UNITED FIRE & CASUALTY CO
Form 10-K
March 02, 2009

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

FORM 10-K

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008**

OR

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______**

Commission File Number 001-34257
UNITED FIRE & CASUALTY COMPANY
(Exact name of registrant as specified in its charter)

Iowa	**42-0644327**
(State of Incorporation)	**(IRS Employer Identification No.)**

118 Second Avenue SE
PO Box 73909
Cedar Rapids, Iowa 52407-3909
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: (319) 399-5700
Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $3.33 1/3 par value	**The NASDAQ Stock Market LLC**

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

As of February 25, 2009, 26,624,086 shares of common stock were outstanding. The aggregate market value of voting stock held by nonaffiliates of the registrant as of June 30, 2008, was approximately $541.8 million. For purposes of this calculation, all directors and executive officers of the registrant are considered affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for its annual stockholders meeting to be held on May 20, 2009.

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PART IV:

PART I.

ITEM 1. BUSINESS

FORWARD-LOOKING INFORMATION

It is important to note that our actual results could differ materially from those projected in the forward-looking statements. Information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in Part I, Item 1A, Risk Factors, and Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL DESCRIPTION

The terms United Fire, United Fire Group, we, us, or our refer to United Fire & Casualty Company or United Fi Casualty Company and its consolidated subsidiaries and affiliate, as the context requires. We are engaged in the business of writing property and casualty insurance and life insurance. We are an Iowa corporation, incorporated in January 1946. Our principal executive office is located at 118 Second Avenue SE, P.O. Box 73909, Cedar Rapids, Iowa 52407-3909. Telephone: 319-399-5700.

We report our operations in two business segments: property and casualty insurance and life insurance. A table reflecting revenues, net income and assets attributable to our operating segments is included in Part II, Item 8, Note 11, Segment Information. All intercompany balances have been eliminated in consolidation.

Our property and casualty insurance segment includes United Fire & Casualty Company and the following companies, which United Fire & Casualty Company owns 100 percent, directly or indirectly: Addison Insurance Company, an Illinois property and casualty insurer; Lafayette Insurance Company, a Louisiana property and casualty insurer; United Fire & Indemnity Company, a Texas property and casualty insurer; American Indemnity Financial Corporation, a Delaware holding company; and Texas General Indemnity Company, a Colorado property and casualty insurer. United Fire Lloyds, a Texas property and casualty insurer, is an affiliate of and operationally and financially controlled by United Fire & Indemnity Company.

Most of our property and casualty insurance subsidiaries are members of an intercompany reinsurance pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool s capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant s own surplus level. Under such arrangements, the members share substantially all of the insurance business that is written, and allocate the combined premiums, losses and expenses based on percentages defined in the arrangement.

Our life insurance segment consists of United Life Insurance Company, an Iowa life insurer and wholly owned subsidiary of United Fire & Casualty Company.

As of December 31, 2008, we employed 674 full-time employees.

Available Information

United Fire Group provides free and timely access to all company reports filed with the Securities and Exchange Commission (SEC) in the Investor Relations section of our Web site at www.unitedfiregroup.com. Select SEC Filings to view the list of filings, which includes:

- Annual reports (Form 10-K)
- Quarterly reports (Form 10-Q)
- Current reports (Form 8-K)
- Amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act.

Our Code of Ethics is also available at www.unitedfiregroup.com in the Investor Relations section. To view it, select Corporate Governance and then Code of Ethics.

Free paper copies of any materials that we file with the SEC can also be obtained by writing to Investor Relations, United Fire Group, P.O. Box 73909, Cedar Rapids, Iowa 52407-3909 or by visiting the SEC Public Reference Room, 450 Fifth Street NW, Washington, DC 20549. For information about the Public Reference Room, call the SEC at 1-800-SEC-0330.

The SEC maintains a Web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

GEOGRAPHIC DISTRIBUTION

We market our products through our home office in Cedar Rapids, Iowa, and two regional locations: Westminster, Colorado, a suburb of Denver, and Galveston, Texas.

We are licensed as a property and casualty insurer in 43 states, primarily in the Midwest, West and South, plus the District of Columbia. We have 837 independent agencies representing us and our property and casualty insurance subsidiaries. The following table depicts the top five states for direct premiums written for our property and casualty insurance operations for 2008.

(Dollars in Thousands)	Direct Premium Written	% to Total Direct Premium Written
Texas	$ 70,301	14.5%
Iowa	66,926	13.8
Colorado	46,763	9.7
Louisiana	42,467	8.8
Missouri	42,242	8.7
Direct Premium Written (1)	$ 268,699	55.5%

(1) Please refer to the Non-GAAP financial measures section of this report for further explanation of this measure.

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Our life insurance subsidiary is licensed in 28 states, primarily in the Midwest and West, and is represented by 952 independent agencies. The following table depicts the top five states for life insurance business for our life insurance operations for 2008.

(Dollars in Thousands)	Direct Statutory Premium Volume	% to Total Direct Statutory Premium Volume
Iowa	$ 83,148	41.9%
Wisconsin	21,026	10.6
Nebraska	15,813	8.0
Minnesota	15,675	7.9
Illinois	15,020	7.6
Direct Statutory Premium Volume	$ 150,682	76.0%

(1) Please refer to the Non-GAAP financial measures section of this report for further explanation of this measure.

We staff our regional offices with underwriting, claims and marketing representatives and administrative technicians, all of whom provide support and assistance to the independent agencies. Also, home office staff technicians and specialists provide support to the subsidiaries, regional offices and independent agencies. We use management reports to monitor subsidiary and regional offices for overall results and conformity to our business policies.

COMPETITION

The property and casualty and life insurance industries are highly competitive. We compete with numerous property and casualty insurance companies in the regional and national market, many of which are substantially larger and have considerably greater financial and other resources. In addition, because our products are marketed exclusively through independent insurance agencies, most of which represent more than one company, we face competition within each agency. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers. Our competitive advantages include our use of technology, knowledgeable and experienced underwriters, appropriate pricing, quality service to our policyholders and our agents, and a competitive commissions program.

Because we rely heavily on independent agencies, we utilize a profit-sharing plan as an incentive for agents to place high-quality property and casualty insurance business with us. We estimate property and casualty agencies will receive profit-sharing payments of $7.4 million in 2009, based on business produced by the agencies in 2008.

We also encounter significant competition in all lines of life and annuity business from other life insurance companies and other providers of financial services. Our life insurance company utilizes competitive commission rates, other sales incentives and quality service to attract and maintain its relationship with independent agencies.

To enhance our ability to compete, we utilize technology in a variety of ways to assist our agents and improve the delivery of service to our policyholders. For example, our public Web site, which provides general company and product information, includes a section accessible exclusively to our agents where they can quote new business;

submit applications and change requests, report new claims and process payments electronically. Our agents can access detailed information about their policyholders accounts, including policy declarations, coverage forms, billing transactions and claims information. Our agents can also use our Web site to access their experience reports, review detailed information about our products, order sales literature and download our applications, questionnaires and other forms. Our surety bond agents can issue and upload contract, license and permit bonds online, submit new bid bond requests and view detailed bond information. Our life agents can quote new life policies, view the status of customers applications and access detailed information on our annuity, universal life, term life and whole life policies. We electronically scan and store the majority of our documents, allowing multiple users to simultaneously retrieve and view them. Additionally, we provide our policyholders secure online access to their account information. We offer a variety of online payment options for our policyholders, including payment via credit card, debit card and electronic check. We believe our investment in technology allows us to provide enhanced service to our agents, policyholders and investors.

United Fire Group was named a Top 10 Ease of Doing Business Performer for 2008 in Deep Customer Connections Inc. s (DCC) sixth annual Ease of Doing Business (EDB) survey. Over 7,400 independent agents and brokers assessed the performance of more than 250 property and casualty carriers as part of the survey. They rated the importance of 11 EDB factors, ranging from underwriting responsiveness and handling claims promptly to acting with the agency s needs in mind. DCC specializes in helping property and casualty carriers achieve profitable growth by making it easy for their agents to work with them. DCC s EDB Index® is an industry benchmark of carriers EDB performance.

OPERATING SEGMENTS

Incorporated by reference from Note 11. Segment Information contained in Part II, Item 8, Financial Statements and Supplementary Data.

REINSURANCE

Incorporated by reference from Note 5. Reinsurance contained in Part II, Item 8, Financial Statements and Supplementary Data.

RESERVES

Property and Casualty Insurance Segment

Reserves for losses and loss settlement expenses (loss reserves) are management s best estimates at a given point in time of what we expect to pay for claims, based on facts, circumstances and historical trends then known.

The determination of reserves, particularly those relating to liability lines of insurance, reflects significant judgment factors. If, during the course of our regular monitoring of reserves, we determine that coverages previously written are incurring higher than expected losses, we will take action that may include, among others, increasing the related reserves. Any adjustments we make to reserves are reflected in operating results in the year in which we make those adjustments. As required by state law, we engage an independent actuary, Regnier Consulting Group, to render an opinion as to the adequacy of the statutory reserves we establish. The actuarial opinion is filed in those states where we are licensed. We do not discount loss reserves based on the time value of money. However, we consider inflation in the reserving process by reviewing cost trends, loss settlement expenses, historical reserving results and likely future economic conditions. There is no material differences between our statutory reserves and those established under U.S. generally accepted accounting principles (GAAP). Refer to the Critical Accounting Estimates section in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, for a more detailed discussion of our loss reserves.

The table on the following page illustrates the change in our estimate of reserves for loss and loss settlement expenses for our property and casualty companies for the years 1999 through 2007. The first section shows the amount of the liability, as originally reported, at the end of each calendar year in our Consolidated Financial Statements. These reserves represent the estimated amount of losses and loss settlement expenses for losses arising in all prior years that are unpaid at the end of each year, including an estimate for our incurred but not reported (IBNR) losses, net of applicable ceded reinsurance. The second section displays the cumulative amount of net losses and loss settlement expenses paid for each year with respect to that liability. The third section shows the reestimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the losses for individual years. The last section compares the latest reestimated with the original estimate. Conditions and trends that have affected development of loss reserves in the past may not necessarily exist in the future. Accordingly, it would not be appropriate to extrapolate future redundancies or deficiencies based on this table.

lars in Thousands) rs Ended December 31,	1999	2000	2001	2002	2003	2004	2005	2006	2007	**200**
ss liability for loss and settlement expenses	$ 338,243	$ 358,032	$ 363,819	$ 392,649	$ 427,047	$ 464,889	$ 620,100	$ 518,886	$ 496,083	**$ 586,**
ed loss and loss ement expenses	27,606	37,526	36,909	35,760	27,307	28,609	60,137	40,560	38,800	**52,**
liability for loss and settlement expenses	$ 310,637	$ 320,506	$ 326,910	$ 356,889	$ 399,740	$ 436,280	$ 559,963	$ 478,326	$ 457,283	**$ 533,**
nulative net paid as of:										
year later	$ 97,021	$ 110,516	$ 112,546	$ 107,271	$ 100,895	$ 110,016	$ 230,455	$ 148,593	$ **140,149**	
years later	154,886	166,097	172,538	172,158	167,384	166,592	321,110	**235,975**		
ee years later	189,730	204,792	215,002	214,307	203,861	213,144	**380,294**			
r years later	213,190	230,889	240,973	237,150	231,278	**242,579**				
years later	231,838	245,677	252,969	253,026	**250,787**					
years later	241,540	252,153	264,311	**265,304**						
en years later	245,145	259,621	**273,153**							
t years later	249,302	**264,713**								
e years later	**253,274**									
liability reestimated as										
of year	$ 310,637	$ 320,506	$ 326,910	$ 356,889	$ 399,740	$ 436,280	$ 559,963	$ 478,326	$ 457,283	**$ 533,**
year later	273,706	273,469	315,854	344,590	361,153	358,796	534,998	433,125	**457,831**	
years later	261,217	290,872	323,354	340,502	331,693	330,137	508,774	**453,474**		
ee years later	273,921	300,011	321,168	324,582	317,187	319,335	**538,451**			
r years later	279,740	302,884	318,125	313,745	309,146	**326,340**				
years later	279,653	298,428	309,033	308,304	**316,227**					
years later	280,983	296,296	307,790	**312,188**						
en years later	279,892	293,579	**311,367**							
t years later	276,815	**297,844**								
e years later	**281,346**									
redundancy ciency)	$ 29,291	$ 22,662	$ 15,543	$ 44,701	$ 83,513	$ 109,940	$ 21,512	$ 24,852	$ (548)	
reestimated liability	$ 281,346	$ 297,844	$ 311,367	$ 312,188	$ 316,227	$ 326,340	$ 538,451	$ 453,474	$ 457,831	
stimated ceded loss and settlement expenses	26,737	34,147	42,816	43,501	38,919	38,708	86,691	56,210	49,324	
ss reestimated liability	$ 308,083	$ 331,991	$ 354,183	$ 355,689	$ 355,146	$ 365,048	$ 625,142	$ 509,684	$ 507,155	

ss redundancy ciency)	$ 30,160	$ 26,041	$ 9,636	$ 36,960	$ 71,901	$ 99,841	$ (5,042)	$ 9,202	$ (11,072)

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Life Insurance Segment

The policy reserves reported in our Consolidated Financial Statements are calculated in accordance with GAAP. We calculate our reserve for annuity and universal life policy deposits in accordance with Statement of Financial Accounting Standards (SFAS) No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses on the Sale of Investments. We establish a benefit reserve at the time of policy issuance in an amount equal to the deposits received. Subsequently, we adjust the benefit reserve for any additional deposits, interest credited and partial or complete withdrawals. We determine reserves for statutory purposes based upon mortality rates and interest rates specified by Iowa state law. Our life insurance subsidiary s reserves meet or exceed the minimum statutory requirements. Griffith, Ballard & Company, an independent actuary, assists us in developing and analyzing our reserves on both a GAAP and statutory basis.

For further discussion of our life insurance segment s reserves see Critical Accounting Estimates contained in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

INVESTMENTS

Incorporated by reference from Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the headings Investments and Critical Accounting Estimates; Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk; and Note 1. Significant Accounting Policies under the headings Investments and Securities Lending, Note 2. Summary of Investments, and Note 3. Fair Value of Financial Instruments, contained in Part II, Item 8, Financial Statements and Supplementary Data.

REGULATION

We are subject to regulation and supervision in each of the states where our insurance companies are domiciled and licensed to conduct business. State insurance department commissioners regulate such matters as licensing, standards of solvency, premium rates, policy forms, investments, security deposits, accounting policy, form and content of financial statements, reserves for unpaid loss and loss settlement expenses, reinsurance, minimum capital and surplus requirements, dividends to shareholders, periodic examinations, and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders.

The majority of our insurance operations are in states requiring prior approval by regulators before proposed rates for property and casualty insurance policies may be implemented. However, rates proposed for life insurance generally become effective immediately upon filing with a state, even though the same state may require prior rate approval for other types of insurance. Because of this regulatory constraint, it is sometimes difficult to receive an adequate premium rate for our products, which can result in unsatisfactory underwriting results. Insurance regulatory authorities also perform periodic examinations of an insurer s market conduct and other affairs.

Despite strict oversight by state insurance regulators, insurance companies occasionally become insolvent. Each of our insurance companies are required to participate in state guaranty fund associations, whose purpose is to protect the policyholders of insolvent insurance companies. Guaranty fund associations assess solvent insurers to pay the claims of insolvent insurers. The assessments are based proportionately upon each solvent insurance company s share of direct written premiums in the applicable state. Most state guaranty fund associations allow solvent insurers to recoup the assessments paid through future rate increases, surcharges or premium tax credits. However, there is no assurance that we will ultimately recover these assessments. At December 31, 2008, we had no liability for state guaranty fund assessments.

State insurance regulators also establish insurance funds to provide insurance coverage to those individuals unable to obtain insurance through the voluntary insurance market. Occasionally, these funds will issue assessments to insurance companies, including us, that write business within their states. The terms of some of these assessments allow for the amounts assessed to be recovered through surcharges to policyholders applied to insurance policies written in the state over a specific time period. Therefore, we may be entitled to recoup part or all of any assessments through future surcharges to policyholders.

Our insurance companies are subject to state laws and regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Noncompliance may cause nonconforming investments to be nonadmitted when measuring statutory capital and surplus and, in some instances, states may require us to sell the nonconforming securities. As of December 31, 2008, we were in compliance with the investment laws and regulations of all states in which our insurance companies are domiciled.

The National Association of Insurance Commissioners (NAIC) annually calculates 13 financial ratios to assist state insurance regulators in monitoring the financial condition of insurance companies. A usual range of results for each ratio is used as a benchmark. Departure from the usual range on four or more of the ratios could lead to inquiries from individual state insurance departments as to certain aspects of a company s business. None of our insurance companies had four or more ratios outside the usual range at December 31, 2008. In addition to the financial ratios, we are also required to calculate a minimum capital requirement for each of our insurance companies based on individual company insurance risk factors. These risk-based capital results are used to identify companies that require regulatory attention or the initiation of regulatory action. At December 31, 2008, all of our insurance companies had capital well in excess of the required levels.

In January 2009, the NAIC took under advisement increasing the recovery time (from one year) currently allowed in the computation of deferred tax assets, which would increase the total assets and total equity reported by insurers on a statutory basis. We are not aware of any other current recommendations by the NAIC, the federal government, or other regulatory authorities in the states in which we conduct business that, if or when implemented, would have a material effect on our liquidity, capital resources or operations.

FINANCIAL STRENGTH RATING

Our financial strength, as measured by statutory accounting principles, is regularly reviewed by an independent rating agency that assigns a rating based upon criteria such as results of operations, capital resources and minimum policyholders surplus requirements.

Our family of property and casualty insurers has received a group rating of A (Excellent) from A.M. Best Company (A.M. Best). Within the group, all of our property and casualty insurers have an A (Excellent) rating, except one insurance subsidiary that is in a runoff status, which A.M. Best has designated as NR-3 (Rating Procedure Inapplicable). Our life insurance subsidiary has received an A- (Excellent) rating from A.M. Best. According to A.M. Best, companies rated A and A- have an excellent ability to meet their ongoing obligations to policyholders.

An insurer s solvency rating is one of the primary factors evaluated by those in the market to purchase insurance. A poor rating indicates that there is an increased likelihood that the insurer could become insolvent and therefore not able to fulfill its obligations under the insurance policies it issues. The level of an insurer s solvency rating can affect its level of premium writings, the lines of business it can write and, for insurers that are also public registrants, the market value of its shares of stock.

ITEM 1A. RISK FACTORS

RISK FACTORS

We provide the following discussion of risks and uncertainties relevant to our business. These are factors that we believe could cause our actual results to differ materially from expected and historical results. We could also be adversely affected by other factors in addition to those listed here. We have set forth additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Risks Relating to Our Business

The occurrence and severity of catastrophe losses are unpredictable and may adversely affect the results of our operations, liquidity and financial condition.

Our property and casualty insurance operations expose us to claims arising from catastrophic events, which can be caused by various natural and man-made disasters, including, but not limited to, hurricanes, tornadoes, windstorms, hailstorms, fires, explosions, earthquakes, tropical storms and terrorist acts. Property damage resulting from catastrophes is the greatest risk of loss we face in the ordinary course of our business. We have exposure for catastrophe losses under both our commercial insurance policies and our personal insurance policies. In addition, our automobile and inland marine business exposes us to losses arising from floods and other perils.

Because the occurrence and severity of catastrophes are inherently unpredictable and may vary significantly from year to year, historical results of operations may not be indicative of future results of operations. Catastrophes may also negatively affect our ability to write new business. Increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from future catastrophic events.

Our reserves for property and casualty insurance losses and costs related to settlement of property and casualty losses and our life reserves for future policy benefits may be inadequate, which would have an unfavorable impact on our financial results.

Our reserves for claims and future policy benefits may prove to be inadequate, which may result in future charges to earnings and/or a downgrade of our financial strength rating or the financial strength ratings of our insurance company subsidiaries. We establish property and casualty loss reserves based on assumptions and estimates of damages and liabilities incurred. Regnier Consulting Group, our independent actuary, calculates reserves for our property and casualty insurance products based on many assumptions and estimates to validate the reasonableness of our claims reserves.

Our property and casualty loss reserves are only estimates; we determine the amount of these loss reserves based on our best estimate and judgment of the losses and costs we will incur on existing insurance policies. Because of the uncertainties that surround estimating loss reserves, we cannot precisely determine the ultimate amounts of benefits and claims that we will pay or the timing of payment of benefits and claims. The following factors may have a substantial impact on our future earnings:

- The length of time between the actual occurrence of a claim and the report date of the claim.
- The amounts of claims settlements and awards.
- Changes in the cost of medical care, including the effect of inflation.
- The cost of home/business repair, including the effect of inflation and the accessibility of labor and materials.
- State regulatory requirements.
- The judicial environment, including, but not limited to, changes in case law, the impact of jury awards and the interpretation of policy provisions.

Actual losses and loss settlement expenses paid might exceed our reserves. If our loss reserves are insufficient, or if we believe our loss reserves are insufficient to cover our actual loss and loss settlement expenses, we will have to increase our loss reserves and incur charges to our earnings. These charges may be material.

Griffith, Ballard & Company, our independent actuary, calculates reserves for our life insurance products based on many assumptions and estimates, including estimated premiums we will receive over the assumed life of the policy, the timing of the event covered by the insurance policy and the amount of benefits or claims to be paid. As such, deviations from one or more of these assumptions could result in a material adverse impact on our Consolidated Financial Statements.

The cyclical nature of the property and casualty insurance business may affect our financial performance.

The financial results of companies in the property and casualty insurance industry historically have been cyclical in nature, characterized by periods of severe price competition and excess underwriting capacity, or soft markets, followed by periods of high premium rates and shortages of underwriting capacity, or hard markets. We expect these cycles to continue. Premium rates for property and casualty insurance are influenced by factors that are outside of our control, including market and competitive conditions and regulatory issues. Soft market conditions could require us to reduce premiums, limit premium increases, or discontinue offering one or more of our insurance products in one or more states, resulting in a reduction in our premiums written and in our profit margins and revenues. The demand for property and casualty insurance can also vary significantly, rising as the overall level of economic activity increases and falling as that activity decreases. Fluctuations in demand and competition could produce underwriting results that would have a negative impact on the results of our operations and financial condition.

We are subject to interest rate fluctuations and declines in the value of investments held in our investment portfolio due to various market factors that could negatively affect our profitability.

We are subject to the negative effects of interest rate fluctuations and other market changes, to declines in value due to market valuations and to declines in credit quality related to individual investments held in our investment portfolio. Some of our products, principally fixed annuities, expose us to the risk that changes in interest rates will reduce our spread, which is the difference between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on our investments intended to support our obligations under the contracts.

In periods of increasing interest rates, we may not be able to replace our invested assets with higher-yielding assets to the extent needed to fund the higher rates we must pay with respect to our interest-sensitive products to keep them competitive. Consequently, we may have to accept a lower spread and thus lower profitability, or face a decline in sales and loss of existing contracts and related assets. In periods of declining interest rates, we have to reinvest the cash we receive as interest or return of principal on our investments in lower-yielding instruments than previously available. Moreover, borrowers may prepay fixed income securities, commercial mortgages, and mortgage-backed securities in which we have invested in order to borrow at lower market rates, exacerbating this risk. Because we are entitled to reset the interest rates on our annuities only at limited, pre established intervals and because many of our policies have guaranteed interest rates, our spreads could decrease and potentially become negative.

Due to the reinvestment risk described above, a decline in market interest rates available on investments could also reduce our return from investments of capital that do not support particular policy obligations, which could also have a material adverse effect on our results of operations. The adverse effect on us from fluctuations in interest rates may be exacerbated because we currently maintain, and intend to continue to maintain, a large portion (91.3 percent at December 31, 2008) of our investment portfolio in fixed income securities, including our portfolio of trading securities. The fair value of these investments generally increases or decreases in an inverse relationship with changes in interest rates. We classify the majority (99.2 percent, at December 31, 2008) of our fixed income securities as available-for-sale. We report the value of those investments at their current fair value. Accordingly, fluctuations in interest rates may result in fluctuations in the valuation of our fixed income investments, which would affect our stockholders equity.

Fluctuations in interest rates may cause increased surrenders and withdrawals from our life insurance and annuity products. In periods of rising interest rates, policy loans, and surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns. These withdrawals and terminations may also require us to accelerate the amortization of deferred policy acquisition costs, which would increase our expenses in the current period.

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