the Investment Company Act of 1940. Each registered separate account is generally divided into sub-accounts, each of which invests in an underlying mutual fund that is itself a registered investment company under such act. In addition, the variable annuity contracts and variable life insurance policies issued by the separate accounts generally are registered with the SEC under the Securities Act of 1933. The U.S. federal and state regulatory authorities and FINRA from time to time make inquiries and conduct examinations regarding our compliance with securities and other laws and regulations.

In addition, our periodic reports and proxy statements to stockholders are subject to the requirements of the Securities Exchange Act of 1934 and corresponding rules of the SEC, and our corporate governance processes are subject to regulation by the SEC and the NASDAQ Stock Market. Our registered wholesale broker-dealer and registered investment adviser subsidiaries are subject to regulation and supervision by the SEC, FINRA and, in some cases, state securities administrators.

Suitability. FINRA rules require broker-dealers selling variable insurance products to determine that transactions in such products are "suitable" to the circumstances of the particular customer. In addition, most states have enacted the NAIC's Suitability in Annuity Transactions Model Regulation that, in adopting states, places suitability responsibilities on insurance companies in the sale of fixed and indexed annuities, including responsibilities for training agents. The NAIC is considering revisions to this model regulation that would further elevate the standard of care for annuity sales. New York already has taken further action, through the adoption by the New York Department of Financial Services of a regulation that requires in part that life insurance policies and annuity contracts delivered or issued for delivery in New York be in the best interest of the consumer, effective August 1, 2019 for annuities and February 1, 2020 for life insurance.

Protection of Consumer Information. U.S. federal laws, such as the Gramm-Leach-Bliley Act, and the laws of some states regulate disclosures of certain customer information and require us to protect the security and confidentiality of such information. Such laws also require us to notify customers about our policies and practices relating to the collection, protection and disclosure of confidential customer information. State and federal laws, such as the federal Health Insurance Portability and Accountability Act regulate our use, protection and disclosure of certain personal health information. In addition, most states have laws or regulations that require us to notify regulators and affected customers in the event of a data breach.

On June 28, 2018, California enacted a sweeping new privacy law known as the California Consumer Privacy Act of 2018 ("CCPA"), with an original effective date of January 1, 2020. The CCPA requires enhanced customer disclosure about how a business collects and uses personal data, how such data is used in business processes, and with and to whom customer data is shared or sold. In addition, the CCPA also affords a consumer a "right to be forgotten" in certain circumstances. On August 31, 2018, the California State Legislature passed SB-1121, a bill that delays enforcement of the CCPA until July 1, 2020 and makes other amendments and clarifications to the law. Such clarifications include exempting from certain requirements of the CCPA information that is collected, processed, sold or disclosed pursuant to the California Information Privacy Act, the federal Gramm-Leach-Bliley Act or the federal Driver's Protection Act. The revisions, however, do not exempt such information from the CCPA's private right of action provision in all instances. Additionally, the definition of "personal information" in the CCPA is broad and may encompass other information that we maintain in our California business beyond that excluded under the Gramm-Leach-Bliley Act, Driver's Protection Act or the California Information Privacy Act exemption.

In addition, the Fair Credit Reporting Act (the "FCRA") is a federal law that governs the use and sharing of consumer credit information provided by a consumer reporting agency. Requirements under the FCRA apply to an insurer if such insurer obtains and uses consumer credit information to underwrite insurance. Such requirements may include obtaining the consumer's consent and providing various notices to the consumer. While the use of consumer credit information in the underwriting process is expressly authorized by the FCRA, various states have issued regulations that limit or prohibit the use of consumer credit information by insurers, and some consumer groups continue to criticize the use of credit-based insurance scoring in underwriting and rating processes. As a result of a 2017 data breach of a major credit reporting agency, there may be additional efforts at the federal or state level to regulate the use of credit-based information by insurers. Any such regulation could force changes in our underwriting practices and impact our profitability.

Cybersecurity. In recent years, millions of consumers and businesses have been impacted by data breaches of companies in various industries, increasing the regulatory focus on cybersecurity. With the August 28, 2017 effectiveness of new regulations applicable to certain financial institutions, New York became the first state to adopt minimum cybersecurity standards. It is expected that other states will follow suit. The new regulation of the New York Department of Financial Services ("NYDFS") requires financial institutions authorized to do business under New York banking, insurance or other financial services laws, including certain of our subsidiaries, to develop a cybersecurity program and policy based on an assessment of the institution's cybersecurity risks, designate a Chief Information Security Officer, maintain written policies and procedures with respect to third party service providers, limit who has access to data or systems, use qualified cybersecurity personnel to manage cybersecurity risks, notify the NYDFS of a cybersecurity event within seventy-two hours, maintain a written incident response plan and provide the NYDFS with an annual certification of compliance.

In addition, the NAIC has adopted the Cybersecurity Bill of Rights, a set of directives aimed at protecting consumer data, and the Insurance Data Security Model Law. The data security model law establishes standards for data security in the insurance industry, including standards for investigating a data breach and requiring certain notifications to regulators, producers and consumers. South Carolina became the first state to adopt the data security model law in May 2018, and its compliance requirements will be fully enacted by July 1, 2020. Several other states are considering adopting this model law. While it is not mandatory for insurers to comply with an NAIC model law, nor for states to adopt a model law, state and federal legislators and regulators are likely to look to the model law, as well as the NYDFS regulation, for guidance in proposing new legislation and regulation. The NAIC model law could also become a standard to which insurance companies are held in decisions on whether to bring enforcement actions. The NAIC has also strengthened and enhanced the cybersecurity guidance included in its handbook for state insurance examiners. We expect a continuing focus at the state and federal levels on the privacy and security of personal information.
Anti-Money Laundering. Federal law and regulation requires us to take certain steps to help prevent and detect money laundering activities. The USA PATRIOT Act of 2001 contains anti-money laundering and financial transparency requirements applicable to certain financial services companies, including insurance companies. The Bank Secrecy Act requires insurers to implement a risk-based compliance program to detect, deter and (in some cases) report financial or other illicit crimes including, but not limited to, money laundering and terrorist financing. The Office of Foreign Assets Control ("OFAC"), a division of the U.S. Treasury Department, administers and enforces economic and trade sanctions. For certain transactions, an insurer may be required to search policyholder, agent, vendor and employee databases for specially designated nationals or suspected terrorists, in order to comply with OFAC obligations.

Healthcare Regulation. We are subject to various conditions and requirements of the Patient Protection and Affordable Care Act of 2010 (the "Healthcare Act"). The Healthcare Act affects the small blocks of business we have offered or acquired over the years that are, or are deemed to be, health insurance. The Healthcare Act also influences the design of products sold by our Health segment, which may influence consumer acceptance of such products and the cost of monitoring compliance with the Healthcare Act. Moreover, the Healthcare Act affects the benefit plans we sponsor for employees, retirees and their dependents, our expense to provide such benefits, our tax liabilities in connection with the provision of such benefits, and our ability to attract or retain employees. Any repeal, replacement or amendment of the Healthcare Act could have similar effects on us. Although President Trump and many Congressional Republicans have indicated a desire to repeal or revise the Healthcare Act, the fate of these proposals is unclear. Further, a December 2018 decision by the federal district court for the Northern District of Texas ruled the Healthcare Act to be unconstitutional. The Healthcare Act will remain in effect during the likely appeals process; however, such litigation creates further uncertainty regarding the future of the Healthcare Act. We are unable to predict how these events will ultimately be resolved and what the potential impact may be on the Healthcare Act and our business.

Environmental Considerations. As an owner and operator of real property, we are subject to extensive federal, state and local environmental laws and regulations. Inherent in such ownership and operation is the risk that there may be potential environmental liabilities and costs in connection with any required remediation of such properties. We routinely have environmental assessments performed with respect to real estate being acquired for investment or through foreclosure, but we cannot provide assurance that unexpected environmental liabilities will not arise. In addition, we hold equity interests in companies that could potentially be subject to environmental liabilities. Based on information currently available to us, management believes that any costs associated with compliance with environmental laws and regulations or any required remediation will not have a material adverse effect on our business, results of operations or financial condition.

Other types of regulations that affect us include insurable interest laws, employee benefit plan laws, antitrust laws, employment and labor laws, and federal and state tax laws. Failure to comply with federal and state laws and regulations may result in censure; the issuance of cease-and-desist orders; suspension, termination or limitation of the activities of our operations and/or our employees and agents; or the obligation to pay fines, penalties, assessments, interest, or additional taxes and wages. In some cases, severe penalties may be imposed for breach of these laws. We cannot predict the impact of these actions on our business, results of operations or financial condition.

Employees

As of December 31, 2018, we had approximately 4,640 employees. We consider our employee relations to be good.

Available Information
We file periodic and current reports, proxy statements and other information with the SEC. The SEC maintains a website (www.sec.gov) that contains reports, proxy statements, and other information regarding issuers that file electronically with the SEC, including us.
Our press releases, financial information and reports filed with the SEC (for example, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those forms) are also available online at www.americannational.com. The reference to our website does not constitute the incorporation by reference of information contained at such website into this, or any other, report. Copies of any documents on our website are available without charge, and reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC.

ITEM 1A. RISK FACTORS
Our performance is dependent on our ability to manage complex operational, financial, legal, and regulatory risks and uncertainties throughout our operations. The most significant of these risks and uncertainties are described below. Any of these, individually or in the aggregate, could materially adversely impair our business, financial condition or results of operations, particularly if our actual experience differs from our estimates and assumptions. While our enterprise risk management framework contains various strategies, processes, policies and procedures to address these risks and uncertainties, we cannot be certain that these measures will be implemented successfully in all circumstances. In addition, we could experience risks that we failed to identify, or risks of a magnitude greater than expected.
Economic and Investment Market Risk Factors
Our results of operations are materially affected by economic and political conditions in the U.S. and elsewhere. The strength and sustainability of economic activity is inherently uncertain. Factors such as unemployment, declining workforce participation, consumer prices, geopolitical and international trade issues, energy prices, stagnant or declining family incomes, consumer confidence and spending, and increased student and consumer debt can adversely affect the economy and demand for our products. Unfavorable economic developments could adversely affect us if our customers have less need for insurance coverage, cancel existing insurance policies, modify coverage, or choose not to renew with us. Challenging economic conditions may impair the ability of our customers to pay premiums as they come due.
Interest rates have a significant impact on our business and on consumer demand for our products. When interest rates rise, the value of our investment portfolio may decline due to decreases in the fair value of our fixed maturity securities. In addition, increasing rates on other insurance or investment products offered by competitors can lead to higher surrenders by our customers at a time when fixed maturity investment asset values are lower. We may react to market conditions by increasing crediting rates, which narrows our “spread,” or the difference between the amounts we earn on investment and the amount we must pay under our contracts. Decreasing interest rates also can adversely affect our spreads, particularly with interest-sensitive life insurance and fixed annuities. An environment of persistently low (or lower) interest rates, as in recent years, compounds this spread compression. Further, when market interest rates decrease or remain at relatively low levels, prepayments and redemptions affecting our investment securities and mortgage loan investments may increase as issuers and borrowers seek to refinance at a lower rate. Proceeds from maturing, prepaid or sold bonds or mortgage loan investments may be reinvested at lower yields, reducing our spread. Our ability to decrease product crediting rates in response may be limited by market and competitive conditions and by regulatory or contractual minimum rate guarantees. While we use ALM processes to mitigate the effect on our spreads of changes in interest rates, they may not be fully effective. See the Risk Management discussion in Item 1 above and the General Trends discussion in Part II, Item 7 below for further details about interest rates and our ALM processes.
Fluctuations in the markets for fixed maturity securities, equity securities, and commercial real estate could adversely affect our business. Investment returns are an important part of our profitability. Substantially all investments, including our fixed maturity, equity, real estate and mortgage loan investment portfolios, are subject to market and credit risks, including market volatility and deterioration in the credit or prospects of companies or governmental

entities in which we invest. We could incur significant losses from such risks, particularly during extreme market events. The concentration of our investments in any particular industry, group of related industries or government issuers, or geographic area can compound these risks. Moreover, the Board of Governors of the Federal Reserve System has moved towards normalizing monetary policy from the programs of recent years that have fostered a historically low interest rate environment. In addition to resulting in higher interest rates, this move has generated volatility in debt and equity markets, which could continue or worsen.

In addition to negatively affecting investment returns, equity market downturns and volatility can have other adverse effects on us. First, equity market downturns and volatility may discourage new purchases of our products that have returns linked to the performance of the equity market and may cause some existing customers to withdraw cash values or reduce investments in such products, in turn reducing our fee revenues. Second, the guarantees provided under certain products may cost more than expected in volatile or declining equity market conditions, which could negatively affect our earnings. Third, our estimates of liabilities and expenses for pension and other postretirement benefits incorporate assumptions regarding the rate used to discount estimated future liabilities and the long-term rate of return on plan assets. Declines in the discount rate or the rate of return on plan assets, both of which are influenced by potential investment returns, could increase our required cash contributions or pension-related expenses in future periods.

Some of our investments are relatively illiquid. Investments in privately placed securities, mortgage loans, and real estate, including real estate joint ventures and other equity interests, are relatively illiquid. If we suddenly require significant amounts of cash in excess of ordinary cash requirements, it may be difficult or not possible to sell these investments in an orderly manner for a favorable price.

Operational Risk Factors

Our actual experience could differ from our estimates and assumptions. Our product pricing includes long-term assumptions such as investment returns, mortality, morbidity (the rate of incidence of illness), persistency (the rate at which policies remain in-force), and operating expenses. Our profitability substantially depends on actual experience being consistent with or better than these assumptions. If we fail to appropriately price our insured risks, or if claims experience is more severe than we assumed, our earnings and financial condition may be negatively affected. Conversely, significantly overpriced risks may negatively impact new business sales and retention of existing business.

Our loss reserves are estimates of amounts needed to pay and administer incurred claims and, as such, are inherently uncertain; they do not and cannot represent exact measures of liability. Inflationary events, especially events outside of historical norms, or regulatory changes that affect the assumptions underlying our estimates can cause variability. For example, increases in costs for auto parts and repair services, construction costs, and commodities (whether as a result of market forces, tariffs or other conditions or events) result in higher losses for property damage claims. Accordingly, our loss reserves could prove to be inadequate to cover our actual losses and related expenses. See Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates—Reserves for additional information.

With respect to our investments, the determination of estimates for allowances and impairments varies by investment type and is based upon our periodic evaluation of known and inherent risks associated with the respective asset class. Historical trends and assumed changes may not be indicative of future impairments or allowances. See Note 2, Summary of Significant Accounting Policies and Practices, of the Notes to the Consolidated Financial Statements for further description of our evaluation of impairments.

Assumptions regarding the future realization of deferred tax assets are dependent upon estimating the generation of sufficient future taxable income, including capital gains. If future events differ from our current forecasts and it is determined that deferred tax assets cannot be realized, a deferred tax valuation allowance must be established, with a charge to expenses.

Interest rate fluctuations and other events may require us to accelerate the amortization of deferred policy acquisition costs (“DAC”). When interest rates rise, life and annuity surrenders and withdrawals may increase as policyholders seek to buy products with higher or perceived higher returns, impacting estimates of future profits. Significantly lower future profits may cause us to accelerate DAC amortization, and such acceleration could adversely affect our results of operations to the extent such amortization exceeds any surrender or other charges earned as income upon surrender and withdrawal. See also Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates, and Part II, Item 8, Financial Statements and Supplementary Data - Note 2, Summary of Significant Accounting Policies and Practices, and Note 10, Deferred Policy Acquisition Costs, of the Notes to the Consolidated Financial Statements for additional information.

We may be unable to maintain the availability and performance of our systems and to safeguard our data and our customers' confidential information and privacy. We rely on the availability, reliability, and security of internet technologies, our internal networks, information-processing infrastructure, system platforms, business applications and third-party providers to receive, store, process, retrieve, calculate and evaluate customer and company information, including to provide insurance quotes, process premium payments, administer our products, provide customer support, file and pay claims and make changes to existing policies, among many other functions. We also use systems for investment management, financial reporting and data analysis to support our policyholder reserves and other actuarial estimates. We have developed or evolved strategies and processes to secure, maintain and enhance our existing internal networks, technology and processing infrastructure and our information systems and to update or replace certain information systems to keep pace with advancing technology, changing customer preferences and expectations, and increasingly stringent industry and regulatory standards. However, system failures, extended unavailability or other outages, or damage or destruction to internal or external networks or systems, whether caused by intentional or unintentional acts or events, as well as difficulties arising from the implementation of security-threat system patches, third-party system upgrades, and new systems and technologies, could compromise our ability to perform critical functions on a timely basis. For instance, if these systems were inaccessible or inoperable, or if they fail to function effectively or as designed, the resulting disruptions may impede or interrupt our business operations, cause misstated or unreliable financial data, or impact the effectiveness of our internal controls over financial reporting.

In certain lines of our business, our information technology and telecommunication systems interface with and rely upon third-party services, over which we have no direct control, including providers of computing infrastructure platforms commonly known as the “cloud.” We are highly dependent on our ability to access these external services for necessary business functions, such as acquiring new business, managing existing business, paying claims, and ensuring timely and accurate financial reporting. If we do not effectively develop, implement and monitor these relationships, if third-party providers do not perform as anticipated, if technological or other problems are incurred with a transition, or if outsourcing relationships relevant to our business process functions are terminated, we may not realize expected productivity improvements or cost-efficiencies, and we may experience operational difficulties, increased costs and a loss of business.

We receive and transmit legally protected information with and among customers, agents, financial institutions and selected third party vendors and service providers, including personally identifiable policyholder information. We have invested significant time and resources towards preventing and mitigating risks through security vulnerability assessments and several layers of data intrusion and detection protection technologies, designs and authentication capabilities. Our efforts may not be effective against all security threats and breach attempts in light of increasingly complex and persistent threat techniques and the evolving sophistication of individual and state-sponsored cyber-attacks. A breach, whether from external or internal sources, or from the theft or loss of equipment, can result in access, viewing, misappropriation, altering or deleting information in ours or a third party’s systems on which we rely, including customers’, agents’ and employees’ sensitive personal and financial information and our proprietary business information. Like other companies, we have experienced threats to our data and systems, including malware and ransomware, seeking to gain unauthorized access to systems and data or to cause disruptions in service. In addition, a limited number of spoofing attacks have been carried out by individuals impersonating customers, which have resulted in unauthorized withdrawals from certain customer accounts. Such withdrawals have been refunded by us, and we believe we have implemented appropriate business process changes to help mitigate future attacks. To date, these various threats and attacks have not been material to our operations. However, any significant attacks, unauthorized access or disclosures, disruptions or other security breaches, whether affecting us or third parties, could result in substantial business disruption and consequences, including without limitation, costs of repairing or replacing systems, increased security costs, costs of customer notifications and credit monitoring services, lost revenues, litigation, regulatory action, fines and penalties, and harm to customer and producer confidence and our reputation. While we have purchased cybersecurity risk insurance and intend to assess the adequacy of this insurance annually, this insurance may not be sufficient in scope or amount to cover all of our losses from breaches of our data.

Cybersecurity risks may also cause an index’s performance to be incorrectly calculated, which could affect the calculation of values under certain of our insurance and annuity contracts. We are not responsible for the calculation of any index. Breaches in cybersecurity may also negatively affect the value of the securities or other investments that comprise or define an index.

Employee and agent error and misconduct may be difficult to detect and prevent and may result in significant losses. The actions or inaction of our employees, agents, producers, managing general agents, managing general underwriters and third party administrators could result in losses arising from, among other things, fraud, errors, failure to properly document transactions, failure to obtain proper internal authorization, failure to maintain effective internal controls, or failure to comply with underwriting guidelines or regulatory requirements. It is not always possible to deter or prevent misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases.

Our business operations depend on our ability to appropriately distribute, execute and administer our policies and claims. Our primary business is writing and servicing life, annuity, property and casualty, and health insurance for individuals, families and businesses. Any problems or discrepancies that arise in our pricing, underwriting, billing, processing, claims handling or other practices, whether as a result of employee error, vendor error, or technological problems, could have a negative effect on operations and reputation, particularly if such problems or discrepancies are replicated through multiple policies.
If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results, which may adversely impact our Company.

It is necessary for us to maintain effective internal controls over financial reporting to prevent fraud and errors and to maintain effective disclosure controls and procedures to provide timely and reliable financial and other information. In our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, we disclosed certain material weaknesses in our internal controls over financial reporting. After enhancements to our internal controls, we concluded as of the end of fiscal year 2017 that our internal controls over financial reporting and our disclosure controls and procedures were effective. We have also concluded as of and for the year ended December 31, 2018 that our internal controls over financial reporting and our disclosure controls and procedures are effective. However, we cannot be certain that we will be able to prevent future material weaknesses or that there are no existing, but as yet undiscovered, weaknesses that we need to address. A failure to maintain adequate internal controls may adversely affect our ability to provide information that accurately reflects our financial condition on a timely basis. This could cause an adverse effect on our business, results of operations and the market price of our stock if investors, customers, rating agencies, regulators or others lose confidence in our reported financial and other information, if we become subject to SEC or other regulatory review and sanctions, or if we become subject to litigation that results in substantial fines, penalties or liabilities.

Catastrophic Event Risk Factors
We may incur significant losses resulting from catastrophic events. Our property and casualty operations are exposed to catastrophes caused by natural events, such as hurricanes, tornadoes, wildfires, droughts, earthquakes, snow, hail and windstorms, and manmade events, such as terrorism, riots, explosions, hazardous material releases, and utility outages. Our life and health insurance operations are exposed to the risk of catastrophic mortality or illness, such as a pandemic, an outbreak of an easily communicable disease, or another event that causes a large number of deaths or high morbidity. Our investment operations are exposed to catastrophes as a result of direct investments and mortgages related to real estate. Our operating results may vary significantly from one period to the next since the likelihood, timing, severity, number or type of catastrophe events cannot be accurately predicted. Our losses in connection with catastrophic events are primarily a function of the severity of the event and the amount of our exposure in the affected area.

Many scientists, legislators and regulators believe climate change has added to the unpredictability, severity and frequency of extreme weather and loss events. To the extent climate change increases the frequency and severity of such events, we may face increased claims, and we may experience investment losses as a result of such events. Predicting the frequency and severity of extreme weather and loss events is inherently uncertain. Moreover, we cannot predict how legal, regulatory and social responses to concerns about global climate change will impact our business or the value of our investments.

The occurrence of events that are unanticipated in our business continuity and disaster recovery planning could impair our ability to conduct business effectively. Our corporate headquarters is located in Galveston, Texas, on the coast of the Gulf of Mexico and in the past has been impacted by hurricanes. Our League City, Texas offices are designed to support our operations and service our policyholders in the event of a hurricane or other natural disaster affecting Galveston. The primary offices of our property and casualty insurance companies are in Springfield, Missouri and

Glenmont, New York, which helps to insulate these facilities and their operations from coastal catastrophes. However, the severity, timing, duration or extent of an event may be unanticipated by our business continuity planning, which could result in an adverse impact on our ability to conduct business. In the event a significant number of our employees or agents were unavailable or unable to work following such a disaster, or if our computer-based data processing, transmission, storage and retrieval systems were affected, our ability to effectively conduct our business could be compromised.

Marketplace Risk Factors
Our future results are dependent in part on successfully operating in insurance and annuity industries that are highly competitive with regard to customers and producers. Strong competition for customers has led to increased marketing and advertising by our competitors, many of whom have well-established national reputations and greater financial and marketing resources, as well as the introduction of new insurance products and aggressive pricing. These competitive pressures could result in increased pricing pressures on a number of our products and services, particularly as competitors seek to win market share, and may limit our ability to maintain or increase our profitability. Because of its relatively low cost of entry, the Internet has emerged as a significant place of new competition, both from existing competitors and new competitors. In addition, product development and life-cycles have shortened in many product segments, leading to intense competition with respect to product features.

We compete for customers' funds with a variety of investment products offered by financial services companies other than insurance companies, such as banks, investment advisors, mutual fund companies and other financial institutions. Moreover, customer expectations are evolving as technology advances and consumers become accustomed to enjoying tailored, easy to-use-services and products from various industries. This is reshaping and raising consumer expectations when dealing with insurance. We are addressing these changing consumer expectations by investing in technology with a particular focus on consumer-facing sales and service platforms, by internally promoting a strategically-focused innovative culture initiative, and by creating internal forums to drive next generation solutions based on consumer insights. However, if we cannot effectively respond to increased competition and such increased consumer expectations, we may not be able to grow our business or we may lose market share.

We compete with other insurers for producers primarily on the basis of our financial position, reputation, stable ownership, support services, compensation, product features and pricing. We may be unable to compete with insurers that adopt more aggressive pricing or compensation, that offer a broader array of products or packages of products, or that have extensive promotional and advertising campaigns.

Our supplemental health business could be negatively affected by alternative healthcare providers or changes in federal healthcare policy. Our Medicare Supplement business is impacted by market trends in the senior-aged healthcare industry that provide alternatives to traditional Medicare, such as health maintenance organizations and other managed care or private plans. The success of these alternative healthcare solutions for seniors could negatively affect the sales and premium growth of traditional Medicare Supplement insurance and could impact our ability to offer such products. In addition, Congress or the U.S. Department of Health and Human Services ("HHS") could make changes in federal healthcare policy, including Medicare that could adversely impact our supplemental health business.

Litigation and Regulation Risk Factors
Litigation may result in significant financial losses and harm our reputation. Plaintiffs may bring lawsuits, including class actions, against us relating to, among other things, sales or underwriting practices, agent misconduct, product design, product disclosure, product administration, fees charged, denial or delay of benefits, product suitability, claims-handling practices (including the permitted use of aftermarket, non-original equipment manufacturer auto parts), loss valuation methodology, refund practices, employment matters, and breaches of duties to customers. Plaintiffs may seek very large or indeterminate amounts, including punitive and treble damages. The damages claimed and the amount of any probable and estimable liability, if any, may remain unknown for substantial periods of time. Even when successful in the defense of such actions, we could incur significant attorneys' fees, direct litigation costs and substantial amounts of management time that otherwise would be devoted to our business, and our reputation could be harmed.

17

We are subject to extensive regulation, and potential further regulation may increase our operating costs and limit our growth. We are subject to extensive insurance laws and regulations that affect nearly every aspect of our business. We are also subject to additional laws and regulations administered and enforced by a number of different governmental authorities, such as state securities and workforce regulators, the SEC, the Internal Revenue Service (“IRS”), FINRA, the U.S. Department of Justice, the U.S. Department of Labor (“DOL”), the U.S. Department of Housing and Urban Development (“HUD”), HHS, the Federal Trade Commission and state attorneys general, each of which exercises a degree of interpretive latitude. We face the risk that any particular regulator’s or enforcement authority’s interpretation of a legal issue may conflict with that of another regulator or enforcement authority or may change over time to our detriment. Regulatory investigations, which can be broad and unpredictable, may raise issues not identified previously and could result in new legal actions against us and industry-wide regulations that could adversely affect us. Further, we are experiencing increasing information requests from regulators without corresponding direct regulation being applicable to us, on issues such as climate change and our investments in certain companies or industries. Responding to such requests adds to our compliance burden.

The laws and regulations applicable to us are complex and subject to change, and compliance is time consuming and personnel-intensive. Changes in these laws and regulations, or interpretations by courts or regulators, may materially increase our costs of doing business and may result in changes to our practices that may limit our ability to grow and improve our profitability. Regulatory developments or actions against us could have material adverse financial effects and could harm our reputation. Among other things, we could be fined, prohibited from engaging in some or all of our business activities, or made subject to limitations or conditions on our business activities.

As insurance industry practices and legal, judicial, social, and other conditions outside of our control change, unexpected issues related to claims and coverage may emerge. These changes may include modifications to long established business practices or policy interpretations, which may adversely affect us by extending coverage beyond our underwriting intent or by increasing the type, number, or size of claims. For example, many states have adopted legislation that is similar to the Model Unclaimed Life Insurance Benefits Act. Such legislation imposes requirements on insurers to periodically compare their life insurance and annuity contracts and retained asset accounts against the U.S. Social Security Administration’s Death Master File, investigate any potential matches, determine whether benefits are payable, and attempt to locate beneficiaries. Some states are attempting to apply these laws retroactively to existing policies. A number of states have aggressively audited life insurance companies, including us and some of our subsidiaries, for compliance with such laws, and more states could do so. Such audits have sought to identify unreported insured deaths and to determine whether any unpaid benefits, proceeds or other payments under life insurance or annuity contracts should be treated as unclaimed property to be escheated to the state. We have modified our claims process to stay current with emerging trends. It is possible that such audits may result in regulatory actions, litigation, administrative fines and penalties, interest, and additional changes to our procedures.

Federal regulatory changes and initiatives have a growing impact on us. For example, Dodd-Frank provides for enhanced federal oversight of the financial services industry through multiple initiatives. Provisions of Dodd-Frank are or may become applicable to us, our competitors, or certain entities with which we do business. For example, it is possible that regulations issued by the Consumer Financial Protection Bureau (“CFPB”) may extend, or be interpreted to extend, to the sale of certain insurance products by covered financial institutions, which could adversely affect sales of such products. The Federal Insurance Office, as a result of various studies it conducts, may also recommend changes in laws or regulations that affect our business. Although President Trump has indicated a desire to revise or reverse some provisions of Dodd-Frank, the fate of such proposals is unclear, and we cannot predict with certainty how Dodd-Frank will continue to affect the financial markets generally or impact our business and results of operations. Certain federal regulation may impact our property and casualty operations. In 2013, HUD finalized a regulation applicable to home lenders, landlords and other housing providers that prohibits lending and housing practices having a disparate impact against protected classes, even if there is no intent to discriminate. Various legal challenges to this regulation were pursued, culminating in a decision of the U.S. Supreme Court in 2015 generally viewed as favorable to the regulation. More recently, the Trump Administration has sought delay and reconsideration of the regulation and HUD has indicated its intent to propose changes to the rule, however the text of such changes has not yet been published. There is concern among property and casualty insurers that this regulation could be applied in a manner that adversely impacts price differentiation for homeowners' policies using traditional risk selection analysis. Whether or not the regulation is modified, it is uncertain to what extent it may impact property and casualty industry underwriting practices. Such regulation could increase litigation costs, force changes in underwriting practices, and impair our ability to write homeowners business profitably. In addition, Congress or states may enact legislation affecting insurers' ability to use credit-based insurance scores as part of the property and casualty underwriting or rating process, which could force changes in underwriting practices and impair our property and casualty operations' ability to write homeowners business profitably.

There have been federal efforts to change the standards of care applicable to broker-dealers and investment advisers. We have previously reported that in April 2016, the U.S. Department of Labor ("DOL") issued a regulation that significantly expanded the range of activities considered to be fiduciary investment advice under the Employee Retirement and Income Security Act of 1974 and the Internal Revenue Code of 1986 (the "fiduciary rule"). The fiduciary rule impacted individuals and entities that offer investment advice to purchasers of qualified retirement products, such as IRA's and qualified retirement plans. It applied ERISA's fiduciary standard to many insurance agents, broker-dealers, advisers and others not previously subject to the standard when they sell annuities to IRA's and qualified retirement plans. On June 21, 2018, the U.S. Court of Appeals for the Fifth Circuit issued an order vacating the fiduciary rule, ending the rule's effectiveness, after finding that the DOL had exceeded its authority in implementing the rule. As a result, the DOL rules regarding ERISA fiduciary status that existed prior to the adoption of the fiduciary rule are again applicable.

We have previously reported that in April 2018, the SEC proposed a regulation addressing the standards of care applicable to broker-dealers and investment advisers. "Regulation Best Interest" would require a broker-dealer to act in the best interest of a retail customer when making a recommendation of any securities transaction or investment strategy involving securities. As part of the proposed rule, the SEC would require broker-dealers and investment advisers to provide retail customers a Client Relationship Summary ("Form CRS") to disclose certain information about the nature of the customer's relationship with their investment professional, including fees and costs associated with services and conflicts of interest the firm may have. In November 2018, the SEC published a report on investor testing conducted by the Rand Corporation, in which feedback was gathered on sample Form CRS. The SEC made the results of that testing available for public comment and is considering such comments before finalizing the Regulation Best Interest and Form CRS rule proposals.

There have also been state efforts to change the standards of care applicable to broker-dealers, investment advisers and insurance producers, including the "Suitability and Best Interests in Life Insurance and Annuity Transactions" regulation adopted by the NYDFS. Such regulation addresses the duties and obligations of insurers and their producers and provides that any transactions with respect to life insurance policies and annuity contracts delivered or issued for delivery in New York must be in the best interest of the consumer and appropriately address the insurance needs and financial objectives of the consumer at the time of the transaction. It further requires that any recommendation must be based on an evaluation of the suitability information of the consumer and reflect the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use under the prevailing circumstances. Further, a producer's compensation and other incentives must not influence his or her recommendations. The New York regulation will become effective for annuity products on August 1, 2019 and for life insurance products on February 1, 2020.

All or any of the above-described federal and state efforts to address the standards of care applicable to broker-dealers, investment advisers and insurance producers could materially affect how our life insurance and annuity products are designed, marketed and serviced. We may find it necessary to change our producer compensation practices, limit the assistance producers can provide to contract owners, replace or engage additional producers, or otherwise change how we design and support sales of our annuities. Any of these regulatory or legislative measures, or judicial rulings regarding the same, or consumer and producer reaction to such measures, could have a material adverse impact on our ability to sell annuities and certain other products and to retain in-force business.

Lastly, international standards continue to emerge in response to the globalization of the insurance industry and evolving standards of regulation, privacy, solvency measurement and risk management. Any international conventions or mandates that directly or indirectly impact or influence the nature of U.S. regulation or industry operations could negatively affect us.

For further discussions of the kinds of regulation applicable to us, see Item 1, Business, Regulations Applicable to Our Business section.

Changes in tax laws could adversely affect our business. Under current U.S. federal and state income tax laws, certain products we offer, primarily life insurance and annuities, receive tax treatment designed to encourage consumers to purchase these products. This treatment may encourage some consumers to select our products over non-insurance products. The U.S. Congress from time to time may consider legislation that would change the taxation of insurance products and/or reduce the taxation of competing products. Such legislation, if adopted, could materially change consumer behavior, which may harm our ability to sell such products and result in the surrender of some existing contracts and policies. In addition, changes in the U.S. federal and state estate tax laws could negatively affect the demand for the types of life insurance used in estate planning. Uncertainty regarding the tax structure in the future may also cause some current or future purchasers to delay or indefinitely postpone the purchase of products we offer.

On December 22, 2017, the federal government enacted the Tax Cuts and Jobs Act (“Tax Reform”). Tax Reform made broad and complex changes to federal corporate tax law and resulted in changes to our overall tax obligations. Most notably, Tax Reform reduced the corporate income tax rate from 35% to 21%. In addition, there were several changes that are specific to insurance companies, namely changes to the proration formula used to determine the amount of dividends eligible for the dividends-received deduction and changes to the calculation of tax reserves associated with policyholder liabilities. Amendments or clarifications of Tax Reform from additional regulatory and administrative guidance, may occur. Any changes in federal income tax laws, including changes to Tax Reform could adversely affect the federal income taxation of our ongoing operations and have a material adverse impact on our business and results of operations.

New accounting rules or changes to existing accounting rules could negatively impact our business. We are required to comply with GAAP. A number of organizations are instrumental in the development and interpretation of GAAP, such as the SEC, the Financial Accounting Standards Board (“FASB”), and the American Institute of Certified Public Accountants. GAAP is subject to review by these organizations and others and is, therefore, subject to change in ways that could change the current accounting treatments we apply.

We also must comply with statutory accounting principles (“SAP”) in our insurance operations. SAP and various components of SAP (such as actuarial reserving methodology) are subject to review by the NAIC and its taskforces and committees, as well as state insurance departments.

Future changes to GAAP or SAP could impact our product profitability, reserve and capital requirements, financial condition or results of operations. See Note 3, Recently Issued Accounting Pronouncements, of the Notes to the Consolidated Financial Statements for a detailed discussion regarding the impact of the recently issued accounting pronouncements and the future adoption of new accounting standards on the Company.

Reinsurance and Counterparty Risk Factors

Reinsurance may not be available, affordable, adequate or collectible to protect us against losses. As part of our risk management strategy, we purchase reinsurance for certain risks that we underwrite. Market conditions and geo-political events beyond our control, including the continued threat of terrorism, influence the availability and cost of reinsurance for new business. In certain circumstances, the price of existing reinsurance contracts may also increase. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Our reinsurers may not pay the reinsurance recoverables owed to us or they may not pay these balances on a timely basis.

The counterparties to derivative instruments we use to hedge our business risks could default or fail to perform. We enter into derivative contracts, such as options, with a number of counterparties to hedge various business risks. If our counterparties fail or refuse to honor their obligations, our economic hedges of the related risks will be ineffective. Such counterparty failures could have a material adverse effect on us. See Note 7, Derivative Instruments, of the

Notes to the Consolidated Financial Statements for additional details.

Other Risk Factors

Our financial strength ratings could be downgraded. Various Nationally Recognized Statistical Rating Organizations ("NRSROs") publish financial strength ratings as their opinion of an insurance company's creditworthiness and ability to meet policyholder and contractholder obligations. As with other rated companies, our ratings could be downgraded at any time and without any notice by any NRSRO. A downgrade or an announced potential downgrade of our financial strength ratings could have multiple adverse effects on us including:

- reducing new sales of insurance and annuity products or increasing the number or amount of surrenders and withdrawals;
- affecting our relationships with our sales force, independent sales intermediaries and credit counterparties;
- requiring us to offer higher crediting rates or greater policyholder guarantees on our insurance products in order to remain competitive; and
- affecting our ability to obtain reinsurance at reasonable prices.

It is likely that the NRSROs will continue to apply a high level of scrutiny to financial institutions, including us and our competitors, and may adjust the capital, risk management and other requirements employed in the NRSRO models for maintenance of certain ratings levels.

We are controlled by a small number of stockholders. As of December 31, 2018, the Moody Foundation, a charitable trust, beneficially owned approximately 22.75% of our common stock. In addition, Moody National Bank, in its capacity as trustee or agent of various accounts, had the power to vote approximately 49.07% of our common stock as of such date. As a result, subject to applicable legal and regulatory requirements, these institutions have the ability to exercise a controlling influence over matters submitted for stockholder approval, including the composition of our Board of Directors, and through the Board of Directors any determination with respect to our business direction and policies. This concentration of voting power could deter a change of control or other business combination that might be beneficial or preferable to other stockholders. It may also adversely affect the trading price of our common stock if controlling stockholders sell a significant number of shares or if investors perceive disadvantages in owning stock in a company controlled by a small number of stockholders.

See also Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, for additional details regarding certain risks that we face.

Advances in medical technology may adversely affect our business. Genetic testing and diagnostic imaging technology is advancing rapidly. Increases in the prevalence, availability (particularly in the case of direct to consumer genetic testing) and accuracy of such testing may increase our adverse selection risk, as people who learn that they are predisposed to certain medical conditions associated with reduced life expectancy may be more likely to purchase and maintain life insurance policies. Conversely, people who learn that they lack genetic predisposition to conditions associated with reduced life expectancy may forego the purchase of life insurance, or permit existing policies to lapse, and may be more likely to purchase certain annuity products. Our access to and ability to use medical information, including the results of genetic and diagnostic testing, that is known to our prospective policyholders is important to our underwriting of life insurance and annuities. Some states restrict insurers' access and use of genetic information, and similar additional regulations and legislation may be adopted. Such regulation and legislation likely would exacerbate adverse risk selection related to genetic and diagnostic testing.

In addition to earlier diagnosis and knowledge of disease risk, medical advances may increase overall health and longevity. If this were to occur, the duration of payments made under certain of our annuity products would be extended beyond our actuarial assumptions, reducing the profitability of such business. This may require us to modify our assumptions, models or reserves.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We own and occupy our corporate headquarters in Galveston, Texas. We also own and occupy the following properties that are materially important to our operations:

- Three buildings in League City, Texas which are used by our Life, Health, and Corporate and Other segments.
- Five buildings, four in Springfield, Missouri and the other in Glenmont, New York, which are used by our Property and Casualty segment.

We believe our properties are adequate and suitable for our business as currently conducted and are adequately maintained. The above does not include properties we own only for investment purposes.

ITEM 3. LEGAL PROCEEDINGS

Information required for Item 3 is incorporated by reference to the discussion under the heading "Litigation" in Note 19, Commitments and Contingencies, of the Notes to the Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

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

Stockholder Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol "ANAT."

On December 31, 2018, our year-end closing stock price was $127.24 per share, and there were 644 holders of record of our issued and outstanding shares of common stock.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information regarding our common stock that is authorized for issuance under American National's 1999 Stock and Incentive Plan as of December 31, 2018:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans			
Approved by security holders	—	$ 80.05	$ 2,391,739
Not approved by security holders	—	—	—
Total	—	$ 80.05	$ 2,391,739

Performance Graph

The following graph compares the cumulative stockholder return for our common stock for the last five years with the performance of the NASDAQ Stock Market and a NASDAQ Insurance Stock index using NASDAQ OMX Global Indexes. It shows the cumulative changes in value of an initial $100 investment on December 31, 2013, with all dividends reinvested.

Value at each year-end of a $100 initial investment made on December 31, 2013:

	December 31,					
	2013	2014	2015	2016	2017	2018
American National	$100.00	$101.53	$93.51	$115.64	$121.55	$123.48
NASDAQ Total OMX	100.00	114.43	113.46	128.22	155.63	147.16
NASDAQ Insurance OMX	100.00	114.10	113.26	136.41	159.53	150.51

This performance graph shall not be deemed to be incorporated by reference into our SEC filings or to constitute soliciting material or otherwise be considered filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

ITEM 6. SELECTED FINANCIAL DATA
American National Insurance Company
(and its subsidiaries)

	Years ended December 31,				
(dollar amounts in millions, except per share amounts)	2018	2017	2016	2015	2014
Total premiums and other revenues	$3,326	$3,411	$3,228	$3,017	$3,051
Income from continuing operations, net of tax*	160	496	183	242	247
Net income*	160	496	183	242	247
Net income attributable to American National*	159	494	181	243	245
Per common share					
Income from continuing operations, net of tax*					
Basic	5.97	18.43	6.79	9.02	9.21
Diluted	5.96	18.38	6.77	8.99	9.17
Net income attributable to American National*					
Basic	5.91	18.35	6.73	9.04	9.15
Diluted	5.91	18.31	6.71	9.02	9.11
Cash dividends per share	3.28	3.28	3.26	3.14	3.08

	December 31,				
	2018	2017	2016	2015	2014
Total assets	$26,912	$26,387	$24,533	$23,766	$23,566
Total American National stockholders’ equity	5,257	5,247	4,652	4,452	4,428
Total equity	5,272	5,256	4,661	4,462	4,440

* Results for the year ended December 31, 2017 include the impact of the U. S. Tax Cut and Jobs Act ("Tax Reform") of $206.4 million, primarily due to the remeasurement of our deferred tax balances to the new 21% corporate income tax rate. Excluding the impact of Tax Reform, the Company’s net income for the year ended December 31, 2017 would have been $287.3 million and net earnings per basic and diluted share of $10.68 and $10.65, respectively.

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

Forward-Looking Statements

Certain statements made in this report include forward-looking statements within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are indicated by words such as “expects,” “intends,” “anticipates,” “plans,” “believes,” “estimates,” “will” or words of similar mea and include, without limitation, statements regarding the outlook of our business and expected financial performance. These forward-looking statements are subject to changes and uncertainties which are, in many instances, beyond our control and have been made based upon our assumptions, expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations, or that the effect of future developments on us will be as anticipated. It is not a matter of corporate policy for us to make specific projections relating to future earnings, and we do not endorse any projections regarding future performance made by others. Additionally, we do not publicly update or revise forward-looking statements based on the outcome of various foreseeable or unforeseeable events. Forward-looking statements are not guarantees of future performance and involve various risks and uncertainties. There are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including without limitation risks, uncertainties and other factors discussed in Item 1A, Risk Factors and elsewhere in this report. Management’s discussion and analysis (“MD&A”) of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in Item 8, Financial Statements and Supplementary Data.

Overview

Chartered in 1905, we are a diversified insurance and financial services company offering a broad spectrum of insurance products in all 50 states, the District of Columbia and Puerto Rico. Our headquarters are in Galveston, Texas.

Our business has been and will continue to be influenced by a number of industry-wide, segment or product-specific trends and conditions. In our discussion below, we first outline the broad macro-economic or industry trends (General Trends) that we expect to impact our overall business. Second, we discuss certain segment-specific trends we believe may impact individual segments or specific products within these segments.

Segments

The insurance segments do not directly own assets. Rather, assets are allocated to support the liabilities and capital allocated to each segment. The mix of assets allocated to each of the insurance segments is intended to support the characteristics of the insurance liabilities within each segment including expected cash flows and pricing assumptions, and is intended to be sufficient to support each segment’s business activities. We have utilized this methodology consistently over all periods presented.

The Corporate and Other segment acts as the owner of all of the invested assets of the Company. The investment income from the invested assets is allocated to the insurance segments in accordance with the assets allocated to each insurance segment. Earnings of the Corporate and Other segment are derived from income related to invested assets not allocated to the insurance segments and from our non-insurance businesses. All realized investment gains and losses, which includes other-than-temporary impairments (“OTTI”), are recorded in this segment.

General Trends

Our business, financial condition and results of operations are materially affected by economic and financial market conditions. The U.S. and global economies, as well as the capital markets, continue to show mixed signals, and uncertainties continue to be significant factors in the markets in which we operate. Factors such as consumer spending, business investment, the volatility of the capital markets, the level of interest rates, unemployment, the level of participation in the workforce and the risk of inflation or deflation will affect the business and economic environment and, in turn, impact the demand for the type of financial and insurance products we offer. Adverse changes in the economy could have a material adverse effect on us. However, we believe those risks are somewhat mitigated by our financial strength, active enterprise risk management and disciplined underwriting for our products. Our diverse product mix and distribution channels across insurance segments is a strength that we expect will help us adapt to the volatile economic environment and give us the ability to serve the changing needs of our customers. Additionally, through our long-term business approach, we believe we are financially strong, and we are committed to providing a steady and reliable source of financial protection for policyholders.

Interest Rates: The low-interest rate environment is a challenge for life insurers as the spreads on deposit-type contracts remain narrow, especially as interest rates have approached minimum crediting rates. Low market interest rates reduce the spreads between the amounts we credit to fixed annuity and individual life policyholders and the amounts we earn on the investments that support these obligations. Our ALM Committee actively manages the profitability of our in-force blocks. In previous years, we reduced the guaranteed minimum crediting rates on new fixed annuity contracts, which has afforded us the flexibility to respond to the unusually low-interest rate environment. In previous years, we also reduced crediting rates on in-force contracts, where permitted to do so. These actions help mitigate the adverse impact of low interest rates on the profitability of these products, although sales volume may be negatively impacted as a result. We also maintain assets with various maturities to support product liabilities and ensure liquidity. A gradual increase in longer-term interest rates relative to short-term rates generally will have a favorable effect on the profitability of our products. Rapidly rising interest rates could result in reduced persistency of our spread-based products, if contract holders shift assets into higher yielding investments. We believe our ability to react quickly to the changing marketplace will help us manage this risk.

The interest rate environment affects estimated future profit projections, which could impact the amortization of our DAC assets and the estimates of policyholder liabilities. Significantly lower future estimated profits may cause us to accelerate the amortization of DAC or require us to establish additional policyholder liabilities, thereby reducing earnings. We periodically review assumptions with respect to future earnings to make sure that they remain appropriate considering the current interest rate environment.

Low interest rates are also challenging for property and casualty insurers. Investment income is an important element in earning an acceptable return on capital. Lower interest rates resulting in lower investment income require us to achieve better underwriting results. We have adjusted policy prices to help mitigate the adverse impact of low interest rates on our property and casualty business.

Changing Regulatory Environment: The insurance industry is primarily regulated at the state level, although some life and annuity products and services are also subject to U.S. federal regulation. We are regularly subjected to additional or changing regulation that requires us to update systems, change product structure, increase the amount of reporting or adopt changes to distribution. These changes may increase the capital requirements for us and the industry, increase operating costs, change our operating practices and change our ability to provide products with pricing attractive to the marketplace.

Importance of Operating Efficiencies: The volatile economic environment and costs associated with greater regulation create a further need for operating efficiencies. We manage our cost base while maintaining our commitment to provide superior customer service to policyholders and agents. Investments in technology are coordinated through a disciplined project management process. We anticipate continually improving our use of technology to enhance our policyholders' and agents' experience and increase efficiency of our employees.

Increased Role of Advanced Technology: The use of mobile technology has changed the way consumers want to conduct their business, including real-time access to information. Many customers expect to complete transactions in a digital format instead of traditional methods that require a phone call or submission of paper forms. Social media and other customer-facing technologies also reshape the way companies communicate and collaborate with key stakeholders, and new tools exist to better collect and analyze information for potential business opportunities and better manage risks. For example, American National has mobile-enabled all of its Internet-based access and leverages social media channels to reach out to potential customers to promote awareness of the company, including the products and services offered. We expect that technology will continue to evolve, offering new and more effective ways to reach and service our customers and shareholders. We evaluate available and evolving technologies and incorporate those that we believe offer appropriate benefits to the company and its customers.

Increased Challenges of Talent Attraction and Retention: Attracting qualified individuals and retaining existing employees is a challenge for all employers. Businesses have become extremely competitive in the talent marketplace, and with such low unemployment today, it has become a candidate's job market. Combined with the increasing impact of social media it is easier than ever for companies to find individuals with needed job skills and lure them away from their current positions. As a result, the ability to distinguish American National as the employer of choice grows increasingly challenging.

Our expanded use of technology, particularly our new recruiting-marketing platform combined with greater use of social media, is intended to enhance our employer brand and educate candidates on why they should work for us. Our ongoing efforts to develop a diverse and inclusive workforce not only strengthens the engagement of our current employee population but helps make us an attractive employer where differing insights and opinions are valued. Valuing different perspectives and the impact of broader employee influence on how decisions are made, are two areas for the company to focus on for successful retention. Providing for robust career development opportunities and effective succession planning is expected to be another important part of our retention efforts.

Life and Annuity
Life insurance and annuity are mainstay segments, as they have been during our long history. We believe that the combination of predictable and decreasing mortality rates, positive cash flow generation for many years after policy issue and favorable persistency characteristics suggest a viable and profitable future for these lines of business.

Effective management of invested assets and associated liabilities using crediting rates and, where applicable, financial hedging instruments (which we use as economic hedges of equity-indexed life and annuity products), is important to the success of our life and annuity segments. Asset “disintermediation”, the risk of large outflows of cash at times when it is disadvantageous to us to dispose of invested assets, is a risk associated with these segments.

Demographics: We believe a key driver shaping the actions of the life insurance industry is the rising income protection, wealth accumulation and insurance needs of retiring Baby Boomers (those born between 1946 and 1964). As a result of increasing longevity and uncertainty regarding the Social Security System and an ongoing transition from defined benefit pension plans to 401(k) type retirement plans, retirees will need to accumulate sufficient savings to support retirement income requirements.

We believe we are well positioned to address the Baby Boomers’ increasing need for savings tools and income protection. We believe that our overall financial strength and broad distribution channels position us to respond with a variety of products for individuals approaching retirement age, who seek information to plan for and manage their retirement needs. We believe our products that offer guaranteed income flows for life, including single premium immediate annuities, are well positioned to serve this market.

Competitive Pressures: In recent years, the competitive landscape of the U.S. life insurance industry has shifted. Established insurers are competing against each other and also against new market entrants that are developing products to attract the interest of the growing number of retirees. Competition exists in terms of retaining and acquiring consumers’ business and also in terms of access to producers and distributors. Consolidation among distributors coupled with the aging sales force remains a challenge among insurers. In addition, the increased technological sophistication of consumers necessitates that insurers and distributors invest significant resources in technology to adapt to consumer expectations. We believe we possess sufficient scale, financial strength, resources and flexibility to compete effectively.

The annuity market is also highly competitive. In addition to aggressive interest crediting rates and new product features on annuities, there is competition from other financial service firms. Insurers continue to evaluate their distribution channels and the way they deliver products to consumers.

We believe we will continue to be competitive in the life and annuity markets through our broad line of products, diverse distribution channels, and consistent high level of customer service. We modify our products to meet customer needs and to expand our reach where we believe we can obtain profitable growth.
Health
Most of the major provisions of the Patient Protection and Affordable Care Act, and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively, “the Healthcare Acts”), phased in effective January 1, 2014. The Healthcare Acts mandated broad changes in the delivery of health care benefits that have impacted our business model including our relationships with current and future customers, producers, and health care providers, as well as our products, services and processes. As a result, the Healthcare Acts generated new opportunities in the limited benefit and supplemental product markets. In recent years, we built a portfolio of such products to be sold in the worksite market as well as to individuals. We feel that recent changes to the Healthcare Acts that removed the tax consequences for not having health coverage and the removal of limitations on Short Term Medical products could significantly increase our production. We also continue to expand our presence in the worksite market to generate new

opportunities in the broker market, as well as developing and implementing a captive sales force.
We expect our Managing General Underwriter (“MGU”) business to remain stable during 2019. We generally retain only 10% of the MGU premium and risk. The majority of the revenue generated from this business is fee income included in “Other income” of the Health segment’s operating results.

Property and Casualty

We offer our personal and commercial property and casualty lines of business primarily through exclusive agents. We favor a balanced, focused and collaborative approach to both growth and profitability through the development of successful agencies.

To acquire and retain profitable business, we use sophisticated pricing models and risk segmentation, along with a focused distribution force. We believe this approach allows us to make product enhancements and offer programs that are tailored to our target markets while charging an appropriate premium for the risk.

Demand for property and casualty credit-related insurance products continues to increase. We continue to update credit-related insurance product offerings and pricing to meet changing market needs, as well as adding new agents to expand market share in the credit-related insurance market. We are reviewing and implementing procedures to enhance customer service while, at the same time, looking for efficiencies to reduce administrative costs.

Competition: The property and casualty insurance industry remains highly competitive. Despite the competitive environment, we expect to identify profitable opportunities through our strong distribution channels, expanding geographic coverage, marketing efforts, new product development and pricing sophistication.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires estimates and assumptions that often involve a significant degree of judgment. These estimates and judgments include expectations of current and future mortality, morbidity, persistency, claims and claim adjustment expenses, recoverability of receivables, investment returns and interest rates which extend well into the future. In developing these estimates, there is inherent uncertainty, and material changes to facts and circumstances may develop. Although variability is inherent in these estimates, we believe the amounts as reported are appropriate, based upon the facts available upon compilation of the consolidated financial statements.

On an ongoing basis, management reviews the estimates and assumptions used in preparing the financial statements. If current facts and circumstances warrant modifications in estimates and assumptions, our financial position and results of operations as reported in the consolidated financial statements could change significantly.

A description of these critical accounting estimates is presented below. Also, see the Notes to the Consolidated Financial Statements for additional information.

Reserves

Life and Annuity Reserves

Life Reserving–Principal assumptions used in the determination of the reserves for future policy benefits are mortality, policy lapse rates, investment return, inflation, expenses and other contingent events as appropriate to the respective product type. Reserves for incurred but not reported (“IBNR”) claims on life policies are calculated using historical claims information. Reserves for interest-sensitive and variable universal life insurance policies are equal to the current account value calculated for the policyholder. Some of our universal life policies contain secondary guarantees, for which additional reserves are recorded based on the term of the policy.

Annuity Reserving–Reserves for payout annuities with more than insignificant amounts of mortality risk are calculated in accordance with the applicable accounting guidance for limited pay insurance contracts. Benefit and maintenance expense reserves are calculated by using assumptions reflecting our expectations of future costs, including an appropriate margin for adverse deviation. These assumptions are locked-in at issue and generally reflect pricing assumptions from that period. If the resulting reserve would otherwise cause profits to be recognized at the issue date, additional reserves are recorded. The resulting recognition of profits would be gradual over the expected life of the contract.

Reserves for fixed deferred annuities are established equivalent to the account value held on behalf of the policyholder. Reserves for indexed annuities are calculated in accordance with derivative accounting guidance which defines a host liability for return of principal and guaranteed interest, and an embedded derivative liability for funded benefits in excess of the host guarantee. Additional reserves for benefits that can exceed contract fund value, such as lifetime income riders, are determined as needed in accordance with the applicable accounting guidance. The profit recognition on deferred annuity contracts is gradual over the expected life of the contract. No immediate profit is recognized on the sale of the contract.

Key Assumptions–The following assumptions reflect our best estimates and may impact our life and annuity reserves:

- Future lapse rates will remain reasonably consistent with our current expectations;
- Mortality rates will remain reasonably consistent within standard industry mortality table ranges; and
- Future interest spreads will remain reasonably consistent with our current expectations.

Recoverability–At least annually, we test the adequacy of the net benefit reserves (policy benefit reserves less DAC) recorded for life insurance and annuity products. To perform the tests, we use our current best-estimate assumptions as to policyholder mortality, persistency, maintenance expenses and invested asset returns.

For interest-sensitive business, best-estimate assumptions are updated to reflect observed changes based on experience studies and current economic conditions. We reflect the effect of such assumption changes in DAC and reserve balances accordingly. Due to the long-term nature of many of the liabilities, small changes in certain assumptions may cause large changes in profitability. In particular, changes in estimates of the future invested asset return have a large effect on the degree of reserve adequacy and DAC recoverability.

For traditional business, a “lock-in” principle applies, whereby the assumptions used to calculate the benefit reserves and DAC are set when a policy is issued and do not change with changes in actual experience. These include margins for adverse deviation in the event that actual experience differs from the original assumptions.

Health Reserves

Health reserves are established using the following methods:

Completion Factor Approach–This method assumes that the historical claim patterns will be an accurate representation of unpaid claim liabilities. An estimate of the unpaid claims is calculated by subtracting period-to-date paid claims from an estimate of the ultimate “complete” payment for all incurred claims in the period. Completion factors are calculated which “complete” the current period-to-date payment totals for each incurred month to estimate the ultimate expected payout.

Tabular Claims Reserves–This method is used to calculate the reserves for disability income blocks of business. These reserves rely on published valuation continuance tables created using industry experience regarding assumptions of continued morbidity and subsequent recovery. Reserves are calculated by applying these continuance tables, along with appropriate company experience adjustments, to the stream of contractual benefit payments. These expected benefit payments are discounted at the required interest rate.

Future Policy Benefits–Reserves are equal to the aggregate of the present value of expected future benefit payments, less the present value of expected future premiums. Morbidity and termination assumptions are based on our experience or published valuation tables when available and appropriate.

Premium Deficiency Reserves–Deficiency reserves are established when the expected future claim payments and expenses for a classification of policies are in excess of the expected premiums for these policies. The determination of a deficiency reserve takes into consideration the likelihood of premium rate increases, the timing of these increases, and the expected benefit utilization patterns. We have established premium deficiency reserves for portions of the major medical business and the long-term care business that are in run-off. The assumptions and methods used to determine the deficiency reserves are reviewed periodically for reasonableness, and the reserve amount is monitored against emerging losses.

Property and Casualty Reserves

Reserves for Claims and Claim Adjustment Expense (“CAE”)–Property and casualty reserves are established to provide for the estimated cost of settling and paying both reported (“case”) as well as incurred but not reported (“IBNR”) claims. The two major categories of CAE are defense and cost containment expense, and adjusting and other expense. The details of property and casualty reserves are shown below (in thousands):

	December 31, 2018			December 31, 2017		
	Gross	Ceded	Net	Gross	Ceded	Net
Case	$858,800	$58,381	$800,419	$544,256	$62,629	$481,627
IBNR	131,988	11,107	120,881	409,137	26,657	382,480
Total	$990,788	$69,488	$921,300	$953,393	$89,286	$864,107

Case Reserves–Reserves for reported losses are determined on either a judgment or a formula basis, depending on the timing and type of the loss. The formula reserve is a fixed amount for each claim of a given type based on historical paid loss data for similar claims with a provision for claim inflation. Judgment reserve amounts replace initial formula reserves and are set for each loss based on facts and circumstances of each case and the expectation of damages. We regularly monitor the adequacy of reserves on a case-by-case basis and change the amount of such reserves as necessary.

IBNR–IBNR reserves are estimated based on many variables including: historical statistical information, inflation, legal environment, economic conditions, trends in claim severity and frequency as well as other factors affecting the adequacy of claim reserves. Loss and premium data is aggregated by exposure class and by accident year. IBNR reserves are estimated by projecting ultimate losses on each class of business and subtracting paid losses and case reserves. Our overall reserve practice provides for ongoing claims evaluation and adjustment based on the development of related data and other relevant information pertaining to claims. Adjustments in aggregate reserves, if any, are included in the results of operations of the period during which such adjustments are made.

We believe we conservatively reflect the potential uncertainty generated by volatility in our loss development profiles when selecting loss development factor patterns for each line of business. See Note 12, Liability for Unpaid Claims and Claim Adjustment Expenses, of the Notes to the Consolidated Financial Statements for additional information.

The evaluation process to determine reserves involves the collaboration of underwriting, claims and actuarial departments. The process also includes consultation with independent actuarial firms as part of our process of gaining reassurance that claims and CAE reserves estimate sufficiently, all obligations arising from all losses incurred as of year-end. The independent actuarial firm completes the Statements of Actuarial Opinion required by individual state insurance regulations at each year-end, opining that the recorded statutory claims and CAE reserves are reasonable.
Premium Deficiency Reserve—Deficiency reserves are recorded when the expected claims payments and policy maintenance costs for a product line exceed the expected premiums for that product line. The estimation of a deficiency reserve considers the current profitability of a product line using anticipated claims, CAE, and policy maintenance costs. The assumptions and methods used to determine the need for deficiency reserves are reviewed periodically for reasonableness. There were no reserves of this type at December 31, 2018 and December 31, 2017, respectively.

Property and Casualty Reserving Methodology–The following methods are utilized:

- Initial Expected Loss Ratio–This method calculates an estimate of ultimate losses by applying an estimated loss ratio to actual earned premium for each calendar/accident year. This method is appropriate for classes of business where the actual paid or reported loss experience is not yet mature enough to influence initial expectations of the ultimate loss ratios.
- Bornhuetter-Ferguson–This method uses as a starting point an assumed initial expected loss ratio method and blends in the loss ratio implied by the claims experience to date by using loss development patterns based on our historical experience. This method is generally appropriate where there are few reported claims and an unstable pattern of reported losses.
- Loss or Expense Development (Chain Ladder)–This method uses actual loss or defense and cost containment expense data and the historical development profiles on older accident periods to project more recent, less developed periods to their ultimate total. This method is appropriate when there is a relatively stable pattern of loss and expense emergence and a relatively large number of reported claims.
- Ratio of Paid Defense and Cost Containment Expense to Paid Loss Development–This method uses the ratio of paid defense and cost containment expense to paid loss data and the historical development profiles on older accident periods to project more recent, less developed periods to their ultimate total. In this method, an ultimate ratio of paid defense and cost containment expense to paid loss is selected for each accident period. The selected paid defense and cost containment expense to paid loss ratio is then applied to the selected ultimate loss for each accident period to estimate the ultimate defense and cost containment expense. Paid defense and cost containment expense is then subtracted from the ultimate defense and cost containment expense to calculate the unpaid defense and cost containment expense for that accident period.
- Calendar Year Paid Adjusting and Other Expense to Paid Loss–This method uses a selected prior calendar years' paid expense to paid loss ratio to project ultimate loss adjustment expenses for adjusting and other expense. A percentage of the selected ratio is applied to the case reserves (depending on the line of insurance) and 100% to the indicated IBNR reserves. These ratios assume that a percentage of the expense is incurred when a claim is opened and the remaining percentage is paid throughout the claim's life.

The basis of our selected single point best estimate on a particular line of business is often a blended result from two or more methods (e.g. weighted averages). Our estimate is highly dependent on actuarial and management judgment as to which method(s) is most appropriate for a particular accident year and class of business. Our methodology changes over time, as new information emerges regarding underlying loss activity and other factors.

Key Assumptions—The following assumptions may impact our property and casualty reserves:

- Stability of future inflation rates and consistency with historical inflation norms;
- The expected loss development patterns;
- Consistent claims handling, reserving and payment processes;
- No unusual growth patterns or unexpected changes in the mix of business; and
- No significant prospective changes in laws that would significantly affect future payouts.

The loss ratio selections and development profiles are developed primarily using our historical claims and loss experience. These development patterns reflect prior inflation rates, and could be impacted by future changes in inflation rates, particularly those relating to medical care costs, automobile repair parts and building or home material costs. These assumptions have not been modified from the preceding periods and are consistent with historical loss reserve development patterns.

For non-credit lines of business, future inflation rates could vary from our assumption of relatively stable rates. Unexpected changes in future inflation rates could impact our financial position and liquidity, and we measure the sensitivity of our reserve levels to unexpected changes in inflation. The impacts of future inflation for a 1.0% decrease and 3.0% increase over the implied inflation rate in the December 31, 2018 gross loss reserve balance are as follows (amounts in thousands):

Cumulative Increase (Decrease) in Reserves	1.0% Decrease	3.0% Increase
Personal		
Automobile	$ (6,038)	$ 18,582
Homeowner	(1,578)	4,894
Commercial		
Agricultural Business	(6,544)	22,323
Automobile	(2,799)	7,965

The analysis of our credit insurance lines of business quantifies the estimated impact on gross loss reserves of a reasonably likely scenario of varying the ratio applied to the earned premium to determine the IBNR reserves at December 31, 2018. IBNR reserving methodology for this line of business focuses primarily on the use of a ratio applied to the unearned premium for each credit insurance product. The selected ratios are based on historical loss and claim data. In our analysis, we varied this ratio by +/- 5% across all credit insurance products combined. The results of our analysis show an increase or decrease in gross reserves across all accident years combined of approximately $10.1 million.

It is not appropriate to aggregate the impacts shown in our sensitivity analysis, as our lines of business are not directly correlated. The variations are not meant to be a “best-case” or “worst-case” scenario, and it is possible that future variations will be more or less than the amounts in the sensitivity analysis. While these are possible scenarios based on the information available to us at this time, we do not believe the reader should consider our sensitivity analysis an actual reserve range.

Management believes our reserves at December 31, 2018 are adequate. New information, regulation, events or circumstances unknown at the original valuation date, however, may result in future development resulting in ultimate losses being significantly greater or less than the recorded reserves at December 31, 2018.

Deferred Policy Acquisition Costs

We had a DAC asset of approximately $1.50 billion and $1.37 billion at December 31, 2018 and 2017, respectively. See Note 10, Deferred Policy Acquisition Costs, of the Notes to the Consolidated Financial Statements for additional details.

We believe the estimates used in our DAC calculations provide an example of how variations in assumptions and estimates would affect our business. The following table displays the sensitivity of reasonably likely changes in assumptions in the DAC amortization for our long-tail business at December 31, 2018 (in thousands):

	Increase (Decrease) in DAC
Increase in future investment margins of 25 basis points	$ 36,192
Decrease in future investment margins of 25 basis points	(39,335)
Decrease in future life mortality by 1%	1,509
Increase in future life mortality by 1%	(1,520)

Reinsurance

We manage our insurance underwriting risk exposures by purchasing reinsurance. We manage counterparty risk by entering into agreements with reinsurers we consider creditworthy, generally measured by the individual entity or entities' financial strength rating. However, we do not require a specified minimum rating. We monitor the concentrations of the reinsurers and reduce the participation percentage of lower-rated and unrated companies when appropriate in our judgment. While we believe we currently have no significant credit risk related to reinsurance counterparties, we continue to monitor their financial condition.

Some of our reinsurance contracts contain clauses that allow us to terminate the participation with reinsurers whose ratings are downgraded. Information used in our risk assessment is comprised of industry ratings, recent news and reports, and a limited review of financial statements. We also may require reinsurers not licensed in our state of domicile or with whom we have limited experience, to provide letters of credit, trust agreements, or cash advances to fund their share of reserves.

Other-Than-Temporary Impairment

A decline in the fair value of fixed maturity investment securities below their cost basis is evaluated on an ongoing basis to determine if the decline is other-than-temporary. A number of assumptions and estimates inherent in evaluating impairments are used to determine if they are other-than-temporary, which include 1) our ability and intent to hold the investment securities for a period of time sufficient to allow for an anticipated recovery in value; 2) the expected recoverability of principal and interest; 3) the length of time and extent to which the fair value has been less than cost basis; 4) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry conditions and trends and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions, which could affect liquidity.

Valuation of Financial Instruments

The fair value of available-for-sale fixed maturity and equity securities is determined by management using one of the three primary sources of information: the quoted prices in active markets; third-party pricing services; or independent broker quotations. Estimated fair value of securities based on quoted prices in active markets is readily and regularly available; therefore, valuation of these securities generally does not involve management judgment. For securities without quoted prices, fair value measurement is determined using third-party pricing services' proprietary pricing applications. Typical inputs used by the models are relevant market information, benchmark curves, benchmark pricing of like securities, sector groupings and matrix pricing. Any securities remaining unpriced after utilizing the first two pricing methods are submitted to independent brokers for prices. We have analyzed the third-party pricing services and independent brokers' valuation methodologies and related inputs, and have evaluated the various types of securities in our investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Management completes certain tests throughout the year and at year-end to determine that prices provided by our pricing services are reasonable.

We utilize over-the-counter equity options to hedge our exposure to equity-indexed universal life and equity-indexed deferred annuity benefits, and the fair values for these options are sourced from broker quotations. Accounting guidance requires a fair value calculation as part of equity-indexed policy reserves. This is called the value of embedded derivative (or VED) and the other part of the indexed policy reserve is called the host reserve. The embedded derivative represents future benefit cash flows in excess of minimum guarantee cash flows. The host covers the minimum guarantee cash flows. Both the VED and the host reserve are calculated by a vendor-sourced reserve valuation system. The VED calculation model incorporates assumptions related to current option pricing (such as implied volatility and LIBOR/swap curve), future policyholder behavior (such as surrenders and withdrawals), and factors affecting the value of future indexed interest periods (such as option budgets).

Pension and Postretirement Benefit Plans

The Company has frozen each of its defined benefit pension plans. Our pension and postretirement benefit obligations and related costs covering our employees are estimated using actuarial concepts in accordance with the relevant accounting guidance. The discount rate and the expected return on plan assets are important elements of expense and/or liability measurements. Each year, these key assumptions are reevaluated to determine whether they reflect the best estimates for the current period. Changes in the methodology used to determine the best estimates are made when facts or circumstances change. Other assumptions involve demographic factors such as retirement age, mortality and turnover. The expected long-term rate of return on plan assets is determined using the building-block method which is described further in Item 8, Financial Statements and Supplementary Data, Notes to the Consolidated Financial Statements, Note 2, Summary of Significant Accounting Policies and Practices, Pension and Postretirement Benefit Plans. In 2017, the Company commenced a one-time window offering to terminated, vested participants of our qualified defined benefit pension plans. The offer allowed participants to take a lump sum or annuity payout which was funded from pension plan assets. See Item 8, Financial Statements and Supplementary Data, Notes to the Consolidated Financial Statements, Note 18, Pension and Postretirement Benefits for additional details.

Litigation Contingencies

Based on information currently available, we believe that amounts ultimately paid, if any, arising from existing and currently potential litigation would not have a material effect on our results of operations and financial condition. However, it should be noted that the frequency of large damage awards, which bear little or no relation to the economic damages incurred by plaintiffs, continues to create the potential for an unpredictable judgment in any given lawsuit. It is possible that, if the defenses in these lawsuits are not successful, and the judgments are greater than we anticipate, the resulting liability could have a material impact on the consolidated financial statements.

Federal Income Taxes

Our effective tax rate is based on income at statutory tax rates, adjusted for non-taxable and non-deductible items, and tax credits. Management's best estimate of future events and their impact is included in our effective tax rate. Certain changes or future events, such as changes in tax legislation, and completion of tax audits could have an impact on our estimates and effective tax rate. Audit periods remain open for review until the statute of limitations has passed.

GAAP requires us to evaluate the recoverability of our deferred tax assets and establish a valuation allowance, if necessary, to reduce our deferred tax assets to an amount that is more-likely-than-not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. There were no material valuation allowances recorded during the years ended December 31, 2018 and 2017. Although realization is not assured, management believes it is more-likely-than-not that our remaining deferred tax assets will be realized and that no additional valuation allowance is necessary as of December 31, 2018.

On December 22, 2017, the federal government enacted the Tax Cuts and Jobs Act ("Tax Reform"). Tax Reform made broad and complex changes to federal corporate tax law and resulted in changes to our overall tax obligations. Most notably, Tax Reform reduced the corporate income tax rate from 35% to 21%. Other provisions affecting corporations include, but are not limited to, changes to the deductibility of interest expense, limitations on certain deductions for executive compensation and the repeal of the corporate Alternative Minimum Tax. In addition, there were several changes that are specific to insurance companies, namely changes to the proration formula used to determine the amount of dividends eligible for the dividends-received deduction, and changes to the calculation of tax reserves associated with policyholder liabilities.

Subsequent to enactment, the Securities Exchange Commission introduced Staff Accounting Bulletin No. 118 ("SAB 118"). SAB 118 provides guidance on accounting for the effects of the Tax Reform where our determinations were incomplete but we were able to determine a reasonable estimate. A final determination is required to be made within a measurement period not to extend beyond one year from the enactment of Tax Reform. In 2017, we recorded a provisional tax benefit of $206.4 million in accordance with the guidance in SAB 118. As a result of Tax Reform, we remeasured our existing deferred tax balances to the new 21% corporate income tax rate. Additionally, we made a reasonable estimate to evaluate the impact of Tax Reform on our 2017 financial statements. There were no adjustments in 2018 to the provisional tax benefit we recorded in 2017.

Consolidated Results of Operations

The following sets forth the consolidated results of operations (in thousands):

	Years ended December 31,			Change over prior year	
	2018	2017	2016	2018	2017
PREMIUMS AND OTHER REVENUES					
Premiums	$2,228,193	$2,067,202	$1,996,648	$160,991	$70,554
Other policy revenues	285,549	248,526	306,880	37,023	(58,354)
Net investment income	858,367	966,077	860,235	(107,710)	105,842
Realized investments gains (losses), net	16,931	91,209	28,940	(74,278)	62,269
Net losses on equity securities	(107,188)	—	—	(107,188)	—
Other income	44,530	37,986	35,248	6,544	2,738
Total premiums and other revenues	3,326,382	3,411,000	3,227,951	(84,618)	183,049
BENEFITS, LOSSES AND EXPENSES					
Policyholder benefits	708,313	681,122	726,399	27,191	(45,277)
Claims incurred	1,171,659	1,037,081	1,015,609	134,578	21,472
Interest credited to policyholders' account balances	315,684	415,190	331,770	(99,506)	83,420
Commissions for acquiring and servicing policies	564,054	545,405	465,965	18,649	79,440
Other operating expenses	497,011	485,340	476,462	11,671	8,878
Change in deferred policy acquisition costs [1]	(71,497)	(81,484)	1,152	9,987	(82,636)
Total benefits, losses and expenses	3,185,224	3,082,654	3,017,357	102,570	65,297
Income before federal income taxes and other items	$141,158	$328,346	$210,594	$(187,188)	$117,752

(1) A negative amount of net change indicates more expense was deferred than amortized and represents a decrease to expenses in the period indicated.

A positive amount of net change indicates less expense was deferred than amortized and represents an increase to expenses in the period indicated.

Income before federal income taxes and other items ("Earnings")

Earnings decreased during the year ended December 31, 2018 compared to 2017 primarily due to the inclusion of net unrealized losses on equity securities in income as required by new accounting guidance. The earnings for the year ended December 31, 2018 were also impacted by a reduced interest margin resulting from a decrease in the S&P 500 index on equity-indexed products in our Annuity segment as well as losses impacting our homeowners, commercial auto and GAP lines of business in our Property and Casualty segment. Earnings increased during 2017 compared to 2016 primarily due to an increase in net investment income and realized investment gains. The increase in net investment income was attributable to increased income on mortgage loans. The increase in realized investment gains was attributable to an increase in the sale of bonds, equity securities, and certain real estate holdings.

Life

Life segment financial results for the periods indicated were as follows (in thousands):

	Years ended December 31,			Change over prior year	
	2018	2017	2016	2018	2017
PREMIUMS AND OTHER REVENUES					
Premiums	$350,012	$328,570	$318,953	$21,442	$9,617
Other policy revenues	270,839	234,979	295,289	35,860	(60,310)
Net investment income	233,181	245,835	227,923	(12,654)	17,912
Other income	2,266	2,256	2,067	10	189
Total premiums and other revenues	856,298	811,640	844,232	44,658	(32,592)
BENEFITS, LOSSES AND EXPENSES					
Policyholder benefits	417,702	410,152	429,813	7,550	(19,661)
Interest credited to policyholders' account balances	54,249	73,965	63,565	(19,716)	10,400
Commissions for acquiring and servicing policies	158,657	147,176	132,428	11,481	14,748
Other operating expenses	190,835	190,482	186,879	353	3,603
Change in deferred policy acquisition costs (1)	(33,893)	(49,786)	3,887	15,893	(53,673)
Total benefits, losses and expenses	787,550	771,989	816,572	15,561	(44,583)
Income before federal income taxes and other items	$68,748	$39,651	$27,660	$29,097	$11,991

(1) A negative amount of net change indicates more expense was deferred than amortized and represents a decrease to expenses in the period indicated.

A positive amount of net change indicates less expense was deferred than amortized and represents an increase to expenses in the period indicated.

Items affecting the comparability of life results

The Company converted the valuation of its universal life business from an internally developed valuation system to a vendor based system in 2016 and further upgraded the system in 2017. Both events resulted in impacts to other policy revenues, policyholder benefits, and change in deferred policy acquisition costs. Neither event had significant impacts on operating income.

The unlocking of best estimate assumptions on the interest sensitive block impacted other policy revenues, policyholder benefits, and change in deferred policy acquisition costs. The Company unlocked assumptions in 2017 and 2018 with favorable operating income impacts of $5 million and $6 million, respectively.

Earnings

Earnings increased during the year ended December 31, 2018 compared to 2017 due to higher premiums and other policy revenues. Earnings increased during 2017 compared to 2016 primarily due to a decrease in policyholder benefits.

Premiums and other revenues

Premiums increased during the year ended December 31, 2018 compared to 2017 and 2017 compared to 2016 primarily due to continued growth in renewal premium on traditional life products.

Other policy revenues, which include cost of insurance charges, earned policy service fees and surrender charges, have also increased during the year ended December 31, 2018 as the size of our interest sensitive block continues to grow, through increased sales and aging of the in-force. The decrease in other policy revenue during 2017 compared to 2016 is due to the change in estimates discussed in "Items affecting the comparability of life results" section.

38

Life insurance sales

The following table presents life insurance sales as measured by annualized premium, a non-GAAP measure used by the insurance industry, which allows a comparison of new policies sold by an insurance company during the period (in thousands):

	Years ended December 31,			Change over prior year	
	2018	2017	2016	2018	2017
Traditional Life	$57,714	$58,666	$52,596	$ (952)	$ 6,070
Universal Life	25,270	23,833	19,543	1,437	4,290
Indexed UL	33,543	29,110	24,606	4,433	4,504
Total Recurring	$116,527	$111,609	$96,745	$ 4,918	$ 14,864
Single and excess(1)	$3,336	$3,026	$1,932	$ 310	$ 1,094
Credit life(1)	8,076	8,689	9,035	(613)	(346)

(1) These are weighted amounts representing 10% of single and excess premiums and 31% of credit life premiums. In 2018, credit life weighting changed from 15% to 31% due to an increase in monthly outstanding balance; 2017 amounts have been updated for comparison purposes.

Life insurance sales measure activity associated with gaining new insurance business in the current period, and includes deposits received related to interest sensitive life and universal life-type products. In contrast, GAAP premium revenues are associated with policies sold in current and prior periods, and deposits received related to interest sensitive life and universal life-type products are recorded in a policyholder account which is reflected as a liability. Therefore, a reconciliation of premium revenues and insurance sales is not meaningful.

Life insurance sales increased during 2018 compared to 2017 primarily due to increased Indexed Universal Life sales. Life insurance sales increased in all major product lines during 2017 compared to 2016.

Benefits, losses and expenses

Policyholder benefits increased during the year ended December 31, 2018 compared to 2017 attributable to an increase in the severity of claims. Policyholder benefits decreased during 2017 compared to 2016 primarily due to the change in estimates.

Commissions increased during the year ended December 31, 2018 compared to 2017 which was commensurate with the increase in indexed universal life and universal life sales. Commissions increased during 2017 compared to 2016 which was commensurate with the increase in life sales.

The following table presents the components of the change in DAC (in thousands):

	Years ended December 31,			Change over prior year	
	2018	2017	2016	2018	2017
Acquisition cost capitalized	$131,156	$123,854	$108,825	$ 7,302	$ 15,029
Amortization of DAC	(97,263)	(74,068)	(112,712)	(23,195)	38,644
Change in DAC	$33,893	$49,786	$(3,887)	$ (15,893)	$ 53,673

The amortization of DAC increased during the year ended December 31, 2018 due to release of reserves due to an increase in the severity of claims. The increase in DAC during 2017 compared to 2016 was primarily due to the change in estimates.

Policy in-force information

The following table summarizes changes in the Life segment's in-force amounts (in thousands):

	December 31,			Change over prior year	
	2018	2017	2016	2018	2017
Life insurance in-force					
Traditional life	$78,872,533	$73,452,519	$67,649,433	$5,420,014	$5,803,086
Interest-sensitive life	31,483,582	29,648,405	27,971,646	1,835,177	1,676,759
Total life insurance in-force	$110,356,115	$103,100,924	$95,621,079	$7,255,191	$7,479,845

The following table summarizes changes in the Life segment's number of policies in-force:

	December 31,			Change over prior year	
	2018	2017	2016	2018	2017
Number of policies in-force					
Traditional life	1,701,980	1,800,425	1,841,359	(98,445)	(40,934)
Interest-sensitive life	243,447	232,251	222,845	11,196	9,406
Total number of policies in-force	1,945,427	2,032,676	2,064,204	(87,249)	(31,528)

Total life insurance in-force increased during the year ended December 31, 2018 compared to 2017 and 2017 compared to 2016, due to increased sales, despite a reduction in the number of policies in-force. The reduction in policies in-force reflects continued decrease in lower face amount policies.

Reinsurance

The table below summarizes reinsurance reserves and premium amounts assumed and ceded (in thousands):

	Reserves			Premiums		
	Years ended December 31,			Years ended December 31,		
	2018	2017	2016	2018	2017	2016
Reinsurance assumed	$1,922	$2,337	$1,716	$389	$1,290	$2,188
Reinsurance ceded	(248,688)	(249,988)	(219,375)	(103,749)	(104,599)	(104,128)
Total	$(246,766)	$(247,651)	$(217,659)	$(103,360)	$(103,309)	$(101,940)

We use reinsurance to mitigate certain risks to the life segment. During 2018, our retention limits were $1.5 million for issue ages 65 and under, and $700,000 for issue ages 66 and older for traditional and universal life. In our life segment, we currently retain 100% of newly developed permanent and term products up to our retention limit and cede the excess. We also engage in facultative reinsurance through several reinsurers. Accidental death and premium waiver benefits are mostly retained on new business. Increases in reserves and premium amounts ceded primarily reflect increased use of reinsurance in conjunction with treaties related to universal life products.

For 2018, the companies to whom we have ceded reinsurance for the Life segment are shown below (in thousands, except percentages)

Reinsurer	A.M. Best Rating(1)	Ceded Premium	Percentage of Gross Premium
Swiss Re Life & Health of America Inc.	A+	$27,892	4.1 %
SCOR Global Life Reinsurance Company of Delaware	A +	23,988	3.5
Munich American Reassurance Company	A+	16,251	2.4
Canada Life Reinsurance	A+	9,954	1.5
Reinsurance Group of America	A-	5,861	0.9
Other Reinsurers with no single company greater than 5% of the total ceded premium		19,803	2.9
Total life reinsurance ceded		$103,749	15.3 %

(1) A.M. Best rating as of the most current information available February 15, 2019.

In addition, reinsurance is used in the credit life business primarily to provide producers of credit-related insurance products the opportunity to participate in the underwriting risk through producer-owned captive reinsurance companies often domiciled outside of the United States. A majority of the treaties entered into by our Specialty Markets Group are written on a 100% coinsurance basis with benefit limits of $100,000 on credit life.

Annuity

Annuity segment financial results for the periods indicated were as follows (in thousands):

	Years ended December 31,			Change over prior year	
	2018	2017	2016	2018	2017
PREMIUMS AND OTHER REVENUES					
Premiums	$231,027	$222,207	$248,714	$8,820	$(26,507)
Other policy revenues	14,710	13,547	11,591	1,163	1,956
Net investment income	467,788	573,789	500,726	(106,001)	73,063
Other income	2,611	2,832	3,161	(221)	(329)
Total premiums and other revenues	716,136	812,375	764,192	(96,239)	48,183
BENEFITS, LOSSES AND EXPENSES					
Policyholder benefits	290,611	270,970	296,586	19,641	(25,616)
Interest credited to policyholders' account balances	261,435	341,225	268,205	(79,790)	73,020
Commissions for acquiring and servicing policies	94,879	105,389	78,177	(10,510)	27,212
Other operating expenses	46,859	44,486	51,283	2,373	(6,797)
Change in deferred policy acquisition costs (1)	(35,135)	(30,022)	(5,780)	(5,113)	(24,242)
Total benefits, losses and expenses	658,649	732,048	688,471	(73,399)	43,577
Income before federal income taxes and other items	$57,487	$80,327	$75,721	$(22,840)	$4,606

(1) A negative amount of net change indicates more expense was deferred than amortized and represents a decrease to expenses in the period indicated.

A positive amount of net change indicates less expense was deferred than amortized and represents an increase to expenses in the period indicated.

Items affecting the comparability of annuity results

The Company converted the valuation of its single premium immediate annuity business from a mainframe valuation system to a more robust vendor based system in 2017 resulting in a $9.6 million decrease in estimates affecting policyholder benefits.

Earnings

Earnings decreased during the year ended December 31, 2018 compared to 2017 primarily due to a reduced interest margin on equity-indexed products, driven by mark-to-market option volatility resulting from a decrease in the S&P 500 index. Earnings increased during 2017 compared to 2016 primarily due to a decrease in operating expenses as well as the conversion of SPIA reserve valuation discussed in "Items affecting the comparability of annuity results" section immediately above.

Premiums and other revenues

Annuity premium and deposit amounts received are shown below (in thousands):

	Years ended December 31,			Change over prior year	
	2018	2017	2016	2018	2017
Fixed deferred annuity	$399,102	$741,184	$508,894	$(342,082)	$232,290
Single premium immediate annuity	271,513	261,809	281,521	9,704	(19,712)
Equity-indexed deferred annuity	858,283	893,032	572,473	(34,749)	320,559
Variable deferred annuity	64,907	76,470	76,012	(11,563)	458
Total premium and deposits	1,593,805	1,972,495	1,438,900	(378,690)	533,595
Less: Policy deposits	1,362,778	1,750,288	1,190,186	(387,510)	560,102
Total earned premiums	$231,027	$222,207	$248,714	$8,820	$(26,507)

Sales declined during the year ended December 31, 2018 driven by a decrease in fixed deferred products. Deferred products are deposit type contracts and do not contribute to earned premiums. Sales strengthened during 2017 compared to 2016 led by the equity-indexed and fixed deferred products. Earned premiums consist of single premium immediate annuity sales which increased during the year ended December 31, 2018 compared to 2017. These variances are reflective of our management of our annuity block in a very competitive environment for annuities.

We monitor account values and changes in those values as a key indicator of performance in our Annuity segment. Shown below are the changes in account values (in thousands):

	Years ended December 31,		
	2018	2017	2016
Fixed deferred and equity-indexed annuity			
Account value, beginning of period			