NATIONAL WESTERN LIFE INSURANCE CO
Form 10-K/A
October 08, 2010

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

FORM 10-K/A
Amendment No. 1

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

For the Fiscal Year Ended December 31, 2009

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

For the transition period from to

Commission File Number: 2-17039

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

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

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

(512) 836-1010
(Telephone Number)

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class to be so registered:	Name of each exchange on which each class is to be registered:
Class A Common Stock, $1.00 par value	The NASDAQ Stock Market LLC

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

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

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

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

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

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

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

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

The aggregate market value of the common stock (based upon the closing price) held by non-affiliates of the Registrant on June 30, 2009 was $399,981,531.

As of March 11, 2010, the number of shares of Registrant's common stock outstanding was: Class A - 3,425,966 and Class B - 200,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for the annual meeting of shareholders held June 29, 2010, are incorporated by reference into Part III of this report.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (“Amendment”) amends National Western Life Insurance Company’s (the “Company”) previously filed Annual Report on Form 10-K for the fiscal year ended December 31, 2009 as filed on March 16, 2010 (“Original Filing”). This Amendment is being filed to reflect the changes made in response to a comment letter received by the Company from the Staff of the Securities and Exchange Commission (SEC) in connection with the Staff’s review of the Company’s Annual Report and Proxy Statement on Schedule 14A. The Company’s consolidated balance sheets and consolidated statements of earnings for the periods presented have not been restated from the consolidated balance sheets and consolidated statements of earnings reported in the Original Filing. The Company is only filing the items of its Annual Report that have been revised in response to the Staff’s comment letter and all other information in the Annual Report remains unchanged. Accordingly, this Amendment should be read in conjunction with the Annual Report in the Original Filing. Pursuant to the Rules of the SEC, currently dated certifications from the Company’s Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed or furnished herewith, as applicable.

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

Forward-Looking Statements

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

Management's discussion and analysis of financial condition and results of operations ("MD&A") of National Western Life Insurance Company for the three years ended December 31, 2009 follows. This discussion should be read in conjunction with the Company's consolidated financial statements and related notes beginning on page 60 of this report.

Overview

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

Due to the business of accepting funds to pay future obligations in later years and the underlying economics, the relevant factors affecting the Company's business and profitability include the following:

- the level of sales and premium revenues collected
- persistency of policies and contracts
- returns on investments sufficient to produce acceptable spread margins over interest crediting rates
- investment credit quality which minimizes the risk of default or impairment
- levels of policy benefits and costs to acquire business
- the level of operating expenses
- effect of interest rate changes on revenues and investments including asset and liability matching
- maintaining adequate levels of capital and surplus
- actual levels of surrenders, withdrawals, claims and interest spreads and changes in assumptions for amortization of deferred policy acquisition expenses and deferred sales inducements
- changes in the fair value of derivative index options and embedded derivatives pertaining to fixed-index life and annuity products

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item 7 includes these indicators and presents information useful to an overall understanding of the Company's business performance in 2009, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.

Critical Accounting Policies

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

Impairment of Investment Securities. The Company's accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the reasons for the decline in value (credit event, interest rate related, credit spread widening), (c) the overall financial condition as well as the near-term prospects of the issuer, (d) whether the debtor is current on contractually obligated principal and interest payments, and (e) the Company does not intend to sell the investment prior to recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous purchase or prior impairment, then an other-than-temporary impairment charge is recognized. The Company would recognize impairment of securities due to changing interest rates or market dislocations only if the Company intended to sell the securities prior to recovery. When a security is deemed to be impaired a charge is recorded equal to the difference between the fair value and amortized cost basis of the security. In compliance with GAAP guidance the estimated credit versus the non-credit components are bifurcated, and the non-credit component reclassified as unrealized losses in other comprehensive income. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. However, the new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value.

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

DPAC is also subject to periodic recoverability and loss recognition testing. These tests ensure that the present value of future contract-related cash flows will support the capitalized DPAC balance to be amortized in the future. The present value of these cash flows, less the benefit reserve, is compared with the unamortized DPAC balance and if the DPAC balance is greater, the deficiency is charged to expense as a component of amortization and the asset balance is reduced to the recoverable amount. For more information about accounting for DPAC see Note 1, Summary of Significant Accounting Policies, of the consolidated financial statements.

Deferred Sales Inducements. Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DPAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability. For more information about accounting for DPAC see Note 1, Summary of Significant Accounting Policies, of the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

Impact of Recent Business Environment

The financial markets began experiencing stress during the second half of 2007 which significantly increased during 2008 and on into the first half of 2009. Volatility and disruption in the financial markets caused the availability and cost of credit to be materially affected. Consumer confidence declined in the face of depressed home prices, increasing foreclosures, and higher unemployment. Eventually, these factors precipitated a severe recession in many ways akin to the Great Depression.

This combination of economic conditions began to negatively impact our sales in 2008, particularly in the domestic life and international life segments. Although the financial markets and the economy began to show improvement in the latter half of 2009, international life insurance sales, as measured by placed annualized target premium, declined 15% from 2008 levels and domestic life insurance sales dropped 74%. Economic indicators are currently pointing toward the economy as having emerged from the trough of the recession and possibly toward a line of growth in the immediate future. However, high unemployment, massive Federal government budget deficits, instability in the European economic markets, and the threat of looming inflation make the prospects of future economic stability and prosperity anything but certain. Consequently, demand for our life insurance products may continue to be adversely impacted during this period of economic uncertainty. It is also uncertain what impact, if any, the current environment may have upon the incidence of claims, policy lapses, or surrenders of policies.

The economic backdrop did not have a similar influence on our annuity product sales. Annuity sales in 2009 increased 106% over the levels attained in 2008. Several factors may explain this outcome including: (1) during uncertain economic periods, consumers follow a flight to safety toward lower risk assets such as annuity products; (2) the

Company's strong financial position, upgrade in financial strength rating from A.M. Best during the year and ample capital resources enhanced our presence in the annuity marketplace with independent distributors and end market consumers; and (3) many of the Company's competitors incurred reductions in their capital base due to a deterioration in the quality of their investment portfolios, including investment impairments and losses, which caused them to curtail sales activity and recruitment of independent distribution. Despite the growth in annuity sales, it is unclear what effect ongoing economic challenges may have upon future business levels.

The fixed income markets, our primary investment source, have experienced a high level of turmoil and constrained market liquidity conditions. Recently, there have been some improvements in this market although the low interest rate environment and tightening of interest spreads over U.S. treasury investment rates present a different set of tests. Credit downgrades of fixed income instruments by rating agencies were fairly prevalent during the first nine months of calendar 2009 with the fourth quarter producing much less activity in this regard. Market analysts generally anticipate events of default to continue into 2010 with moderation occurring during the second half of the year. The Company has experienced minimal impairment and degradation of quality in its fixed income holdings thus far although future events may not produce the same success in this regard.

These volatile market conditions have also increased the difficulty of valuing certain securities as trading is less frequent and/or market data is less observable. Certain securities that were in active markets with significant observable data became illiquid due to the current financial environment resulting in valuations that require greater estimation and judgment as well as valuation methods which are more complex. Such valuations may not ultimately be realizable in a market transaction and may change very rapidly as market conditions change and valuation assumptions need to be modified. Some market sectors remain dislocated with market valuations not indicative of true economic value.

Credit spreads (difference between bond yields and risk-free interest rates) on fixed maturity securities increased markedly during 2008 given the market conditions but tightened throughout 2009 and on into 2010. While the increase in credit spreads in 2008 and early in 2009 generated higher yields making our products more attractive to consumers, the subsequent spread tightening caused investment yields to fall dramatically. The lower investment yields not only cause the Company’s products to appear less appealing to consumers but also require skillful management of the Company’s earnings margin relative to minimum interest guarantee levels. It also caused us to hold a higher amount of cash and short-term investments at very low interest rates while portfolio managers searched for investment securities meeting the Company’s criteria for quality, diversification, duration and yield.

Our operating strategy is to maintain capital levels substantially above regulatory and rating agency requirements. While not significant, our capital levels incurred declinations for impairment losses on investments during 2008 and 2009. Despite these modest reductions in capital, the Company maintains resources more than adequate to fund future growth and absorb abnormal periods of cash outflows.

RESULTS OF OPERATIONS

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

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Consolidated Operations

Revenues. The following details Company revenues:

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Universal life and annuity contract charges	$145,651	133,424	119,677
Traditional life and annuity premiums	17,043	17,752	19,513
Net investment income (excluding derivatives)	348,186	339,038	334,799
Other revenues	17,348	12,769	13,683
Operating revenues	528,228	502,983	487,672
Derivative income (loss)	45,345	(65,676)	(16,662)
Net realized investment (losses) gains	(5,167)	(26,228)	3,497
Total revenues	$568,406	411,079	474,507

Universal life and annuity contract revenues - Revenues for universal life and annuity contract revenues increased 9.2% in 2009 compared to 2008. Revenues for these products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums. Cost of insurance charges were $83.6 million in 2009 compared to $82.9 million in 2008 and $74.3 million in 2007. Administrative charges were $25.4 million, $25.0 million and $20.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. Surrender charges assessed against policyholder account balances upon withdrawal were $50.0 million in 2009 compared to $39.1 million in 2008 and $33.4 million in 2007.

Traditional life and annuity premiums - Traditional life and annuity premiums decreased 4.0% in 2009 compared to 2008. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. The Company's life insurance sales focus has been primarily centered around universal life products. Universal life products, especially the Company's equity indexed universal life products, offer the opportunity for consumers to acquire life insurance protection and receive credited interest linked in part to an outside market index such as the S&P 500 Index®.

Net investment income (with and without derivatives) - A detail of net investment income is provided below.

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Gross investment income:			
Debt securities	$332,207	321,234	315,271
Mortgage loans	6,346	7,223	8,513
Policy loans	5,901	6,096	6,302
Short-term investments	116	956	1,496
Other investments	6,982	5,934	6,087
Total investment income	351,552	341,443	337,669
Less: investment expenses	3,366	2,405	2,870

Net investment income (excluding derivatives)	348,186	339,038	334,799
Derivative income (loss)	45,345	(65,676)	(16,662)
Net investment income	$393,531	273,362	318,137

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Investment grade debt securities generated approximately 95.4% of net investment income, excluding derivatives, in 2009. The decrease in short-term investment income in 2009 is attributable to the very low interest rates available on money market funds during all of 2009. Interest income earned on other investments increased due to new investments in collateralized loans made during the second half of 2009.

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

	Years Ended December 31,		
	2009	2008	2007
	(In thousands except percentages)		
Excluding derivatives:			
Net investment income	$348,186	339,038	334,799
Average invested assets, at amortized cost	$6,056,042	5,762,688	5,732,212
Yield on average invested assets	5.75 %	5.88 %	5.84 %
Including derivatives:			
Net investment income	$393,531	273,362	318,137
Average invested assets, at amortized cost	$6,083,722	5,814,439	5,789,502
Yield on average invested assets	6.47 %	4.70 %	5.50 %

The average invested asset yield, excluding derivatives, decreased in 2009 due to the Company obtaining lower yields on newly invested cash inflows. The Company invests substantially most of its net cash flows in debt securities whose yields fell during 2009 with the decline in U.S. Treasury yields. Although the Company's average credit spread on debt securities purchased for insurance operations widened to approximately 270 basis points during 2009 from 240 basis points in 2008, the overall drop in interest rate levels more than offset the incremental spread on new investments. The average invested asset yield, including derivatives, increased due to the recovery in the equity markets during 2009. Refer to the derivatives discussion following this section for a more detailed explanation.

Other revenues - Other revenues consists primarily of gross income associated with nursing home operations of $15.7 million, $12.5 million and $12.6 million in 2009, 2008 and 2007, respectively. In addition, the Company received $0.5 million related to lawsuit settlements during 2007.

Derivative income (loss) - Index options are derivative financial instruments used to fully hedge the equity return component of the Company's fixed-indexed products, which were first introduced for sale in 1997. In 2002, the Company began selling a fixed-indexed universal life product in addition to its fixed-indexed annuities. Any income or loss from the sale or expiration of the options, as well as period-to-period changes in fair values, are reflected as a component of net investment income.

Income and losses from index options are due to market conditions. Index options are intended to act as hedges to match the returns on the product's underlying reference index and the rise or decline in the index causes option values to likewise rise or decline. The Company does not elect hedge accounting relative to these derivative instruments. While income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company's fixed-indexed products also fluctuates in a similar manner and direction. In 2009, the reference indices increased and the Company recorded income from index options and likewise increased contract interest expenses. In 2008 and 2007, the reference indices decreased resulting in index option losses and a reduction in contract interest expenses.

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The table below summarized the derivate income (loss) amounts and total contract interest by year.

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Derivatives:			
Unrealized income (loss)	$93,085	(17,480)	(56,204)
Realized income (loss)	(47,740)	(48,196)	39,542
Total income (loss) included in net investment income	$45,345	(65,676)	(16,662)
Total contract interest	$242,816	138,960	164,391

Net realized investment (losses) gains - Realized losses on investments have primarily resulted from impairment write-downs on investments in debt securities and valuation allowances recorded on mortgage loans. The net losses reported in 2009 of $5.2 million consisted of gross gains of $2.2 million primarily from calls and sales of debt securities, offset by gross losses of $7.4 million, which includes other-than-temporary impairment losses.

The Company records impairment write-downs when a decline in value is considered to be other-than-temporary and full recovery of the investment is not expected. Impairment write-downs are summarized in the following table.

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Impairment or valuation write-downs:			
Bonds	$5,105	21,803	67
Equities	416	5,412	-
Mortgage loans	1,461	1,020	1,467
	$6,982	28,235	1,534

Due to events providing evidence of a significant deterioration in the issuers' credit worthiness, one security was transferred from the held to maturity to the available for sale classification, and was ultimately sold.

The equity impairments represent mark-to-market write-downs on various equity holdings. In addition, the 2008 amount includes Fannie Mae and Freddie Mac preferred stock impairments of $4.6 million.

The mortgage loan valuation writedown in 2009 relates to a property located in Steubenville, Ohio. The writedown in 2008 principally involves a property located in Ft. Smith, Arkansas. The 2007 mortgage loan valuation writedown involves a New Orleans, Louisiana property whose value was negatively impacted by Hurricane Katrina.

Benefits and Expenses. The following details benefits and expenses.

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Life and other policy benefits	$48,997	39,759	41,326

Amortization of deferred policy acquisition costs	115,163	127,161	88,413
Universal life and annuity contract interest	242,816	138,960	164,391
Other operating expenses	92,192	55,630	55,130
Totals	$499,168	361,510	349,260

Life and other policy benefits - Life and other policy benefits include death claims of $30.2 million, $29.6 million and $28.5 million for 2009, 2008 and 2007, respectively.

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The Company is implementing new actuarial reserving systems that will enhance its ability to provide estimates used in establishing future policy liabilities, monitor the deferred acquisition cost asset and the deferred sales inducement asset as well as support other actuarial processes within the Company. The Company is installing a vendor software product for use in calculating the GAAP reserve liability for future policy benefits of its products. The vendor system provides actuarial formula calculations producing refined estimates of reserves in accordance with GAAP. The previous reserving system produced estimated liabilities on state regulated actuarial formulas which were supplemented with adjustments in order to produce GAAP reserve estimates. The Company elected to purchase and install the new reserving system as growth in its lines of businesses created a need for more refined and controlled actuarial reserve computations in accordance with GAAP. The implementation of these new reserving systems for specific blocks of business began in the second quarter of 2009 and is expected to be completed in 2010. As the Company applies these new systems to a line of business, current reserving assumptions are reviewed and updated as appropriate. During the year ended December 31, 2009, loss recognition testing was performed on certain products that were converted to the new reserving system. As a result of the loss recognition testing, unlocking of historical assumptions resulted in an increase of $11.6 million in reserves and policy benefit expenses. Specifically, the Company unlocked assumptions for discount interest rates which accounted for $7.8 million of the increase as well as mortality assumptions which accounted for the remaining $3.8 million.

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

An unlocking adjustment was recorded in 2009 which resulted in an increase of amortization of $5.2 million. This unlocking adjustment was based upon changes to future mortality assumptions reflecting current experience studies and assumption changes regarding the level of future policy maintenance expenses. Mortality experience is monitored regularly and future mortality assumptions are unlocked when a continued trend in actual mortality experience deviates from current assumptions and is expected to continue. Although not a prediction of future impact, prior period mortality assumption unlocking has resulted in changes of the DPAC balance between $2 million and $(7.5) million in the period of the unlocking. Policy maintenance expenses are also reviewed regularly and future assumptions are unlocked when a continued trend in the actual policy maintenance expense deviates from the current assumptions. Although not a prediction of the impact of future changes the policy maintenance expense assumptions, similar unlocking of maintenance expense assumptions could result in DPAC balance changes between $1.5 million and $4.5 million.

An unlocking adjustment was also recorded in 2008 which resulted in an increase of amortization by $8.1 million. This unlocking adjustment was based upon assumption changes to future annuitizations and full surrenders reflecting current experience studies. An unlocking adjustment was recorded in 2007 which resulted in a decrease in amortization of $10.4 million. This unlocking adjustment was based upon changes to future mortality assumptions reflecting current experience studies and assumption changes to future cost of insurance rates. While the Company is required to evaluate its emergence of profits continually, management believes that the current amortization patterns of deferred policy acquisition costs are reflective of actual experience.

In accordance with GAAP guidance the Company writes off deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets upon internal replacement of certain contracts as well as annuitizations of deferred annuities.

The Company is required to periodically adjust for actual experience that varies from that assumed. True-up adjustments were recorded in 2009, 2008 and 2007 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience resulting in $8.4 million, $16.2 million, and $1.0 million increases in amortization, respectively.

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

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

	December 31,			December 31,		
	2009	2008	2007	2009	2008	2007
	(Excluding equity-indexed products)			(Including equity-indexed products)		
Annuity	2.83 %	3.01 %	3.41 %	4.11 %	2.42 %	2.84 %
Interest sensitive life	3.80 %	3.92 %	3.23 %	6.83 %	3.39 %	4.28 %

Contract interest includes the performance of the derivative component of the Company's equity-indexed products. As previously noted, the recent market performance of these derivative features increased contract interest expense in 2009 and 2007, and decreased contract interest expense in 2008, with corresponding offsetting effects in the Company's investment income given the hedge nature of the options. With these credited rates, the Company generally realized its targeted interest spread on its products.

Other operating expenses - Other operating expenses consist of general administrative expenses, legal costs, licenses and fees, commissions not subject to deferral, and expenses of nursing home operations. As discussed previously in Item 3. Legal Proceedings, and in reports on Form 8-K which the Company issued on February 9, 2010 and February 22, 2010, the Company is currently involved in various legal actions in the normal course of its business. In accordance with generally accepted accounting principles, the Company accrued $23.0 million during the year ended December 31, 2009 for potential future costs pertaining to these various matters.

During 2009, the Company started or accelerated major information system initiatives to enhance actuarial, accounting, policy acquisition, and policy administration processes. Non-capitalizable expenses associated with these various system development efforts were approximately $1.5 million higher than amounts incurred in 2008. Deprecation expense increased $0.9 million in association with new system implementations.

Guaranty fund assessment expenses increased to $0.5 million in 2009 from $0.3 million and $(0.2) million in 2008 and 2007, respectively.

Nursing home expenses amounted to $14.9 million, $11.4 million and $11.0 million in 2009, 2008 and 2007, respectively. The higher level of expenses during 2009 is primarily related to the start-up of operations of the Company’s second nursing home during 2009.

Compensation costs related to stock options totaled $1.6 million in 2009, $(1.4) million in 2008 and $(1.1) million in 2007 as a result of marking the options to fair value under the liability method of accounting.

Federal income taxes - Federal income taxes on earnings from continuing operations for 2009, 2008 and 2007 reflect effective tax rates of 34.3%, 32.1% and 31.8%, respectively, which are lower than the expected Federal rate of 35% primarily due to tax-exempt investment income related to investments in municipal securities and dividends-received deductions on income from stock investments.

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

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

Segment Operations

Summary of Segment Earnings

A summary of segment earnings from continuing operations for the years ended December 31, 2009, 2008 and 2007 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Totals
Segment earnings:					
2009	$426	14,663	25,460	8,294	48,843
2008	717	15,350	27,842	6,781	50,690
2007	342	20,179	56,299	6,278	83,098

Domestic Life Insurance Operations

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

	Years Ended December 31, 2009	2008 (In thousands)	2007
Premiums and other revenue:			
Premiums and contract charges	$34,414	27,919	25,879
Net investment income	19,498	20,254	18,863
Other revenues	25	20	41
Total premiums and other revenue	53,937	48,193	44,783
Benefits and expenses:			
Life and other policy benefits	13,884	14,478	14,922
Amortization of deferred policy acquisition costs and deferred sales inducements	16,423	12,416	7,998
Universal life insurance contract interest	9,014	9,171	9,463
Other operating expenses	13,968	11,057	11,898
Total benefits and expenses	53,289	47,122	44,281
Segment earnings before Federal income taxes	648	1,071	502
Federal income taxes	222	354	160
Segment earnings	$426	717	342

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

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
Universal life insurance revenues	$32,993	26,978	23,028
Traditional life insurance premiums	6,378	5,849	6,629
Reinsurance premiums	(4,957)	(4,908)	(3,778)
Totals	$34,414	27,919	25,879

The Company's premiums and contract revenues increased 23% from 2008 coinciding with sales growth in recent years of domestic life products. It is the Company's marketing plan to increase domestic life product sales through increased recruiting, new distribution and the development of new life insurance products. The Company had approximately 7,300 contracted agents as of December 31, 2009, an increase of 3,000 contracted agents from December 31, 2008.

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

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
Universal life insurance:			
First year and single premiums	$13,640	15,272	15,592
Renewal premiums	21,978	19,948	16,639
Totals	$35,618	35,220	32,231

Net investment income decreased slightly to $19.5 million in 2009 as compared to $20.3 million in 2008 and $18.9 million in 2007, due to lower investment yields from debt security investment purchases backing the obligations of the line of business.

Policy benefits in 2009, 2008 and 2007 were consistent with Company expectations. Other operating expenses were $2.9 million higher in 2009 reflecting the factors discussed in the other operating expense section of consolidated operations above.

During the current year, unlocking of the projected universal life per policy maintenance expense and projected mortality assumptions decreased the DPAC asset balance and increased life DPAC amortization by $2.7 million. Current year true-up adjustments increased amortization expense by $1.9 million. No unlocking adjustments were recorded in 2008. True-up adjustments increased DPAC amortization $1.4 million for the year. During 2007, the Company recorded an unlocking adjustment for changes in mortality assumptions which reduced the DPAC asset and increased DPAC amortization expense by $2.2 million. True-up adjustments increased DPAC amortization expense by $0.6 million.

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International Life Insurance Operations

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

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Premiums and other revenue:			
Premiums and contract charges	$104,016	97,661	88,782
Net investment income	44,540	17,350	24,690
Other revenues	68	62	126
Total premiums and other revenue	148,624	115,073	113,598
Benefits and expenses:			
Life and other policy benefits	19,522	21,292	22,810
Amortization of deferred policy acquisition costs and deferred sales inducements	41,849	37,525	24,959
Universal life insurance contract interest	45,868	16,803	20,993
Other operating expenses	19,048	16,502	15,271
Total benefits and expenses	126,287	92,122	84,033
Segment earnings before Federal income taxes	22,337	22,951	29,565
Federal income taxes	7,674	7,601	9,386
Segment earnings	$14,663	15,350	20,179

In general, as the amount of international life insurance in force grows, the Company anticipates operating earnings to increase as well. The amount of international life insurance in force grew from $14.8 billion at December 31, 2007 to $15.9 billion at December 31, 2008. However, international life insurance in force declined slightly to $15.7 billion at December 31, 2009, in reaction to the U.S. financial market crisis.

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

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Universal life insurance revenues	$106,601	98,458	85,633
Traditional life insurance premiums	13,113	14,727	15,692
Reinsurance premiums	(15,698)	(15,524)	(12,543)
Totals	$104,016	97,661	88,782

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

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Universal life insurance			
First year and single premiums	$35,147	39,257	44,426
Renewal premiums	102,403	96,456	91,621
Totals	$137,550	135,713	136,047

The Company's international life operations historically have been a significant factor in the Company's overall earnings performance and represent a market niche where the Company believes it has a competitive advantage. A productive agency force has been developed given the Company's longstanding reputation for supporting its international life products coupled with the instability of competing companies in international markets. In particular, the Company has experienced growth with its fixed-indexed universal life products and has collected related premiums of $81.9 million, $78.5 million and $76.8 million for the years ended 2009, 2008 and 2007, respectively.

The appealing feature to a consumer purchasing a fixed-indexed universal life policy is the interest crediting component linked in part to an equity index. With the growth in this block of business, the period-to-period changes in fair values of the underlying options used to hedge this interest crediting feature have had an increasingly greater impact on net investment and contract interest. A detail of net investment income for international life insurance operations is provided below.

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Net investment income			
(excluding derivatives)	$34,130	28,687	26,519
Derivative income (loss)	10,410	(11,337)	(1,829)
Net investment income	$44,540	17,350	24,690

In 2009, the Company recorded an unlocking adjustment of $2.5 million relative to changes in projected universal life per policy maintenance expenses, and projected mortality assumptions, that reduced the DPAC asset and increased amortization expense. True-up adjustments of $1.5 million were also recorded that increased amortization expense. Amortization of deferred policy acquisition costs in 2008, were impacted as the Company recorded true-up adjustments that reduced the DPAC asset and increased amortization by $3.7 million. The Company recorded an unlocking adjustment benefit in 2007 totaling $9.0 million relative to improved mortality assumptions that resulted in an increase to the DPAC asset balance and a decrease in amortization expense. In addition, a true-up adjustment of $1.7 million was also recorded in 2007 resulting in a decrease to amortization. Offsetting the decrease to 2007 amortization for the unlocking and true-up adjustments was an increase in amortization due primarily to the application of new GAAP guidance in 2007 which required the write-off of deferred balances on contracts considered substantially changed. These balances were previously carried and amortized over the projected life of the contract.

Contract interest expense includes fluctuations that are the result of underlying equity indices performance relative to the equity-indexed universal life products. The associated stock market gains (losses) increase (decrease) the amounts the Company credits to policyholders. With the recovery in the equity markets during 2009, the segment reported significant increases in net investment income and contract interest expense. For more details about the Company's use of index options to hedge equity indices performance refer to the derivative income (loss) discussion in the Consolidated Operations section of Item 7.

Other operating expenses reported in 2009 were 15.4% higher compared to 2008, reflecting the factors discussed in the other operating expense section of Consolidated Operations previously.

Annuity Operations

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

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Premiums and other revenue:			
Premiums and contract charges	$24,264	25,596	24,529
Net investment income	317,703	226,683	266,953
Other revenues	1,535	232	920
Total premiums and other revenue	343,502	252,511	292,402
Benefits and expenses:			
Life and other policy benefits	15,666	3,990	3,594
Amortization of deferred policy acquisition costs and deferred sales inducements	56,891	77,219	55,456
Annuity contract interest	187,934	112,986	133,935
Other operating expenses	44,227	16,685	16,931
Total benefits and expenses	304,718	210,880	209,916
Segment earnings before Federal income taxes	38,784	41,631	82,486
Federal income taxes	13,324	13,789	26,187
Segment earnings	$25,460	27,842	56,299

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

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Surrender charges	$21,302	20,502	20,238
Payout annuity and other revenues	2,941	5,071	4,263
Traditional annuity premiums	21	23	28
Totals	$24,264	25,596	24,529

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

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
Fixed-indexed annuities	$488,352	281,649	316,848
Other deferred annuities	325,959	121,319	116,280
Immediate annuities	23,266	7,165	4,637
Totals	$837,577	410,133	437,765

Fixed-indexed products are more attractive for consumers when interest rate levels remain low and equity markets produce positive returns. Fixed-indexed annuity deposits as a percentage of total annuity deposits recorded were 58.4%, 68.7% and 72.4% for the years ended December 31, 2009, 2008 and 2007, respectively, with the equity market turmoil accounting for the declining percentage during this period. Since the Company does not offer variable products or mutual funds, fixed-indexed products provide an important alternative to the Company's existing fixed interest rate annuity products. Although fixed-indexed sales declined as a percent of overall annuity sales, the recovery of the equity markets during 2009 was a contributing factor to the 73.4% increase in fixed index annuity sales. The 225% increase in immediate annuities sales is reflective of consumers shift in risk tolerance to guaranteed performance and payouts offered by these types of annuities. Other factors contributing to the increase in both fixed-indexed and other deferred annuities sales include the increase in contracted agents during the year and competitors having to slow down their acceptance of new business in order to maintain solvency ratios. Due to the Company’s strong capital and high solvency ratios, the Company was able to continue to accept new business without any constraints.

Other deferred annuity deposits increased 169% in 2009 compared to 2008. These product sales had been trending lower over the past few years due to low interest rates and investor preferences. As a selling inducement, many annuity products include a first year premium or interest rate bonus in addition to the base first year deposit interest rate. These bonuses are credited to the policyholder account but are deferred by the Company and amortized over future periods. The amount deferred was approximately $36.8 million, $19.4 million and $20.8 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Net investment income (excluding derivatives)	$284,149	279,925	281,553
Derivative income (loss)	33,554	(53,242)	(14,600)
Net investment income	$317,703	226,683	266,953

As previously described, derivatives are used to hedge the equity return component of the Company's fixed-indexed annuity products with any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, reflected in net investment income. Derivative income and losses fluctuate from period to period based on the performance of the indices underlying fixed-indexed products.

The Company is implementing new actuarial reserving systems that will enhance its ability to provide estimates used in establishing future policy liabilities, monitor the deferred acquisition cost asset and the deferred sales inducement asset as well as support other actuarial processes within the Company. The implementation of these new reserving systems for specific blocks of business began in the second quarter of 2009 and is expected to be completed in 2010. As the Company applies these new systems to a line of business, current reserving assumptions are reviewed and updated as appropriate. During the year ended December 31, 2009, loss recognition testing was performed on certain products that were converted to the new reserving system. As a result of the loss recognition testing, unlocking of historical assumptions resulted in an increase of $11.6 million in reserves and policy benefit expenses.

With respect to deferred policy acquisition costs, the Company is required to periodically adjust for actual experience that varies from that assumed. A true-up of assumptions in 2009 resulted in increased amortization of deferred policy acquisition costs of $5.1 million. During 2008, the Company recorded an unlocking adjustment of $8.1 million and a true-up adjustment of $11.1 million that together increased amortization by $19.2 million. During 2007 the Company recorded an unlocking adjustment of $1.8 million and true-up adjustments of $3.3 million resulting in decreased amortization of deferred acquisition costs. While management does not currently anticipate any impact from unlocking in 2010, facts and circumstances may arise in the future which require that the factors be reexamined.

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

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Fixed-indexed annuities	$150,062	42,224	50,743
All other annuities	60,891	74,596	94,632
Gross contract interest	210,953	116,820	145,375
Bonus interest deferred and capitalized	(36,747)	(19,442)	(20,796)
Bonus interest amortization	13,728	15,608	9,356
Total contract interest	$187,934	112,986	133,935

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

Other operating expenses in 2009 were $27.5 million higher compared to 2008 primarily due to various legal actions that arose in the normal course of business over the past several years. In accordance with generally accepted accounting principles, the Company accrued $23.0 million during 2009 pertaining to these various matters and for potential future costs. The balance of the increase in operating expenses reflects the other factors previously discussed in the Other Operating Expenses section of consolidated operations.

Other Operations

National Western's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, the Company also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Most of the income from the Company's subsidiaries is from a life interest in a trust. Gross income distributions from the trust totaled $3.9 million in 2009 and $4.1 million in both 2008 and 2007.

The Company owns two nursing home facilities which are operated by affiliated entities, whose financial operating results are consolidated with those of the Company. Daily operations and management of the nursing homes are performed by an experienced management company through a contract with the limited partnership. Nursing home operations generated $0.8 million, $1.1 million and $1.6 million of operating earnings in 2009, 2008 and 2007, respectively. The lower level of earnings in 2009 is primarily related to start-up costs associated with the opening of the Company’s second nursing home during the year.

INVESTMENTS

General

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

The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below as of December 31, 2009 and 2008. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans.

	2009			2008		
		Carrying Value (In thousands)	%		Carrying Value (In thousands)	%
Debt securities	$	6,212,726	95.2	$	5,563,000	96.3
Mortgage loans		98,200	1.5		90,733	1.6
Policy loans		78,336	1.2		79,277	1.4
Derivatives, index options		89,915	1.4		11,920	0.2
Equity securities		14,014	0.2		13,683	0.2
Real estate		20,056	0.3		10,828	0.2
Other		12,773	0.2		3,340	0.1
Totals	$	6,526,020	100.0	$	5,772,781	100.0

Debt and Equity Securities

The Company maintains a diversified portfolio which consists mostly of corporate, mortgage-backed, and public utility fixed income securities. Investments in mortgage-backed securities primarily include U.S. government agency pass-through securities and collateralized mortgage obligations ("CMO"). The Company's investment guidelines prescribe limitations by type of security as a percent of the total investment portfolio and all holdings were within these threshold limits. As of December 31, the Company's debt securities portfolio consisted of the following:

	2009			2008		
		Carrying Value (In thousands)	%		Carrying Value (In thousands)	%
Corporate	$	2,921,425	47.0	$	2,453,404	44.0
Mortgage-backed securities		1,967,303	31.7		2,001,060	