UNITED FIRE GROUP INC
Form 10-Q
May 03, 2017

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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-34257

UNITED FIRE GROUP, INC.
(Exact name of registrant as specified in its charter)

Iowa	45-2302834
(State of Incorporation)	(IRS Employer Identification No.)

118 Second Avenue, S.E., Cedar Rapids, Iowa 52401
(Address of principal executive offices) (Zip Code)

Registrant’s telephone number, including area code: (319) 399-5700

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

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).
YES R NO o

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

Large accelerated filer R	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO R
As of May 1, 2017, 25,205,806 shares of common stock were outstanding.

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United Fire Group, Inc.
Index to Quarterly Report on Form 10-Q
March 31, 2017

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FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements about our operations, anticipated performance and other similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about United Fire Group, Inc. ("UFG," the "Registrant," the "Company," "we," "us," or "our"), the industry in which we operate, and beliefs and assumptions made by management. Words such as "expect(s)," "anticipate(s)," "intend(s)," "plan(s)," "believe(s)," "continue(s)," "seek(s)," "estimate(s)," "goal(s)," "target(s)," "forecast(s)," "project(s)," "predict(s)," "should," "could," "may," "will continue," "might," "hope," "can" and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. See Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 and Part II, Item 1A "Risk Factors" of this report for more information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

Risks and uncertainties that may affect the actual financial condition and results of the Company include, but are not limited to, the following:

- The frequency and severity of claims, including those related to catastrophe losses and the impact those claims have on our loss reserve adequacy; the occurrence of catastrophic events, including international events, significant severe weather conditions, climate change, acts of terrorism, acts of war and pandemics;
- The adequacy of our reserves for property and casualty insurance losses and loss settlement expenses and our life insurance reserve for future policy benefits;
- Geographic concentration risk in both property and casualty insurance and life insurance segments;
- The potential disruption of our operations and reputation due to unauthorized data access, cyber-attacks or cyber-terrorism and other security breaches;
- Developments in general economic conditions, domestic and global financial markets, interest rates and other-than-temporary impairment losses that could affect the performance of our investment portfolio;
- Our ability to effectively underwrite and adequately price insured risks;
- Changes in industry trends, an increase in competition and significant industry developments;
- Litigation or regulatory actions that could require us to pay significant damages, fines or penalties or change the way we do business;
- Lowering of one or more of the financial strength ratings of our operating subsidiaries or our issuer credit ratings and the adverse impact such action may have on our premium writings, policy retention, profitability and liquidity;
- Governmental actions, policies and regulations, including, but not limited to, domestic health care reform, financial services regulatory reform, corporate governance, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions; changes in laws, regulations and stock exchange requirements relating to corporate governance and the cost of compliance;
- Our relationship with and the financial strength of our reinsurers; and
- Competitive, legal, regulatory or tax changes that affect the distribution cost or demand for our products through our independent agent/agency distribution network.

These are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report or as of the date they are made. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission ("SEC"), we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.
Consolidated Balance Sheets

(In Thousands, Except Share Data)	March 31, 2017 (unaudited)	December 31, 2016
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value $196 in 2017 and $199 in 2016)	$ 195	$ 198
Available-for-sale, at fair value (amortized cost $2,914,524 in 2017 and $2,887,505 in 2016)	2,932,188	2,898,126
Trading securities, at fair value (amortized cost $13,264 in 2017 and $13,054 in 2016)	14,971	14,390
Equity securities		
Available-for-sale, at fair value (cost $67,977 in 2017 and $68,504 in 2016)	275,684	270,416
Trading securities, at fair value (cost $5,861 in 2017 and $5,434 in 2016)	6,183	5,644
Mortgage loans	3,640	3,706
Policy loans	5,396	5,366
Other long-term investments	67,024	67,639
Short-term investments	175	175
	3,305,456	3,265,660
Cash and cash equivalents	93,656	110,853
Accrued investment income	28,134	25,056
Premiums receivable (net of allowance for doubtful accounts of $1,056 in 2017 and $1,255 in 2016)	324,428	306,202
Deferred policy acquisition costs	165,073	164,112
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $50,222 in 2017 and $50,925 in 2016)	56,231	55,524
Reinsurance receivables and recoverables	70,057	69,413
Prepaid reinsurance premiums	3,841	3,782
Income taxes receivable	10,430	15,061
Goodwill and intangible assets	24,547	24,740
Other assets	15,132	14,355
TOTAL ASSETS	$4,096,985	$ 4,054,758
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	$1,140,719	$ 1,123,896
Life insurance	1,342,966	1,350,503
Unearned premiums	467,105	443,873
Accrued expenses and other liabilities	145,190	159,014
Deferred income taxes	40,620	35,588
TOTAL LIABILITIES	$3,136,600	$ 3,112,874
Stockholders' Equity		
Common stock, $0.001 par value; authorized 75,000,000 shares; 25,341,552 and 25,429,769 shares issued and outstanding in 2017 and 2016, respectively	$ 25	$ 25

Additional paid-in capital	213,021	216,482
Retained earnings	629,891	616,322
Accumulated other comprehensive income, net of tax	117,448	109,055
TOTAL STOCKHOLDERS’ EQUITY	$960,385	$ 941,884
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$4,096,985	$ 4,054,758

The Notes to unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire Group, Inc.
Consolidated Statements of Income and Comprehensive Income (Unaudited)

(In Thousands, Except Share Data)	Three Months Ended March 31, 2017	2016
Revenues		
Net premiums earned	$253,872	$241,298
Investment income, net of investment expenses	25,035	22,224
Net realized investment gains (includes reclassifications for net unrealized investment gains on available-for-sale securities of $3,405 in 2017 and $1,646 in 2016; previously included in accumulated other comprehensive income)	3,954	2,055
Other income	198	108
Total revenues	$283,059	$265,685
Benefits, Losses and Expenses		
Losses and loss settlement expenses	$167,623	$142,128
Increase in liability for future policy benefits	8,579	12,552
Amortization of deferred policy acquisition costs	52,134	50,231
Other underwriting expenses (includes reclassifications for employee benefit costs of $1,352 in 2017 and $1,371 in 2016; previously included in accumulated other comprehensive income)	24,890	26,753
Interest on policyholders' accounts	4,744	5,247
Total benefits, losses and expenses	$257,970	$236,911
Income before income taxes	$25,089	$28,774
Federal income tax expense (includes reclassifications of ($718) in 2017 and ($96) in 2016; previously included in accumulated other comprehensive income)	5,153	6,347
Net income	$19,936	$22,427
Other comprehensive income		
Change in net unrealized appreciation on investments	$14,966	$43,876
Change in liability for underfunded employee benefit plans	—	—
Other comprehensive income , before tax and reclassification adjustments	$14,966	$43,876
Income tax effect	(5,238)	(15,357)
Other comprehensive income, after tax, before reclassification adjustments	$9,728	$28,519
Reclassification adjustment for net realized investment gains included in income	$(3,405)	$(1,646)
Reclassification adjustment for employee benefit costs included in expense	1,352	1,371
Total reclassification adjustments, before tax	$(2,053)	$(275)
Income tax effect	718	96
Total reclassification adjustments, after tax	$(1,335)	$(179)
Comprehensive income	$28,329	$50,767
Weighted average common shares outstanding	25,443,101	25,209,888
Basic earnings per common share	$0.78	$0.89
Diluted earnings per common share	0.77	0.88

The Notes to unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire Group, Inc.
Consolidated Statement of Stockholders' Equity (Unaudited)

(In Thousands, Except Share Data)	Three Months Ended March 31, 2017
Common stock	
Balance, beginning of year	$25
Shares repurchased (134,981 shares)	—
Shares issued for stock-based awards (46,764 shares)	—
Balance, end of period	$25
Additional paid-in capital	
Balance, beginning of year	$216,482
Compensation expense and related tax benefit for stock-based award grants	1,044
Shares repurchased	(5,749)
Shares issued for stock-based awards	1,244
Balance, end of period	$213,021
Retained earnings	
Balance, beginning of year	$616,322
Net income	19,936
Dividends on common stock ($0.25 per share)	(6,367)
Balance, end of period	$629,891
Accumulated other comprehensive income, net of tax	
Balance, beginning of year	$109,055
Change in net unrealized investment appreciation(1)	7,515
Change in liability for underfunded employee benefit plans(2)	878
Balance, end of period	$117,448
Summary of changes	
Balance, beginning of year	$941,884
Net income	19,936
All other changes in stockholders' equity accounts	(1,435)
Balance, end of period	$960,385

(1) The change in net unrealized appreciation is net of reclassification adjustments and income taxes.
(2) The change in liability for underfunded employee benefit plans is net of reclassification adjustments and income taxes.

The Notes to unaudited Consolidated Financial Statements are an integral part of these statements.

United Fire Group, Inc.
Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
(In Thousands)	2017	2016
Cash Flows From Operating Activities		
Net income	$19,936	$22,427
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	3,901	3,447
Depreciation and amortization	1,165	1,626
Stock-based compensation expense	1,044	977
Net realized investment gains	(3,954)	(2,055)
Net cash flows from trading investments	(610)	(129)
Deferred income tax benefit	(134)	322
Changes in:		
Accrued investment income	(3,078)	(1,689)
Premiums receivable	(18,226)	(26,245)
Deferred policy acquisition costs	(2,238)	(3,579)
Reinsurance receivables	(644)	1,782
Prepaid reinsurance premiums	(59)	(322)
Income taxes receivable	4,631	—
Other assets	(777)	(1,240)
Future policy benefits and losses, claims and loss settlement expenses	26,590	23,965
Unearned premiums	23,232	21,001
Accrued expenses and other liabilities	(12,472)	(7,205)
Income taxes payable	—	728
Deferred income taxes	647	(548)
Other, net	253	2,063
Total adjustments	$19,271	$12,899
Net cash provided by operating activities	$39,207	$35,326
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	$5,059	$1,968
Proceeds from call and maturity of held-to-maturity investments	3	8
Proceeds from call and maturity of available-for-sale investments	71,613	142,629
Proceeds from short-term and other investments	1,702	789
Purchase of available-for-sale investments	(103,623)	(124,338)
Purchase of short-term and other investments	(1,590)	—
Net purchases and sales of property and equipment	(1,392)	(569)
Net cash (used in) provided by investing activities	$(28,228)	$20,487
Cash Flows From Financing Activities		
Policyholders' account balances		
Deposits to investment and universal life contracts	$20,630	$25,145
Withdrawals from investment and universal life contracts	(37,934)	(41,954)
Payment of cash dividends	(6,367)	(5,553)
Repurchase of common stock	(5,749)	—
Issuance of common stock	1,244	4,745
Tax impact from issuance of common stock	—	(664)
Net cash used in financing activities	$(28,176)	$(18,281)
Net Change in Cash and Cash Equivalents	$(17,197)	$37,532

Cash and Cash Equivalents at Beginning of Period	110,853	106,449
Cash and Cash Equivalents at End of Period	$93,656	$143,981

The Notes to unaudited Consolidated Financial Statements are an integral part of these statements.

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UNITED FIRE GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share amounts or as otherwise noted)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

United Fire Group, Inc. ("UFG," the "Registrant," the "Company," "we," "us," or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. We report our operations in two business segments: property and casualty insurance and life insurance. Our insurance company subsidiaries are licensed as a property and casualty insurer in 46 states and the District of Columbia, and as a life insurer in 37 states.

Basis of Presentation

The unaudited consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X promulgated by the SEC. Certain financial information that is included in our Annual Report on Form 10-K, including certain financial statement footnote disclosures, are not required by the rules and regulations of the SEC for interim financial reporting and have been condensed or omitted.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The financial statement categories that are most dependent on management estimates and assumptions include: investments; deferred policy acquisition costs; reinsurance receivables and recoverables; future policy benefits and losses, claims and loss settlement expenses; and pension and postretirement benefit obligations.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Management of UFG believes the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. The results reported for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited Consolidated Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2016. The review report of Ernst & Young LLP as of March 31, 2017 and for the three-month periods ended March 31, 2017 and 2016 accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 "Financial Statements."

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, money market accounts, and non-negotiable certificates of deposit with original maturities of three months or less.

For the three-month periods ended March 31, 2017 and 2016, we made payments for income taxes totaling $9 and $6,509, respectively. We did not receive a tax refund during the three-month periods ended March 31, 2017 and 2016.

For the three-month periods ended March 31, 2017 and 2016, we made no interest payments (excluding interest credited to policyholders' accounts).

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Deferred Policy Acquisition Costs ("DAC")

Certain costs associated with underwriting new business (primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts) are deferred. The following table is a summary of the components of DAC, including the related amortization recognized for the three-month period ended March 31, 2017.

	Property & Casualty Insurance	Life Insurance	Total
Recorded asset at beginning of period	$93,362	$70,750	$164,112
Underwriting costs deferred	53,084	1,288	54,372
Amortization of deferred policy acquisition costs	(50,461)	(1,673)	(52,134)
Ending unamortized deferred policy acquisition costs	$95,985	$70,365	$166,350
Impact of unrealized gains and losses on available-for-sale securities	—	(1,277)	(1,277)
Recorded asset at March 31, 2017	$95,985	$69,088	$165,073

Property and casualty insurance policy acquisition costs deferred are amortized as premium revenue is recognized. The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value. This takes into account the premium to be earned, losses and loss settlement expenses expected to be incurred and certain other costs expected to be incurred as the premium is earned.

For traditional life insurance policies, DAC is amortized to income over the premium-paying period in proportion to the ratio of the expected annual premium revenue to the expected total premium revenue. Expected premium revenue and gross profits are based on the same mortality and withdrawal assumptions used in determining future policy benefits. These assumptions are not revised after policy issuance unless the recorded DAC asset is deemed to be unrecoverable from future expected profits.

For non-traditional life insurance policies, DAC is amortized over the anticipated terms in proportion to the ratio of the expected annual gross profits to the total expected gross profits. Changes in the amount or timing of expected gross profits result in adjustments to the cumulative amortization of these costs. The effect on amortization of DAC for revisions to estimated gross profits is reported in earnings in the period the estimated gross profits are revised.

The effect on DAC that results from the assumed realization of unrealized gains (losses) on investments allocated to non-traditional life insurance business is recognized with an offset to net unrealized investment appreciation as of the balance sheet date. The impact of unrealized gains and losses on available-for-sale securities decreased the DAC asset by $7,690 and $6,413 at March 31, 2017 and December 31, 2016, respectively.

Income Taxes

Deferred tax assets and liabilities are established based on differences between the financial statement bases of assets and liabilities and the tax bases of those same assets and liabilities, using the currently enacted statutory tax rates. Deferred income tax expense is measured by the year-to-year change in the net deferred tax asset or liability, except for certain changes in deferred tax amounts that affect stockholders' equity and do not impact federal income tax expense.

We reported a federal income tax expense of $5,153 and $6,347 for the three-month periods ended March 31, 2017 and 2016, respectively. Our effective tax rate is different than the federal statutory rate of 35.0 percent due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

The Company performs a quarterly review of its tax positions and makes a determination of whether it is more likely than not that the tax position will be sustained upon examination. If based on review, it appears not more likely than

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not that the positions will be sustained, the Company will calculate any unrecognized tax benefits and, if necessary, calculate and accrue any related interest and penalties. We did not recognize any liability for unrecognized tax benefits at March 31, 2017 or December 31, 2016. In addition, we have not accrued for interest and penalties related to unrecognized tax benefits. However, if interest and penalties would need to be accrued related to unrecognized tax benefits, such amounts would be recognized as a component of federal income tax expense.

We file a consolidated federal income tax return. We also file income tax returns in various state jurisdictions. We are no longer subject to federal or state income tax examination for years before 2009. The Internal Revenue Service is conducting a routine examination of our income tax return for the 2011 tax year.

Subsequent Events

In the preparation of the accompanying financial statements, the Company has evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure in the Company's financial statements. The Company concluded there are no material subsequent events or transactions that have occurred after the balance sheet date through the date on which the financial statements were issued.

Recently Issued Accounting Standards

Accounting Standards Adopted in 2017

Share-Based Payments

In March 2016, the Financial Accounting Standards Board ("FASB") issued new guidance on the accounting for share-based payments. The new guidance was issued to simplify the accounting of share-based payments, specifically in the areas of income taxes, classification on the balance sheets as liabilities or equity and classification in the cash flow statement. The new guidance is effective for annual periods beginning after December 15, 2016 and interim periods within those years. The Company adopted the new guidance prospectively as of January 1, 2017. The new guidance resulted in classification changes between the financing and operating section of the Statement of Cash Flow for stock based compensation expense. The adoption also resulted in a tax benefit of $130 during the three months ended March 31, 2017.

Income Taxes

In December 2015, the FASB issued guidance on the balance sheet classification of deferred taxes. The new guidance eliminates the requirement to split deferred tax liabilities and assets between current and non-current in a classified balance sheet. The new guidance allows deferred tax liabilities and assets to be included in non-current accounts. The Company adopted the new guidance as of January 1, 2017. The adoption had no impact on the Company's financial position and results of operations since we do not currently report deferred taxes in classified balance sheets.

Pending Adoption of Accounting Standards

Revenue Recognition

In May 2014, the FASB issued comprehensive new guidance on revenue recognition which supersedes nearly all existing revenue recognition guidance under GAAP. The new guidance requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard creates a five-step model that requires companies to exercise judgment when considering the terms of the contract(s) and all relevant facts and circumstances. Insurance contracts are not within the scope of this new guidance. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The Company will adopt the guidance as of January 1, 2018. The adoption of the new guidance will have no impact on the Company's reporting and disclosure of net premiums earned, net investment income or net realized gains and losses, as these items are not within the scope of this new guidance. The Company is currently evaluating the impact on the Company's financial position and results of operations with other revenue streams under this new guidance. These other revenue streams, currently reported in other income in the Consolidated Statements of Income and Comprehensive Income, are not a material amount of the Company's total revenue.

Financial Instruments

In January 2016, the FASB issued guidance updating certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (for example, trading or available-for-sale) and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The new guidance also simplifies the impairment process for equity investments without readily determinable fair values. The new guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2018 and is currently evaluating the impact on the Company's financial position, results of operations and key processes. If the new guidance were adopted as of March 31, 2017, there would be a reclassification from accumulated other comprehensive income to retained earnings equal to the amount of net unrealized gains and losses on available-for-sale equity securities at December 31, 2016 disclosed in Note 2 "Summary of Investments," of this section. The impact to net realized gains (losses) would equal the change in net unrealized gains and losses on available-for-sale equity securities between March 31, 2017 and December 31, 2016, in the same tables.

Statement of Cash Flows - Classification of Certain Cash Receipts and Payments

In August 2016, the FASB issued an update that clarifies the classification of certain cash receipts and payments in the Statement of Cash Flows. The update addresses eight existing cash flow issues by clarifying the correct classification to establish uniformity in practice. The updated guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2018 and is currently reviewing the updates to the eight existing cash flow issues. Currently, management believes that one existing cash flow issue will be impacted by these updates. Management believes the update will have no impact on the Company's financial position and results of operations but may effect the current classification of the cash flow in the Statement of Cash Flows.

Defined Benefit Retirement Plan Cost

In March 2017, the FASB issued guidance on the presentation of net periodic benefit costs of defined benefit retirement benefit plans in the Statements of Income. The new guidance requires the service cost component of net periodic benefit cost of defined benefit plans to be presented in the same line in the Statements of Income as other employee compensation expenses. Also, under the new guidance, the service cost component of the net periodic benefit costs will be the only portion of costs subject to be capitalized in assets. The new guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2018 and is currently evaluating the presentation of net periodic benefit costs in its financial statements and the impact on the Company's financial position and results of operations.

Leases

In February 2016, the FASB issued guidance on the accounting for leases. The new guidance requires lessees to place most leases on their balance sheets with expenses recognized on the income statement in a similar manner as previous methods. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2019. The Company has created an inventory of its leases and has calculated the current minimum future lease payment, which is disclosed in Note 13 "Lease Commitments" of our Annual Report on Form 10-K for the year ended December 31, 2016.

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Financial Instruments - Credit Losses

In June 2016, the FASB issued new guidance on the measurement of credit losses for most financial instruments. The new guidance replaces the current incurred loss model for recognizing credit losses with an expected loss model for instruments measured at amortized cost and requires allowances to be recorded for available-for-sale debt securities rather than reduce the carrying amount. These allowances will be remeasured each reporting period. The new guidance is effective for annual periods beginning after December 15, 2020 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2021 and is currently evaluating the impact on the Company's financial position, results of operations and key processes.

Income Taxes - Intra-entity Transfers

In October 2016, the FASB issued new guidance on the income tax treatment of intra-entity transfers. The new guidance replaces the current guidance which prohibits the recognition of current and deferred income taxes of intra-entity transfers until the asset is sold externally. Under the new guidance, the exemption is eliminated and income taxes will be recognized on transfers of intra-entity assets. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2019 and is currently evaluating the impact on the Company's financial position and results of operations.

Goodwill

In January 2017, the FASB issued new guidance which simplifies the test for goodwill impairment. The new guidance eliminates the implied fair value calculation when measuring a goodwill impairment charge. Under the new guidance, impairment charges will be based on the excess of the carrying value over fair value of goodwill. The new guidance is effective for annual and interim periods beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2020 and is currently evaluating the impact on the Company's financial position and results of operations.

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NOTE 2. SUMMARY OF INVESTMENTS
Fair Value of Investments
A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities as of March 31, 2017 and December 31, 2016 is as follows:
March 31, 2017

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
Corporate bonds - financial services	$150	$ —	$ —	$150
Mortgage-backed securities	45	1	—	46
Total Held-to-Maturity Fixed Maturities	$195	$ 1	$ —	$196
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$22,142	$ 73	$ 100	$22,115
U.S. government agency	70,671	1,426	438	71,659
States, municipalities and political subdivisions				
General obligations:				
Midwest	133,706	1,873	1,068	134,511
Northeast	56,241	1,042	177	57,106
South	144,366	1,455	2,298	143,523
West	123,026	1,558	1,839	122,745
Special revenue:				
Midwest	165,789	2,412	1,326	166,875
Northeast	72,489	558	2,323	70,724
South	258,835	2,020	5,954	254,901
West	148,390	1,701	3,717	146,374
Foreign bonds	59,295	2,076	—	61,371
Public utilities	211,412	3,987	427	214,972
Corporate bonds				
Energy	103,194	2,190	193	105,191
Industrials	222,476	5,017	498	226,995
Consumer goods and services	176,581	4,089	269	180,401
Health care	75,951	2,039	37	77,953
Technology, media and telecommunications	143,113	2,562	700	144,975
Financial services	272,088	5,720	929	276,879
Mortgage-backed securities	16,366	166	250	16,282
Collateralized mortgage obligations				
Government national mortgage association	156,554	1,483	2,451	155,586
Federal home loan mortgage corporation	178,052	1,886	3,453	176,485

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Federal national mortgage association	99,420	1,907	1,090	100,237
Asset-backed securities	4,367	147	186	4,328
Total Available-for-Sale Fixed Maturities	$2,914,524	$47,387	$29,723	$2,932,188
Equity securities:				
Common stocks				
Public utilities	$6,394	$14,691	$125	$20,960
Energy	6,514	7,828	29	14,313
Industrials	13,117	42,387	175	55,329
Consumer goods and services	10,074	15,272	64	25,282
Health care	7,763	22,065	—	29,828
Technology, media and telecommunications	6,009	9,355	59	15,305
Financial services	17,069	96,587	50	113,606
Nonredeemable preferred stocks	1,037	24	—	1,061
Total Available-for-Sale Equity Securities	$67,977	$208,209	$502	$275,684
Total Available-for-Sale Securities	$2,982,501	$255,596	$30,225	$3,207,872

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December 31, 2016

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
Corporate bonds - financial services	$150	$ —	$ —	$150
Mortgage-backed securities	48	1	—	49
Total Held-to-Maturity Fixed Maturities	$198	$ 1	$ —	$199
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$23,216	$ 87	$ 108	$23,195
U.S. government agency	76,692	1,445	540	77,597
States, municipalities and political subdivisions				
General obligations:				
Midwest	143,747	1,808	1,412	144,143
Northeast	57,731	909	231	58,409
South	129,475	1,249	2,355	128,369
West	114,524	1,380	2,173	113,731
Special revenue:				
Midwest	167,430	2,313	1,433	168,310
Northeast	70,202	487	2,624	68,065
South	244,225	1,753	6,791	239,187
West	134,287	1,509	4,052	131,744
Foreign bonds	62,995	2,239	—	65,234
Public utilities	212,360	3,761	447	215,674
Corporate bonds				
Energy	107,084	2,195	419	108,860
Industrials	225,526	5,359	982	229,903
Consumer goods and services	178,135	3,847	295	181,687
Health care	81,211	2,063	151	83,123
Technology, media and telecommunications	143,402	2,029	819	144,612
Financial services	269,981	5,328	1,358	273,951
Mortgage-backed securities	17,288	201	241	17,248
Collateralized mortgage obligations				
Government national mortgage association	145,947	1,279	2,766	144,460
Federal home loan mortgage corporation	176,226	1,638	3,406	174,458
Federal national mortgage association	101,414	1,816	1,334	101,896
Asset-backed securities	4,407	145	282	4,270
Total Available-for-Sale Fixed Maturities	$2,887,505	$ 44,840	$ 34,219	$2,898,126

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Equity securities:				
Common stocks				
Public utilities	$6,394	$13,465	$188	$19,671
Energy	6,514	8,555	22	15,047
Industrials	13,252	38,715	173	51,794
Consumer goods and services	10,324	13,851	58	24,117
Health care	7,763	19,657	—	27,420
Technology, media and telecommunications	5,931	9,476	38	15,369
Financial services	17,289	98,728	67	115,950
Nonredeemable preferred stocks	1,037	11	—	1,048
Total Available-for-Sale Equity Securities	$68,504	$202,458	$546	$270,416
Total Available-for-Sale Securities	$2,956,009	$247,298	$34,765	$3,168,542

Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at March 31, 2017, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

	Held-To-Maturity		Available-For-Sale		Trading	
March 31, 2017	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 150	$ 150	$125,861	$126,941	$2,593	$2,815
Due after one year through five years	—	—	814,770	835,999	7,213	8,396
Due after five years through 10 years	—	—	802,379	812,933	1,302	1,377
Due after 10 years	—	—	716,755	703,397	2,156	2,383
Asset-backed securities	—	—	4,367	4,328	—	—
Mortgage-backed securities	45	46	16,366	16,282	—	—
Collateralized mortgage obligations	—	—	434,026	432,308	—	—
	$ 195	$ 196	$2,914,524	$2,932,188	$13,264	$14,971

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Net Realized Investment Gains and Losses

Net realized gains on disposition of investments are computed using the specific identification method and are included in the computation of net income. A summary of the components of net realized investment gains is as follows:

	Three Months Ended March 31,	
	2017	2016
Net realized investment gains		
Fixed maturities:		
Available-for-sale	$1,995	$516
Trading securities		
Change in fair value	371	273
Sales	57	—
Equity securities:		
Available-for-sale	1,410	984
Trading securities		
Change in fair value	111	93
Sales	10	—
Short-term investments	—	43
Cash equivalents	—	146
Total net realized investment gains	$3,954	$2,055

The proceeds and gross realized gains on the sale of available-for-sale fixed maturity securities are as follows:

	Three Months Ended March 31,	
	2017	2016
Proceeds from sales	$5,059	$1,968
Gross realized gains	2,222	921

There were no sales of held-to-maturity securities during the three-month periods ended March 31, 2017 and 2016.

Our investment portfolio includes trading securities with embedded derivatives. These securities are primarily convertible securities which are recorded at fair value. Income or loss, including the change in the fair value of these trading securities, is recognized currently in earnings as a component of net realized investment gains. Our portfolio of trading securities had a fair value of $21,154 and $20,034 at March 31, 2017 and December 31, 2016, respectively.

Funding Commitment

Pursuant to an agreement with one of our limited liability partnership investments, we are contractually committed through December 31, 2023 to make capital contributions upon request of the partnership. Our remaining potential contractual obligation was $6,868 at March 31, 2017.

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Unrealized Appreciation

A summary of the changes in net unrealized investment appreciation during the reporting period is as follows:

	Three Months Ended March 31,	
	2017	2016
Change in net unrealized investment appreciation		
Available-for-sale fixed maturities	$7,043	$52,556
Available-for-sale equity securities	5,795	1,359
Deferred policy acquisition costs	(1,277)	(11,685)
Income tax effect	(4,046)	(14,781)
Total change in net unrealized investment appreciation, net of tax	$7,515	$27,449

We continually monitor the difference between our cost basis and the estimated fair value of our investments. Our accounting policy for impairment recognition requires other-than-temporary impairment ("OTTI") charges to be recorded when we determine that it is more likely than not that we will be unable to collect all amounts due according to the contractual terms of the fixed maturity security or that the anticipated recovery in fair value of the equity security will not occur in a reasonable amount of time. Impairment charges on investments are recorded based on the fair value of the investments at the measurement date or based on the value calculated using a discounted cash flow model. Credit-related impairments on fixed maturity securities that we do not plan to sell, and for which we are not more likely than not to be required to sell, are recognized in net income. Any non-credit related impairment is recognized as a component of other comprehensive income. Factors considered in evaluating whether a decline in value is other-than-temporary include: the length of time and the extent to which fair value has been less than cost; the financial condition and near-term prospects of the issuer; our intention to hold the investment; and the likelihood that we will be required to sell the investment.

The tables on the following pages summarize our fixed maturity and equity securities that were in an unrealized loss position at March 31, 2017 and December 31, 2016. The securities are presented by the length of time they have been continuously in an unrealized loss position. It is possible that we could recognize OTTI charges in future periods on securities held at March 31, 2017, if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We have evaluated the near-term prospects of the issuers of our fixed maturity securities in relation to the severity and duration of the unrealized loss and determined that these losses did not warrant the recognition of an OTTI charge at March 31, 2017 or at March 31, 2016. We have no intent to sell, and it is more likely than not that we will not be required to sell, these securities until the fair value recovers to at least equal our cost basis or the securities mature.

We have evaluated the near-term prospects of the issuers of our equity securities in relation to the severity and duration of the unrealized loss and determined that these losses did not warrant the recognition of an OTTI charge at March 31, 2017 or at March 31, 2016. Our largest unrealized loss greater than 12 months on an individual equity security at March 31, 2017 was $159. We have no intention to sell any of these securities prior to a recovery in value, but will continue to monitor the fair value reported for these securities as part of our overall process to evaluate investments for OTTI recognition.

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March 31, 2017	Less than 12 months			12 months or longer			Total	
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
AVAILABLE-FOR-SALE								
Fixed maturities:								
Bonds								
U.S. Treasury	11	$11,779	$ 100	—	$—	$ —	$11,779	$ 100
U.S. government agency	9	33,651	438	—	—	—	33,651	438
States, municipalities and political subdivisions								
General obligations								
Midwest	16	32,139	1,068	—	—	—	32,139	1,068
Northeast	4	6,939	177	—	—	—	6,939	177
South	28	60,252	2,298	—	—	—	60,252	2,298
West	23	48,967	1,839	—	—	—	48,967	1,839
Special revenue								
Midwest	30	51,512	1,326	—	—	—	51,512	1,326
Northeast	21	51,512	2,323	—	—	—	51,512	2,323
South	69	142,601	5,954	—	—	—	142,601	5,954
West	36	75,008	3,717	—	—	—	75,008	3,717
Public utilities	17	32,195	389	3	2,107	38	34,302	427
Corporate bonds								
Energy	4	6,951	173	1	4,174	20	11,125	193
Industrials	16	26,794	297	2	4,758	201	31,552	498
Consumer goods and services	11	20,912	269	—	—	—	20,912	269
Health care	3	8,472	37	—	—	—	8,472	37
Technology, media and telecommunications	13	32,671	397	3	10,222	303	42,893	700
Financial services	24	51,512	929	—	—	—	51,512	929
Mortgage-backed securities	19	9,301	195	4	1,087	55	10,388	250
Collateralized mortgage obligations								
Government national mortgage association	36	82,052	1,830	10	17,273	621	99,325	2,451
Federal home loan mortgage corporation	40	100,351	3,223	3	4,969	230	105,320	3,453
Federal national mortgage association	23	39,294	857	4	4,180	233	43,474	1,090
Asset-backed securities	—	—	—	1	2,647	186	2,647	186
Total Available-for-Sale Fixed Maturities	453	$924,865	$ 27,836	31	$51,417	$ 1,887	$976,282	$ 29,723
Equity securities:								
Common stocks								
Public utilities	—	$—	$ —	3	$183	$ 125	$183	$ 125
Energy	1	190	2	1	158	27	348	29
Industrials	—	—	—	6	237	175	237	175
Consumer goods and services	1	22	1	4	269	63	291	64
Technology, media and telecommunications	8	93	16	8	22	43	115	59
Financial services	3	53	2	2	165	48	218	50
	13	$358	$ 21	24	$1,034	$ 481	$1,392	$ 502

Total Available-for-Sale Equity Securities								
Total Available-for-Sale Securities	466	$925,223	$ 27,857	55	$52,451	$ 2,368	$977,674	$ 30,225

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December 31, 2016	Less than 12 months			12 months or longer			Total	
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
AVAILABLE-FOR-SALE								
Fixed maturities:								
Bonds								
U.S. Treasury	9	$10,800	$ 108	—	$—	$ —	$10,800	$ 108
U.S. government agency	10	36,593	540	—	—	—	36,593	540
States, municipalities and political subdivisions								
General obligations								
Midwest	27	40,545	1,412	—	—	—	40,545	1,412
Northeast	9	9,874	231	—	—	—	9,874	231
South	37	53,699	2,355	—	—	—	53,699	2,355
West	30	55,265	2,173	—	—	—	55,265	2,173
Special revenue								
Midwest	41	62,937	1,433	—	—	—	62,937	1,433
Northeast	22	54,993	2,624	—	—	—	54,993	2,624
South	79	152,979	6,791	—	—	—	152,979	6,791
West	44	81,676	4,052	—	—	—	81,676	4,052
Public utilities	20	38,511	423	2	2,122	24	40,633	447
Corporate bonds								
Energy	8	15,938	313	3	8,232	106	24,170	419
Industrials	24	42,854	596	3	5,641	386	48,495	982
Consumer goods and services	11	21,059	295	—	—	—	21,059	295
Health care	9	20,918	151	—	—	—	20,918	151
Technology, media and telecommunications	16	41,230	516	3	10,241	303	51,471	819
Financial services	37	75,286	1,358	—	—	—	75,286	1,358
Mortgage-backed securities	16	9,611	187	5	1,198	54	10,809	241
Collateralized mortgage obligations								
Government national mortgage association	36	82,430	2,261	9	13,603	505	96,033	2,766
Federal home loan mortgage corporation	41	105,775	3,165	3	5,141	241	110,916	3,406
Federal national mortgage association	27	46,633	1,091	4	4,341	243	50,974	1,334
Asset-backed securities	1	971	29	1	2,559	253	3,530	282
Total Available-for-Sale Fixed Maturities	554	$1,060,577	$ 32,104	33	$53,078	$ 2,115	$1,113,655	$ 34,219
Equity securities:								
Common stocks								
Public utilities	—	$—	$ —	3	$120	$ 188	$120	$ 188
Energy	—	—	—	1	163	22	163	22
Industrials	—	—	—	6	239	173	239	173
Consumer goods and services	3	282	55	2	15	3	297	58
Technology, media and telecommunications	7	26	5	8	33	33	59	38

Financial services	3	53	3	2	150	64	203	67
Total Available-for-Sale Equity Securities	13	$361	$ 63	22	$720	$ 483	$1,081	$ 546
Total Available-for-Sale Securities	567	$1,060,938	$ 32,167	55	$53,798	$ 2,598	$1,114,736	$ 34,765

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NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Current accounting guidance on fair value measurements includes the application of a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Our financial instruments that are recorded at fair value are categorized into a three-level hierarchy, which is based upon the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (i.e., Level 1) and the lowest priority to unobservable inputs (i.e., Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the financial instrument.
Financial instruments recorded at fair value are categorized in the fair value hierarchy as follows:

- Level 1: Valuations are based on unadjusted quoted prices in active markets for identical financial instruments that we have the ability to access.
- Level 2: Valuations are based on quoted prices for similar financial instruments, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument.
- Level 3: Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

We review our fair value hierarchy categorizations on a quarterly basis at which time the classification of certain financial instruments may change if the input observations have changed. Transfers between levels, if any, are recorded as of the beginning of the reporting period.
To determine the fair value of the majority of our investments, we utilize prices obtained from independent, nationally recognized pricing services. We obtain one price for each security. When the pricing services cannot provide a determination of fair value for a specific security, we obtain non-binding price quotes from broker-dealers with whom we have had several years experience and who have demonstrated knowledge of the subject security. We request and utilize one broker quote per security.
In order to determine the proper classification in the fair value hierarchy for each security where the price is obtained from an independent pricing service, we obtain and evaluate the vendors' pricing procedures and inputs used to price the security, which include unadjusted quoted market prices for identical securities, such as a New York Stock Exchange closing price, and quoted prices for identical securities in markets that are not active. For fixed maturity securities, an evaluation of interest rates and yield curves observable at commonly quoted intervals, volatility, prepayment speeds, credit risks and default rates may also be performed. We have determined that these processes and inputs result in fair values and classifications consistent with the applicable accounting guidance on fair value measurements.
When possible, we use quoted market prices to determine the fair value of fixed maturities, equity securities, trading securities and short-term investments. When quoted market prices do not exist, we base estimates of fair value on market information obtained from independent pricing services and brokers or on valuation techniques that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument. Our valuation techniques are discussed in more detail throughout this section.
The fair value of our mortgage loans is determined by modeling performed by us based on the stated principal and coupon payments provided for in the loan agreements. These cash flows are then discounted using an appropriate risk-adjusted discount rate to determine the security's fair value, which is a Level 3 fair value measurement.

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The fair value of our policy loans is equivalent to carrying value, which is a reasonable estimate of fair value and is classified as Level 2. We do not make policy loans for amounts in excess of the cash surrender value of the related policy. In all instances, the policy loans are fully collateralized by the related liability for future policy benefits for traditional insurance policies or by the policyholders' account balance for non-traditional policies.
Our other long-term investments consist primarily of our interests in limited liability partnerships that are recorded on the equity method of accounting. The fair value of the partnerships is obtained from the fund managers, which is based on the fair value of the underlying investments held in the partnerships. In management's opinion, these values represent a reasonable estimate of fair value. We have not adjusted the net asset value provided by the fund managers.
For cash and cash equivalents and accrued investment income, carrying value is a reasonable estimate of fair value due to the short-term nature of these financial instruments.

Policy reserves are developed and recorded for deferred annuities, which is an interest-sensitive product, and income annuities. The fair value of the reserve liability for these annuity products is based upon an estimate of the discounted pretax cash flows that are forecast for the underlying business, which is a Level 3 fair value measurement. We base the discount rate on the current U.S. Treasury spot yield curve, which is then risk-adjusted for nonperformance risk and, for interest-sensitive business and market risk factors. The risk-adjusted discount rate is developed using interest rates that are available in the market and representative of the risks applicable to the underlying business.

The Company formed a rabbi trust in 2014 to fund obligations under the United Fire & Casualty Company Non-qualified Deferred Compensation Plan and United Fire Group Supplemental Executive Retirement and Deferral Plan (collectively, the "Executive Retirement Plans"). Within the rabbi trust, corporate-owned life insurance ("COLI") policies are utilized as an investment vehicle and source of funding for the Company's Executive Retirement Plans. The COLI policies invest in mutual funds, which are priced daily by independent sources. As of March 31, 2017, the cash surrender value of the COLI policies was $3,000, which is equal to the fair value measured using Level 2 inputs, based on the underlying assets of the COLI policies, and is included in other assets in the Consolidated Balance Sheets.

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A summary of the carrying value and estimated fair value of our financial instruments at March 31, 2017 and December 31, 2016 is as follows:

	March 31, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets				
Investments				
Fixed maturities:				
Held-to-maturity securities	$196	$195	$199	$198
Available-for-sale securities	2,932,188	2,932,188	2,898,126	2,898,126
Trading securities	14,971	14,971	14,390	14,390
Equity securities:				
Available-for-sale securities	275,684	275,684	270,416	270,416
Trading securities	6,183	6,183	5,644	5,644
Mortgage loans	3,817	3,640	3,895	3,706
Policy loans	5,396	5,396	5,366	5,366
Other long-term investments	67,024	67,024	67,639	67,639
Short-term investments	175	175	175	175
Cash and cash equivalents	93,656	93,656	110,853	110,853
Corporate-owned life insurance	3,000	3,000	2,592	2,592
Liabilities				
Policy reserves				
Annuity (accumulations) (1)	$640,973	$649,395	$646,764	$666,711
Annuity (benefit payments)	142,968	94,385	144,283	95,129

(1) Annuity accumulations represent deferred annuity contracts that are currently earning interest.

The following tables present the categorization for our financial instruments measured at fair value on a recurring basis in our Consolidated Balance Sheets at March 31, 2017 and December 31, 2016:

March 31, 2017		Fair Value Measurements		
Description	Total	Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$22,115	$ —	$22,115	$ —
U.S. government agency	71,659	—	71,659	—
States, municipalities and political subdivisions				
General obligations				
Midwest	134,511	—	134,511	—
Northeast	57,106	—	57,106	—
South	143,523	—	143,523	—
West	122,745	—	122,745	—
Special revenue				
Midwest	166,875	—	166,707	168
Northeast	70,724	—	70,724	—
South	254,901	—	254,901	—
West	146,374	—	146,374	—
Foreign bonds	61,371	—	61,371	—

Public utilities	214,972	—	214,972	—
Corporate bonds				

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Energy	105,191	—	105,191	—
Industrials	226,995	—	226,995	—
Consumer goods and services	180,401	—	179,342	1,059
Health care	77,953	—	77,953	—
Technology, media and telecommunications	144,975	—	144,975	—
Financial services	276,879	—	268,444	8,435
Mortgage-backed securities	16,282	—	16,282	—
Collateralized mortgage obligations				
Government national mortgage association	155,586	—	155,586	—
Federal home loan mortgage corporation	176,485	—	176,485	—
Federal national mortgage association	100,237	—	100,237	—
Asset-backed securities	4,328	—	3,872	456
Total Available-for-Sale Fixed Maturities	$2,932,188	$—	$2,922,070	$10,118
Equity securities:				
Common stocks				
Public utilities	$20,960	$20,960	$—	$—
Energy	14,313	14,313	—	—
Industrials	55,329	55,329	—	—
Consumer goods and services	25,282	25,282	—	—
Health care	29,828	29,828	—	—
Technology, media and telecommunications	15,305	15,305	—	—
Financial services	113,606	109,483	—	4,123
Nonredeemable preferred stocks	1,061	466	—	595
Total Available-for-Sale Equity Securities	$275,684	$270,966	$—	$4,718
Total Available-for-Sale Securities	$3,207,872	$270,966	$2,922,070	$14,836
TRADING				
Fixed maturities:				
Corporate bonds				
Industrials	$3,761	$—	$3,761	$—
Consumer goods and services	143	—	143	—
Health care	3,597	—	3,597	—
Technology, media and telecommunications	1,195	—	1,195	—
Financial services	4,567	—	4,567	—
Asset-backed securities	—	—	—	—
Redeemable preferred stocks	1,708	1,708	—	—
Equity securities:				
Public utilities	621	621	—	—
Energy	231	231	—	—
Industrials	897	897	—	—

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Consumer goods and services	1,168	1,168	—	—
Health care	366	366	—	—
Financial services	220	220	—	—
Nonredeemable preferred stocks	2,680	2,680	—	—
Total Trading Securities	$21,154	$7,891	$13,263	$—
Short-Term Investments	$175	$175	$—	$—
Money Market Accounts	$19,124	$19,124	$—	$—
Corporate-Owned Life Insurance	$3,000	$—	$3,000	$—
Total Assets Measured at Fair Value	$3,251,325	$298,156	$2,938,333	$14,836

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December 31, 2016		Fair Value Measurements		
Description	Total	Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$23,195	$ —	$23,195	$ —
U.S. government agency	77,597	—	77,597	—
States, municipalities and political subdivisions				
General obligations				
Midwest	144,143	—	144,143	—
Northeast	58,409	—	58,409	—
South	128,369	—	128,369	—
West	113,731	—	113,731	—
Special revenue				
Midwest	168,310	—	168,142	168
Northeast	68,065	—	68,065	—
South	239,187	—	239,187	—
West	131,744	—	131,744	—
Foreign bonds	65,234	—	65,234	—
Public utilities	215,674	—	215,674	—
Corporate bonds				