Primerica, Inc.
Form 10-Q
November 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-34680

Primerica, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	27-1204330 (I.R.S. Employer Identification No.)
1 Primerica Parkway	30099

Duluth, Georgia
(Address of principal executive offices) (ZIP Code)

(770) 381-1000

(Registrant's telephone number, including area code)

Not applicable.

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

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

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

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

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

Class	As of October 31, 2015
Common Stock, $0.01 Par Value	48,361,806 shares

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	(Unaudited) September 30, 2015	December 31, 2014
	(In thousands)	
Assets:		
Investments:		
Fixed-maturity securities available-for-sale, at fair value (amortized cost: $1,641,568 in 2015 and $1,667,500 in 2014)	$1,683,166	$1,759,120
Fixed-maturity securities held-to-maturity, at amortized cost (fair value: $357,153 in 2015 and $228,809 in 2014)	356,000	220,000
Equity securities available-for-sale, at fair value (cost: $40,571 in 2015 and $43,738 in 2014)	45,780	53,390
Trading securities, at fair value (cost: $6,556 in 2015 and $7,710 in 2014)	6,534	7,711
Policy loans	28,599	28,095
Total investments	2,120,079	2,068,316
Cash and cash equivalents	160,561	191,997
Accrued investment income	17,800	17,401
Due from reinsurers	4,103,949	4,115,533
Deferred policy acquisition costs, net	1,465,175	1,351,180
Premiums and other receivables	198,846	181,660
Intangible assets, net (accumulated amortization: $70,978 in 2015 and $68,426 in 2014)	59,168	61,720
Deferred income taxes	35,859	36,082
Other assets	314,830	273,403
Separate account assets	2,086,598	2,440,303
Total assets	$10,562,865	$10,737,595
Liabilities and Stockholders' Equity:		
Liabilities:		
Future policy benefits	$5,388,042	$5,264,608
Unearned premiums	665	912
Policy claims and other benefits payable	222,720	245,829
Other policyholders' funds	351,879	344,313
Notes payable	374,572	374,532
Surplus note	356,000	220,000
Income taxes	152,315	140,467
Other liabilities	400,173	411,294
Payable under securities lending	83,220	50,211

Separate account liabilities	2,086,598	2,440,303
Commitments and contingent liabilities (see Commitments and Contingent Liabilities note)		
Total liabilities	9,416,184	9,492,469
Stockholders' equity:		
Common stock ($0.01 par value; authorized 500,000 in 2015 and 2014; issued and outstanding 48,571 shares in 2015 and 52,169 shares in 2014)	486	522
Paid-in capital	195,314	353,337
Retained earnings	912,749	795,740
Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	(11,684)	21,681
Net unrealized investment gains (losses):		
Net unrealized investment gains not other-than-temporarily impaired	49,889	74,308
Net unrealized investment losses other-than-temporarily impaired	(73)	(462)
Total stockholders' equity	1,146,681	1,245,126
Total liabilities and stockholders' equity	$10,562,865	$10,737,595

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income – Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per-share amounts)			
Revenues:				
Direct premiums	$587,882	$577,482	$1,753,589	$1,722,427
Ceded premiums	(393,987)	(402,198)	(1,198,382)	(1,215,459)
Net premiums	193,895	175,284	555,207	506,968
Commissions and fees	132,368	132,928	404,353	391,898
Investment income net of investment expenses	22,487	21,764	67,918	65,044
Interest expense on surplus note	(3,772)	(1,299)	(8,954)	(1,299)
Net investment income	18,715	20,465	58,964	63,745
Realized investment gains (losses), including other-than-temporary impairment losses	(259)	(281)	1,623	813
Other, net	11,105	10,445	31,041	30,137
Total revenues	355,824	338,841	1,051,188	993,561
Benefits and expenses:				
Benefits and claims	88,599	81,235	253,621	228,839
Amortization of deferred policy acquisition costs	40,797	36,944	113,392	104,834
Sales commissions	67,402	67,500	207,358	199,985
Insurance expenses	30,261	31,149	93,353	87,106
Insurance commissions	4,619	4,045	11,953	12,009
Interest expense	8,718	8,712	26,036	25,870
Other operating expenses	40,475	45,236	126,887	128,325
Total benefits and expenses	280,871	274,821	832,600	786,968
Income from continuing operations before income taxes	74,953	64,020	218,588	206,593
Income taxes	25,603	22,407	76,664	72,224
Income from continuing operations	49,350	41,613	141,924	134,369
Income (loss) from discontinued operations, net of income taxes	-	(18)	-	1,578
Net income	$49,350	$41,595	$141,924	$135,947
Basic earnings per share:				
Continuing operations	$0.98	$0.75	$2.73	$2.42
Discontinued operations	-	-	-	0.03
Basic earnings per share	$0.98	$0.75	$2.73	$2.45
Diluted earnings per share:				
Continuing operations	$0.98	$0.75	$2.73	$2.41
Discontinued operations	-	-	-	0.03
Diluted earnings per share	$0.98	$0.75	$2.73	$2.44
Weighted-average shares used in computing earnings per share:				
Basic	50,082	54,713	51,494	54,953

Diluted	50,104	54,744	51,526	54,978
Supplemental disclosures:				
Total impairment losses	$(1,564)	$(515)	$(2,433)	$(885)
Impairment losses recognized in other comprehensive income before income taxes	-	-	-	-
Net impairment losses recognized in earnings	(1,564)	(515)	(2,433)	(885)
Other net realized investment gains	1,305	234	4,056	1,698
Realized investment gains, including other-than-temporary impairment losses	$(259)	$(281)	$1,623	$813
Dividends declared per share	$0.16	$0.12	$0.48	$0.36

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) – Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Net income	$49,350	$41,595	$141,924	$135,947
Other comprehensive income (loss) before income taxes:				
Unrealized investment gains (losses):				
Change in unrealized holding gains (losses) on investment securities	(18,019)	(20,132)	(35,078)	18,590
Reclassification adjustment for realized investment (gains) losses included in net income	381	80	(1,892)	(686)
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation losses before income tax expense (benefit) of $(171) and $(366) in 2015 and $(131) and $(139) in 2014	(16,323)	(11,600)	(33,731)	(11,832)
Total other comprehensive income (loss) before income taxes	(33,961)	(31,652)	(70,701)	6,072
Income tax expense (benefit) related to items of other comprehensive income (loss)	(6,345)	(7,150)	(13,306)	6,128
Other comprehensive loss, net of income taxes	(27,616)	(24,502)	(57,395)	(56)
Total comprehensive income	$21,734	$17,093	$84,529	$135,891

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity – Unaudited

	Nine months ended September 30,	
	2015	2014
	(In thousands)	
Common stock:		
Balance, beginning of period	$522	$548
Repurchases of common stock	(41)	(15)
Net issuance of common stock	5	4
Balance, end of period	486	537
Paid-in capital:		
Balance, beginning of period	353,337	472,633
Share-based compensation	28,073	29,459
Net issuance of common stock	(5)	(4)
Repurchases of common stock	(187,180)	(71,838)
Adjustments to paid-in capital, other	1,089	(993)
Balance, end of period	195,314	429,257
Retained earnings:		
Balance, beginning of period	795,740	640,840
Net income	141,924	135,947
Dividends	(24,915)	(20,049)
Balance, end of period	912,749	756,738
Accumulated other comprehensive income (loss):		
Balance, beginning of period	95,527	108,006
Change in foreign currency translation adjustment, net of income tax expense (benefit) of $(366) in 2015 and $(139) in 2014	(33,365)	(11,693)
Change in net unrealized investment gains (losses) during the period, net of income taxes:		
Change in net unrealized investment gains (losses) not-other-than temporarily impaired, net of income tax expense (benefit) of $(13,148) in 2015 and $5,790 in 2014	(24,419)	10,752
Change in net unrealized investment losses other-than-temporarily impaired, net of income tax expense (benefit) of $208 in 2015 and $477 in 2014	389	885
Balance, end of period	38,132	107,950
Total stockholders' equity	$1,146,681	$1,294,482

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows – Unaudited

	Nine months ended September 30,	
	2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net income	$141,924	$135,947
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Change in future policy benefits and other policy liabilities	165,492	200,406
Deferral of policy acquisition costs	(243,346)	(217,027)
Amortization of deferred policy acquisition costs	113,392	104,834
Change in income taxes	31,349	17,714
Realized investment (gains) losses, including other-than-temporary impairments	(1,623)	(813)
Gain from sale of business, net	-	(1,578)
Accretion and amortization of investments	(1,094)	(2,035)
Depreciation and amortization	8,201	8,611
Change in due from reinsurers	(33,248)	(93,109)
Change in premiums and other receivables	(21,376)	(16,775)
Trading securities sold, matured, or called (acquired), net	1,143	3,818
Share-based compensation	12,918	14,333
Change in other operating assets and liabilities, net	(32,740)	(22,846)
Net cash provided by (used in) operating activities	140,992	131,480
Cash flows from investing activities:		
Available-for-sale investments sold, matured or called:		
Fixed-maturity securities — sold	104,097	63,996
Fixed-maturity securities — matured or called	201,722	237,335
Equity securities	4,700	188
Available-for-sale investments acquired:		
Fixed-maturity securities	(264,457)	(318,987)
Equity securities	(794)	(6,470)
Purchases of property and equipment and other investing activities, net	(5,924)	(6,029)
Proceeds from sale of business	-	3,000
Cash collateral received (returned) on loaned securities, net	33,009	(22,238)
Sales (purchases) of short-term investments using securities lending collateral, net	(33,009)	22,238
Net cash provided by (used in) investing activities	39,344	(26,967)
Cash flows from financing activities:		
Dividends paid	(24,915)	(20,049)
Common stock repurchased	(181,121)	(65,556)
Excess tax benefits on share-based compensation	4,624	4,651
Tax withholdings on share-based compensation	(6,101)	(6,297)
Cash proceeds from stock options exercised	136	-
Payments of deferred financing costs	-	(864)
Net cash provided by (used in) financing activities	(207,377)	(88,115)

Effect of foreign exchange rate changes on cash	(4,395)	(1,904)
Change in cash and cash equivalents	(31,436)	14,494
Cash and cash equivalents, beginning of period	191,997	148,983
Cash and cash equivalents, end of period	$160,561	$163,477

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements — Unaudited

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

Description of Business. Primerica, Inc. (the "Parent Company"), together with its subsidiaries (collectively, "we", "us" or the "Company"), is a leading distributor of financial products to middle income households in the United States and Canada. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. Our primary subsidiaries include the following entities: Primerica Financial Services, Inc. ("PFS"), a general agency and marketing company; Primerica Life Insurance Company ("Primerica Life"), our principal life insurance company; Primerica Financial Services (Canada) Ltd., a holding company for our Canadian operations, which includes Primerica Life Insurance Company of Canada ("Primerica Life Canada") and PFSL Investments Canada Ltd. ("PFSL Investments Canada"); and PFS Investments, Inc. ("PFS Investments") an investment products company and broker-dealer. Primerica Life, domiciled in Massachusetts, owns National Benefit Life Insurance Company ("NBLIC"), a New York insurance company. We established Peach Re, Inc. ("Peach Re") and Vidalia Re, Inc. (“Vidalia Re”) as special purpose financial captive insurance companies and wholly owned subsidiaries of Primerica Life. Peach Re and Vidalia Re have each entered into separate coinsurance agreements with Primerica Life whereby Primerica Life has ceded certain level premium term life insurance policies to Peach Re and Vidalia Re (respectively, the “Peach Re Coinsurance Agreement” and the “Vidalia Re Coinsurance Agreement”).

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

The accompanying unaudited condensed consolidated financial statements contain all adjustments, generally consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of September 30, 2015 and December 31, 2014, the statements of income and comprehensive income (loss) for the three and nine months ended September 30, 2015 and 2014, and the statements of stockholders' equity and cash flows for the nine months ended September 30, 2015 and 2014. Results of operations for interim periods are not necessarily indicative of results for the entire year or of the results to be expected in future periods.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are sufficient to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2014 ("2014 Annual Report").

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

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

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

Subsequent Events. The Company has evaluated subsequent events for recognition and disclosure for occurrences and transactions after the date of the unaudited condensed consolidated financial statements dated as of September 30, 2015.

Significant Accounting Policies. All significant accounting policies remain unchanged from the 2014 Annual Report.

New Accounting Principles. In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest — Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). Debt issuance costs related to a recognized debt liability are currently presented as a deferred charge, or asset, within the balance sheet. ASU 2015-03 requires the presentation of debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in ASU 2015-03 are effective retrospectively for the Company beginning in fiscal year 2016, with early adoption permitted. The Company intends to adopt the amendments in ASU 2015-03 beginning in the first quarter of 2016. At September 30, 2015, the Company had debt issuance costs related to recognized liabilities of approximately $2.9 million within other assets on our unaudited condensed consolidated balance sheets that would be reclassified and presented as a direct deduction from the carrying amount of debt liabilities under ASU 2015-03.

Future Application of Accounting Standards. Recent accounting guidance not discussed is not applicable, is immaterial to our financial statements, or did not or is not expected to have a material impact on our business.

(2) Segment and Geographical Information

Segments. We have two primary operating segments — Term Life Insurance and Investment and Savings Products. We also have a Corporate and Other Distributed Products segment.

Results of continuing operations by segment were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenues:				
Term life insurance segment	$197,200	$177,140	$563,784	$512,231
Investment and savings products segment	128,656	129,273	392,812	380,690
Corporate and other distributed products segment	29,968	32,428	94,592	100,640
Total revenues	$355,824	$338,841	$1,051,188	$993,561
Income (loss) from continuing operations before income taxes:				
Term life insurance segment	$46,519	$34,008	$127,284	$112,836
Investment and savings products segment	34,811	36,904	107,600	106,978
Corporate and other distributed products segment	(6,377)	(6,892)	(16,296)	(13,221)
Total income from continuing operations before income taxes	$74,953	$64,020	$218,588	$206,593

Total assets by segment were as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Assets:		
Term life insurance segment	$5,594,135	$5,472,415
Investment and savings products segment (1)	2,191,581	2,545,372
Corporate and other distributed products segment	2,777,149	2,719,808
Total assets	$10,562,865	$10,737,595

(1) The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, the Investment and Savings Products segment assets were approximately $105.3 million and $105.5 million as of September 30, 2015 and December 31, 2014, respectively.

In the third quarter of 2015, the Company changed its basis for allocating net investment income, interest expense and invested assets between the Term Life Insurance segment and the Corporate and Other Distributed Products segment in measuring segment results and total assets by segment. Following this change, the amount of net investment income allocated to the Term Life Insurance segment equals the assumed net interest accreted to the segment's U.S. GAAP-measured future policy benefit reserve liability less DAC. All remaining net investment income earned by the invested asset portfolio, as well as all invested assets held by the Company, has been allocated to the Corporate and Other Distributed Products segment. Concurrent with this change, all interest expense incurred by the Company has been attributed to the Corporate and Other Distributed Products segment, including the financing charge related to the letter of credit issued in connection with the Peach Re Coinsurance Agreement, the fee paid for the credit enhancement feature on the held-to-maturity security received in conjunction with the Vidalia Re Coinsurance Agreement, and the finance charge incurred pursuant to our 10% coinsurance agreement (the “10% Coinsurance Agreement”) with an affiliate of Citigroup Inc. (collectively, “the Finance Charges”).

Prior to this change, invested assets were allocated to the Term Life Insurance segment based on the book value of the invested assets necessary to meet statutory reserve requirements. Net investment income was allocated based on the ratio of invested assets allocated to the Term Life Insurance segment and the remaining balances of invested assets and net investment income were attributed to the Corporate and Other Distributed Products segment. Interest expense incurred for the Finance Charges was allocated solely to the Term Life Insurance segment.

The change in segment measurement more appropriately reflects the information used by the Company in assessing its performance and aligns with the operating strategy for managing the Term Life Insurance segment. The performance of the Term Life Insurance segment is focused on distribution and primarily evaluated by pricing margins with fluctuations for mortality, persistency, and expenses. Therefore, the impact of yields on the Company’s investment portfolio is not a key driver of the profitability of our Term Life Insurance segment.

The use of captive insurance companies has provided the Company with an efficient method of supporting the portion of statutorily-prescribed term life insurance benefit reserves believed to be redundant. Accordingly, the net investment income earned by the Company’s invested assets is no longer aligned directly with the level of statutory reserves in the Term Life Insurance segment. As such, the updated measurement of segment results is also consistent with the Company's strategies for managing capital, which have evolved over time with the use of captive insurance company financing transactions.

The change in measurement of segment information increased total assets in the Corporate and Other Distributed Products segment and decreased total assets in the Term Life Insurance segment as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Assets		
Total assets reclassified from the Term Life Insurance segment to the Corporate and Other Distributed Products segment	$1,908,452	$1,692,958

Net investment income included in segment revenues and segment income (loss) from continuing operations before income taxes that has been reclassified from the Term Life Insurance segment to the Corporate and Other Distributed Products segment was as follows:

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
	(In thousands)			
Revenue and income (loss) from continuing operations before income taxes:				
Net investment income reclassified from the Term Life Insurance segment to the Corporate and Other Distributed Products segment	$16,904	$ 16,093	$ 49,475	$ 47,611

Interest expense recorded in segment income (loss) from continuing operations before income taxes that has been reclassified from the Term Life Insurance segment to the Corporate and Other Distributed Products segment was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Income (loss) from continuing operations before income taxes:				
Interest expense reclassified from the Term Life Insurance segment to the Corporate and Other Distributed Products segment	$4,174	$ 4,168	$ 12,404	$ 12,240

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report for more information regarding our operating segments.

Geographical Information. Results of continuing operations by country and long-lived assets — primarily tangible assets reported in Other assets in our unaudited condensed consolidated balance sheets —were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenues by country:				
United States	$298,793	$278,102	$876,744	$811,226
Canada	57,031	60,739	174,444	182,335
Total revenues	$355,824	$338,841	$1,051,188	$993,561
Income from continuing operations before income taxes by country:				
United States	$61,116	$47,296	$170,172	$152,828
Canada	13,837	16,724	48,416	53,765
Total income from continuing operations before income taxes	$74,953	$64,020	$218,588	$206,593

	September 30, 2015	December 31, 2014
	(In thousands)	
Long-lived assets by country:		
United States	$27,065	$ 25,897
Canada	523	566
Total long-lived assets	$27,588	$ 26,463

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(3) Investments

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

	September 30, 2015			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$ 13,648	$ 575	$ (2)	$ 14,221
Foreign government	122,518	2,338	(13,772)	111,084
States and political subdivisions	37,486	2,673	(493)	39,666
Corporates	1,255,973	63,039	(24,379)	1,294,633
Mortgage- and asset-backed securities	211,943	11,797	(178)	223,562
Total fixed-maturity securities[(1)]	1,641,568	80,422	(38,824)	1,683,166
Equity securities	40,571	7,327	(2,118)	45,780
Total fixed-maturity and equity securities	$ 1,682,139	$ 87,749	$ (40,942)	$ 1,728,946

[(1)] Includes approximately $0.1 million of other-than-temporary impairment losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

	December 31, 2014			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$ 15,145	$ 557	$ (55)	$ 15,647
Foreign government	120,910	5,388	(3,801)	122,497
States and political subdivisions	38,163	2,719	(188)	40,694
Corporates	1,241,526	82,167	(7,825)	1,315,868
Mortgage- and asset-backed securities	251,756	13,050	(392)	264,414
Total fixed-maturity securities[(1)]	1,667,500	103,881	(12,261)	1,759,120
Equity securities	43,738	10,711	(1,059)	53,390
Total fixed-maturity and equity securities	$ 1,711,238	$ 114,592	$ (13,320)	$ 1,812,510

[(1)] Includes approximately $0.7 million of other-than-temporary impairment losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

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

The scheduled contractual maturity distribution of the available-for-sale fixed-maturity portfolio at September 30, 2015 follows:

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$87,321	$85,750
Due after one year through five years	619,132	649,602
Due after five years through 10 years	669,453	671,475
Due after 10 years	53,719	52,777
	1,429,625	1,459,604
Mortgage- and asset-backed securities	211,943	223,562
Total fixed-maturity securities	$1,641,568	$1,683,166

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

Unrealized Gains and Losses on Investments. The net effect on stockholders' equity of unrealized gains and losses on investments was as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Net unrealized investment gains including foreign currency translation adjustment and other-than-temporary impairments:		
Fixed-maturity and equity securities	$46,807	$101,272
Currency swaps	-	23
Exclude unrealized foreign currency translation (gains) losses adjustment	29,832	12,314
Exclude other-than-temporary impairments	113	710
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments	76,752	114,319
Deferred income taxes	(26,863)	(40,011)
Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments, net of tax	$49,889	$74,308

Trading Securities. We maintain a portfolio of fixed-maturity securities that are classified as trading securities. The carrying values of the fixed-maturity securities classified as trading securities were approximately $6.5 million and $7.7 million as of September 30, 2015 and December 31, 2014, respectively.

Held-to-maturity Security. Concurrent with the execution of the Vidalia Re Coinsurance Agreement, Vidalia Re entered into a Surplus Note Purchase Agreement (the "Surplus Note Purchase Agreement") with Hannover Life Reassurance Company of America and certain of its affiliates (collectively, "Hannover Re") and a newly formed limited liability company (the "LLC") owned by a third party service provider. Under the Surplus Note Purchase Agreement, Vidalia Re issued a surplus note (the "Surplus Note") to the LLC in exchange for a credit enhanced note from the LLC with an equal principal amount (the "LLC Note"). The principal amount of both the LLC Note and the Surplus Note will fluctuate over time to coincide with the amount of reserves contractually supported under the Vidalia Re Coinsurance Agreement. Both the LLC Note and the Surplus Note mature on December 31, 2029 and bear interest at an annual interest rate of 4.50%. The LLC Note is guaranteed by Hannover Re through a credit enhancement feature in exchange for a fee, which is reflected in interest expense on our unaudited condensed consolidated statements of income.

The LLC is a variable interest entity as its owner does not have an equity investment at risk that is sufficient to permit the LLC to finance its activities without Vidalia Re or Hannover Re. The Parent Company, Primerica Life, and Vidalia Re share the power to direct the activities of the LLC with Hannover Re, but do not have the obligation to absorb losses or the right to receive any residual returns related to the LLC's primary risks or sources of variability. Through the credit enhancement feature, Hannover Re is the ultimate risk taker in this transaction and bears the obligation to absorb the LLC's losses in the event of a Surplus Note default in exchange for the fee. Accordingly, the Company is not the primary beneficiary of the LLC and does not consolidate the LLC within its consolidated financial statements.

The LLC Note is classified as a held-to-maturity debt security in the Company's invested asset portfolio as we have the positive intent and ability to hold the security until maturity. As of September 30, 2015, the LLC Note, which was rated A+ by Fitch Ratings, had an estimated unrealized holding gain of $1.2 million based on its amortized cost and estimated fair value, which is derived using the valuation techniques described in Note 4 (Fair Value of Financial Instruments).

See Note 6 (Debt) for more information on the Surplus Note.

Investments on Deposit with Governmental Authorities. As required by law, we have investments on deposit with governmental authorities and banks for the protection of policyholders. The fair values of investments on deposit were approximately $18.1 million and $19.9 million as of September 30, 2015 and December 31, 2014, respectively.

Securities Lending Transactions. We participate in securities lending transactions with broker-dealers and other financial institutions to increase investment income with minimal risk. We require minimum collateral on securities loaned equal to 102% of the fair value of the loaned securities. We accept collateral in the form of securities, which we are not able to sell or encumber, and to the extent the collateral declines in value below 100%, we require additional collateral from the borrower. Any securities collateral received is not reflected on our unaudited condensed consolidated balance sheets. We also accept collateral in the form of cash, all of which we reinvest. For loans involving unrestricted cash collateral, the collateral is reported as an asset with a corresponding liability representing our obligation to return the collateral. We continue to carry the loaned securities as invested assets on our unaudited condensed consolidated balance sheets during the terms of the loans, and we do not report them as sales. Cash collateral received and reinvested was approximately $83.2 million and $50.2 million as of September 30, 2015 and December 31, 2014, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Fixed-maturity securities (available-for-sale)	$18,786	$20,933	$58,132	$62,419
Fixed-maturity security (held-to-maturity)	3,772	1,299	8,954	1,299
Equity securities	514	450	1,533	1,306
Policy loans and other invested assets	354	367	1,049	1,153
Cash and cash equivalents	51	70	141	191
Market return on deposit asset underlying 10% coinsurance agreement	220	(127)	1,776	2,316
Gross investment income	23,697	22,992	71,585	68,684
Investment expenses	(1,210)	(1,228)	(3,667)	(3,640)
Investment income net of investment expenses	22,487	21,764	67,918	65,044
Interest expense on surplus note	(3,772)	(1,299)	(8,954)	(1,299)
Net investment income	$18,715	$20,465	$58,964	$63,745

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Net realized investment gains (losses):				
Gross gains from sales	$1,209	$550	$4,610	$1,731
Gross losses from sales	(26)	(115)	(285)	(160)
Other-than-temporary impairment losses	(1,564)	(515)	(2,433)	(885)
Gains (losses) from bifurcated options	122	(201)	(269)	127
Net realized investment gains (losses)	$(259)	$(281)	$1,623	$813
Supplemental information:				
Tax expense (benefit) associated with unrealized holding gains (losses) recognized in other comprehensive income on investment securities	$(6,249)	$(7,468)	$(13,810)	$5,550
Tax expense (benefit) associated with net unrealized investment losses other-than-temporarily impaired recognized in other comprehensive income	208	477	208	477
Tax expense (benefit) associated with realized investment gains	(133)	(28)	662	240

(losses) reclassified from accumulated other comprehensive income into earnings				
Proceeds from sales or other redemptions	96,285	92,130	310,519	301,519

Other-Than-Temporary Impairment. We conduct a review each quarter to identify and evaluate impaired investments that have indications of possible other-than-temporary impairment ("OTTI"). An investment in a debt or equity security is impaired if its fair value falls below its cost. Factors considered in determining whether an unrealized loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects for the issue, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery, which may be maturity for fixed-maturity securities or within a reasonable period of time for equity securities. For additional information, see Note 4 (Investments) to the consolidated financial statements in our 2014 Annual Report.

Available-for-sale fixed-maturity and equity securities with a cost basis in excess of their fair values were approximately $473.4 million and $340.8 million as of September 30, 2015 and December 31, 2014, respectively.

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

	September 30, 2015					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	$693	$(2)	1	$-	$-	-
Foreign government	43,742	(5,434)	44	32,348	(8,338)	53
States and political subdivisions	-	-	-	884	(493)	2
Corporates	258,836	(13,546)	285	54,429	(10,833)	77
Mortgage-and asset-backed securities	22,400	(73)	24	8,149	(105)	13
Total fixed-maturity securities	325,671	(19,055)		95,810	(19,769)	
Equity securities	7,979	(437)	17	2,954	(1,681)	7
Total fixed-maturity and equity securities	$333,650	$(19,492)		$98,764	$(21,450)	

	December 31, 2014					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	$7,201	$(1)	2	$896	$(54)	2
Foreign government	28,038	(1,317)	35	23,330	(2,484)	40
States and political subdivisions	1,694	(4)	3	2,720	(184)	4
Corporates	144,262	(3,818)	153	43,736	(4,007)	78
Mortgage-and asset-backed securities	49,591	(109)	43	16,847	(283)	20
Total fixed-maturity securities	230,786	(5,249)		87,529	(7,012)	
Equity securities	6,849	(862)	15	2,303	(197)	1
Total fixed-maturity and equity securities	$237,635	$(6,111)		$89,832	$(7,209)	

The amortized cost and fair value of available-for-sale fixed-maturity securities in default were as follows:

	September 30, 2015		December 31, 2014	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			

Fixed-maturity securities in default	$ 131	$ 466	$ 144	$ 611

Impairment charges recognized in earnings on available-for-sale securities were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Impairments on fixed-maturity securities not in default	$ 1,287	$ 515	$ 2,075	$ 885
Impairments on fixed-maturity securities in default	2	-	7	-
Impairments on equity securities	275	-	351	-
Total impairment charges	$ 1,564	$ 515	$ 2,433	$ 885

The securities noted above were considered to be other-than-temporarily impaired due to our intent to sell them; adverse credit events, such as news of an impending filing for bankruptcy; analyses of the issuer's most recent financial statements or other information in which liquidity deficiencies, significant losses and large declines in capitalization were evident; or analyses of rating agency information for issuances with severe ratings downgrades that indicated a significant increase in the possibility of default.

As of September 30, 2015, the unrealized losses on our available-for-sale invested asset portfolio were largely caused by interest rate sensitivity, changes in credit spreads, and foreign currency exchange rates on our Canadian dollar-denominated investments held by our Canadian subsidiaries. We believe that fluctuations caused by movements in interest rates and credit spreads have little bearing on the recoverability of our investments. We do not consider these investments to be other-than-temporarily impaired because we have the ability to hold these investments until maturity or a market price recovery, and we have no present intention to dispose of them. The foreign currency translation adjustments on Canadian dollar-denominated investments will fluctuate with the Canadian dollar exchange rate and have no impact on the recoverability of our Canadian subsidiaries' functional currency investments.

Net impairment losses recognized in earnings for available-for-sale securities were as follows:

	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
	(In thousands)			
Total impairment losses related to securities which the Company does not intend to sell or more-likely-than-not will not be required to sell:				
Total OTTI losses recognized	$150	$-	$251	$-
Less portion of OTTI loss recognized in accumulated other comprehensive income (loss)	-	-	-	-
Net impairment losses recognized in earnings for securities which the Company does not intend to sell or more-likely-than-not will not be required to sell before recovery	150	-	251	-
OTTI losses recognized in earnings for securities which the Company intends to sell or more-likely-than-not will be required to sell before recovery	1,414	515	2,182	885
Net impairment losses recognized in earnings	$1,564	$515	$2,433	$885

The rollforward of the credit-related losses recognized in income for all available-for-sale fixed-maturity securities still held follows:

	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
	(In thousands)			
Cumulative OTTI credit losses recognized for securities still held, beginning of period	$7,701	$7,745	$9,550	$7,970
Additions for OTTI securities where no credit losses were recognized prior to the beginning of the period	336	412	403	753
Additions for OTTI securities where credit losses have been recognized prior to the beginning of the period	953	103	1,679	132
Reductions due to sales, maturities, calls, amortization or increases in cash flows expected to be collected over the remaining life of	(138)	(241)	(1,503)	(836)

credit impaired securities				
Reductions for exchanges of securities previously impaired	-	-	(1,277)	-
Cumulative OTTI credit losses recognized for securities still held,				
end of period	$8,852	$8,019	$8,852	$8,019

As of September 30, 2015, no impairment losses have been recognized on the LLC Note held-to-maturity security.

Derivatives. Embedded conversion options associated with fixed-maturity securities are bifurcated from the fixed-maturity security host contracts and separately recognized as equity securities. The change in fair value of these bifurcated conversion options is reflected in realized investment gains (losses), including OTTI losses. As of September 30, 2015 and December 31, 2014, the fair value of these bifurcated options was approximately $4.5 million and $5.8 million, respectively.

We have a deferred loss related to closed forward contracts, which were settled several years ago, that were used to mitigate our exposure to foreign currency exchange rates that resulted from the net investment in our Canadian operations. The amount of deferred loss included in accumulated other comprehensive income was approximately $26.4 million as of September 30, 2015 and December 31, 2014. While we have no current intention to do so, these deferred losses will not be recognized until such time as we sell or substantially liquidate our Canadian operations.

(4) Fair Value of Financial Instruments

Fair value is the price that would be received upon the sale of an asset in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We classify and disclose all invested assets carried at fair value in one of the following three categories:

- Level 1. Quoted prices for identical instruments in active markets. Level 1 primarily consists of financial instruments whose value is based on quoted market prices in active markets, such as exchange-traded common stocks and actively traded mutual fund investments;
- Level 2. Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 includes those financial instruments that are valued using industry-standard pricing methodologies, models or other valuation methodologies. Various inputs are considered in deriving the fair value of the underlying financial instrument, including interest rate, credit spread, and foreign exchange rates. All significant inputs are observable, or derived from observable information in the marketplace or are supported by observable levels at which

transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed-maturity and equity securities; government or agency securities; certain mortgage- and asset-backed securities and bifurcated conversion options; and

- Level 3. Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Level 3 consists of financial instruments whose fair value is estimated based on industry-standard pricing methodologies and models using significant inputs not based on, nor corroborated by, readily available market information. Valuations for this category primarily consist of non-binding broker quotes. Financial instruments in this category primarily include less liquid fixed-maturity corporate securities.

As of each reporting period, all assets and liabilities recorded at fair value are classified in their entirety based on the lowest level of input (Level 3 being the lowest) that is significant to the fair value measurement. Significant levels of estimation and judgment are required to determine the fair value of certain of our investments. The factors influencing these estimations and judgments are subject to change in subsequent reporting periods.

The estimated fair value and hierarchy classifications for assets and liabilities that are measured at fair value on a recurring basis were as follows:

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Available-for-sale fixed-maturity securities:				
U.S. government and agencies	$-	$14,221	$-	$14,221
Foreign government	-	111,084	-	111,084
States and political subdivisions	-	39,666	-	39,666
Corporates	2,102	1,292,528	3	1,294,633
Mortgage- and asset-backed securities	-	222,786	776	223,562
Total available-for-sale fixed-maturity securities	2,102	1,680,285	779	1,683,166
Equity securities	40,214	5,518	48	45,780
Trading securities	-	6,534	-	6,534
Separate accounts	-	2,086,598	-	2,086,598
Total fair value assets	$42,316	$3,778,935	$827	$3,822,078
Fair value liabilities:				
Separate accounts	$-	$2,086,598	$-	$2,086,598
Total fair value liabilities	$-	$2,086,598	$-	$2,086,598

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Available-for-sale fixed-maturity securities:				
U.S. government and agencies	$-	$15,647	$-	$15,647
Foreign government	-	122,497	-	122,497
States and political subdivisions	-	40,694	-	40,694
Corporates	2,104	1,313,534	230	1,315,868
Mortgage- and asset-backed securities	-	263,527	887	264,414
Total available-for-sale fixed-maturity securities	2,104	1,755,899	1,117	1,759,120

Equity securities	47,169	6,173	48	53,390
Trading securities	-	7,711	-	7,711
Separate accounts	-	2,440,303	-	2,440,303
Total fair value assets	$49,273	$4,210,086	$1,165	$4,260,524
Fair value liabilities:				
Separate accounts	$-	$2,440,303	$-	$2,440,303
Total fair value liabilities	$-	$2,440,303	$-	$2,440,303

In assessing fair value of our investments, we use a third-party pricing service for approximately 94% of our securities that are measured at fair value on a recurring basis. The remaining securities are primarily thinly traded securities such as private placements and are valued using models based on observable inputs on public corporate spreads having similar characteristics (e.g., sector, average life and quality rating) and liquidity and yield based on quality rating, average life and treasury yields. All observable data inputs are corroborated by independent third-party data. In the absence of sufficient observable inputs, we utilize non-binding broker quotes, which are reflected in our Level 3 classification as we are unable to evaluate the valuation technique(s) or significant inputs used to develop the quotes. Therefore, we do not internally develop the quantitative unobservable inputs used in measuring the fair value of Level 3 investments. However, we do corroborate pricing information provided by our third-party pricing servicing by performing a review of selected securities. Our review activities include obtaining detailed information about the assumptions, inputs and methodologies used in pricing the security; documenting this information; and corroborating it by comparison to independently obtained prices and or independently developed pricing methodologies.

Furthermore, we perform internal reasonableness assessments on fair value determinations within our portfolio throughout the quarter and at quarter-end, including pricing variance analyses and comparisons to alternative pricing sources and benchmark returns. If a fair value appears unusual relative to these assessments, we will re-examine the inputs and may challenge a fair value assessment made by the pricing service. If there is a known pricing error, we will request a reassessment by the pricing service. If the pricing service is unable to perform the reassessment on a timely basis, we will determine the appropriate price by requesting a reassessment from an alternative pricing service or other qualified source as necessary. We do not adjust quotes or prices except in a rare circumstance to resolve a known error.

Because many fixed-maturity securities do not trade on a daily basis, third party pricing services generally determine fair value using industry-standard methodologies, which vary by asset class. For corporates, governments, and agency securities, these methodologies include developing prices by incorporating available market information such as U.S. Treasury curves, benchmarking of similar securities including new issues, sector groupings, quotes from market participants and matrix pricing. Observable information is compiled and integrates relevant credit information, perceived market movements and sector news. Additionally, security prices are periodically back-tested to validate and/or refine models as conditions warrant. Market indicators and industry and economic events are also monitored as triggers to obtain additional data. For certain structured securities (such as mortgage-and asset-backed securities) with limited trading activity, third party pricing services generally use industry-standard pricing methodologies that incorporate market information, such as index prices, discounting expected future cash flows based on underlying collateral, and quotes from market participants, to estimate fair value. If these measures are not deemed observable for a particular security, the security will be classified as Level 3 in the fair value hierarchy.

Where specific market information is unavailable for certain securities, pricing models produce estimates of fair value primarily using Level 2 inputs along with certain Level 3 inputs. These models include matrix pricing. The pricing matrix uses current treasury rates and credit spreads received from third-party sources to estimate fair value. The credit spreads incorporate the issuer's industry- or issuer-specific credit characteristics and the security's time to maturity, if warranted. Remaining unpriced securities are valued using an estimate of fair value based on indicative market prices that include significant unobservable inputs not based on, nor corroborated by, market information, including the utilization of non-binding broker quotes.

The roll-forward of the Level 3 assets measured at fair value on a recurring basis was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Level 3 assets, beginning of period	$862	$1,752	$1,165	$2,288
Net unrealized gains (losses) included in other comprehensive income	2	(13)	(4)	(115)
Realized gains (losses) and accretion (amortization) recognized in earnings, including OTTI	-	5	-	416
Settlements	(35)	(54)	(111)	(899)
Transfers into Level 3	-	-	2	-

Transfers out of Level 3	(2)	-	(225)	-
Level 3 assets, end of period	$827	$1,690	$827	$1,690

We obtain independent pricing quotes based on observable inputs as of the end of the reporting period for all securities in Level 2. Those inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers, quoted prices for similar instruments in markets that are not active, and other relevant data. We monitor these inputs for market indicators, industry and economic events. We recognize transfers into new levels and out of previous levels as of the end of the reporting period, including interim reporting periods, as applicable. There were no material transfers between Level 1 and Level 2 during the three months ended September 30, 2015. During the nine months ended September 30, 2015, we transferred a $1.0 million equity security from Level 1 to Level 2 as it was not consistently trading in an active market. There were no material transfers between Level 1 and Level 2 for the three and nine months ended September 30, 2014 or between Level 1 and Level 3 during the three and nine months ended September 30, 2015 and 2014.

The table below is a summary of the estimated fair value for financial instruments.

	September 30, 2015		December 31, 2014	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(In thousands)			
Assets:				
Fixed-maturity securities (available-for-sale)	$1,683,166	$1,683,166	$1,759,120	$1,759,120
Fixed-maturity security (held-to-maturity)	356,000	357,153	220,000	228,809
Equity securities	45,780	45,780	53,390	53,390
Trading securities	6,534	6,534	7,711	7,711
Policy loans	28,599	28,599	28,095	28,095
Deposit asset underlying 10% coinsurance agreement	176,370	176,370	157,256	157,256
Separate accounts	2,086,598	2,086,598	2,440,303	2,440,303
Liabilities:				
Notes payable	$374,572	$407,535	$374,532	$411,916
Surplus note	356,000	357,107	220,000	227,127
Separate accounts	2,086,598	2,086,598	2,440,303	2,440,303

The fair values of financial instruments presented above are estimates of the fair values at a specific point in time using various sources and methods, including market quotations and a complex matrix system that takes into account issuer sector, quality, and spreads in the current marketplace.

Recurring fair value measurements. Estimated fair values of investments in available-for-sale fixed-maturity securities are principally a function of current spreads and interest rates that are corroborated by independent third-party data. Therefore, the fair values presented are indicative of amounts we could realize or settle at the respective balance sheet date. We do not necessarily intend to dispose of or liquidate such instruments prior to maturity. Trading securities, which primarily consist of fixed-maturity securities, are carried at fair value. Equity securities, including common and nonredeemable preferred stocks, are carried at fair value. Segregated funds in separate accounts are carried at the underlying value of the variable insurance contracts, which is fair value.

Nonrecurring fair value measurements. The estimated fair value of the held-to-maturity fixed-maturity security, which is classified as a Level 3 fair value measurement, is derived using the credit spread on similarly rated debt securities and the hypothetical spread of the security's credit enhancement feature. Policy loans, which are categorized as Level 3 fair value measurements, are carried at the unpaid principal balances. The fair value of policy loans approximate the unpaid principal balances as the timing of repayment is uncertain and the loans are collateralized by the amount of the policy. The deposit asset underlying the 10% Coinsurance Agreement represents the value of the assets necessary to back the economic reserves held in support of the reinsurance agreement. The carrying value of this deposit asset approximates fair value, which is categorized as Level 3 in the fair value hierarchy. Notes payable represent our publicly-traded senior notes and are valued as a Level 2 fair value measurement using the quoted market price for our notes. The estimated fair value of the Surplus Note is derived by using an assumed credit spread we would expect if Vidalia Re was a credit-rated entity and the hypothetical spread of the Surplus Note's subordinated structure. The Surplus Note is classified as a Level 3 fair value measurement.

The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximate their fair values due to the short-term nature of these instruments. Consequently, such financial instruments are not included in the above table.

(5) Reinsurance

We use reinsurance extensively, which has a significant effect on our results of operations. Reinsurance arrangements do not relieve us of our primary obligation to the policyholder. We monitor the concentration of credit risk we have with any reinsurer, as well as the financial condition of the reinsurers.

Details on in-force life insurance follow:

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Direct life insurance in force	$693,128,573	$685,998,013
Amounts ceded to other companies	(613,138,752)	(607,218,906)
Net life insurance in force	$79,989,821	$78,779,107
Percentage of reinsured life insurance in force	88 %	89 %

Due from reinsurers includes ceded reserve balances and ceded claim liabilities. Reinsurance receivable and financial strength ratings by reinsurer were as follows:

	September 30, 2015		December 31, 2014	
	Reinsurance receivable	A.M. Best rating	Reinsurance receivable	A.M. Best rating
	(In thousands)			
Prime Reinsurance Company[(1)]	$2,686,828	NR	$2,645,011	NR
SCOR Global Life Reinsurance Companies[(2)]	357,233	A	373,947	A
Financial Reassurance Company 2010, Ltd.[(1)]	279,739	NR	320,718	NR
Swiss Re Life & Health America Inc.[(3)]	253,653	A+	260,734	A+
American Health and Life Insurance Company[(1)]	177,508	A- u	175,755	A-
Munich American Reassurance Company	100,377	A+	100,846	A+
Korean Reinsurance Company	89,066	A	89,300	A
RGA Reinsurance Company	80,933	A+	78,143	A+
TOA Reinsurance Company	22,756	A+	20,139	A+
Hannover Life Reassurance Company	20,417	A+	18,694	A+
All other reinsurers	35,439	-	32,246	-
Due from reinsurers	$4,103,949		$4,115,533	

NR – not rated

u ~~U~~nder review pending the close of Springleaf Holdings, Inc.'s acquisition of the parent company of American Health and Life Insurance Company from an affiliate of Citigroup.

(1) Reinsurers are affiliates of Citigroup. Amounts shown are net of their share of the reinsurance receivable from other reinsurers.

(2) Includes amounts ceded to Transamerica Reinsurance Companies and fully retroceded to SCOR Global Life Reinsurance Companies.

(3) Includes amounts ceded to Lincoln National Life Insurance and fully retroceded to Swiss Re Life & Health America Inc.

(6) Debt

Notes Payable. At September 30, 2015, the Company had $375.0 million of publicly-traded, senior unsecured notes with an annual interest rate of 4.75% that are scheduled to mature on July 15, 2022 (the "Senior Notes"). As of September 30, 2015, we were in compliance with the covenants of the Senior Notes. No events of default occurred on the Senior Notes during the three months ended September 30, 2015.

Further discussion on the Company's notes payable is included in Note 10 (Debt) to our consolidated financial statements within our 2014 Annual Report.

Surplus Note. At September 30, 2015, the principal amount outstanding on the Surplus Note issued by Vidalia Re was $356.0 million, equal to the principal amount of the LLC Note invested asset. The principal amount of the Surplus Note and the LLC Note will fluctuate over time to coincide with the amount of reserves being contractually supported. Both the LLC Note and the Surplus Note mature on December 31, 2029 and bear interest at an annual interest rate of 4.50%. Based on the estimated reserves for ceded policies issued in 2011, 2012, 2013, and 2014, the maximum principal amounts of the Surplus Note and the LLC Note are expected to be approximately $915.0 million each.

Further discussion on the Company's Surplus Note and LLC Note are included in Note 10 (Debt) and Note 4 (Investments) to our consolidated financial statements within our 2014 Annual Report.

(7) Stockholders' Equity

A reconciliation of the number of shares of our common stock follows.

	Nine months ended September 30,	
	2015	2014
	(In thousands)	
Common stock, beginning of period	52,169	54,834
Shares issued for stock options exercised	89	4
Shares of common stock issued upon lapse of restricted stock units ("RSUs")	407	381
Common stock retired	(4,094)	(1,537)
Common stock, end of period	48,571	53,682

The above reconciliation excludes RSUs, which do not have voting rights. As the RSUs lapse, we issue common shares with voting rights. As of September 30, 2015, we had a total of approximately 1.2 million RSUs outstanding.

Our Board of Directors authorized a share repurchase program for up to $150.0 million of our outstanding common stock during 2015 (the "original share repurchase program"). This share repurchase program was completed in August 2015, at which time a new share repurchase program of up to $200.0 million was authorized by the Board (the "new share repurchase program") for purchases through December 31, 2016. Under both the original and the new share repurchase programs, we repurchased a combined 3,920,920 shares of our common stock in open market transactions for an aggregate purchase price of approximately $181.1 million during the first nine months of 2015. As of September 30, 2015, there is approximately $168.9 million remaining for repurchases of our outstanding common stock under the new share repurchase program.

(8) Earnings Per Share

The Company has outstanding common stock and equity awards that consist of restricted stock, RSUs and stock options. The restricted stock and RSUs maintain non-forfeitable dividend rights that result in dividend payment obligations on a one-to-one ratio with common shares for any future dividend declarations.

Unvested restricted stock and unvested RSUs are deemed participating securities for purposes of calculating earnings per share ("EPS") as they maintain dividend rights. We calculate EPS using the two-class method. Under the two-class method, we allocate earnings to common shares (excluding unvested restricted stock) and vested RSUs outstanding for the period. Earnings attributable to unvested participating securities, along with the corresponding share counts, are excluded from EPS as reflected in our unaudited condensed consolidated statements of income.

In calculating basic EPS, we deduct any dividends and undistributed earnings allocated to unvested restricted stock and unvested RSUs from net income and then divide the result by the weighted-average number of common shares and vested RSUs outstanding for the period.

We determine the potential dilutive effect of stock options outstanding on EPS using the treasury-stock method. Under this method, we determine the proceeds that would be received from the exercise of the stock options outstanding, which includes cash received for the exercise price, the remaining unrecognized stock option compensation expense and the resulting effect on the income tax deduction from the exercise of stock options. We then use the average market price of our common shares during the period the stock options were outstanding to determine how many shares we could repurchase with the proceeds raised from the exercise of the stock options outstanding. The net incremental share count issued represents the potential dilutive securities. We then reallocate earnings to common shares and vested RSUs by incorporating the increased fully diluted share count to determine diluted EPS.

The calculation of basic and diluted EPS follows.

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per-share amounts)			
Basic EPS:				
Numerator (continuing operations):				
Income from continuing operations	$49,350	$41,613	$141,924	$134,369
Income attributable to unvested participating securities	(379)	(447)	(1,196)	(1,546)
Income from continuing operations used in calculating basic EPS	$48,971	$41,166	$140,728	$132,823
Numerator (discontinued operations):				
Income (loss) from discontinued operations	$-	$(18)	$-	$1,578
Income attributable to unvested participating securities	-	-	-	(18)
Income (loss) from discontinued operations used in calculating basic EPS	$-	$(18)	$-	$1,560
Denominator:				
Weighted-average vested shares	50,082	54,713	51,494	54,953
Basic EPS from continuing operations	$0.98	$0.75	$2.73	$2.42
Basic EPS from discontinued operations	$-	$-	$-	$0.03
Diluted EPS:				
Numerator (continuing operations):				
Income from continuing operations	$49,350	$41,613	$141,924	$134,369
Income attributable to unvested participating securities	(379)	(447)	(1,196)	(1,546)
Income from continuing operations used in calculating diluted EPS	$48,971	$41,166	$140,728	$132,823
Numerator (discontinued operations):				
Income (loss) from discontinued operations	$-	$(18)	$-	$1,578
Income attributable to unvested participating securities	-	-	-	(18)
Income (loss) from discontinued operations used in calculating diluted EPS	$-	$(18)	$-	$1,560
Denominator:				
Weighted-average vested shares	50,082	54,713	51,494	54,953
Dilutive effect of incremental shares to be issued for equity awards	22	31	32	25
Weighted-average shares used in calculating diluted EPS	50,104	54,744	51,526	54,978
Diluted EPS from continuing operations	$0.98	$0.75	$2.73	$2.41
Diluted EPS from discontinued operations (1)	$-	$-	$-	$0.03

(1) Less than $0.01 for the three months ended September 30, 2014.

(9) Share-Based Transactions

The Company has outstanding equity awards under its Omnibus Incentive Plan ("OIP"). The OIP provides for the issuance of equity awards, including stock options, stock appreciation rights, restricted stock, deferred stock, RSUs, unrestricted stock, as well as cash-based awards. In addition to time-based vesting requirements, awards granted under the OIP also may be subject to specified performance criteria. Since 2010, the Company has issued equity awards to our management (officers and other key employees), non-employee directors, and sales force leaders under the OIP. For more information on equity awards granted under the OIP, see Note 14 (Share-Based Transactions) to our consolidated financial statements within our 2014 Annual Report.

In connection with our granting of equity awards to our management and members of the Board of Directors, we recognize expense over the requisite service period of the equity award. Additionally, to the extent that equity awards to members of our sales force are an incremental direct cost of successful acquisitions or renewals of life insurance policies that result directly from and are essential to the policy acquisition(s) and would not have been incurred had the policy acquisition(s) not occurred, we defer and amortize the fair value of these awards in the same manner as other deferred policy acquisition costs.

The impacts of equity awards granted are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Total equity awards expense recognized	$2,056	$8,497	$12,918	$14,333
Quarterly incentive awards expense deferred	3,412	3,041	10,531	10,371

On February 23, 2015, the Compensation Committee of the Board of Directors granted equity awards to management (the “2015 management awards”) in connection with the annual approval of management incentive compensation. The 2015 management awards have time-based vesting requirements with equal and annual graded vesting over approximately three years subsequent to the grant date and include a provision for such awards to vest upon the voluntary termination of employment by any employee who is “retirement eligible” as of his or her termination date. In order to be retirement eligible, an employee must be at least 55 years old and his or her age plus years of service with the Company must equal at least 75. We recognize the expense associated with equity awards granted to retirement eligible employees immediately on the grant date, which is also the date the award is authorized. For equity awards granted to employees who are not retirement eligible on the grant date, the expense associated with these awards is recognized over the period from the grant date to the earlier of the date the employee becomes retirement eligible or the originally scheduled vesting date in the award agreement. Equity awards issued to management prior to 2015 do not contain a retirement eligibility provision, with the exception of equity awards issued to management in 2014 that were modified to include such a provision during the third quarter of 2014.

(10) Commitments and Contingent Liabilities

Letter of Credit. Peach Re maintains a credit facility agreement with Deutsche Bank (the "Credit Facility Agreement") to support certain obligations for a portion of the Regulation XXX reserves related to the Peach Re Coinsurance Agreement. Under the Credit Facility Agreement, Deutsche Bank issued a letter of credit for the benefit of Primerica Life with a term ending on January 15, 2026. As of September 30, 2015, the Company was in compliance with all financial covenants under the Credit Facility Agreement. At September 30, 2015, the amount of the LOC outstanding was approximately $480.2 million. This amount will decline over the remaining term of the LOC to correspond with declines in the Regulation XXX reserves.

Further discussion on the Company’s letter of credit is included in Note 16 (Commitments and Contingent Liabilities) to our consolidated financial statements within our 2014 Annual Report.

Contingent Liabilities. The Company is involved from time to time in legal disputes, regulatory inquiries and arbitration proceedings in the normal course of business. These disputes are subject to uncertainties, including the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation. As such, the Company is unable to estimate the possible loss or range of loss that may result from these matters.

The Company is currently undergoing targeted multi-state treasurer audits by 30 jurisdictions with respect to unclaimed property laws, and Primerica Life and NBLIC are currently subject to a targeted multi-state market conduct examination with respect to their claims-paying practices. The Treasurer of the State of West Virginia brought a suit against Primerica Life and other insurance companies alleging violations of the West Virginia unclaimed property act. The suit was dismissed, and the West Virginia Supreme Court reversed the circuit court on appeal. Our petition to the West Virginia Supreme Court for a rehearing was denied. The Company currently is in the process of appealing the court’s denial of a request for rehearing. Other jurisdictions may pursue similar audits, examinations and litigation. The audits, examinations and litigation are expected to take significant time to complete, and it is unclear whether the Company will ultimately be required to compare the Social Security Administration’s Death Master File to its records for periods prior to 2011, including with respect to policies which have lapsed, to determine whether benefits are owed in instances where an insured appears to have died but no claim for death benefits has been made. The potential outcome of such actions is difficult to predict but could subject the Company to adverse consequences, including, but not limited to, settlement payments, additional payments to beneficiaries and additional escheatment of funds deemed abandoned under state laws. At this time, the Company cannot reasonably estimate the likelihood or the impact of additional costs or liabilities that could result from the resolution of these matters. These actions may also result in changes to the Company's procedures for the identification and escheatment of abandoned property and other financial liability.

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to inform the reader about matters affecting the financial condition and results of operations of Primerica, Inc. (the “Parent Company”) and its subsidiaries (collectively, "we", "us" or the “Company”) for the period from December 31, 2014 to September 30, 2015. As a result, the following discussion should be read in conjunction with MD&A and the consolidated financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2014 ("2014 Annual Report"). This discussion contains forward-looking statements that constitute our plans, estimates and beliefs. These forward-looking statements involve numerous risks and uncertainties, including, but not limited to, those discussed under the heading “Risk Factors” in the 2014 Annual Report. Actual results may differ materially from those contained in any forward-looking statements.

This MD&A is divided into the following sections:

- Business Overview
- Business Trends and Conditions

- Factors Affecting Our Results
- Critical Accounting Estimates
- Results of Operations
- Financial Condition
- Liquidity and Capital Resources

Business Overview

We are a leading distributor of financial products to middle income households in the United States and Canada. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. We have two primary operating segments, Term Life Insurance and Investment and Savings Products, and a third segment, Corporate and Other Distributed Products.

Term Life Insurance. We distribute the term life insurance products that we originate through our three issuing life insurance company subsidiaries: Primerica Life Insurance Company ("Primerica Life"); National Benefit Life Insurance Company ("NBLIC"); and Primerica Life Insurance Company of Canada ("Primerica Life Canada"). Our in-force term insurance policies have level premiums for the stated term period. As such, the policyholder pays the same amount each year. Initial policy term periods are between 10 and 35 years. While premiums are guaranteed to remain level during the initial term period (up to a maximum of 20 years in the United States), our claim obligations generally increase as our policyholders age. In addition, we incur significant upfront costs in acquiring new insurance business. Our deferral and amortization of policy acquisition costs and reserving methodology are designed to match the recognition of premium revenues with the timing of policy lapses and the payment of expected claims obligations.

Investment and Savings Products. In the United States, we distribute mutual fund and managed accounts products and variable and fixed annuity products of several third-party companies. In Canada, we offer our own Primerica-branded mutual funds, as well as mutual funds of other companies, and segregated funds, which are underwritten by Primerica Life Canada.

Corporate and Other Distributed Products. Our Corporate and Other Distributed Products segment consists primarily of revenues and expenses related to other distributed products, including various insurance products underwritten by NBLIC, prepaid legal services, and other financial products. These products, except for various insurance products underwritten by NBLIC, are distributed pursuant to distribution arrangements with third parties through our independent agent sales force.

Business Trends and Conditions

The relative strength and stability of financial markets and economies in the United States and Canada affect our growth and profitability. Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions.

Economic conditions, including unemployment levels and consumer confidence, influence investment and spending decisions by middle income consumers, who are generally our primary clients. These conditions and factors also impact prospective recruits' perceptions of the business opportunity that becoming a Primerica sales representative offers, which can drive or dampen recruiting. Consumer spending and borrowing levels affect how consumers evaluate their savings and debt management plans. In addition, interest rates and equity market returns impact consumer demand for the savings and investment products we distribute. The effects of these trends and conditions are discussed in the Results of Operations section below.

Size of Our Independent Sales Force.

Our ability to increase the size of our independent sales force is largely based on the success of our recruiting efforts and our ability to train and motivate recruits to get licensed to sell life insurance. We believe that recruitment and licensing levels are important to sales force trends and growth in recruiting and licensing is usually indicative of future growth in the overall size of the sales force. Recruiting results do not always result in commensurate changes in the size of our licensed sales force because new recruits may obtain the requisite licenses at rates above or below historical levels.

Regulatory changes can also impact the size of our independent sales force. For example, the insurance regulators in Canada will be implementing a new life insurance licensing examination program in early 2016.   We believe that the new licensing program has the potential to result in a decrease in the number of applicants who obtain their life insurance licenses in Canada. However, we have undertaken efforts to adapt our licensing process to the new program in order to help mitigate any such decline. In addition, the Canadian regulators have committed to evaluate the new program in an effort to ensure that it will remain an entry level credentialing exam constructed in accordance with generally accepted psychometric principles. See "Part II — Other Information — Item 1. Legal Proceedings." and “Item 1A. Risk Factors.” contained in our Annual Report on Form 10-K for the year ended December 31, 2014 and this Quarterly Report on Form 10-Q for more information.

Details on new recruits and life-licensed sales representative activity were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
New recruits	65,945	49,055	179,491	147,385
New life-licensed sales representatives	11,160	8,793	29,085	25,322

New recruits increased during the three months ended September 30, 2015 compared to the prior year period primarily due to continued positive momentum in the business, as well as the impact of announcements made at our biennial convention in July 2015. New life-licensed representatives increased during the three months ended September 30, 2015 compared to the prior year period primarily due to recruiting growth in recent periods and an emphasis on successful licensing initiatives.

New recruits increased during the nine months ended September 30, 2015 compared to the prior year period primarily due to competitions among our sales representatives to receive recognition at our biennial convention in July 2015, as well as announcements made at the convention. New life-licensed representatives increased during the nine months ended September 30, 2015 compared to the prior year period primarily due to the same factors discussed above in the three-month comparison.

The size of our life-licensed sales force was as follows:

	September 30, 2015	June 30, 2015	December 31, 2014
Life-licensed sales representatives	104,702	101,008	98,358

The size of our life-licensed sales force at September 30, 2015 increased compared to June 30, 2015 and December 31, 2014 primarily due to the increase in new life-licensed representatives and slightly lower non-renewals during the third quarter of 2015 compared to the second quarter of 2015 and the fourth quarter of 2014.

Term Life Insurance Product Sales. The average number of life-licensed sales representatives and the number of term life insurance policies issued, as well as the average monthly rate of new policies issued per life-licensed sales representative (historically between 0.18 and 0.22), were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Average number of life-licensed sales representatives	102,850	97,302	100,283	96,281
Number of new policies issued	66,658	55,146	190,432	164,035
Average monthly rate of new policies issued per life-licensed sales representative	0.22	0.19	0.21	0.19

The average monthly rate of new policies issued per life-licensed sales representative during the three and nine months ended September 30, 2015 was higher year-over-year and on the higher-end of our historical range driven by the positive sales momentum generated within our independent sales force in the three and nine months of 2015 and complemented by successful initiatives implemented in connection with our biennial convention.

Investment and Savings Product Sales and Asset Values. Investment and savings products sales decreased 1% to approximately $1.4 billion in the third quarter of 2015 compared with the prior year period. The assets in our clients' accounts are invested in diversified funds comprised mainly of U.S. and Canadian equity and fixed-income securities. The period-end asset values decreased to approximately $45.8 billion at September 30, 2015 versus approximately $47.4 billion at September 30, 2014. See the “Results of Operations” section for more details regarding product sales and changes in our client asset values.

Regulatory changes can also impact our product sales. On April 14, 2015, the Department of Labor (“DOL”) published a proposed regulation (“the DOL Proposed Rule”), which would more broadly define the circumstances under which a person or entity may be considered a fiduciary for purposes of the prohibited transaction rules of the Employee Retirement Income Security Act and Internal Revenue Code (“IRC”) Section 4975. IRC Section 4975 prohibits certain types of compensation paid by third parties with respect to transactions involving assets in qualified accounts, including individual retirement accounts (“IRAs”). In connection with the DOL Proposed Rule, the DOL also proposed new exemptions and amended the existing exemptions. In so doing, the DOL stated its intent to avoid disruption of common compensation arrangements provided the conditions of the exemptions are met. IRAs and other qualified accounts are an important component of the investment and savings products we distribute. While we expect changes in our business will help mitigate any impact of the final rule, we remain concerned that the DOL Proposed Rule and its exemptions are so vague, complex and burdensome that, if finalized as proposed, they would necessitate fundamental changes to our qualified plan business and that these changes could, in particular, impact small-balance investors saving for retirement. During the year ended December 31, 2014, average client assets held in U.S. qualified retirement plans accounted for an estimated 60% of total average client account assets. During the year ended December 31, 2014, product sales of assets held in U.S. qualified retirement plans accounted for approximately 57% of total investment and savings product sales. The DOL is in the process of reviewing comments from stakeholders and has indicated its commitment to evaluate and consider all feedback. The form, substance and timing of a final rule are unknown at this time and therefore we are unable to quantify the impact, if any, on our business, financial position or results of operations.

Factors Affecting Our Results

Term Life Insurance Segment. Our Term Life Insurance segment results are primarily driven by sales volumes, the accuracy of our pricing assumptions, terms and use of reinsurance, investment income and expenses.

Sales and policies in force. Sales of term policies and the size and characteristics of our in-force book of policies are vital to our results over the long term. Premium revenue is recognized as it is earned over the term of the policy and eligible acquisition expenses are deferred and amortized ratably with the level premiums of the underlying policies. However, because we incur significant cash outflows at or about the time policies are issued, including the payment of sales commissions and underwriting costs, changes in life insurance sales volume will have a more immediate effect on our cash flows.

Historically, we have found that, while sales volume of term life insurance products between fiscal periods may vary based on a variety of factors, the productivity of our sales representatives generally remains within a relatively narrow range (between 0.18 and 0.22), and, consequently, our sales volume over the longer term generally correlates to the size of our sales force.

Pricing assumptions. Our pricing methodology is intended to provide us with appropriate profit margins for the risks we assume. We determine pricing classifications based on the coverage sought, such as the size and term of the policy, and certain policyholder attributes, such as age and health. In addition, we generally utilize unisex rates for our term life insurance policies. The pricing assumptions that underlie our rates are based upon our best estimates of mortality, persistency and interest rates at the time of issuance, sales force commission rates, issue and underwriting expenses, operating expenses and the characteristics of the insureds, including sex, age, underwriting class, product and amount of coverage. Our results will be affected to the extent there is a variance between our pricing assumptions and actual experience.

- Persistency. Persistency is a measure of how long our insurance policies stay in force. As a general matter, persistency that is lower than our pricing assumptions adversely affects our results over the long term because we lose the recurring revenue stream associated with the policies that lapse. Determining the near-term effects of changes in persistency is more complicated. When persistency is lower than our pricing assumptions, we must accelerate the amortization of deferred policy acquisition costs ("DAC"). The resultant increase in amortization expense is offset by a corresponding release of reserves associated with lapsed policies, which causes a reduction in benefits and claims expense. The future policy benefit reserves associated with any given policy will change over the term of such policy. As a general matter, future policy benefit reserves are lowest at the inception of a policy term and rise steadily to a peak before declining to zero at the expiration of the policy term. Accordingly, depending on when the lapse occurs in relation to the overall policy term, the reduction in benefits and claims expense may be greater or less than the increase in amortization expense, and, consequently, the effects on earnings for a given period could be positive or negative. Persistency levels will impact results to the extent actual experience deviates from the persistency assumptions used to price our products.
- Mortality. Our profitability will fluctuate to the extent actual mortality rates differ from those used in our pricing assumptions. We mitigate a significant portion of our mortality exposure through reinsurance.
- Interest rates. We use an assumption for future interest rates that initially reflects the current low interest rate environment gradually increasing to a level consistent with historical experience. Both DAC and the future policy benefit reserve liability increase with the assumed interest rate. Since DAC is higher than the future policy benefit reserve liability in the early years of a policy, a lower assumed interest rate generally will result in lower profits. In the later years, when the future policy benefit reserve liability is higher than DAC, a lower assumed interest rate generally will result in higher profits. These assumed interest rates, which like other pricing assumptions are locked

in at issue, impact the timing but not the aggregate amount of DAC and future policy benefit reserve changes. We allocate net investment income generated by the investment portfolio to the Term Life Insurance segment in an amount equal to the assumed net interest accreted to the segment’s U.S. GAAP-measured future policy benefit reserve liability less DAC. All remaining net investment income, and therefore the impact of actual interest rates, is attributed to the Corporate and Other Distributed Products segment.

Reinsurance. We use reinsurance extensively, which has a significant effect on our results of operations. Since the mid-1990s, we have reinsured between 60% and 90% of the mortality risk on our U.S. term life insurance policies on a quota share yearly renewable term ("YRT") basis. In Canada, we previously utilized reinsurance arrangements similar to the U.S. in certain years and reinsured only face amounts above $500,000 in other years. However, in the first quarter of 2012, we entered into a YRT reinsurance arrangement in Canada similar to our U.S. program that reinsures 80% of the face amount for every policy sold. YRT reinsurance permits us to set future mortality at contractual rates by policy class. To the extent actual mortality experience is more or less favorable than the contractual rate, the reinsurer will earn incremental profits or bear the incremental cost, as applicable. In contrast to coinsurance, which is intended to eliminate all risks (other than counterparty risk of the reinsurer) and rewards associated with a specified percentage of the block of policies subject to the reinsurance arrangement, the YRT reinsurance arrangements we enter into are intended only to reduce volatility associated with variances between estimated and actual mortality rates.

In 2010, as part of our corporate reorganization, we entered into significant coinsurance transactions (the "coinsurance transactions") with three affiliates (collectively, the "Citigroup reinsurers") of Citigroup Inc. ("Citigroup") and ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009. We continue to administer all policies subject to these coinsurance agreements. With each successive period, we expect revenue and earnings growth to continue to decelerate as the size of our in-force book grows and incremental sales have a reduced marginal effect on the size of the then-existing in-force book.

The effect of our reinsurance arrangements on ceded premiums and benefits and expenses on our statement of income follows:

- Ceded premiums. Ceded premiums are the premiums we pay to reinsurers. These amounts are deducted from the direct premiums we earn to calculate our net premium revenues. Similar to direct premium revenues, ceded coinsurance premiums remain level over the initial term of the insurance policy. Ceded YRT premiums increase over the period that the policy has been in force. Accordingly, ceded YRT premiums generally constitute an increasing percentage of direct premiums over the policy term.
- Benefits and claims. Benefits and claims include incurred claim amounts and changes in future policy benefit reserves. Reinsurance reduces incurred claims in direct proportion to the percentage ceded. Coinsurance also reduces the change in future policy benefit reserves in direct proportion to the percentage ceded, while YRT reinsurance does not significantly impact the change in these reserves.
- Amortization of DAC. DAC, and therefore amortization of DAC, is reduced on a pro-rata basis for the coinsured business, including the business reinsured with Citigroup. There is no impact on amortization of DAC associated with our YRT contracts.
- Insurance expenses. Insurance expenses are reduced by the allowances received from coinsurance, including the business reinsured with Citigroup. There is no impact on insurance expenses associated with our YRT contracts.

We may alter our reinsurance practices at any time due to the unavailability of YRT reinsurance at attractive rates or the availability of alternatives to reduce our risk exposure. We presently intend to continue ceding approximately 90% of our U.S. mortality risk on new business and to increase ceding from approximately 80% to 90% of our Canadian mortality risk on new business.

Net investment income. Net investment income is allocated to the Term Life Insurance segment based on the assumed net interest accreted to the segment's U.S. GAAP-measured future policy benefit reserve liability less DAC. All remaining net investment income earned by the invested asset portfolio is allocated to the Corporate and Other Distributed Products segment.

Expenses. Results are also affected by variances in client acquisition, maintenance and administration expense levels.

Investment and Savings Products Segment. Our Investment and Savings Products segment results are primarily driven by sales, the value of assets in client accounts for which we earn ongoing management, distribution and shareholder service fees and the number of fee generating accounts we administer.

Sales. We earn commissions and fees, such as dealer re-allowances, and marketing and support fees, based on sales of mutual fund products and annuities. Sales of investment and savings products are influenced by the overall demand for investment products in the United States and Canada, as well as by the size and productivity of our sales force. We generally experience seasonality in our Investment and Savings Products segment results due to our high concentration of sales of retirement account products. These accounts are typically funded in February through April, coincident with our clients' tax return preparation season. While we believe the size of our sales force is a factor in driving sales volume in this segment, there are a number of other variables, such as economic and market conditions, which may have a significantly greater effect on sales volume in any given fiscal period.

Asset values in client accounts. We earn marketing and distribution fees (trail commissions or, with respect to U.S. mutual funds, 12b-1 fees) on mutual fund and annuity assets in the United States and Canada. In the United States, we also earn investment advisory fees on assets in the managed accounts program. In Canada, we earn management fees on certain mutual fund assets and on the segregated funds for which we serve as investment manager. Asset values are influenced by new product sales, ongoing contributions to existing accounts, redemptions and the change in market values in existing accounts. While we offer a wide variety of asset classes and investment styles, our clients' accounts are primarily invested in equity funds.

Accounts. We earn recordkeeping fees for administrative functions we perform on behalf of several of our retail and managed mutual fund providers and custodial fees for services as a non-bank custodian for certain of our clients' retirement plan accounts.

Sales mix. While our investment and savings products have similar long-term earnings characteristics, our results in a given fiscal period will be affected by changes in the overall mix of products within these categories. Examples of changes in the sales mix that influence our results include the following:

- sales of annuity products in the United States will generate higher revenues in the period such sales occur than sales of other investment products that either generate lower upfront revenues or, in the case of managed accounts and segregated funds, no upfront revenues;
- sales of a higher proportion of managed accounts and segregated funds products will generally extend the time over which revenues can be earned because we are entitled to higher revenues based on assets under management for these accounts in lieu of upfront revenues; and
- sales of a higher proportion of mutual fund products and the composition of the fund families sold will impact the timing and amount of revenue we earn given the marketing, support, recordkeeping and custodial services we perform for the various mutual fund products we distribute.

Corporate and Other Distributed Products Segment. We earn revenues and pay commissions and referral fees for various other insurance products, prepaid legal services and other financial products, all of which are originated by third parties. NBLIC also has in-force policies from several discontinued lines of insurance. During the first quarter of 2014, NBLIC sold its short-term statutory disability benefit insurance business ("DBL") to AmTrust North America, Inc., and the net gain recognized on the sale has been reported as discontinued operations in 2014. During the second quarter of 2014, NBLIC ceased the marketing and underwriting of new student life insurance policies but continues to administer the existing block of student life business.

Corporate and Other Distributed Products segment net investment income includes net investment income not allocated to our Term Life Insurance segment and represents most of the net investment income earned by the Company. Actual net investment income realized by the Company and reflected in the segment results of the Corporate and Other Distributed Products segment is impacted by the size and performance of our invested asset portfolio, which can be influenced by interest rates, credit spreads, and the mix of invested assets.

The Corporate and Other Distributed Products segment is also affected by corporate income and expenses not allocated to our other segments, general and administrative expenses (other than expenses that are allocated to our Term Life Insurance or Investment and Savings Products segments), interest expense on notes payable and reserve financing transactions as well as realized gains and losses on our invested asset portfolio.

Capital Structure. Our financial results are impacted by our capital structure, such as the issuance of our senior unsecured notes and repurchases of shares of our common stock. For additional information regarding our capital structure, see Note 6 (Debt) and Note 7 (Stockholders' Equity) to our unaudited condensed consolidated financial statements included elsewhere in this report.

Foreign Currency. The Canadian dollar is the functional currency for our Canadian subsidiaries and our financial results, reported in U.S. dollars, are affected by changes in the currency exchange rate. As such, the translated amount of revenues, expenses, assets and liabilities attributable to our Canadian subsidiaries will be higher or lower in periods where the Canadian dollar appreciates or weakens, respectively, relative to the U.S. dollar. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Canadian Currency Risk included in our 2014 Annual Report and Note 2 (Segment and Geographical Information) to our unaudited condensed consolidated financial statements included elsewhere in this report for more information on our Canadian subsidiaries and the impact of foreign currency on our financial results.

Critical Accounting Estimates

We prepare our financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These principles are established primarily by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions based on currently available information when recording transactions resulting from business operations. Our significant accounting policies are described in Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) to our consolidated financial statements included in our 2014 Annual Report. The most significant items on our condensed consolidated balance sheets are based on fair value determinations, accounting estimates and actuarial determinations, which are susceptible to changes in future periods and could affect our results of operations and financial position.

The estimates that we deem to be most critical to an understanding of our results of operations and financial position are those related to DAC, future policy benefit reserves and corresponding amounts due from reinsurers, income taxes, the valuation of investments, and litigation. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. Subsequent experience or use of other assumptions could produce significantly different results.

Accounting Policy Changes. During the three months ended September 30, 2015, there have been no changes in the accounting methodology for items that we have identified as critical accounting estimates. For additional information regarding our critical accounting estimates, see the Critical Accounting Estimates section of MD&A included in our 2014 Annual Report.

Results of Operations

Primerica, Inc. and Subsidiaries Results. Our results of operations were as follows:

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2015	2014	$	%	2015	2014	$	%
	(Dollars in thousands)							
Revenues:								
Direct premiums	$587,882	$577,482	$10,400	2 %	$1,753,589	$1,722,427	$31,162	2 %
Ceded premiums	(393,987)	(402,198)	(8,211)	(2)%	(1,198,382)	(1,215,459)	(17,077)	(1)%
Net premiums	193,895	175,284	18,611	11 %	555,207	506,968	48,239	10%
Commissions and fees	132,368	132,928	(560)	*	404,353	391,898	12,455	3 %
Investment income net of investment expenses	22,487	21,764	723	3 %	67,918	65,044	2,874	4 %
Interest expense on surplus note	(3,772)	(1,299)	2,473	*	(8,954)	(1,299)	7,655	*
Net investment income	18,715	20,465	(1,750)	(9)%	58,964	63,745	(4,781)	(8)%
Realized investment gains (losses), including other-than-temporary impairment losses	(259)	(281)	(22)	8 %	1,623	813	810	*
Other, net	11,105	10,445	660	6 %	31,041	30,137	904	3 %
Total revenues	355,824	338,841	16,983	5 %	1,051,188	993,561	57,627	6 %
Benefits and expenses:								
Benefits and claims	88,599	81,235	7,364	9 %	253,621	228,839	24,782	11%
Amortization of DAC	40,797	36,944	3,853	10 %	113,392	104,834	8,558	8 %
Sales commissions	67,402	67,500	(98)	*	207,358	199,985	7,373	4 %
Insurance expenses	30,261	31,149	(888)	(3)%	93,353	87,106	6,247	7 %
Insurance commissions	4,619	4,045	574	14 %	11,953	12,009	(56)	*
Interest expense	8,718	8,712	6	*	26,036	25,870	166	1 %
Other operating expenses	40,475	45,236	(4,761)	(11)%	126,887	128,325	(1,438)	(1)%
Total benefits and expenses	280,871	274,821	6,050	2 %	832,600	786,968	45,632	6 %
Income from continuing operations before income taxes	74,953	64,020	10,933	17 %	218,588	206,593	11,995	6 %
Income taxes	25,603	22,407	3,196	14 %	76,664	72,224	4,440	6 %
Income from continuing operations	49,350	41,613	7,737	19 %	141,924	134,369	7,555	6 %

Income (loss) from discontinued operations, net of income taxes	-	(18)	(18)	*	-	1,578	(1,578)	*
Net income	$49,350	$41,595	$7,755	19 %	$141,924	$135,947	$5,977	4 %

*Less than 1% or not meaningful.

Results for the Three Months Ended September 30, 2015 and 2014

Total revenues. Total revenues for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 increased primarily due to incremental premiums on term life insurance policies not subject to the Citigroup coinsurance transactions. The increase in net premiums for the three months ended September 30, 2015 compared to the prior year period was partially offset by the decrease in net investment income for the three months ended September 30, 2015 compared to the prior year period due to lower portfolio yields and lower income from called securities.

Total benefits and expenses. The growth in total benefits and expenses for the three months ended September 30, 2015 was less than the growth in total revenues primarily due to the recognition of $5.1 million of accelerated vesting expense in the prior year period related to the addition of a retirement eligibility provision to 2014 employee equity award grants. Management equity awards granted in February 2014 were modified in the third quarter of 2014 to include a vesting provision for retirement eligible employees, which resulted in the accelerated recognition of all previously unrecognized compensation expense for awards granted to retirement eligible employees. Management equity awards granted in February 2015 included a vesting provision for retirement eligible employees at the time they were granted, and therefore all compensation expense for awards granted to retirement eligible employees was recognized immediately on the grant date in the first quarter of 2015. The impact of the retirement eligibility provision included in equity awards granted to management primarily affects the timing of expense recognition and not the total amount of expense to be recognized.

See Note 9 (Share-Based Transactions) to our unaudited condensed consolidated financial statements included elsewhere in this report for more information on the acceleration of stock compensation expense of certain employee equity awards.

Income taxes. Our effective income tax rate was 34.2% and 35.0% for the three months ended September 30, 2015 and 2014, respectively. The current period's rate was impacted by the recognition of certain tax benefits due to statute of limitations that expired during the third quarter of 2015, which lowered the effective income tax rate by approximately 1.3%.

For additional information, see the Segment Results discussions below.

Results for the Nine Months Ended September 30, 2015 and 2014

Total revenues. Total revenues for the nine months ended September 30, 2015 compared to the prior year period increased due to incremental premiums on term life insurance policies not subject to the Citigroup coinsurance transactions. For the nine months ended September 30, 2015, the higher sales of investment and savings products and the higher average client asset values also contributed towards the increase in total revenues in the form of higher commissions and fees. The increase in net premiums and commissions and fees was partially offset by a decline in net investment income due to lower yield on invested assets.

Total benefits and expenses. The growth in total benefits and claims for the nine months ended September 30, 2015 compared to the prior year period was consistent with the growth in total revenues. The year-over-year compensation expense impact of the retirement eligibility provision included in management equity awards is mostly offset in the nine-month comparison as each period includes the acceleration of previously unrecognized compensation expense for one annual grant of equity awards to retirement eligible employees.

Income taxes. The effective tax rate of 35.1% for the nine months ended September 30, 2015 is consistent with the 35.0% rate for the nine months ended September 30, 2014 since the positive impact of the recognition of certain tax benefits in the third quarter of 2015 was offset by the negative impact from the increase in the estimated portion of current earnings generated by our Canadian subsidiaries that may be repatriated to the U.S., and therefore, subject to a higher U.S. corporate tax rate.

For additional information, see the Segment Results discussions below:

Segment Results

Term Life Insurance Segment Results. Our results for the Term Life Insurance segment were as follows:

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2015	2014	$	%	2015	2014	$	%
	(Dollars in thousands)							
Revenues:								
Direct premiums	$579,527	$568,592	$10,935	2 %	$1,728,563	$1,696,104	$32,459	2 %
Ceded premiums	(391,440)	(399,587)	(8,147)	(2)%	(1,190,772)	(1,207,487)	(16,715)	(1)%
Net premiums	188,087	169,005	19,082	11%	537,791	488,617	49,174	10%
Allocated investment income	1,508	1,142	366	32%	4,348	3,176	1,172	37%
Other, net	7,605	6,993	612	9 %	21,645	20,438	1,207	6 %
Total revenues	197,200	177,140	20,060	11%	563,784	512,231	51,553	10%
Benefits and expenses:								
Benefits and claims	83,816	77,722	6,094	8 %	240,074	217,272	22,802	10%
Amortization of DAC	37,265	34,172	3,093	9 %	105,079	96,670	8,409	9 %

Insurance expenses	28,516	30,168	(1,652)	(5)%	88,280	82,139	6,141	7 %
Insurance commissions	1,084	1,070	14	1 %	3,067	3,314	(247)	(7)%
Total benefits and expenses	150,681	143,132	7,549	5 %	436,500	399,395	37,105	9 %
Income from continuing operations before income taxes	$46,519	$34,008	$12,511	37%	$127,284	$112,836	$14,448	13%

Results for the Three Months Ended September 30, 2015 and 2014

Net premiums. Net premiums grew for the three months ended September 30, 2015 compared to the prior year period mostly due to incremental premiums on term life insurance policies not subject to the Citigroup coinsurance transactions. Ceded premiums declined primarily due to the run-off of business subject to the Citigroup coinsurance transactions. The continued impact of growth in direct premiums not subject to the Citigroup coinsurance transactions and the run-off of business subject to the Citigroup coinsurance transactions resulted in net premiums growing faster than direct premiums. The current period results were also impacted by the reprocessing of certain reinsurance transactions which increased net premiums by approximately $2.8 million.

Benefits and claims. Benefits and claims for the three months ended September 30, 2015 increased less than the growth in net premiums largely due to prior year incurred claims that were approximately $3.0 million higher than historical levels, partially offset by the increase in benefits and claims of approximately $1.2 million due to the reprocessing of certain reinsurance transactions noted in the net premiums section above.

Amortization of DAC. The rate of DAC amortization for the third quarter of 2015 was less than the growth in net premiums reflecting slightly improved persistency compared to the prior year period.

Insurance expenses. The decrease in insurance expenses for the three months ended September 30, 2015 compared to the prior year period was primarily due to the recognition of $2.5 million of accelerated vesting expense of equity awards during the third quarter of 2014, offset by the growth in the business and the run-off of Citigroup coinsurance expense allowances.

Results for the Nine Months Ended September 30, 2015 and 2014

Net premiums. Net premiums grew for the nine months ended September 30, 2015 compared to the prior year period due to the same factors impacting premiums as discussed above in the three-month comparison.

Benefits and claims. Benefits and claims for the nine months ended September 30, 2015 grew in line with the growth in net premiums compared to the prior year period.

Amortization of DAC. The growth in DAC amortization for the nine months ended September 30, 2015 was due to the same factor as described above in the three-month comparison.

Insurance expenses. The increase in insurance expenses for the nine months ended September 30, 2015 compared to the prior year period was due to the growth in the business and the run-off of Citigroup coinsurance expense allowances.

Face Amount In Force. The changes in the face amount of our in-force book of term life insurance policies were as follows:

Three months ended September 30,			Nine months ended September 30,
2015	% of beginning balance	2014	