AMERICAN NATIONAL INSURANCE CO /TX/
Form 10-K
March 02, 2011

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

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2010
or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File No. 001-34280
American National Insurance Company
(Exact name of registrant as specified in its charter)

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

One Moody Plaza
Galveston, Texas 77550-7999
(Address of principal executive offices) (Zip Code)
(409) 763-4661
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	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. o Yes þ No

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

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. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. o

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

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

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

The aggregate market value on June 30, 2010 (the last business day of the registrant s most recently completed second fiscal quarter) of the voting stock held by non-affiliates of the registrant was approximately $555.8 million. For purposes of the determination of the above-stated amount, only directors, executive officers and 10% shareholders are presumed to be affiliates, but neither the registrant nor any such person concedes that they are affiliates of registrant.

As of February 28, 2011, there were 26,820,977 shares of the registrant s voting common stock, $1.00 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

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Forward-Looking Statements

Certain statements contained herein are forward-looking statements. The forward-looking statements contained herein are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and include estimates and assumptions related to economic, competitive and legislative developments. Forward looking statements may be identified by words such as expects, intends, anticipates, plans, believes, estimates, will or words o meaning; and include, but are not limited to, statements regarding the outlook of our business and financial performance. These forward-looking statements are subject to change and uncertainty, which are, in many instances, beyond our control and have been made based upon our expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations, or that the effect of future developments on us will be as anticipated. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. There are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements. These factors include among others:

- international economic and financial factors, including the performance and fluctuations of fixed income, equity, real estate, credit capital and other financial markets;
- interest rate fluctuations;
- estimates of our reserves for future policy benefits and claims;
- differences between actual experience regarding mortality, morbidity, persistency, surrender experience, interest rates or market returns, and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes;
- changes in our assumptions related to deferred policy acquisition costs;
- changes in our claims-paying or credit ratings;
- investment losses and defaults;
- competition in our product lines and for personnel;
- changes in tax law;
- regulatory or legislative changes;
- adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including and in connection with our divestiture or winding down of businesses;
- domestic or international military actions, natural or man-made disasters, including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life;
- ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks;
- effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions;
- changes in statutory or U.S. generally accepted accounting principles (GAAP) practices or policies; and
- changes in assumptions for retirement expense.

It has never been a matter of corporate policy for us to make specific projections relating to future earnings, and we do not endorse any projections regarding future performance made by others. Additionally, we do not publicly update or revise forward-looking statements based on the outcome of various foreseeable or unforeseeable events.

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PART I

ITEM 1. BUSINESS

Company Overview

American National Insurance Company has more than 100 years of experience. We have maintained our corporate headquarters in Galveston, Texas since our founding in 1905. Our core businesses are life insurance, annuities and property and casualty insurance. We also offer pension services and limited health insurance. Within our property and casualty business, we offer insurance for personal lines, agribusiness, and targeted commercial exposures. We provide personalized service to approximately eight million policyholders throughout the United States, the District of Columbia, Puerto Rico, Guam, and American Samoa. Our total assets and stockholders equity as of December 31, 2010 were $21.4 billion and $3.6 billion, respectively.

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

Business Strategy

We are an insurance company with a vision to be a leading provider of financial products and services for current and future generations. For more than a century, we have maintained a conservative business approach and unique corporate culture. We have an unwavering commitment to serve agent, policyholder, and shareholder needs by providing excellent customer service and competitively priced and diversified products. We are committed to profitable growth, which enables us to remain financially strong. Acquisitions that are strategic and that offer synergies are considered, but they are not our primary source of growth. Rather, we invest in our distribution channels and markets to fuel internal growth.

We are committed to excellence and maintaining high ethical standards in all our business dealings. Disciplined adherence to our core values has allowed us to deliver consistently high levels of customer service through talented people, who are at the heart of our business.

Our Business Segments

Our family of companies includes six life insurance companies, eight property and casualty insurance companies, and numerous non-insurance subsidiaries. We operate the following five business segments:

- Life;
- Annuity;
- Health;
- Property and Casualty; and
- Corporate and Other.

Revenues for the Life, Annuity, Health, and Property and Casualty segments come primarily from premiums collected on the insurance policies we write. Revenues in the Corporate and Other segment come from investment income on unallocated capital, interest on debt, earnings from various investment-related transactions, and the operations of several non-strategic lines of business. Financial information, including revenues, expenses and income and loss per segment is provided below in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Each of our five business segments is discussed further below.

Life Segment

A life insurance policy is an agreement between an insurance company and an individual. The typical life insurance contract provides that, in exchange for one or more premium payments, the insurance company promises to pay at the death of the insured (or at another determined time if earlier), a sum of money to the beneficiary.

We provide the following products under our Life segment:

- Individual and group life insurance products, including universal life, variable universal life, whole life, and term life; and
- Credit life insurance.

Whole Life. Whole life products provide a guaranteed benefit upon the death of the insured in return for the periodic payment of a fixed premium over a predetermined period. Premium payments may be required for the entire life of the contract period, to a specified age or period, or may be level or change in accordance with a predetermined schedule. Whole life insurance includes policies that provide a participation feature in the form of dividends. Policyholders may receive dividends in cash or apply them to increase death benefits, increase cash values available upon surrender, or reduce the premiums required to maintain the contract in-force. Because the use of dividends is specified by the policyholder, this group of products provides significant flexibility to individuals to tailor the product to suit their specific needs and circumstances, while at the same time providing guaranteed benefits. Whole life products are sometimes referred to as ordinary life products.

Term Life. Term life provides a guaranteed benefit upon the death of the insured for a specified time period in return for the periodic payment of premiums. Coverage periods typically range from one year to thirty years, but in no event are they longer than the period over which premiums are paid. Term insurance products are sometimes referred to as pure protection products because there are typically no savings or investment elements. Term contracts expire without value at the end of the coverage period. Term life and whole life insurance are sometimes referred to as traditional life insurance products.

Variable Universal Life. Variable universal life products provide insurance coverage through a contract that gives the policyholder flexibility in investment choices and, depending on the product, in premium payments and coverage amounts. Variable life products allow the policyholder to direct its premiums and account balances into a variety of separate accounts or to our general account. In the separate accounts, the policyholder bears the investment risk. We collect specified fees for the management of these various investment accounts and any net return is credited directly to the policyholder s account. With some products, policyholders may have the advantage of guarantees that may protect the death benefit from adverse investment experience.

Universal Life. Universal life products provide insurance coverage on the same basis as variable life, except that premiums, and the resulting accumulated balances, are allocated only to our general account. Universal life products may allow the insured to increase or decrease the amount of death benefit coverage over the term of the contract and the owner to adjust the frequency and amount of premium payments. Universal life products are considered interest rate-sensitive. We credit premiums, net of insurance protection expenses and interest, at rates we determine, to an account maintained for the policyholder, subject to a specified minimum interest rate.

Credit Life Insurance. Credit insurance is sold in connection with a loan or other credit account and is designed to make payments to the lender for the borrower, if the borrower is unable to make payments. Credit life insurance products pay off the borrower s remaining debt on a loan or credit account if the borrower dies during the term of coverage.

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Annuity Segment

A popular choice in retirement planning, an annuity is any type of periodic (generally monthly) payment made to an individual, called the annuitant. Payment options include lump sum, income for life, or income for a certain period of time.

We provide the following products under our Annuity segment, both to individuals and to institutional investors:

- Fixed annuities; and
- Variable annuities.

Fixed Annuities. Fixed annuities are used for both asset accumulation and asset distribution needs. Fixed annuities do not allow the same investment flexibility provided by variable annuities, but they provide guarantees related to the preservation of principal and interest credited. Deposits made into immediate and deferred annuity contracts are allocated to our general account and are credited with interest at rates we determine, subject to certain minimums. For most deferred contracts, credited interest rates are guaranteed not to change for certain limited periods of time, ranging from one to ten years. Fixed immediate annuities provide a guaranteed monthly income for a specified period and/or during the lifetime of the annuitant. Our fixed annuity products include single premium immediate annuities, deferred annuities and equity-indexed annuities, among others.

Single Premium Immediate Annuity (SPIA). A single premium immediate annuity is an annuity purchased by one premium payment, providing a periodic (usually monthly or annual) income payment to the owner of the annuity for a specified period, such as for the remainder of the annuitant s life. Generally, once the payments of an immediate annuity have begun, the contract cannot be revised or cashed in, and there is no return of part or all of the original deposit. Annuity payments are usually fixed for the payment period, although it may increase at a predetermined rate, depending upon the terms of the contract.

Deferred Annuity. A deferred annuity is an asset accumulation product. Premiums were received either as a single payment, Single Premium Deferred Annuity, or as multiple payments, Flexible Premium Deferred Annuity. The payments are credited with interest at our determined rates, subject to policy minimums. Deferred annuities usually have surrender charges that apply beginning at issue and grade off over time. Deferred annuities sometimes have Market Value Adjustments that can have a positive or negative effect on any surrender value that is paid, depending on the relationship of interest rates when the product was sold as compared to interest rates when the policy is surrendered. If not surrendered, the proceeds of the deferred annuity can be converted to an income stream similar to those available under SPIA contracts.

Equity- Indexed Deferred Annuity. Equity-indexed deferred annuities are deferred annuities, meaning that payment of the annuity is not scheduled to commence until a future date. With an equity-indexed deferred annuity, a minimum interest rate is credited at the rates required by state insurance law. Any additional interest credited is typically tied to the performance of a particular stock market index, such as the S&P 500. Crediting of the additional interest, however, may be limited by caps or participation rates prescribed by the particular product.

Variable Annuities. We offer variable annuities for both asset accumulation and asset distribution needs. Variable annuities allow the contract holder to make deposits into various investment accounts, as determined by the contract holder. The investment accounts are separate accounts, and risks associated with such investments are borne entirely by the contract holder. In certain variable annuity products, contract holders may also choose to allocate all or a portion of their account to our general account and are credited with interest at rates we determine, subject to certain minimums. In addition, contract holders may also elect minimum death benefits or enhanced death benefits under certain contracts, for which additional fees are charged.

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Health Segment

Health insurance provides coverage that protects against the loss of life, loss of earnings, or expenses incurred due to illness or injury.

We provide the following types of products under our Health segment:

- Medicare Supplement;
- Supplemental insurance;
- Medical Expense;
- Stop-loss; and
- Credit disability.

Medicare Supplement. Medicare Supplement insurance is a type of private health insurance policy designed to supplement or pick up the costs of certain medical services not covered by Medicare. This coverage is also known as gap coverage or Medigap coverage.

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

Medical Expense. Medical expense insurance covers most health expenses including hospitalization, surgery and outpatient services (excluding dental and vision costs). Although we discontinued sales of the coverage in June 2010, it continues to affect our operating results.

Stop-Loss. Stop-loss coverage is used by employers to limit their exposure under self-insurance medical plans. There are two coverage types available, which are usually offered concurrently:

Specific Stop-Loss. Specific stop loss coverage is initiated when claims for an individual reach the threshold selected by the employer. After the threshold is reached, a stop-loss policy reimburses claims paid by the employer up to the lifetime limit per individual.

Aggregate Stop-Loss. Aggregate stop-loss coverage is designed to reimburse the employer once the group s total paid claims reach the stipulated threshold.

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

Property and Casualty Segment

Property insurance provides protection against loss or damage to real or personal property due to fire, windstorm, flood, hail, and other covered perils. Casualty insurance provides coverage for legal liabilities resulting from bodily injury or property damage resulting from an accident caused by the insured.

We provide the following types of products under our Property and Casualty segment:

- Personal, including auto, homeowner and other;
- Commerical, including auto, agribusiness and other; and
- Credit property and casualty insurance.

Auto Insurance. Auto insurance provides coverage for specific risks involved in owning and operating an automobile, such as bodily injury, property damage, fire, theft and vandalism.

Homeowners Insurance. Homeowners insurance provides coverage that protects the insured s property against loss from theft, liability, and most common disasters.

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Other Personal. Other personal insurance provides coverage for other items of personal property not covered by auto and homeowners policies, including boat and RV s.

Agribusiness. Agribusiness insurance includes property and casualty coverage tailored for a farm, ranch or other agricultural business operations, contractors, and targeted businesses within the rural and suburban markets.

Other Commercial. Other commercial insurance encompasses property coverage, liability coverage, and workers compensation coverage.

Credit Property and Casualty Insurance. Through our Property and Casualty segment, we offer the following credit insurance products:

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

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

Corporate and Other Segment

Our Corporate and Other segment encompasses primarily our invested assets that are not used to support our insurance activities. It also includes our non-insurance subsidiaries, such as investment advisory products and services. This segment provides investment services to each of our other segments and to our non-insurance subsidiaries. Our invested assets include common and preferred stocks, bonds, commercial real estate and mortgages, and participations in private equity funds.

Our Marketing Channels

We conduct our sales operations through five marketing channels. Product distribution is aligned to satisfy specific target markets in such a way that channel conflict is minimized and key brand identities are maintained. Whenever possible, products are cross-sold by multiple marketing channels to maximize product offerings and return on investment in products and distribution. Our five marketing channels are:

- Independent Marketing Group/Direct Marketing;
- Career Sales and Services Division;
- Multiple-Line;
- Health/Senior Age Marketing Division; and
- Credit Insurance Division.

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The following table illustrates our marketing channels:

Segment	**Marketing Channels**	**Companies**	**Primary Means of Distribution**
Life	Independent Marketing Group/Direct Marketing; Multiple-line; Career Sales and Service Division; Health/Senior Age Marketing Division; Credit Insurance Division	American National Insurance Company; Farm Family Life Insurance Company; Standard Life and Accident Insurance Company	Independent agents; Employee agents; Dedicated agents; Internet, mail, print and broadcast media; General agents
Annuity	Independent Marketing Group/Direct Marketing; Multiple-line; Career Sales and Service Division; Health/Senior Age Marketing Division	American National Insurance Company; Standard Life and Accident Insurance Company; Farm Family Life Insurance Company; American National Life Insurance Company of New York	Independent agents; Employee agents; Exclusive agents
Health	Career Sales and Service Division; Health/Senior Age Marketing Division; Credit Insurance Division	American National Insurance Company; Standard Life and Accident Insurance Company; Farm Family Life Insurance Company	Employee agents; Exclusive agents; Independent agents; Managing general underwriters
Property and Casualty	Multiple-line; Credit Insurance Division	American National County Mutual Insurance Company ; The American National Property and Casualty Companies (ANPAC); ANPAC Louisiana Insurance Company; Pacific Property and Casualty Company; American National General Insurance Co.; American National Lloyds Insurance Co.; Farm Family Casualty Insurance Co.; United Farm Family Insurance Company	Exclusive agents; General agents; Independent agents

Financial information, including revenues, expenses, income and loss, and total assets by segment, is provided in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. Additional information regarding business segments may be found in Part II, Item 8, Financial Statements and Supplementary

Data.

Independent Marketing Group/ Direct Marketing

Independent Marketing Group distributes life insurance and annuities through independent agents, focusing on a higher-income and affluent marketplace, as well as targeted niche markets such as the small pension plan arena. Independent Marketing Group provides products, service, and concepts to clients in need of wealth protection, accumulation, distribution, and transfer. Independent Marketing Group markets products through financial institutions, large marketing organizations, employee benefit firms, broker-dealers, and independent insurance agents and brokers.

Direct Marketing focuses on individuals who favor purchasing insurance directly from insurance companies. Direct Marketing offers life insurance products through the internet, mail, print, and broadcast media, primarily directed at middle and upper-income customers.

Career Sales and Service Division

Career Sales and Service Division distributes life insurance, annuities, and limited benefit health insurance products through exclusive employee agents. Career Sales and Service Division primarily serves the lower to middle-income marketplace.

Multiple-line

Primarily through its Multiple-line exclusive agents, Multiple-line offers a combination of life insurance, annuities, and property and casualty insurance. Multiple-line is committed to remain an industry leader in tri-line sales (sales of homeowners, auto, and life insurance). Policyholders can do business with a single agent, a concept that has been identified as an important driver to client satisfaction. Multiple-line serves responsible individuals, families, and small business owners at all income levels.

Health/Senior Age Marketing Division

The Health/Senior Age Marketing Division, through independent agents and managing general underwriters, primarily serves the needs of middle-income seniors and individuals preparing for retirement. Although the Health/Senior Age Marketing Division offers an array of life insurance, health insurance, and annuity products for this growing segment of the population, including group life products, limited benefit group health insurance products, and health reinsurance, it remains committed to traditional Medicare Supplement products. The Health/Senior Age Marketing Division is also responsible for the administration and management of all health insurance products sold by other marketing channels.

Credit Insurance Division

The Credit Insurance Division offers products that provide protection against specific unpaid debt in the event of loss due to death or disability, or in the event of a loss of ability to repay, such as involuntary unemployment or untimely loss of collateral. Distribution includes general agents who market to financial institutions, automobile dealers, and furniture dealers. These general agents are given non-exclusive authority to solicit insurance within a specified geographic area and to appoint and supervise subagents.

Policyholder Liabilities

We establish, and carry as liabilities, actuarially determined amounts that are calculated to meet our policy obligations when an annuitant takes income, a policy matures or surrenders, an insured dies or becomes disabled, or upon the occurrence of other covered events. We compute the amounts for actuarial liabilities reported in our consolidated financial statements in conformity with GAAP and in accordance with the standards of practice of the American Academy of Actuaries.

We establish actuarial liabilities for future policy benefits (associated with base policies and riders, unearned mortality charges and future disability benefits), for other policyholder liabilities (associated with unearned premiums and claims payable) and for unearned revenue (the unamortized portion of front-end loads charged). We also establish liabilities for unpaid claims and unpaid claim adjustment expenses. In addition, we establish liabilities for minimum death benefit guarantees relating to certain annuity contracts and secondary guarantees relating to certain life policies.

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

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Due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of our actuarial liabilities, we cannot precisely determine the amounts we will ultimately pay and the ultimate amounts may vary from the estimated amounts, particularly when payments do not occur until well into the future.

However, we believe our actuarial liabilities for future benefits are adequate to cover the benefits required to be paid to policyholders. We periodically review our estimates of actuarial liabilities for future benefits and compare it with our actual experience. We revise estimates, to the extent permitted or required under GAAP, if we determine that future expected experience differs from assumptions used in the development of actuarial liabilities.

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

Risk Management

A conservative operating philosophy was our founding principle and it is evidenced in our focus on sustainable and profitable growth. We manage risks throughout the Company by employing controls in our insurance, investment, and operational functions. These controls are designed to both place limits on activities and provide reporting information that helps shape any needed adjustments in our ongoing review of existing controls. We make use of several senior management committees to support the discussion and enforcement of risk controls in our management of the Company.

Our insurance products are designed to offer a balance of features desired by the marketplace with provisions that mitigate exposures to allow prudent management across our insurance portfolio. In our life insurance and property and casualty insurance products, we employ underwriting standards to ensure that proper rates are being charged to various classes of insureds. In our life insurance and annuity products, we mitigate against the risk of disintermediation through the use of surrender charges and market value adjustment features. Investment allocations and duration targets also limit the asset-liability risk we are exposed to in our annuity products by limiting the credited rate to a range supported by these investments.

One of the significant risks faced by us is the management of the linkage between the timing of settlement and the amount of obligations related to our insurance contracts and the cash flows and valuations on the invested assets backing those obligations, a process commonly referred to as asset-liability management (ALM). This risk is most present in our Life and Annuity segments. Our ALM Committee regularly monitors the level of risk in the interaction of our assets and liabilities and helps shape courses of action intended to help us attain our desired risk-return profile. Some of the tools employed include deterministic and stochastic interest rate scenario analyses, which help shape investment decision-making. These analyses also use experience analyses related to surrenders and death claims, which influence the timing of our obligations under our life insurance and annuity contracts.

We also manage risk by using reinsurance to limit our exposure on any one insurance contract or any single event. We purchase reinsurance from several providers and are not dependent on any single reinsurer. Further, we believe that our reinsurers are reputable and financially secure, and we regularly review the financial strength ratings of our carriers. Reinsurance does not eliminate our liability to pay our policyholders, and we remain primarily liable to our policyholders for the risks we insure. Reinsurance is a significant element of our Property and Casualty operations. The use of catastrophic event models is an important component of our reinsurance program. These models assist us in the management of our exposure concentration and deductibles to help us attain our desired risk-return profile.

We have a formal risk management program on an enterprise-wide basis to coordinate risk management efforts and ensure alignment between our risk-taking activities and our strategic objectives. This risk management program includes the appointment of a corporate risk management officer. In addition, we maintain a Management Risk Committee to ensure consistent application of the enterprise risk management process across all business units.

Pricing

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

Collections for certain annuity and life products are not recognized as revenues, but are added to policyholder account values. Revenues from these products are derived from charges to the account balances for insurance risk and administrative costs as well as charges imposed, in some cases, upon surrender. Profits are earned to the extent these revenues exceed actual costs. Profits are also earned from investment income on the deposits invested in excess of the amounts credited to policyholder accounts.

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

Competition

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

Several competing insurance carriers have brands that are more commonly known and spend significantly more on advertising than we do. We remain competitive with these commonly known brands by relying on our abilities to manage costs, providing attractive coverage and service, maintaining positive relationships with our agents, and maintaining the strength of our financial ratings. Rather than focusing our advertising efforts nationally, we support advertising in the local markets in which our agents live and work.

Our Ratings

Insurer financial strength ratings reflect current independent opinions of rating agencies regarding the financial capacity of an insurance company to meet the obligations of its insurance policies and contracts in accordance with their terms. They are based on comprehensive quantitative and qualitative evaluations of a company and its management strategy. The rating agencies do not provide ratings as a recommendation to purchase insurance or annuities, nor a guarantee of an insurer s current or future ability to meet its contractual obligations. Ratings may be changed, suspended, or withdrawn at any time.

American National Insurance Company s insurer financial strength ratings from two of the most widely referenced rating organizations as of the date of this filing are as follows:

A.M. Best Company: A (Excellent)(1)
Standard & Poor s: A+ (Strong)(2)

(1) A.M. Best s active company rating scale consists of thirteen ratings ranging from A++ (Superior) to D (poor). A is the third highest of such thirteen ratings and represents companies excellent ability to meet their ongoing insurance obligations.

(2) Standard & Poor s active company rating scale ranges from AAA (Extremely Strong) to CC (Extremely Weak). Plus (+) or Minus (-) modifiers show the relative standing within the categories from AA to CCC. A rating of A is in the strong category and represents Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. A+ is the fifth highest of twenty active company ratings.

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Regulation

The business of insurance is subject to extensive regulation, primarily by the individual states, although additional federal regulation of the insurance industry may occur in the future. State regulation of insurance is concerned primarily with the protection of policyholders rather than shareholders. The method, extent, and substance of such regulation varies by state but generally has its source in statutes that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to a state regulatory agency.

State insurance laws and regulations have a substantial effect on our business and relate to a wide variety of matters, some of which are described in more detail below, including insurance company licensing and examination, agent and adjuster licensing, price setting, marketing practices and advertising, policy forms, privacy, accounting methods, the nature and amount of investments, claims practices, participation in shared markets and guaranty funds, reserve adequacy, insurer solvency, transactions with affiliates, the payment of dividends, and underwriting standards. In addition, our insurance companies are required to file detailed annual reports with the state regulators, and records of their business are subject to examination by such regulators.

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

Holding Company Regulation. Our family of companies constitutes an insurance holding company system that is subject to regulation throughout the jurisdictions in which our insurance companies do business. Our insurance companies are organized under the insurance codes of Texas, Missouri, New York, Louisiana, and California. Generally, the insurance codes in these states require advance notice to, or in some cases approval by, the state insurance regulators prior to certain transactions between insurance companies and other entities within their holding company system. Such requirements may deter or delay certain transactions considered desirable by management.

Price Regulation. Nearly all states have insurance laws requiring property and casualty and health insurers to file price schedules, policy or coverage forms, and other information with the state s regulatory authority. In many cases, such price schedules, policy forms or both must be approved prior to use. While they vary from state to state, the objectives of these pricing laws are generally the same, e.g. a price cannot be excessive, inadequate or unfairly discriminatory. Prohibitions on discriminatory pricing apply in the context of life insurance as well. The speed with which an insurer can change prices in response to competition or in response to increasing costs depends, in part, on the nature of the applicable pricing law.

An insurer s ability to adjust its prices in response to competition or increasing costs is often dependent on an insurer s ability to demonstrate to the applicable regulator that its pricing or proposed pricing meets the requirements of the pricing laws. In those states that significantly restrict an insurer s discretion in selecting the business that it wants to underwrite, an insurer can manage its risk of loss by charging a price that reflects the cost and expense of providing the insurance. In those states that significantly restrict an insurer s ability to charge a price that reflects the cost and expense of providing the insurance, the insurer can manage its risk of loss by being more selective in the type of business it offers. When a state significantly restricts both underwriting and pricing, it becomes more difficult for an insurer to maintain its profitability. These kinds of pricing restrictions can impact our ability to market products to residents of such states.

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Changes in our claim settlement process may require us to actuarially adjust loss information used in our pricing process. Some state insurance regulatory authorities may not approve price increases that give full effect to these adjustments.

From time to time, the private passenger auto insurance industry comes under pressure from state regulators, legislators and special interest groups to reduce, freeze or set prices at levels that do not correspond with our analysis of underlying costs and expenses. Homeowners insurance comes under similar pressure, particularly as regulators in states subject to high levels of catastrophe losses struggle to identify an acceptable methodology to price for catastrophe exposure. We expect this kind of pressure to persist. In addition, our use of insurance scoring based on credit report information for underwriting and pricing regularly comes under attack by regulators, legislators and special interest groups in various states. The result could be legislation or regulation that adversely affects our profitability. We cannot predict the impact on our business of possible future legislative and regulatory measures regarding pricing.

Involuntary Markets and Guaranty Fund. As a condition of maintaining our licenses to write property and casualty insurance in various states, we are required to participate in assigned risk plans, reinsurance facilities, and joint underwriting associations that provide various types of insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Underwriting results related to these arrangements, which tend to be adverse, have been immaterial to our results of operations. Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, in order to cover certain obligations of insolvent insurance companies.

Risk-Based Capital. The National Association of Insurance Commissioners (NAIC) has developed a formula for analyzing insurance companies called risk-based capital. The risk-based capital formula is intended to establish minimum capital thresholds that vary with the size and mix of an insurance company s business and assets. It is designed to identify companies with capital levels that may require regulatory attention. At December 31, 2010, the Company and each of its insurance subsidiaries were more than adequately capitalized under the risk-based capital formula.

Investment Regulation. Our insurance companies are subject to regulations that require investment portfolio diversification and that limit the amount of investment in certain categories of assets. Failure to comply with these rules leads to the treatment of non-conforming investments as non-admitted assets for purposes of measuring statutory surplus. Further, in some instances, these rules require divestiture of non-conforming investments. As of December 31, 2010, the investment portfolios of our insurance companies complied with such laws and regulations in all material respects.

Exiting Geographic Markets, Canceling and Non-Renewing Policies. Most states regulate an insurer s ability to exit a market. For example, states limit, to varying degrees, an insurer s ability to cancel and non-renew policies. Some states prohibit an insurer from withdrawing one or more types of insurance business from the state, except pursuant to a plan that is approved by the state insurance department. Regulations that limit cancellation and non-renewal and that subject withdrawal plans to prior approval requirements could restrict our ability to exit unprofitable markets.

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

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Privacy Regulation. U.S. federal laws, such as the Gramm-Leach-Bliley Act, and the laws of some states require us to protect the security and confidentiality of certain customer information and to notify customers about our policies and practices relating to collection and disclosure of customer information and our policies relating to protecting the security and confidentiality of that information. The U.S. federal law and the laws of some states also regulate disclosures of customer information. Furthermore, the federal Health Insurance Portability and Accountability Act regulate our use and disclosure of certain personal health information. The U.S. Congress, state legislatures and regulatory authorities may consider additional regulation relating to privacy and other aspects of customer information.

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

Additional issues related to the regulation of the Company and its insurance subsidiaries are discussed in Item 1A, Risk Factors section.

Employees

As of December 31, 2010, we had approximately 3,251 employees, of which approximately 730 are employed in our Galveston, Texas corporate headquarters. We consider our employee relations to be good.

Available Information

American National Insurance Company, a Texas corporation, files periodic and current reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington D.C. 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet website (www.sec.gov) that contains reports, proxy statements, and other information regarding issuers that file electronically with the SEC, including American National. Our press releases, financial information and reports filed with the SEC (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those Forms) are available online at www.anico.com. The reference to our Internet website does not constitute the incorporation by reference of information contained at such website into this report. Copies of any documents on our website are available without charge, and reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC.

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ITEM 1A. RISK FACTORS

The operating results of insurance companies have historically been, and are likely to remain, subject to significant fluctuations in response to various factors, including without limitation economic trends, interest rate changes, investment performance, claims experience, operating expenses and pricing. Described below are the risks and uncertainties that we have identified as being the most significant to our Company. Additional risks not presently known to us or that we currently deem insignificant may also impair our business, financial condition or results of operations as they become known facts or as facts and circumstances change.

Difficult conditions in the economy generally may materially adversely affect our business and results of operations, and these conditions may not improve in the near future.

Our results of operations are materially affected by economic conditions in the U.S. and elsewhere. Stressed conditions, volatility and disruptions in global capital markets or in particular markets or financial asset classes can have an adverse effect on us, in part because we have a large investment portfolio. Disruptions in one market or asset class can also spread to other markets or asset classes. Although the disruption in the global financial markets that began in late 2007 has moderated, not all global financial markets are functioning normally, and some remain reliant upon government intervention for liquidity. Although many economists believe the recent recession ended in the third quarter of 2009, the recovery is expected to be slow, and the unemployment rate is expected to remain high for some time. In addition, inflation has fallen over the last several years and remains at very low levels. Some economists believe that disinflation and deflation risk remains in the economy. Our revenues are likely to remain under pressure in such circumstances and our profit margins could erode. Also, in the event of extreme prolonged market events, such as the recent global credit crisis, we could incur significant capital or operating losses. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility.

Factors such as consumer spending, business investment, energy costs, geopolitical issues, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, declining consumer confidence, lower family income, increased defaults on mortgages and consumer loans, lower corporate earnings, lower business investment and lower consumer spending, the demand for our insurance and financial products could be adversely affected. For example, the increased market volatility experienced during 2008 and 2009 led to a decline in demand for our market-linked products, such as variable annuities, and we anticipate that difficult credit conditions may lead to fewer purchases of credit-related insurance products.

Negative economic factors may also affect our ability to receive the appropriate rate for the risks that we insure with our policyholders and annuity contract holders. In an economic downturn, our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether, resulting in an elevated incidence of lapses or surrenders of policies. Our individual protection life insurance markets, particularly our Career Sales and Service Division and our Multiple-Line distribution channels, which serve primarily the lower and middle income markets, respectively, face competition from alternative uses of the customer s disposable income. All of these outcomes could affect earnings negatively and could have a material adverse effect on our business, financial condition and results of operations.

Differences between risk assumptions used to price our products and actual experience could materially affect our profitability.

Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity (the rate of incidence of illness), persistency (the rate at which our policies remain in force), and operating costs and expenses of our business. The profitability of our business substantially depends on the extent to which our actual experience is consistent with the assumptions we use to price our products. If we fail to appropriately price our insured risks, or if our claims experience is more severe than our underlying risk assumptions, our profit margins could be negatively affected. Any potentially overpriced risks could negatively impact new business growth and retention of existing business.

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Increased claims activity resulting from catastrophic events, whether natural or man-made, may result in significant losses.

We experience increased claims activity when catastrophic events impact geographic locations in which our policyholders live or do business. Catastrophes can be caused by natural events, such as hurricanes, tornadoes, wildfires, earthquakes, snow, hail and windstorms, or manmade events, such as terrorism, riots, hazardous material releases, or utility outages. Some scientists believe that in recent years, changing climate conditions have added to the unpredictability, severity and frequency of natural disasters. To the extent climate change increases the frequency and severity of such weather events, our insurance operating units may face increased claims. Climate change may also affect the affordability and availability of property and casualty insurance and the pricing of such products.

Our life and health insurance operations are also exposed to the risk of catastrophic mortality or illness, such as a pandemic, an outbreak of an easily communicable disease, or another event that causes a large number of deaths or high morbidity. Significant influenza pandemics have occurred three times in the last century; however, neither the likelihood, timing, nor the severity of a future pandemic can be predicted. The effectiveness of external parties, including governmental and non-governmental organizations, in combating the severity of such a catastrophe could have a material impact on our loss experience.

We cannot accurately predict catastrophes, or the number and type of catastrophic events that will affect us. As a result, our operating and financial results may vary significantly from one period to the next. While we anticipate and plan for catastrophe losses, there can be no assurance that our financial results will not be materially adversely affected by our exposure to losses arising from catastrophic events in the future that exceed our assumptions. For example, during the second and fourth quarters of 2010, we experienced a $41.6 million increase in net catastrophe losses compared to 2009 due to spring and winter storm activity throughout our geographic coverage area.

The extent of our losses in connection with catastrophic events is a function of the severity of the event and the total amount of policyholder exposure in the affected area. Where we have geographic concentrations of policyholders, such as in our group insurance operations, a single catastrophe (such as an earthquake) or destructive weather trend affecting a region may have a significant impact on our financial condition and results of operations.

As an insurance company, we face a significant risk of litigation and regulatory investigations, which may result in significant financial losses, harm our reputation, and prevent us from implementing our business strategy.

We face a significant risk of litigation and regulatory investigations in the ordinary course of operating our business, including the risk of class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the industries in which we operate. In connection with our insurance operations, plaintiffs lawyers may bring lawsuits, including class actions, alleging, among other things, issues relating to sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, and breaches of fiduciary or other duties to customers. Plaintiffs in class action suits and other types of lawsuits may seek very large or indeterminate amounts, including punitive and treble damages. The damages claimed and the amount of any probable and estimable liability, if any, may remain unknown for substantial periods of time and could result in a material adverse effect on our business, financial condition, results of operation and reputation. Note 18, Commitments and Contingencies, of the Notes to the Consolidated Financial Statements contains a discussion of certain pending and ongoing litigation.

The insurance industry has become the focus of increased scrutiny by regulatory and law enforcement authorities. This scrutiny includes investigations and other proceedings within the industry relating to allegations of improper payment and disclosure of contingent commissions paid by insurance companies to intermediaries, the solicitation and provision of fictitious or inflated quotes, the use of inducements in the sale of insurance products, the issuance of refunds of unearned premiums upon termination of credit insurance, the accounting treatment for finite insurance and reinsurance or other non-traditional or loss mitigation insurance and reinsurance products, and the marketing of products. One possible result of these investigations and attendant lawsuits is that many insurance industry practices and customs may change. Such changes could adversely affect our ability to implement our business strategy.

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In addition, increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal actions and precedents and industry-wide regulations that could adversely affect our business, financial condition, and results of operations and could impact our ability to offer certain products.

The determination of the amount of allowances and impairments taken on our investments and the valuation allowance on the deferred income tax asset are judgmental and could materially impact our financial condition and results of operations.

The determination of the amount of allowances and impairments vary by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations are revised. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

For fixed maturity and equity securities subject to the Accounting Standards Codification (ASC) 320-10 Investments, Debt and Equity Securities, an other-than-temporary impairment (OTTI) charge is taken when we do not have the ability and intent to hold the security until the forecasted recovery or based on the probability that we may not be able to receive all contractual payments when due. Fixed maturity securities accounted for under ASC 320-10 may experience OTTI in future periods in the event an adverse change in cash flows is anticipated or probable. Furthermore, equity securities may experience OTTI in the future based on the prospects for recovery in value in a reasonable period.

Many criteria are considered during this process including, but not limited to, our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; the expected recoverability of principal and interest; the length of time and extent to which the fair value has been less than amortized cost for fixed maturity securities or less than cost for equity securities; the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry conditions and trends and implications of rating agency actions and offering prices; and the specific reasons that a security is in a significant unrealized loss position, including market conditions, which could affect our liquidity. OTTI losses result in a reduction to the cost basis of the underlying investment.

Deferred income tax represents the differences between the financial statement carrying amounts of existed assets and liabilities and their respective tax bases. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors considered by management include, but not limited to, performance of the Company and our ability to generate future taxable income. If based on available information, it is more-likely-than-not that the deferred tax assets will not be realized then a valuation allowance must be established with a corresponding charge to net income. Such changes could have a material adverse affect on our financial condition and results of operations.

Our investment portfolio includes fixed maturity securities, equity securities, and commercial real estate, and fluctuations in these markets could adversely affect the valuation of our investment portfolio, our net investment income, and our overall profitability.

Our investment portfolio is subject to market risks, such as risks associated with changes in interest rates, market volatility, and deterioration in the credit of companies in which we have invested. In the past few years, domestic and international equity markets have experienced heightened volatility and turmoil. In the event of extreme prolonged market events, such as the current global economic crisis, we could incur significant losses. Even in the absence of a market downturn, however, we are exposed to substantial risk of loss due to market volatility. Investment returns are an important part of our overall profitability, and fluctuations in the fixed maturity, equity or real estate markets could negatively affect the timing and amount of our net investment income and adversely affect our financial condition.

Although the disruption in the global financial markets has moderated, not all global financial markets are functioning normally and some remain reliant upon government intervention for liquidity. Continuing challenges include continued weakness in the U.S. real estate market and increased mortgage loan delinquencies, investor anxiety over the U.S. and European economies, rating agency downgrades of various structured products and financial issuers, deleveraging of financial institutions and hedge funds and a serious dislocation in the inter-bank market. If there is a resumption of significant volatility in the markets, it could cause changes in interest rates, declines in equity prices, and the strengthening or weakening of foreign currencies against the U.S. dollar which, individually or in aggregate, could have a material adverse effect on our consolidated results of operations, financial condition, liquidity or cash flows through realized investment losses, impairments, and changes in unrealized loss positions.

When interest rates rise, the value of our investment portfolio may decline due to decreases in the fair value of our fixed maturity securities that comprise a substantial portion of our investment portfolio. Generally, we expect to hold our fixed maturity investments to maturity, including investments that have declined in value. Our intent can change, however, due to financial market fluctuations, changes in our investment strategy, or changes in our evaluation of the investee s financial condition and prospects.

In a declining interest rate environment, prepayments and redemptions affecting our investment securities and mortgage loan investments may increase as issuers and borrowers seek to refinance at a lower rate. The decline in market rates could reduce our investment income as new funds are invested at lower yields.

Further deterioration in the economy or deterioration in the commercial real estate market could adversely affect our investments in commercial real estate, including our mortgage loans, and have a material adverse effect on our investment portfolio.

Concentration of our investment portfolios in any particular segment of the economy may have adverse effects on our financial condition and results of operations.

The concentration of our investment portfolios in any particular industry, group of related industries, or geographic sector could have an adverse effect on our investment portfolios and consequently on our financial condition and results of operations. While we seek to mitigate this risk by having a broadly diversified portfolio, events or developments that have a negative impact on any particular industry, group of related industries, or geographic region may have a disproportionate adverse effect on our investment portfolios to the extent that the portfolios are concentrated rather than diversified.

Some of our investments are relatively illiquid.

Our investments in privately placed securities, mortgage loans, and equity covering real estate, including real estate joint ventures and other limited partnership interests, are relatively illiquid. If we require significant amounts of cash on a short notice in excess of ordinary course cash requirements, it may be difficult or we may not be able to monetize these investments in a timely manner, and we may be forced to sell them for less than we otherwise would have been able to realize.

A decline in equity markets or an increase in volatility in the equity markets may adversely affect sales and/or yields of our investment products.

Significant downturns and volatility in the equity markets could adversely affect our sales of investment products, which may have a material adverse effect on our financial condition and results of operations in three principal ways.

First, market downturns and volatility may discourage purchases of variable annuities, variable life insurance, and equity-indexed products that have returns linked to the performance of the equity markets and may cause some of our existing customers to withdraw cash values or reduce investments in such products.

Second, downturns and volatility in the equity markets may have a material adverse effect on the revenues and returns from our savings and investment products and services. Because these products and services depend on fees related primarily to the value of assets under management, a decline in the equity markets could reduce our revenues by reducing the value of the investment assets we manage. In particular, the variable life and annuity business is highly sensitive to equity markets, and a sustained weakness in the markets could decrease revenues and earnings in variable life and annuity products.

Third, we provide certain guarantees within some of our products that protect policyholders against significant downturns in the equity markets. For example, we offer variable annuity products with guaranteed features, such as minimum death benefits. These guarantees may be more costly than expected in volatile or declining equity market conditions, which could cause us to increase liabilities for future policy benefits, negatively affecting our net income.

Defaults on our mortgage loans may adversely affect our profitability.

Our mortgage loan investments face default risk. Our mortgage loans are principally collateralized by commercial properties. At December 31, 2010, loans that were either delinquent or in the process of foreclosure were less than 1.0% of our $2.7 billion in mortgage loan investments. A significant increase in the default rate of our mortgage loan investments could have a material adverse effect on our business, financial condition and results of operations.

We are controlled by a small number of stockholders.

As of December 31, 2010, the Moody Foundation, a charitable trust controlled by Robert L. Moody, Sr. and members of his family, beneficially owned 6,157,822 shares of our common stock. In addition to these shares and as of such date, Moody National Bank, of which Robert L. Moody, Sr. is chairman and chief executive officer, in its capacity as trustee or agent had the power to vote an additional 12,489,462 shares of our common stock. These two stockholders have the power to vote approximately 70% of our common stock. As a result, these two stockholders have the ability to exercise a controlling influence over all matters affecting us, including:

- the composition of our Board of Directors, subject to applicable legal and regulatory requirements, and through the Board of Directors, any determination with respect to our business direction and policies, including the appointment and removal of officers;
- any determinations with respect to mergers or other business combinations;
- acquisition and disposition of assets; and
- any other matters submitted for stockholder approval.

Concentration of voting power could have the effect of deterring a change of control or other business combination that might otherwise be beneficial to our stockholders. This significant concentration of voting power may also adversely affect the trading price of our common stock, because investors may perceive disadvantages in owning stock in a company that is controlled by a small number of stockholders.

As of December 31, 2010, approximately 19,960,277 shares of our common stock (approximately 74%) were beneficially owned by The Moody Foundation, Moody National Bank, our executive officers, directors, and advisory directors and family members of our executive officers and directors. As of that same date, approximately 6,859,889 shares (approximately 26%), with an aggregate market value of $587,343,696 were held by other stockholders.

Our future results are dependent in part on our ability to successfully operate in insurance and annuity industries that are highly competitive.

The insurance and annuity industries are highly competitive. The product development and product life-cycles have shortened in many product segments, leading to more intense competition with respect to product features. In addition, many of our competitors have well-established national reputations and market similar products. Competition for customers and agents has led to increased marketing and advertising by our competitors, varied agent compensation structures, as well as the introduction of new insurance products and aggressive pricing. We also compete for customers funds with a variety of investment products offered by financial services companies other than insurance companies, such as banks, investment advisors, mutual fund companies and other financial institutions. Moreover, the ability of banks to be affiliates of insurers may have a material adverse effect on all of our product lines by substantially increasing the number, size and financial strength of potential competitors. If we cannot effectively respond to increased competition for the business of our current and prospective customers, we may not be able to grow our business or we may lose market share. In addition, if we fail to maintain our discipline in pricing and underwriting in the face of this competition, our underwriting profits may be adversely affected.

Furthermore, certain competitors operate using a mutual insurance company structure, which means generally every policyholder has voting rights in addition to their rights as a policyholder. Therefore, such companies may have dissimilar profitability and return targets.

We may be unable to attract and retain sales representatives and third-party independent agents for our products.

We must attract and retain productive sales representatives and third-party independent agents to sell our insurance and annuity products. Strong competition exists among insurers for producers with demonstrated ability. We compete with other insurers for producers primarily on the basis of our financial position, stable ownership, support services, compensation, and product features. We continue to undertake several initiatives to grow our agency force while continuing to enhance the efficiency and production of our existing sales force. We cannot provide assurance that these initiatives will succeed in attracting and retaining new sales representatives and agents. Sales of individual insurance and annuity products, and our financial condition and results of operations could be materially adversely affected if we are unsuccessful in attracting and retaining sales representatives and agents.

In choosing an insurance provider, an agent may consider ease-of-doing business, reputation, price of product, customer service, claims handling, and the insurer s compensation structure. We may be unable to compete with insurers that adopt more aggressive pricing policies or compensation structures, insurers that offer a broader array of products, or that offer policies similar to ours at lower prices or as part of a package of products, or insurers that have extensive promotional and advertising campaigns. Even though we may establish a contractual relationship with an agent on a short-term basis, there is no certainty that such business arrangement will be continued on a longer-term basis.

In addition, certain products are distributed under agreements with companies that are not affiliated with us. Termination of one or more of these agreements could have a detrimental effect on our financial condition and results of operations.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect our business.

Management of operational, legal, and regulatory risks requires, among other things, policies and procedures to record and verify a large number of transactions and events. We have devoted significant resources to develop risk management policies and procedures, and we expect to continue to do so. Nonetheless, these policies and procedures may not be fully effective. Many of our methods for managing risk and exposures are based upon the use of observed historical market behavior or statistics premised on historical models. As a result, these methods may not accurately predict future exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend upon the evaluation of information that is publicly available or otherwise accessible regarding markets, clients, catastrophe occurrence, or other matters. This information may not always be accurate, complete, up-to-date or properly evaluated. See Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, for additional details.

Reinsurance may not be available, affordable or adequate to protect us against losses.

As part of our overall risk management strategy, we purchase reinsurance for certain risks underwritten by our business segments. Market conditions beyond our control determine the availability and cost of reinsurance protection for new business. In certain circumstances, the price of reinsurance for business already reinsured may also increase. Any decrease in the amount of reinsurance will increase our risk of loss, and any increase in the cost of reinsurance will, absent a decrease in the amount of reinsurance, reduce our earnings. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business or result in the assumption of more risk with respect to those policies we issue.

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Emerging claim and coverage issues could negatively impact our business.

As insurance industry practices and legal, judicial, social, and other conditions outside of our control change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by extending coverage beyond our underwriting intent or increasing the type, number, or size of claims. Such emerging claims and coverage issues include (i) evolving theories of liability and judicial decisions expanding the interpretation of our policy provisions, thereby increasing the amount of damages for which we are liable, and (ii) a growing trend of plaintiffs targeting insurers in purported class action litigation relating to claims handling and other practices in the insurance industry. The effects of these and other related unforeseen emerging issues are extremely hard to predict and could harm our business and adversely affect our financial condition and results of operations.

Our financial results may be adversely affected by the cyclical nature of the property and casualty business in which we participate.

The property and casualty insurance market is traditionally cyclical, experiencing periods characterized by relatively high levels of price competition, less restrictive underwriting standards, and relatively low premium rates, followed by periods of relatively low levels of competition, more selective underwriting standards, and relatively high premium rates. We are currently operating in a period characterized by significant price competition, which may reduce our margins. While both types of periods pose challenges to us, if we were to relax our underwriting standards or pricing in response to the competitive market, a period of increased claims activity could adversely affect our financial condition and results of operations.

Inflationary pressures on medical care costs, auto parts and repair, construction costs, and other economic factors may increase the amount we pay for claims and negatively affect our underwriting results.

Rising medical costs require us to make higher payouts in connection with health insurance claims and claims of bodily injury under our property and casualty and healthcare policies. Likewise, increases in costs for auto parts and repair services, construction costs, and commodities result in higher loss costs for property damage claims. Thus, inflationary pressures could increase the cost of claims. These inflationary pressures may require us to increase our reserves. Our potential inability to adjust pricing for our products to account for cost increases or find other offsetting supply chain and business efficiencies may negatively impact our underwriting profit and results of operations.

Interest rate fluctuations and other events may require us to accelerate the amortization of deferred policy acquisition costs (DAC), which could adversely affect our financial condition and results of operations.

DAC represents the costs that vary with and are related primarily to the acquisition of new and renewal insurance and annuity contracts. When interest rates rise, surrenders of policies and withdrawals from life insurance policies and annuity contracts may increase as policyholders seek to buy products with higher or perceived higher returns in exchange for the surrender or withdrawal, requiring us to accelerate the amortization of DAC. To the extent such amortization exceeds surrender or other charges earned as income upon surrender and withdrawals from certain life insurance policies and annuity contracts, our results of operations could be negatively affected.

The rate of amortization of DAC is also contingent upon profitability of the business. Typically, estimated lower levels of profitability require a higher rate of acceleration for DAC amortization; in contrast, estimated higher levels of profitability require a lower rate of acceleration for DAC amortization. DAC for both insurance-oriented and investment-oriented products is reviewed for recoverability, which involves estimating the future profitability of current business. This review involves significant management judgment. If the actual emergence of future profitability were to be substantially lower than estimated, we could be required to accelerate DAC amortization, and such acceleration could adversely affect our results of operations. See also Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates, and Part II, Item 8 Financial Statements and Supplementary Date Note 2, Summary of Significant Accounting Policies and Practices, and Note 8, Deferred Policy Acquisition Costs, of the Notes to the Consolidated Financial Statements for additional information.

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Changes in market interest rates may lead to a significant decrease in the sales and profitability of our spread-based products.

Some of our products, principally interest-sensitive life insurance and fixed annuities, expose us to the risk that changes in interest rates may reduce our spread or the difference between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on the underlying investment intended to support obligations under such contracts. This spread is a key component of our Life and Annuity segments results of operations.

Our ability to manage our investment margin for spread-based products is dependent upon maintaining profitable spreads between investment yields and interest crediting rates. When market interest rates decrease or remain at relatively low levels, proceeds from investments that have matured or that have been prepaid or sold may be reinvested at lower yields, reducing investment margin. Lower rates in such an environment can offset decreases in investment yield on some products; however, these changes could be limited by market conditions and regulatory or contractual minimum rate guarantees. Moreover, the new rates may not match the timing or magnitude of changes in asset yields. Furthermore, decreases in the rates offered on products could make those products less attractive, leading to lower sales and/or changes in the level of surrenders and withdrawals for these products. Non-parallel shifts in interest rates, such as increases in short-term rates without accompanying increases in medium and long-term rates, can influence customer demand for fixed annuities, which could impact the level and profitability of new investments by customers.

Increases in market interest rates can also have negative effects, for example by increasing the attractiveness of other insurance or investment products to our customers, which can lead to higher surrenders at a time when fixed maturity investment asset values are lower as a result of the increase in interest rates. For certain products, principally fixed annuity and interest-sensitive life products, the earned rate on assets could lag behind rising market yields. We may react to market conditions by increasing rates, which could narrow spreads.

While we develop and maintain asset-liability management programs and procedures designed to mitigate the effect on spread income of rising or falling interest rates, no assurance can be given that changes in interest rates will not affect such spreads. Additionally, our asset-liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (*i.e.,* the slope of the yield curve) and relationships between risk-adjusted and risk-free interest rates, market liquidity, and other factors. The effectiveness of our asset-liability management programs and procedures may be negatively affected whenever actual results differ from these assumptions.

If the counterparties to our reinsurance arrangements or to the derivative instruments we use to hedge our business risks default or fail to perform, we may be exposed to risks we had sought to mitigate, which could have a material adverse effect on our financial condition and results of operations.

We use reinsurance and, to a lesser extent, derivative instruments (equity-indexed options) to mitigate our risks in various circumstances. In general, reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk on all of our policies with respect to our reinsurers. We cannot provide assurance that our reinsurers will pay the reinsurance recoverables owed to us or that they will pay these recoverables on a timely basis. A reinsurer s insolvency, inability, or unwillingness to make payments under the terms of reinsurance agreements with us could have a material adverse effect on our financial condition and results of operations.

In addition, we use derivative instruments to hedge various business risks. We enter into derivative instruments, including options, with a number of counterparties. If our counterparties fail or refuse to honor their obligations under these derivative instruments, our hedges of the related risk will be ineffective. Although our use of derivative instruments is not as significant as that of many of our competitors, such counterparty failures nevertheless could have a material adverse effect on our financial condition and results of operations.

A downgrade or a potential downgrade in our financial strength ratings could result in a loss of business and could adversely affect our financial condition and results of operations.

Financial strength ratings, which various Nationally Recognized Statistical Rating Organizations (NRSROs) publish as indicators of an insurance company s ability to meet policyholder and contractholder obligations, are important to maintaining public confidence in our products, our ability to market our products, and our competitive position. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the financial services industry, our ratings could be downgraded at any time and without any notices by any NRSRO.

On October 20, 2010, Standard & Poor s rating service lowered its counterparty credit and financial strength ratings on our core operating companies, from AA- to A+ with an outlook of negative. Downgrades in our financial strength ratings could have a material adverse effect on our financial condition and results of operations in many ways, including:

- reducing new sales of insurance products, and annuity products;
- adversely affecting our relationships with our sales force and independent sales intermediaries;
- materially increasing the number or amount of policy surrenders and withdrawals by policyholders and contract holders;
- requiring us to reduce prices for many of our products and services to remain competitive;
- increasing our borrowing cost;
- adversely affecting our ability to obtain reinsurance at reasonable prices; and
- adversely affecting our relationships with credit counterparties.

Standard & Poor s rating action focused heavily on our property and casualty operations, which have been impacted by a number of large catastrophic events over the last several years. While the property and casualty operations have become more significant in recent years, the life and annuity operations remain our key focus, and those operations have had a substantial improvement in performance over recent periods.

In view of the difficulties experienced recently by many financial institutions, including our competitors in the insurance industry, we believe it is possible that the NRSROs will heighten the level of scrutiny that they apply to such institutions, will increase the frequency and scope of their credit reviews, will request additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the NRSRO models for maintenance of certain ratings levels.

The continued threat of terrorism and ongoing military actions may adversely affect the level of our claim losses and the value of our investment portfolio.

The continued threat of terrorism, both within the U.S. and abroad, ongoing military actions, and heightened security measures in response to these types of threats may cause significant volatility in global financial markets and result in loss of life and property, disruption to commerce, and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by reduced economic activity caused by the continued threat of terrorism. We cannot predict whether, and the extent to which, companies in which we maintain investments may suffer losses as a result of financial, commercial, or economic disruptions, or how any such disruptions might affect the ability of those companies to pay interest or principal on their securities. The continued threat of terrorism also may result in increased reinsurance prices and reduced insurance coverage and may cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. In addition, the occurrence of terrorist actions could result in higher claims under our insurance policies than anticipated.

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We are subject to extensive regulation, and potential further restrictive regulation may increase our operating costs and limit our growth.

As insurance companies, our subsidiaries and affiliates are subject to extensive laws and regulations. The method of such regulation varies, but typically has its source in statutes that delegate regulatory and supervisory powers to an insurance official. The regulation and supervision relate primarily to:

- licensing companies and agents to transact business;
- calculating the value of assets to determine compliance with statutory requirements;
- restricting the size of risks that may be insured under a single contract;
- mandating certain insurance benefits;
- regulating certain premium rates;
- reviewing and approving policy forms and reports of financial condition required to be filed;
- regulating unfair trade and claims practices, including imposing restrictions on marketing and sales practices, distribution arrangements, and payment of inducements;
- regulating advertising;
- protecting privacy;
- establishing statutory capital and reserve requirements and solvency standards;
- determining methods of accounting;
- fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;
- approving changes in control of insurance companies;
- restricting the payment of dividends and other transactions between affiliates; and
- regulating the types, amounts and valuation of investments.

These laws and regulations are complex and subject to change. Moreover, the laws and regulations applicable to us are administered and enforced by a number of different governmental authorities, including state insurance regulators, state securities administrators, the SEC, the Internal Revenue Service (IRS), the FINRA, the U.S. Department of Justice, and state attorneys general, each of which exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator or enforcement authority s interpretation of a legal issue may not result in compliance with another regulator or enforcement authority s interpretation of the same issue. In addition, there is risk that any particular regulator or enforcement authority s interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, in the absence of changes to any particular regulator or enforcement authority s interpretation of a legal issue, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow and improve the profitability of our business.

The regulatory environment could have other significant effects on our business. Among other things, we could be fined, prohibited from engaging in some or all of our business activities, or made subject to limitations or conditions on our business activities. Significant regulatory actions against us could have material adverse financial effects, cause significant reputational harm, or harm our business prospects. State legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation. Furthermore, we anticipate federal government involvement in healthcare to increase in the coming years, as it attempts to provide minimum coverage to all individuals. We can make no assurances regarding the potential impact of state or federal measures that may change the nature or scope of insurance regulation.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business, thus having a material adverse effect on our financial condition and results of operations. In particular, changes in the regulations governing the registration and distribution of variable insurance products, such as changes in the regulatory standards under which the sale of a variable annuity contract or variable life insurance policy is considered suitable for a particular customer, could have a material adverse effect, as could certain state insurance regulations that extend suitability requirements to non-variable products. In addition, with respect to our property and casualty and health business, state departments of insurance regulate and approve underwriting practices and rate changes, which can delay the implementation of premium rate changes or prevent us from making changes we believe are necessary to match rate to risk.

In addition, the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) effects comprehensive changes to the regulation of the financial services industry, including insurance companies, in the United States. Dodd-Frank provides for enhanced regulation of the financial services industry through multiple initiatives including, without limitation, the creation of a Federal Insurance Office and several new federal oversight agencies, the establishment of federal regulatory authority over derivatives, the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms, changes to the regulation of broker-dealers and investment advisers, changes to the regulation of reinsurance, changes in certain disclosure and corporate governance obligations, and the imposition of additional regulation over credit rating agencies. Certain provisions of Dodd-Frank are or may become applicable to us, our competitors, or certain entities with which we do business. For example, Dodd-Frank includes a new framework for the regulation of over-the-counter derivatives markets, which will require the clearing of certain types of derivatives currently traded over-the-counter, which could potentially impose additional costs and regulation on us.

Dodd-Frank directs existing and newly-created government agencies and bodies to promulgate regulations to implement its provisions, a process anticipated to occur over the next few years. It also requires numerous studies, which could result in additional legislation or regulation applicable to us, our competitors or companies with which we do business. Dodd-Frank and its related regulations, along with any such additional legislation or regulation, could make it more expensive for us to conduct business or have a material adverse effect on the overall business climate as well as our financial condition and results of operations.

We cannot predict with certainty the requirements or specific applicability of the regulations ultimately adopted under Dodd-Frank, nor can we predict with certainty how Dodd-Frank and such regulations will affect the financial markets generally or impact our business, financial strength ratings, results of operations or cash flows.

Changes in tax laws may decrease sales and profitability of certain products.

Under the current U.S. federal and state income tax laws, certain products we offer, primarily life insurance and annuities, receive favorable tax treatment designed to encourage consumers to purchase these products. This favorable treatment may give some of our products a competitive advantage over non-insurance products. The U.S. Congress from time to time may consider legislation that would reduce or eliminate the favorable policyholder tax treatment currently applicable to life insurance and annuities.

The U.S. Congress also may consider proposals to reduce the taxation of certain products or investments that may compete with life insurance and annuities. Legislation that increases the taxation on insurance products and/or reduces the taxation on competing products could lessen the advantage or create a disadvantage to some of our products, making them less competitive. Such proposals, if adopted, could have a material adverse effect on our financial position and ability to sell such products and could result in the surrender of some existing contracts and policies. In addition, changes in the U.S. federal and state estate tax laws could negatively affect the demand for the types of life insurance used in estate planning.

Changes in the U.S. federal and state securities laws and regulations may affect our operations and our profitability.

Some of our variable annuity contracts and variable life insurance policies are subject to the U.S. federal and state securities laws and regulations that apply to insurance products that are also securities. As a result, some of our activities in offering and selling variable insurance contracts and policies are subject to extensive regulation under these securities laws.

The U.S. federal and state securities laws and regulations are primarily intended to ensure the integrity of the financial markets and to protect investors in the securities markets, as well as protect investment advisory or brokerage clients. These laws and regulations generally grant regulatory agencies broad rulemaking and enforcement powers, including the power to limit or restrict the conduct of business for failure to comply with securities laws and regulations. Changes to these laws or regulations that restrict the conduct of our business could have a material adverse effect on our financial condition and results of operations. In particular, changes in the regulations governing the registration and distribution of variable insurance products, such as changes in the regulatory standards for suitability of variable annuity contracts or variable life insurance policies, could have a material adverse effect on our operations and profitability and could ultimately impact our ability to offer some of these products.

New accounting rules or changes to existing accounting rules could negatively impact our business.

We are required to comply with GAAP. A number of organizations are instrumental in the development and interpretation of GAAP, such as the SEC, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting rules and issue interpretative accounting guidance on a continual basis. We can give no assurance that future changes to GAAP will not have a negative impact on us.

In addition, we are required to comply with statutory accounting principles (*SAP*) in our insurance operations. SAP and various components of SAP (such as actuarial reserving methodology) are subject to constant review by the National Association of Insurance Commissioners (*NAIC*) and its taskforces and committees, as well as state insurance departments, in an effort to address emerging issues and otherwise improve or alter financial reporting. The NAIC is currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves. We cannot predict whether or in what form reforms will be enacted and whether the reforms, if enacted, will positively or negatively affect us.

See Note 2, Summary of Significant Accounting Policies and Practices, of the Notes to Consolidated Financial Statements for a detailed discussion regarding the impact of the recently issued accounting pronouncements to the Company.

Prohibition on the use of customer credit information in connection with pricing and underwriting could impact our ability to price policies and consequently our profitability.

Within the limits of U.S. federal and state regulations, our property and casualty personal lines use customer credit information to price policies. Certain groups and regulators have asserted that the use of credit information may have a discriminatory impact and are calling for the prohibition or restriction on the use of credit data in underwriting and pricing. Elimination of the use of this information for underwriting purposes could have an adverse affect on our profitability, because we would have less data upon which to price policies.

The occurrence of events that are unanticipated in our disaster recovery systems and business continuity planning could impair our ability to conduct business effectively.

Our corporate headquarters is located in Galveston, Texas, on the coast of the Gulf of Mexico. We have taken action to protect our ability to service our policyholders in the event of a hurricane or other natural disaster affecting Galveston through our off-site disaster recovery systems and business continuity planning. Many of our key home office staff has relocated to our South Shore office buildings in League City, Texas. The primary offices of our property and casualty insurance companies are located in Springfield, Missouri and Glenmont, New York. These offices help to insulate our property and casualty operations from coastal catastrophes. Furthermore, we have established a remote processing center in San Antonio, Texas which will support operations in the event that the Galveston area is affected by natural disaster. There is no assurance, however, that these efforts will prove successful. In the event of a hurricane or other natural disaster, an industrial accident, or acts of terrorism or war that would impact our corporate headquarters, events unanticipated in our disaster recovery systems could have an adverse impact on our ability to conduct business and on our financial condition and results of operations, particularly if those events affect our computer-based data processing, transmission, storage and retrieval systems. In the event that a significant number of our managers, employees, or agents were unavailable following such a disaster, our ability to effectively conduct our business could be compromised.

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We may not be able to continue to be a low cost provider of property and casualty products due to the potential effects of the use of comparative rating software.

The increased transparency that arises from the use of comparative rating software in the property and casualty insurance market could work to our competitive disadvantage. Comparative rating software, which already is widely used in personal auto and homeowners insurance, offers competitors the opportunity to model the premiums we charge over the spectrum of personal insurance policies we sell. Increased transparency of our rating structure may allow some competitors to mimic our pricing, thereby possibly reducing our competitive advantage.

If we are unable to maintain the availability of our systems and safeguard the security of our data, our ability to conduct our business may be compromised and our reputation may be harmed.

We use computer systems to store, retrieve, evaluate, and utilize customer and company data and information. Our information technology and telecommunications systems, in turn, interface with and rely upon third-party systems. Our business is highly dependent on our ability and the ability of our employees and agents to access these systems to perform necessary business functions, such as providing new business quotes, processing new and renewal business, making changes to existing policies, filing and paying claims, providing customer support, pricing our products and services, establishing reserves, and timely and accurate financial reporting. Systems failures or outages and our ability to recover from these failures and outages could compromise our ability to perform these functions on a timely basis, which could hurt our business and our relationships with our agents and policyholders.

A breach of security with respect to our systems or those of our third-party vendors providing outsourced services could also jeopardize the confidentiality of our customers personal data, which could harm our reputation and expose us to possible liability. We rely on encryption and authentication technology licensed from third parties to provide security and authentication capabilities, but we cannot guarantee that advances in computer capabilities, computer viruses, programming or human errors, loss or theft of computer equipment, or other events or developments would not result in a breach of our security measures, misappropriation of our proprietary information, misappropriation of customers personal data, or an interruption of our business operations.

We have invested significant time and resources to mitigate these systems and data security risks; however, we cannot be certain that our efforts to mitigate such risks will be effective in all cases.

Employee error and misconduct may be difficult to detect and prevent and may result in significant losses.

Losses may result from, among other things, fraud, errors, failure to document transactions properly, failure to obtain proper internal authorization, or failure to comply with regulatory requirements. There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and there is a risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases.

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Our business operations depend on our ability to appropriately execute and administer our policies and claims.
Our primary business is writing and servicing life, property and casualty, and health insurance for individuals, families and commercial business. Because we deal with large numbers of similar policies, any problems or discrepancies that arise in our pricing, underwriting, billing, processing, claims handling or other practices, whether as a result of employee error, vendor error, or technological problems, could have negative repercussions on our results of operations and our reputation, if such problems or discrepancies are replicated through multiple policies.

Our Medicare Supplement business could be negatively affected by alternative healthcare providers.
The Medicare Supplement business is impacted by market trends in the senior-aged healthcare industry that provide alternatives to traditional Medicare, such as health maintenance organizations and other managed care or private plans. The success of these alternative healthcare solutions for senior-aged persons could negatively affect the sales and premium growth of traditional Medicare Supplement insurance and could impact our ability to offer such products.

Our Medicare Supplement business is subject to intense competition and stringent pricing regulation, which could negatively impact future sales and affect our ability to offer this product.
In recent years, price competition in the traditional Medicare Supplement market has been significant, characterized by some insurers who have been willing to earn very small profit margins or to under-price new sales in order to gain market share. We have elected not to under-price new sales, which has negatively affected sales and could continue to do so if these industry practices continue. Our Medicare Supplement business is also subject to stringent regulation, which includes price setting rules that result in a maximum amount of profit that can be made, with no limits on potential loss of the insurer. Under such regulations, we are unable to raise premiums beyond the established set price. Thus, restrictions on the level of our profits could materially adversely affect our ability to offer this product.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our corporate headquarters is located in Galveston, Texas. We own and occupy approximately 420,000 square feet of office space in this building. We also own the following additional properties that are materially important to our operations:

- We own and occupy four buildings in League City, Texas, consisting of a total of approximately 346,000 square feet. Approximately 40% of such space is leased to third parties. Our use of these facilities is related primarily to our Life, Health, and Corporate and Other segments.
- Our Property and Casualty segment conducts substantial operations through the American National Property and Casualty group of companies in Springfield, Missouri, and the Farm Family companies in Glenmont, New York. The Springfield facility is approximately 232,000 square feet, of which we occupy approximately two-thirds, with the remaining portion leased to third parties. The Glenmont facility is approximately 140,000 square feet, all of which is occupied by us.
- We own an approximately 100,000 square foot facility in San Antonio, Texas. We occupy approximately three-fourths of this facility. We use this facility as a remote processing center for customer support and to support other business operations in the event the Galveston home office is evacuated due to catastrophic weather.

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

ITEM 3. LEGAL PROCEEDINGS

Information required for Item 3 is incorporated by reference to the discussion under the heading Litigation in Note 18, Commitments and Contingencies, in the Notes to the Consolidated Financial Statements.

ITEM 4. REMOVED AND RESERVED

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PART II

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

STOCKHOLDER INFORMATION

Our common stock is traded on the NASDAQ Global Select Market under the symbol ANAT. The following table presents the high and low prices for our common stock for the periods indicated and the quarterly dividends declared per share during such periods.

	High (per share)	Low (per share)	Dividend Paid Per Share
2010:			
Fourth quarter	$ 86.91	$ 75.55	$ 0.77
Third quarter	85.80	74.14	0.77
Second quarter	116.40	80.43	0.77
First quarter	121.36	102.00	0.77
			$ 3.08
2009:			
Fourth quarter	$ 120.81	$ 81.05	$ 0.77
Third quarter	88.68	71.64	0.77
Second quarter	81.65	55.09	0.77
First quarter	74.59	33.74	0.77
			$ 3.08

Our stock closed at $85.62 per share on December 31, 2010.

Security Holders

As of December 31, 2010, there were approximately 897 holders of record of our issued and outstanding shares of common stock.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information regarding our common stock that is authorized for issuance under the American National s 1999 Stock and Incentive Plan as of December 31, 2010:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding	Weighted-average exercise	Number of securities remaining available for future issuance under equity compensation plans (excluding

Plan category	options, warrants and rights (a)	price outstanding options, warrants and rights (b)	securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	$	$ 109.40	2,203,233
Equity compensation plans not approved by security holders			
Total	$	$ 109.40	2,203,233

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Performance Graph

The Company s common stock is traded on the NASDAQ Global Select Market under the symbol ANAT. The following graph compares the performance of the cumulative total stockholder return for the Company s stockholders for the last five years with the performance of the NASDAQ Stock Market Index and the NASDAQ Insurance Stock Index. The graph plots the cumulative changes in value of an initial $100 investment as of December 31, 2005 over the time periods shown.

Value at each year-end of a $100 initial investment made on December 31, 2005:

	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
American National	$ 100.00	$ 99.76	$ 108.16	$ 69.94	$ 111.50	$ 85.17
NASDAQ Total	100.00	109.85	119.13	57.40	82.44	97.87
NASDAQ Insurance	100.00	113.07	113.30	104.95	109.61	123.39

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

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

(dollar amounts in millions, except per share amounts, or unless otherwise noted)	Years ended December 31, 2010	2009	2008	2007	2006
Revenues	$ 3,067	$ 2,938	$ 2,503	$ 3,038	$ 3,090
Income (loss) from continuing operations attributable to American National Insurance Company and Subsidiaries	145	17	(174)	245	278
Income (loss) from discontinued operations, net of tax	(1)	(1)	20	(4)	(5)
Net income (loss)	143	15	(154)	240	275
Net income (loss) attributable to American National Insurance Company and Subsidiaries	144	16	(154)	241	273
Per common share					
Income (loss) from continuing operations:					
- basic	5.47	0.64	(6.55)	9.24	10.50
- diluted	5.45	0.64	(6.55)	9.19	10.45
Income (loss) from discontinued operations:					
- basic	(0.05)	(0.05)	0.73	(0.15)	(0.18)
- diluted	(0.05)	(0.05)	0.73	(0.15)	(0.18)
Net income (loss) attributable to American National Insurance Company and Subsidiaries:					
- basic	5.42	0.59	(5.82)	9.09	10.32
- diluted	5.40	0.59	(5.82)	9.04	10.27
Cash dividends per share	3.08	3.08	3.08	3.05	3.01
Dividend payout ratio (1)	86.2%	127.2%	89.2%	38.1%	38.7%

	Years ended December 31, 2010	2009	2008	2007	2006
Total assets	$ 21,413	$ 20,150	$ 18,379	$ 18,461	$ 17,932
Total American National Insurance Company and Subsidiaries stockholders equity	3,633	3,460	3,134	3,737	3,576
Total equity	3,636	3,472	3,142	3,741	3,582

(1) Total dividends paid to stockholders divided by the sum of net income less realized gains (losses) on investments and other-than-temporary impairments, after tax.

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

Set forth on the following pages is management s discussion and analysis (MD&A) of our financial condition and results of operations. This narrative analysis should be read in conjunction with the forward-looking statement information in this document; see Part I, Item 1, Risk Factors; Part II, Item 7A Quantitative and Qualitative Disclosures About Market Risk; and Part II, Item 8, Financial Statements and Supplementary Data.

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Overview

We are a diversified insurance and financial services company, offering a broad spectrum of life, annuity, health, and property and casualty insurance products. Chartered in 1905, we are headquartered in Galveston, Texas. We operate in all 50 states, the District of Columbia, Guam, American Samoa and Puerto Rico.

Segments

We manage our business through five business segments, which are comprised of four insurance segments: Life, Annuity, Health and Property and Casualty, and our Corporate and Other segment. The life, annuity, and health insurance segments are operated primarily through six domestic life insurance companies. The property and casualty insurance segment is operated through eight domestic property and casualty insurance companies.

Insurance Segments

The insurance segments have revenues consisting primarily of the following:

- net premiums earned on individual term and whole life insurance, property and casualty insurance, credit insurance, health insurance and single premium immediate annuity products;
- net investment income; and
- insurance and investment product fees and other income, including surrender charges, mortality and expense risk charges, primarily from variable life and annuity, deferred annuities, and universal life insurance policies, management fees and commissions from other investment products, and other administrative charges.

The insurance segments expenses consisting primarily of the following:

- benefits provided to policyholders, contract holders and beneficiaries and changes in reserves held for future benefits;
- interest credited on account balances;
- acquisition and operating expenses, including commissions, marketing expenses, policy and contract servicing costs, overhead and other general expenses that are not capitalized (shown net of deferrals);
- amortization of deferred policy acquisition costs and other intangible assets; and
- income taxes.

The insurance segments have liabilities plus an amount of surplus allocated sufficient to support each segment s business activities. The insurance segments do not directly own assets. Rather assets are allocated to the segments to support the liabilities and surplus of each segment. The mix of assets allocated to each of the insurance segments is modified as necessary to provide for a match of cash flows and earnings to properly support the characteristics of the insurance liabilities. We have utilized this methodology consistently over all periods presented.

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Corporate & Other

The Corporate and Other segment acts as the owner of all of the invested assets of the Company. As noted previously, assets and surplus from the Corporate and Other segment are allocated to the insurance segments to match the liabilities of those segments. The investment income from the invested assets is also allocated to the insurance segments from the Corporate and Other segment in accordance with the amount of assets allocated to each segment. Earnings of the Corporate and Other segment are derived from our non-insurance businesses as well as earnings from those invested assets that are not allocated to the insurance segments. All realized investment gains and losses are recorded in this segment.

Outlook

The Outlook section contains many forward-looking statements, particularly relating to our future financial performance. These forward-looking statements are estimates based on information currently available to us, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and are subject to the precautionary statements set forth in the introduction to this Annual Report on Form 10-K. Actual results are likely to differ materially from those forecast by us, depending on the outcome of various factors.

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

General Trends

Challenging Financial and Economic Environment: We believe that as expectations for global economic growth remain uncertain, factors such as consumer spending, business investment, the volatility and condition of the capital markets and inflation will affect the business and economic environment and, in turn, impact the demand for the type of financial and insurance products we offer. Adverse changes in the economy could affect earnings negatively and have a material adverse effect on our business, financial condition and results of operations. However, we believe those risks are somewhat mitigated by our financial strength, active risk management and disciplined underwriting for our products. Our diverse product mix across multiple lines of business (life, annuity, health and property and casualty) is a strength that will help us adapt to current economic times and give us the ability to serve the changing needs of our customer base. For example, fluctuations in the stock market during recent years have led investors to search for financial products that are insulated from the volatility of the markets. We are well positioned to serve the demand in this marketplace given our success with fixed annuity products. Additionally, through our conservative business approach, we believe we remain financially strong, and we are committed to providing a steady and reliable source of financial protection for policyholders and investors alike.

Low Interest Rates: Low interest rate environments are typically challenging for life and annuity companies as the spreads on deposit-type funds and contracts narrow and policies approach their minimum crediting rates. Low market interest rates may reduce the spreads between the amounts we credit to fixed deferred annuity and individual life policyholders and the yield we earn on the investments that support these obligations. We have an Asset-Liability Management (ALM) Committee that actively manages the profitability of our in-force block of insurance policies. In response to the unusually low interest rates in recent years, we have reduced the guaranteed minimum crediting rates on newly issued fixed annuity contracts and reduced crediting rates on in-force contracts, where permitted to do so. These actions have helped mitigate the adverse impact of low interest rates on our spreads and on the profitability of these products, although sales volume and persistency could diminish as a result. Additionally, we maintain assets with various maturities to support product liabilities and ensure liquidity. A gradual increase in longer-term interest rates relative to short-term rates generally will have a favorable effect on the profitability of these products. Although rapidly rising interest rates could result in reduced persistency in our spread-based retail products, as contract holders shift assets into higher yielding investments, we believe that our ability to react quickly to the changing marketplace will allow us to manage this risk.

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Low interest rates are challenging for property and casualty companies. Investment income is generally a substantial element in earning an acceptable profit margin. Lower interest rates resulting in lower investment income require the company to achieve a lower combined loss and expense ratio to premium earned. We have taken pricing actions to help mitigate the adverse impact of low interest rates on our property and casualty business; although we have seen sales volume and persistency diminish as a result.

Focus on Operating Efficiencies: The challenging economic environment and the recent investment-related losses across the industry have created a renewed focus on operating cost reductions and efficiencies. We aggressively manage our cost base while maintaining our commitment to provide superior customer service to agents and policyholders. Investments in technology are aligned with activities and are coordinated through a disciplined project management process. In 2009, we consolidated our data centers and Information Technology (IT) operations to realize synergies with our subsidiaries. We also anticipate using technology to enhance our policyholders and agents web experience.

Changing Regulatory Environment: The insurance industry is regulated at the state level. In addition, some life and annuity products and services are subject to U.S. federal regulation. The debate over the U.S. federal regulatory role in the insurance industry continues to be a divisive issue within the industry. We proactively monitor this debate to determine its impact on our business.

Life and Annuity

Life insurance continues to be our mainstay product today, as it has been during our long history. We believe that the combination of predictable and decreasing mortality rates, positive cash flow generation for many years after policy issue and favorable persistency characteristics, suggest a viable and profitable future for this line of business. We continue to use a wide variety of marketing channels and plan to expand our traditional distribution models with additional independent agents.

We are committed to maintaining our fixed deferred annuity product lines. We have a conservation program that is intended to retain policyholders through proactive communication and education when a policyholder is considering surrendering his or her policy. We believe this program has resulted in our retaining approximately 5% of policyholders that have submitted surrender requests. Furthermore, recent marketing and product development efforts have led to increased sales in our equity-indexed deferred annuity product line. We expect the equity-indexed deferred annuity product line to continue to make up a significant portion of annuity sales going forward.

Effective management of invested assets and associated liabilities involving credited rates and, where applicable, financial hedging instruments (which are utilized as hedges of equity-indexed annuity sales), is crucial to our success in the annuity segment. Asset disintermediation , the risk of large outflows of cash at times when it is disadvantageous to us to dispose of invested assets, is a risk associated with this segment. This risk is monitored and managed by the ALM Committee. The ALM Committee monitors asset disintermediation risk through the use of statistical measures such as duration and projected future cash flows based on large numbers of possible future interest environments and the use of modeling to identify potential risk areas. These techniques are designed to manage asset-liability cash flow and minimize potential losses.

Demographics: We believe that a key driver shaping the actions of the life insurance industry is the rising income protection, wealth accumulation, and insurance needs of retiring Baby Boomers (those born between 1946 and 1964). According to U.S. Census information published in 2008, about 19.3 percent of the total population will be over 65 by 2030, compared to about 13.0 percent now. Also, the most rapidly growing age group is expected to be the 85 and older population. As a result of increasing longevity and uncertainty regarding the Social Security system, retirees will need to accumulate sufficient savings to support retirement income requirements.

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

Competitive Pressures: The life insurance industry remains highly competitive. Product development and product life cycles have shortened in many products, leading to more intense competition with respect to product features. In addition, several of the industry s products can be quite homogeneous and subject to intense price competition. We believe we possess sufficient scale, financial strength and flexibility to effectively compete in this market.

The annuity market is also highly competitive. In addition to aggressive annuity rates and new product features such as guaranteed living benefit riders, within the industry there is growing competition from other financial service firms. Insurers continue to evaluate their distribution channels and the way they deliver products to consumers. At this time, we have elected not to provide guaranteed living benefits as a part of our variable annuity products. While this may have impeded our ability to sell variable annuities in the short term, we believe this strategy has given us an advantage in terms of profitability over the long term. We believe these products were not adequately priced relative to the risk profile of the product.

We believe we will continue to be competitive in the life and annuity markets through our broad line of products, our distinct distribution channels, and our consistent high level of customer service. We modify our products to meet customer needs and to expand our reach where we believe we can obtain profitable growth. Some steps we have taken to improve our competitive position in the market include:

- In 2010, we established a New York life insurance subsidiary. The subsidiary started its operations in the first half of 2010. A variety of annuity products were available for sale in 2010 and will be followed in subsequent years by our life products. Initial sales are anticipated to be through independent and multiple-line agents. Based on competitors market experience, we expect annuity deposits from this subsidiary to represent five to ten percent of total deposits received once the market is established.
- Sales of traditional life insurance products through our Career Sales and Service Division increased in 2010. This, coupled with our focus on policy persistency and expense management, allowed us to continue to maintain a stable and profitable block of in force business.
- Sales of Universal Life insurance products increased for our Multiple-line and Career Sales and Service Divisions in 2010.
- We believe there will be a continuing shift in sales emphasis to utilizing the Internet, endorsed direct mail and innovative product/distribution combinations. Our direct sales of life insurance products rebounded in 2010. Selling traditional life insurance products through our Internet and third-party marketing distribution channels will remain a focus.

Health

We experienced a decline in our Medicare Supplement policies in-force in 2010 and 2009. Price pressure from traditional Medicare Supplement carriers seeking the lowest market rates and, to a lesser extent, competition from Medicare Advantage plans continues to impact our production. We remain committed to the traditional Medicare Supplement plans, which we consider viable for the long term.

During March 2010, the Patient Protection and Affordable Care Act, and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Acts), were signed into law. The Health Acts mandate broad changes in the delivery of health care benefits that impact our current business model, including its relationship with current and future customers, producers and health care providers, products, services, processes and technology. As a result of The Health Acts, management decided to discontinue the sale of individual medical expense insurance plans effective June 30, 2010. Such insurance plans included our major medical and hospital surgical products.

We expect our Managing General Underwriter line (MGU), which provides a large contribution to health profits, to grow during 2011. It is important to note that most of the income associated with this line is in the form of a fee income included in *Other income* of the Health segment s operating results; we retain only 10% of the MGU premium. The net earned premium related to this business is presented as part of *All other* lines.

Property and Casualty

Our operating results continue to be significantly impacted by a high level of catastrophe losses in the Midwest and Northeast. We are not currently planning to change our geographic concentrations as we consider these events to be unusual, and we do not expect them to continue at such high levels.

U.S. Property/Casualty Review and Preview published by A.M. Best on February 14, 2011 noted that the U.S. property and casualty insurance industry has continued to experience persistent competition, rate decreases in practically all commercial lines, weak macroeconomic conditions, and above average catastrophe activity. The industry s underwriting performance deteriorated in 2010, as unusually high catastrophe related losses, driven by increased frequency of low-severity perils, and weaker results in the commercial market took a heavy toll on overall underwriting results. Despite the absence of large hurricane related losses, the U.S. property and casualty industry experienced large catastrophe related losses in 2010, driven by a sharp upswing in the frequency of low-severity perils, including tornadoes, winter storms, hail and floods. While the severity of these events was not significant, the above-normal frequency took a toll on the industry, as a majority of these small-scale, weather related losses fell short of reinsurance triggers. To illustrate the increased frequency of events in the U.S. during 2010, the Federal Emergency Management Agency declared a record number of major disasters of 81 during the year, up from 59 declared in 2009. The historical average is 34.

While U.S. property and casualty insurers, for the most part, continued to recover from the financial crisis and strengthen their capital positions, the overall industry experienced growing pressure from a number of fronts including sustained competitive market conditions in commercial lines of business, lingering but receding effects of the financial crisis, and volatility in the financial markets. These pressures are expected to continue into 2011. In addition, the industry could experience an uptick in smaller weather-related events that are below reinsurance triggers, as was the case in 2010.

Demand for credit-related insurance products has begun to increase. The tightening of credit in recent years significantly affected the products written through the auto dealer market. However, collateral protection sales increased during this period offsetting the aforementioned decreases. We continue to update credit insurance product offerings and pricing to meet changing market needs, as well as adding new agents to expand market share in the credit-related insurance market. We are reviewing and implementing procedures to enhance customer service and, at the same time, looking for efficiencies to reduce administrative costs.

Competition: Property and casualty insurers are facing a continued competitive pricing environment. The condition of the economy in 2010 prevented the rate hardening most industry leaders were expecting following the declines in previous years. The competitive environment is expected to continue into 2011 as excess industry capital, industry loss reserve releases, and an anticipated sluggish economic recovery all undermine any significant improvement in the market.

Despite the challenging pricing environment, we expect to identify profitable opportunities through our strong distribution channels, expanding geographic coverage, target marketing effects and new product development. Through our multiple-line exclusive agents, we will continue to focus on increasing our market share in the home, auto, commercial, and life insurance business. Introduction of new products, such as one targeted toward the young family market in 2008, has been a main driver for increased policy counts in homeowners and auto insurance. The integration of the Farm Family companies has allowed us to expand our geographic coverage into the Northeast and our product portfolio to include agribusiness and commercial insurance. Similarly, Farm Family has expanded its product portfolio to include additional personal line property and casualty products. We expect that our agribusiness product will continue to be a leading provider in the Northeast United States.

Critical Accounting Estimates

The consolidated financial statements have been prepared in conformity with GAAP. The preparation of the consolidated financial statements requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and their accompanying notes. Actual results could differ from results reported using those estimates.

We have identified the following estimates as critical in that they involve a high degree of judgment and are subject to a significant degree of variability:

- Deferred policy acquisition costs;
- Reserves;
- Reinsurance;
- Pension and postretirement benefit plans;
- Other-than-temporary impairment;
- Litigation contingencies; and
- Federal income taxes.

Our accounting estimates inherently require the use of judgments relating to a variety of assumptions, in particular, expectations of current and future mortality, morbidity, persistency, losses and loss adjustment expenses, recoverability of receivables, investment returns and interest rates. In developing these estimates, we make subjective and complex judgments that are inherently uncertain and subject to material changes as facts and circumstances develop. Although variability is inherent in these estimates, we believe that the amounts provided are appropriate, based upon the facts available upon compilation of the consolidated financial statements. Due to the inherent uncertainty when using assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be different from those reported in the consolidated financial statements.

A discussion of these critical accounting estimates is presented below.

Deferred Policy Acquisition Costs

We incur significant costs in connection with acquiring insurance business, including commissions and certain other expenses. The deferred costs are recorded and reported as Deferred Policy Acquisition Costs (DAC) in the asset section of the consolidated statements of financial position. The deferred costs are subsequently amortized over the lives of the underlying contracts in relation to the anticipated emergence of premiums, gross margins, or gross profits, depending on the type of product.

The DAC on traditional life and health products are amortized with interest over the anticipated premium-paying period of the related policies, in proportion to the ratio of annual premium revenue to be received over the life of the policies. Expected premium revenue is estimated by using the same mortality and withdrawal assumptions used in computing liabilities for future policy benefits. The amount of DAC is reduced by a provision for anticipated inflation of maintenance and settlement expenses in the determination of such amounts by means of grading interest rates.

Costs deferred on universal life, limited pay and investment-type contracts are amortized as a level percentage of the present value of anticipated gross profits from investment yields, mortality, and surrender charges. The effect on the DAC that would result from realization of unrealized gains (losses) is recognized with an offset to Accumulated Other Comprehensive Income in consolidated statements of financial position as of the reporting date. It is possible that a change in interest rates could have a significant impact on the DAC calculated for these contracts.

DAC associated with property and casualty insurance business consists principally of commissions, underwriting and issue costs. These deferred costs are amortized over the coverage period of the related policies, in relation to premium revenue recognized.

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We had a total DAC asset of approximately $1.32 billion and $1.33 billion at December 31, 2010 and 2009, respectively.

We believe that the estimates used in our deferred policy acquisition cost calculations provide a representative example of how variations in assumptions and estimates would affect our business. The following table displays the sensitivity of reasonably likely changes in assumptions included in the amortization of the DAC balance of our long-tail business for the year ended December 31, 2010 (in thousands):

	Increase/(decrease) in DAC
Increase in future investment margins of 25 basis points	$ 29,050
Decrease in future investment margins of 25 basis points	(33,594)
Decrease in future life mortality by 1%	2,462
Increase in future life mortality by 1%	(2,528)

Reserves

Life and Annuity Reserves:

Liability for Future Policy Benefits and Policy Account Balances   For traditional life products, liabilities for future policy benefits have been calculated based on a net level premium method using estimated investment yields, withdrawals, mortality and other assumptions that were appropriate at the time of policy issuance. The estimates used are based on our experience, adjusted with a provision for adverse deviation. Investment yields used for traditional life products range from 3.0% to 8.0% and vary by issue year.

Future policy benefits for universal life and investment-type deferred annuity contracts reflect the current account value before applicable surrender charges. Future policy benefits for group life policies have been calculated using a level interest rate ranging from 3.0% to 5.5%. Mortality and withdrawal assumptions are based on our experience. Fixed payout annuities included in future policy benefits are calculated using a level interest rate of 5.0%. Mortality assumptions are based on standard industry mortality tables. Liabilities for payout annuities classified as investment contracts (payout annuities without life contingencies) are determined as the present value of future benefits at the breakeven interest rate determined at inception.

At least annually, we test the net benefit reserves (policy benefit reserves less DAC) established for life insurance products, including consideration of future expected premium payments, to determine whether they are adequate to provide for future policyholder benefit obligations. This testing process is referred to as Loss Recognition for traditional products or Unlocking for non-traditional products. The assumptions used to perform the tests are our current best estimate assumptions as to policyholder mortality, persistency, company maintenance expenses and invested asset returns.

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

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

Life Reserving Methodology   We establish liabilities for amounts payable under life insurance policies, including participating and non-participating traditional life insurance and interest-sensitive and variable universal life insurance. In general, amounts are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid, reduced by the present value of future expected premiums (for traditional life insurance), or as the account value established for the policyholder (for universal and variable universal life insurance). Such liabilities are established based on methods and underlying assumptions in accordance with ASC 940-40, *Financial Services   Insurance- Claim Costs and Liabilities for Future Policy Benefits,* and applicable actuarial standards. Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, policy lapse, investment return, inflation, expenses and other contingent events as appropriate to the respective product type.

Future policy benefits for non-participating traditional life insurance policies are equal to the aggregate of the present value of expected benefit payments and related expenses less the present value of expected future net premiums. Assumptions as to mortality and persistency are based upon our experience, with provisions for adverse deviation, when the basis of the liability is established. Interest rates for the aggregate future policy benefit liabilities range from 3.0% to 8.0% and vary by issue year. Future policy benefit liabilities for participating traditional life insurance policies are equal to the aggregate of (i) net level premium reserves for death and endowment policy benefits (calculated based upon the non-forfeiture interest rate, ranging from 2.5% to 6.0%, and mortality rates assumed in calculating the cash surrender values described in such contracts); and (ii) the liability for terminal dividends.

Future policy benefits for interest-sensitive and variable universal life insurance policies are equal to the current account value established for the policyholder. Some of our universal life policies contain secondary guarantees, for which an additional liability is established. Liabilities for universal life secondary guarantees and paid-up guarantees are determined by estimating the expected value of death benefits payable when the account balance is projected to be zero and recognizing those benefits over the accumulation period based on total expected assessments.

We regularly evaluate estimates used and adjust the liability balances, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that assumptions should be revised. The assumptions used in estimating the secondary and paid-up guarantee liabilities are consistent with those used for amortizing DAC and are thus subject to the same variability and risk. The assumptions used in calculating our liabilities are based on the average benefits payable over a range of scenarios.

Annuity Reserving Methodology   We establish liabilities for amounts payable under annuity contracts, including fixed payout annuities and deferred annuities. An immediate or payout annuity is an annuity contract in the benefit   payout phase. In a fixed payout annuity contract, the insurance company agrees, for a cash consideration, to make specified benefit payments for a fixed period, or for the duration of a designated life or lives. The cash consideration can be funded with a single payment, as is the case with single premium immediate annuities, or with a schedule of payments, as is the case with   limited pay   products.

Payout annuities with more than an insignificant amount of mortality risk are calculated in accordance with ASC 944-40 for limited pay insurance contracts. Benefit and maintenance expense reserves are established by using assumptions reflecting our expectations, including an appropriate margin for adverse deviation. Payout annuity reserves are calculated using standard industry mortality tables specified for statutory reporting and an interest rate of 5% for life annuities and 3% for shorter duration contracts, such as term certain payouts. If the resulting reserve would otherwise cause profits to be recognized at the issue date, additional reserves are established. The resulting recognition of profits would be gradual over the expected life of the contract.

Liabilities for deferred annuities are established based on methods and underlying assumptions in accordance with ASC 944-40 for investment contracts. Reserves for policyholder account balances are established as the account value held on behalf of the policyholder. The possible need for additional reserves for guaranteed minimum death benefits are determined in accordance with ASC 944-40. The profit recognition on deferred annuity contracts is gradual over the expected life of the contract. No immediate profit is recognized on the sale of the contract.

Health Reserves:

Overview We establish future policy benefits in order to match income and benefit expenses by accounting period. Claim reserves and liabilities are established in order to associate future benefit payments, both known and unknown, with the period in which they were incurred.

As of year-end 2010 the total Health claim reserve and liability was $107.2 million versus $115.9 million at year-end 2009.

The following methods are employed to establish claim reserves and liabilities and future policy benefits for the Health segment:

Completion Factor Approach: The claim reserves for most health care coverage can be suitably calculated using a completion factor method. This method assumes that the historical lag pattern will be an accurate representation for the payment of claims that have been incurred but not yet completely paid. An estimate of the unpaid claim amount is calculated by subtracting period-to-date paid claims from an estimate of the ultimate complete payment for all incurred claims in the time period. Completion factors are calculated which complete the current period-to-date payment totals for each incurred month to estimate the ultimate expected payout. This method is best used when the incurred date and subsequent paid date is known for each claim and if fairly consistent patterns can be determined from the progression date of incurral until the date paid in full. The completion factor approach is also best used when the time between date of incurral and final payment is short (i.e., less than 24 months) in duration.

For the individual and association medical block (including Medicare Supplement), we use a completion factor approach to establish claim liability and reserves. Group and managing general underwriter claim reserves are also calculated using these methods. Outstanding claim inventories are monitored monthly to determine if any adjustment to the completion factor approach is needed.

For some larger managing general underwriters we engage external actuarial firms to provide an estimate of the claim reserves for their respective blocks. We independently evaluate the external claim reserve estimates provided for reasonableness as well as for consistency with other completion-factor based reserves. These estimates are incorporated into our reserve analysis to determine the booked reserves for the segment.

Tabular Reserves: Disability income and long-term care blocks of business utilize a tabular calculation to generate the present value of expected future payments. These reserves are called tabular because they rely on the published valuation tables and company experience for disability termination. Tabular reserves are determined by applying termination assumptions related to mortality or recovery, or for long-term care, shifts in the mode of care, to the stream of contractual benefit payments. The present value of these expected benefit payments at the required rate of return establishes the tabular reserve.

Credit health claim reserves and liabilities are also based on a tabular calculation using actuarial tables published by the Society of Actuaries and accepted by the NAIC. The reserve for this business is calculated as a function of open claims using the same actuarial tables discussed above. Periodically, we test the total claim reserve using a completion factor calculation.

Future Policy Benefits Reserves for future policy benefits have been calculated based on a net level premium method. Future policy benefits are calculated consistent with ASC 944-40 and are equal to the aggregate of the present value of expected future benefit payments, less the present value of expected future premiums. Morbidity and termination assumptions are based on our experience or published valuation tables when available and appropriate. Interest rates for the aggregate future policy benefit liabilities range from 3.5% to 8.0% and vary by issue year.

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Premium Deficiency Reserves Deficiency reserves are established when the expected benefit payments for a classification of policies having homogenous characteristics are in excess of the expected premiums for these policies. The determination of a deficiency reserve takes into consideration the likelihood of premium rate increases, the timing of these increases, and the expected benefit utilization patterns. We have established premium deficiency reserve for segments of the major medical business and the Long Term Care business. These lines of business are in run-off and continue to under-perform relative to the original pricing. The assumptions and methods used to determine the deficiency reserves are reviewed periodically for reasonableness and the reserve amount is monitored against emerging losses.

Property and Casualty Reserves:

Reserves for Loss and Loss Adjustment Expense (LAE) - Property and casualty reserves are established to provide for the estimated costs of paying claims under insurance policies written. These reserves include estimates for both:

- Case reserves claims that were reported to us but not yet paid, and
- IBNR anticipated cost of claims incurred but not reported. IBNR reserves include a provision for potential development on case reserves, losses on claims currently closed which may reopen in the future, and claims that have been incurred but not yet reported.

These reserves include an estimate of the expense associated with settling claims, including legal and other fees, and the general expenses of administering the claims adjustment process. The two major categories of loss adjustment expense are defense and cost containment expense and adjusting and other expense. The details of property and casualty reserves are shown in the following table (in thousands):

	Year ended December 31, 2010			**Year ended December 31, 2009**		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Case	$ 472,794	$ 13,676	$ 459,118	$ 473,908	$ 11,639	$ 462,269
IBNR	458,509	30,619	427,890	443,082	48,693	394,389
Total	**$ 931,303**	**$ 44,295**	**$ 887,008**	**$ 916,990**	**$ 60,332**	**$ 856,658**

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

IBNR: IBNR reserves are estimated based on many variables, including historical statistical information, inflation, legal developments, economic conditions, and general trends in claim severity, frequency and other factors that could affect the adequacy of loss reserves.

Loss and premium data is aggregated by exposure class and by accident year (i.e., the year in which losses were incurred). IBNR reserves are calculated by projecting ultimate losses on each class of business and subtracting paid losses and case reserves. Unlike case reserves, IBNR is generally calculated at an aggregate level and cannot usually be directly identified as reserves for a particular loss or contract. Our overall reserve practice provides for ongoing claims evaluation and adjustment based on the development of related data and other relevant information pertaining to such claims. Adjustments in aggregate reserves, if any, are reflected in the results of operations of the period during which such adjustments are made.

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Our actuaries reflect the potential uncertainty generated by volatility in our loss development profiles when selecting loss development factor patterns for each line of business with a conservative mind set. The net and gross reserve calculations have shown redundancies for the last several year-ends as a result of losses emerging favorably compared to what is implied by the selected loss development patterns. See Results of Operations and Related Information by Segment Property and Casualty, Prior Period Reserve Development section of the MD&A for additional information.
The evaluation process to establish the loss and loss adjustment expense reserves involves the collaboration of underwriting, claims and internal actuarial departments. The process also includes consultation with independent actuarial firms on a regular basis. Work performed by independent actuarial firms is an important part of our process of gaining reassurance that the loss and loss adjustment expense reserves determined by our internal actuarial department sufficiently meet all present and future obligations arising from all claims incurred as of year-end. Additionally, the independent actuarial firms complete the Statements of Actuarial Opinion at each year-end, certifying that the recorded loss and loss adjustment expenses reserves appear reasonable.
Premium Deficiency Reserve: Deficiency reserves are established when the expected benefit payments and a maintenance component for a product line is in excess of the expected premiums for that product line. The determination of a deficiency reserve takes into consideration the current profitability of a product line using anticipated losses, loss expense, and policy maintenance costs. The assumptions and methods used to determine the deficiency reserves are reviewed periodically for reasonableness and the reserve amount is monitored against emerging losses. There were no reserves of this type at December 31, 2010.
Reserving Methodology The following actuarial methods are utilized in our reserving process during both annual and interim reporting periods:

Initial Expected Loss Ratio: This method calculates an estimate of ultimate losses by applying an estimated loss ratio to an estimate of ultimate earned premium for each accident year. This method is appropriate for classes of business where the actual paid or reported loss experience is not yet mature enough to override initial expectations of the ultimate loss ratios.

Bornhuetter Ferguson: This method uses as a starting point an assumed initial expected loss ratio method and blends in the loss ratio implied by the claims experience to date by using loss development patterns based on our own historical experience. This method is generally appropriate where there are few reported claims and a relatively less stable pattern of reported losses.

Loss or Expense Development (Chain Ladder): This method uses actual loss or defense and cost containment expense data and the historical development profiles on older accident periods to project more recent, less developed periods to their ultimate position. This method is appropriate when there is a relatively stable pattern of loss and expense emergence and a relatively large number of reported claims.

Ratio of Paid Defense and Cost Containment Expense to Paid Loss Development: This method uses the ratio of paid defense and cost containment expense to paid loss data and the historical development profiles on older accident periods to project more recent, less developed periods to their ultimate position. In this method, an ultimate ratio of paid defense and cost containment expense to paid loss is selected for each accident period. The selected paid defense and cost containment expense to paid loss ratio is then applied to the selected ultimate loss for each accident period to estimate the ultimate defense and cost containment expense. Paid defense and cost containment expense is then subtracted from the ultimate defense and cost containment expense to calculate the unpaid defense and cost containment expense for that accident period.

Calendar Year Paid Adjusting and Other Expense to Paid Loss: This method uses the ratio of prior calendar years paid expense to paid loss to project ultimate loss adjustment expenses for adjusting and other expense. The key to this method is the selection of the paid expense to paid loss ratio based on prior calendar years activity. A percentage of the selected ratio is applied to the case reserves (depending on the line of insurance) and 100% to the indicated IBNR reserves. These ratios assume that a percentage of the expense is incurred when a claim is opened and the remaining percentage is paid throughout the claim s life.

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

Key Assumptions:

Implicit in the actuarial methodologies previously discussed are the following critical reserving assumptions which may impact our reserves:

- The selected loss ratio used in the initial expected loss ratio method and Bornhuetter Ferguson method for each accident year;
- The expected loss development profiles;
- A consistent claims handling process;
- A consistent payout pattern;
- No unusual growth patterns;
- No major shift in liability limits distribution on liability policies; and
- No significant prospective changes in workers compensation laws that would significantly affect future payouts.

The loss ratio selections and loss development profiles are developed primarily using our own historical claims and loss experience. These assumptions have not been modified from the preceding periods and are consistent with historical loss reserve development patterns.

Management believes our loss reserves at December 31, 2010 are adequate. New information, legislation, events or circumstances, unknown at the original valuation date, however, may result in future development to our ultimate losses significantly greater or less than the recorded reserves at December 31, 2010.

For non-credit lines of business, our claims handling process is the most likely of those assumptions previously noted to vary from our expectations. This assumption was determined to most likely impact our results of operations, financial position and liquidity, and thus we chose to measure the sensitivity to this assumption. The table below presents estimates of the range of likely scenarios related to a speed-up or slow-down of five days in the claims handling process and its subsequent impact on our estimate of gross loss reserves at year end (amounts in thousands). Without certainty of future reporting patterns, we do not consider any change within the range displayed as more reasonably likely than any other.

	Year ended December 31, 2010 Cumulative Increase (Decrease)	
	5 Day Speed Up	**5 Day Slow Down**
Personal:		
Personal Auto	$ (1,421)	$ 1,236
Homeowner	14	345
Commercial:		
Agribusiness	71	377
Commercial auto	(374)	1,409
Other	(1,106)	3,169

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The analysis of our credit insurance line of business quantifies the estimated impact on gross loss reserves of a reasonably likely scenario of varying the ratio applied to the unearned premium to determine the IBNR reserves at December 31, 2010. IBNR reserving methodology for this line of business focuses primarily on the use of a ratio applied to the unearned premium for each credit insurance product. The selected ratios are based on historical loss and claim data. In our analysis, we varied this ratio by +/- 5% across all credit insurance products combined. The results of our analysis show an increase or decrease in gross reserves across all accident years combined of approximately $7.2 million.

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

Reserving by class of business:

The weight given to a particular actuarial method depends on the characteristics specific to each class of business, including the types of coverage and the expected claim-tail.

Short-tail business Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. For these lines, emergence of paid losses and case reserves is credible and likely indicative of ultimate losses; therefore, more reliance is placed on the Loss or Expense Development methods.

Large catastrophe and weather-related events are analyzed separately using information available to our claims staff, loss development profiles from similar events and our own historical experience.

Long-tail business For long-tail lines of business, emergence of paid losses and case reserves is less credible in early periods and, accordingly, may not be indicative of ultimate losses. For these lines of business, more reliance is placed on the Bornhuetter Ferguson and Initial Expected Loss Ratio methods.

Credit business For credit lines of business, the IBNR is estimated either by applying a selected ratio to the unearned premium reserve or by using the loss development methods previously discussed.

Loss adjustment expenses We estimate adjusting and other expense separately from loss reserves using the Calendar Year Paid-to-Paid method. Reserves for defense and cost containment expense are estimated separately from loss reserves, using either the Loss or Expense Development method or Ratio of Paid Defense and Cost Containment Expense to Paid Loss method.

Reinsurance

Reinsurance recoverable balances include amounts owed to us in respect of paid and unpaid ceded losses and loss expenses and are presented net of a reserve for non-recoverability. At December 31, 2010 and 2009, reinsurance recoverable balances were $355.2 million and $371.7 million, respectively.

Recoveries on our gross ultimate losses are determined using distributions of gross ultimate loss by layer of loss retention to estimate ceded IBNR as well as through the review of individual large claims. The most significant assumption we use is the average size of the individual losses for claims that have occurred but have not yet been recorded by us. The reinsurance recoverable is based on what we believe are reasonable estimates and is disclosed separately in the consolidated financial statements. However, the ultimate amount of the reinsurance recoverable is not known until all losses are settled.

We manage counterparty risk by entering into agreements with reinsurers we generally consider to be highly rated. However, we do not require a specified minimum rating. We monitor the concentrations of the reinsurers and reduce the participation percentage of lower-rated companies when appropriate. We believe we currently have no reinsurance amounts with any significant risk of becoming unrecoverable due to reinsurer insolvency.

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Our reinsurance contracts contain clauses that allow us to terminate the participation with reinsurers who are downgraded. Our risk assessment is comprised of industry ratings, recent news and reports, and a limited review of financial statements, for any new reinsurer under consideration. We also may require letters of credit, trust agreements, or cash advances from unauthorized reinsurers (reinsurers not licensed in our state of domicile) to fund their share of outstanding losses and LAE. Final assessment is based on the judgment of senior management.

Pension and Postretirement Benefit Plans

We maintain qualified and nonqualified defined benefit pension plan and one qualified defined benefit pension plan. We also provide certain health and life insurance benefits to qualified current and former employees. We recognize the funded status of defined benefit pension and other postretirement plans on our consolidated statements of financial position.

The pension benefit and postretirement benefit obligations and related costs for all plans are calculated using actuarial concepts in accordance with the relevant accounting guidance. The discount rate and the expected return on plan assets are important elements of expense and/or liability measurement. We evaluate these key assumptions annually. Other assumptions involve demographic factors such as retirement age, mortality, turnover and rate of compensation increases.

We use a discount rate to determine the present value of future benefits on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. To determine the expected long-term rate of return on plan assets, a building-block method is used. The expected rate of return on each asset is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long-term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate). Using this approach, the precise expected return derived will fluctuate somewhat from year to year; however, it is our policy to hold this long-term assumption relatively constant.

The assumptions used in the measurement of our pension benefit obligations for 2010 and 2009 are as follows:

	Used for Net Benefit Cost for year ended December 31, 2010	Used for Benefit Obligations as of December 31, 2010	Used for Net Benefit Cost for year ended December 31, 2009	Used for Benefit Obligations as of December 31, 2009
Discount rate	6.17%	5.34%	6.17%	5.73%
Rate of compensation increase	4.20	3.78%	4.20	4.20
Long-term rate of return	7.65	7.65%	7.65	7.65

Other-Than-Temporary Impairment

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

Litigation Contingencies

We review existing litigation and potential litigation with counsel quarterly to determine if an accrual of a liability for possible losses is necessary. Liabilities for losses are established whenever they are probable and estimable based on our best estimate of the probable loss. If no one number within the range of possible losses is more probable than any other, we record a liability at the low end of the estimated range.

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

Federal Income Taxes

Our effective tax rate is based on income, non-taxable and non-deductible items, statutory tax rates and tax planning opportunities available. Inherent in determining our annual tax rate are judgments regarding business plans, planning opportunities and expectations about future outcomes.

Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which we have already recorded the tax benefit in our income statement. Deferred tax liabilities generally represent tax expense recognized in our consolidated financial statements for which tax payment has been deferred, or expenditures for which we have already taken a deduction in our tax return but have not yet recognized in our consolidated financial statements.

GAAP requires us to evaluate the recoverability of our deferred tax assets and establish a valuation allowance, if necessary, to reduce our deferred tax asset to an amount that is more-likely-than-not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. Although realization is not assured, management believes it is more-likely-than-not that the deferred tax assets, net of valuation allowances, will be realized.

Our accounting represents management s best estimate of future events that can be appropriately reflected in the accounting estimates. Certain changes or future events, such as changes in tax legislation, geographic mix of earnings and completion of tax audits could have an impact on our estimates and effective tax rate. For example, the dividends received deduction (DRD) reduces the amount of dividend income subject to tax and is a significant component of the difference between our actual tax expense and the expected amount determined using the U.S. federal statutory tax rate of 35%. The U.S. Department of the Treasury and the Internal Revenue Service (IRS) intend to address through regulations the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through regulations or legislation, could increase our actual tax expense and reduce our consolidated net income.

Our liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties, that relate to tax years still subject to review by the IRS or other taxing authorities. Audit periods remain open for review until the statute of limitations has passed. The statute of limitations for the examination of federal income tax returns by the IRS for years 2006 to 2009 has either been extended or has not expired. In the opinion of management, all prior year taxes have been paid or adequate provisions have been made for any uncertain tax positions taken in prior year returns.

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Consolidated Results of Operations

The following is a discussion of our consolidated results of operations, which should be read in conjunction with the *Outlook* section. For discussions of our segments results, see the *Results of Operations and Related Information by Segment* section. The following table sets forth the consolidated results of operations (in thousands):

	Years ended December 31,			Change over prior year	
	2010	**2009**	**2008**	**2010**	**2009**
Premiums and other revenues:					
Premiums	$ 1,877,908	$ 1,974,024	$ 1,888,495	$ (96,116)	$ 85,529
Other policy revenues	185,805	179,504	174,899	6,301	4,605
Net investment income	911,915	839,777	795,442	72,138	44,335
Realized investments gains (losses), net	74,062	(73,855)	(379,034)	147,917	305,179
Other income	17,398	19,000	22,777	(1,602)	(3,777)
Total revenues	**3,067,088**	**2,938,450**	**2,502,579**	**128,638**	**435,871**
Benefits, losses and expenses:					
Policy benefits	1,608,415	1,709,899	1,601,854	(101,484)	108,045
Interest credited to policy account balances	393,119	370,563	299,833	22,556	70,730
Commissions	448,880	459,943	475,345	(11,063)	(15,402)
Other operating costs and expenses	454,146	471,920	493,907	(17,774)	(21,987)
Change in deferred policy acquisition costs (1)	(40,095)	(63,611)	(67,439)	23,516	3,828
Total benefits and expenses	**2,864,465**	**2,948,714**	**2,803,500**	**(84,249)**	**145,214**
Income (loss) before other items and federal income taxes	**$ 202,623**	**$ (10,264)**	**$ (300,921)**	**$ 212,887**	**$ 290,657**

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

Consolidated income before other items and federal income taxes increased during 2010 compared to 2009. The increase was primarily driven by the following:

- an increase in our Corporate and Other segment s realized investment gains and net investment income as a result of improved market conditions,
- a decrease in policy benefits across all segments,
- a decrease in other operating costs and expenses in our Life and Health segments,
- partially offset by a decrease in Life and Health segment premiums and an increase in Annuity segment interest credited to policy account balances.

Consolidated income before other items and federal income taxes increased during 2009 compared to 2008. The increase was primarily driven by the following:

a decrease in our Corporate and other segment s realized investment losses partially offset by increased investment income,

an increase in annuity premiums,

partially offset by increased policy benefits in annuities due to strong single premium immediate annuity sales and increased interest credited to policy account balances.

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Results of Operations and Related Information by Segment

Life

The Life segment markets traditional life insurance products such as whole life and term life, and interest sensitive life insurance products such as universal life, variable universal life as well as indexed universal life. These products are marketed on a nationwide basis through employee agents, multiple-line agents, independent agents, brokers and direct marketing channels.

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

	Years ended December 31,			Change over prior year	
	2010	2009	2008	2010	2009
Revenues:					
Premiums	$ 282,160	$ 284,530	$ 299,338	$ (2,370)	$ (14,808)
Other policy revenues	170,729	164,748	154,984	5,981	9,764
Net investment income	223,753	222,611	226,643	1,142	(4,032)
Other income	3,547	2,720	3,767	827	(1,047)
Total revenues	**680,189**	**674,609**	**684,732**	**5,580**	**(10,123)**
Benefits, losses and expenses:					
Policy benefits	294,177	297,719	296,078	(3,542)	1,641
Interest credited to policy account balances	59,149	58,983	62,221	166	(3,238)
Commissions	91,165	91,968	126,813	(803)	(34,845)
Other operating costs and expenses	178,619	185,048	222,908	(6,429)	(37,860)
Change in deferred policy acquisition costs	(1,963)	1,536	(42,103)	(3,499)	43,639
Total benefits, losses and expenses	**621,147**	**635,254**	**665,917**	**(14,107)**	**(30,663)**
Income before other items and federal income taxes	**$ 59,042**	**$ 39,355**	**$ 18,815**	**$ 19,687**	**$ 20,540**

Earnings for the year ended December 31, 2010 increased significantly compared to 2009 primarily due to an increase in other policy revenues, decreases in policy benefits and operating expenses, and an increase in deferred policy acquisition costs. Operating expenses in 2010 were lower due to the absence of nonrecurring costs associated with the Company s SEC registration and lower direct marketing expenses. The increase in other policy revenues was due to higher policy service fees on a growing block of interest-sensitive life policies.

For the year ended December 31, 2009, earnings increased compared to 2008. The overall increase was primarily attributed to lower operating expenses in 2009 due to the absence of two lawsuit settlements recorded in 2008. In addition, expenses related to preparing for our initial SEC registration decreased compared to 2008.

During the second quarter of 2009, we paid $12.9 million in connection with the settlement of a class action lawsuit that was finalized in 2007. Such settlement was comprised of credit life premium refunds and other related damages and fees to certain previously insured persons. The Life segment was fully reserved for this settlement and did not incur any related impact to its results of operations for the year ended December 31, 2009. For additional information on this settlement, refer to the discussion of the *Perkins* litigation in Note 16 of the Notes to the Consolidated

Financial Statements in our amended Form 10 Registration Statement, filed with the SEC on July 1, 2009.

Premiums

Revenues from traditional life insurance products include scheduled premium payments from policyholders on whole life and term life products. These premiums are in exchange for financial protection for the policyholder from a specific insurable event, such as death or disability. The change in these premiums is impacted by new sales during the period and the persistency of in-force policies.

Premiums have decreased during the past two years. The decrease in premiums for both periods was attributable to increasing Yearly Renewable Term renewal ceded reinsurance premiums on the higher face amounts issued in 2007, 2008 and 2009.

Other Policy Revenues

Other policy revenues include mortality charges, earned policy service fees, and surrender charges on interest-sensitive life insurance policies. These charges increased for the year ended December 31, 2010 compared to 2009 primarily due to higher policy service fees on a growing block of life policies. This increase reflects growth in interest-sensitive life business.

Other policy revenues also increased for the year ended December 31, 2009 compared to 2008. The increase was primarily due to higher mortality charges and fees, which are a result of the large volume of sales of lifetime secondary guarantee universal life products in previous years.

Commissions

Commissions remained relatively flat for the year ended December 31, 2010 compared to 2009.

Commissions decreased for the year ended December 31, 2009 compared to 2008. The decrease was primarily attributable to lower first year universal life premiums. Partially offsetting the decrease in first year commissions was the increase in renewal commissions at a lower rate on a large portion of business sold in 2008. In addition, credit life business experienced a decrease in sales for 2009 as a result of the downturn in the economy and the constraints of the credit markets.

Other Operating Costs and Expenses

Other operating costs and expenses decreased for the year ended December 31, 2010 compared to 2009. The decrease was primarily due to reductions in consulting fees attributed to Sarbanes-Oxley and SEC registration, as well as marketing and legal expenses.

For the year ended December 31, 2009, other operating costs and expenses decreased compared to 2008. The decrease was primarily due to a decrease in production bonuses, which is directly a result of lower sales in 2009. Additionally, there was a reduction in marketing expenses for our Direct Marketing channel.

Change in Deferred Policy Acquisition Costs

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

	Years ended December 31,			Change over prior year	
	2010	2009	2008	2010	2009
Acquisition cost capitalized	$ 80,789	$ 77,161	$ 129,031	$ 3,628	$ (51,870)
Amortization of DAC	(78,826)	(78,697)	(86,928)	(129)	8,231
Change in deferred policy acquisition costs (1)	**$ 1,963**	**$ (1,536)**	**$ 42,103**	**$ 3,499**	**$ (43,639)**

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

Acquisition costs capitalized increased for the year ended December 31, 2010 compared to 2009. The increase primarily resulted from non-commission related compensation. The amortization of DAC as a percentage of gross profit for the year ended December 31, 2010 and 2009 was 39.2% and 43.3%, respectively. The decrease in DAC amortization rate was primarily due to lower lapse rates in 2010. The average annualized lapse/surrender rates for the Life segment were 10.1% and 10.7% for the years ended December 31, 2010 and 2009, respectively. In general, stable or lower lapse rates are important toward maintaining profitability of the Life segment, as higher lapse rates will reduce the average term of the in-force block of business and could result in acceleration of DAC amortization.

Acquisition costs capitalized decreased for the year ended December 31, 2009 compared to 2008. This decrease resulted from the decline in production related compensation in first year commissions to our independent agents. The amortization of DAC as a percentage of gross profits for the years ended December 31, 2009, and 2008 was 43.3%, and 44.5 %, respectively. The change in the ratio for 2009 was primarily attributable to the premium refund lawsuit as previously described. Profitability was down due to decreased investment yields and increased surrenders.

The average annualized lapse/surrender rates in the Life segment were 10.7%, and 10.5% for the years ended December 31, 2009, and 2008, respectively. These combined rates reflected both first year and renewal business. Over the course of 2008 through 2010, we experienced normal fluctuations in lapse rates.

Reinsurance

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

	Reserves Years Ended December 31,			Premiums Years Ended December 31,		
	2010	2009	2008	2010	2009	2008
Reinsurance assumed	$ 9,827	$ 19,514	$ 25,553	$ (1,130)	$ 4,512	$ 8,460
Reinsurance ceded	(173,097)	(160,934)	(147,523)	(86,241)	(74,577)	(80,826)
Total	**$ (163,270)**	**$ (141,420)**	**$ (121,970)**	**$ (87,371)**	**$ (70,065)**	**$ (72,366)**

We use reinsurance to mitigate excessive risk to the Life segment. As of December 31, 2010, our current consolidated retention limit was $1,550,000 for traditional and universal life. Accidental death benefits and premium waiver benefits are mostly retained on new business issued beginning in 2008. Increases in reserves and premium amounts ceded primarily reflect increased use of reinsurance in conjunction with treaties related to universal life products. Decreases in assumed reserves and premium were primarily due to the cancellation of the our reinsurance agreement with two credit life reinsurers. Those blocks of business are now in run-off, and the new business retained is currently written by us on a direct basis.

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We periodically adjust our reinsurance program and retention limits as market conditions warrant, consistent with our corporate risk management strategy. While we have, in the past, reinsured up to 90% of new business, we are currently reinsuring newly developed permanent products on a modified excess retention basis, in which we reinsure mortality risk on a yearly renewable term basis, ceding a 75% quota share of policies with a face value of at least $500,000 up to our retention and then a 100% quota share in excess of retention. Term products are coinsured between 60% and 100% on a first-dollar quota share basis. Current traditionally marketed term products are coinsured on a 90% quota share basis, while current direct marketed products are coinsured on a 60% basis, up to our retention, and then a 100% quota share in excess of retention.

In the case of credit life business, we use reinsurance primarily to provide producers of credit-related insurance products the opportunity to participate in the underwriting risk through offshore producer-owned reinsurance companies. A majority of the treaties entered into by our Credit Insurance Division are normally written on a 100% coinsurance basis with benefit limits of $100,000 on credit life. We have entered into funds withheld reinsurance treaties which are ceded to the reinsurer on a written basis.

Our individual life reinsurance is primarily placed with highly rated companies, and we monitor the financial condition of those companies. For 2010, the companies where we have placed material amounts of reinsurance for the Life segment are shown in the table below (in thousands, except percentages):

Reinsurer	A.M. Best Rating(1)	Ceded Premium	Percentage of Gross Premium
Swiss Re Life and Health America Inc.	A	$ 23,332	6.5%
Munich American Reassurance Company	A+	12,065	3.4%
Transamerica Life Insurance Company	A+	9,882	2.8%
General Re Life Corporation	A++	8,410	2.3%
SCOR Global Life Re Insurance Company of Texas	A-	7,173	2.0%
Other Reinsurers with no single company greater than 2% of the total		3,473	83.0%
Total life reinsurance ceded		**$ 75,735**	**100.0%**

(1) A.M. Best rating as of the most current information available February 22, 2011.

Policy in-force information

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

	Years Ended December 31, 2010	2009	2008	Change over prior year 2010	2009
Life insurance in-force:					
Traditional life	$ 45,919,000	$ 45,229,000	$ 45,008,000	$ 690,000	$ 221,000
Interest sensitive life	23,879,000	24,219,000	24,863,000	(340,000)	(644,000)
Total life insurance in-force	**$ 69,798,000**	**$ 69,448,000**	**$ 69,871,000**	**$ 350,000**	**$ (423,000)**

The following table summarizes the Life segment s policy counts (in thousands):

	Years Ended December 31, 2010	2009	2008	Change Over Prior Year 2010	2009

Number of policies:					
Traditional life	2,274	2,347	2,452	(73)	(105)
Interest sensitive life	176	175	176	1	(1)
Total number of policies	**2,450**	**2,522**	**2,628**	**(72)**	**(106)**

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There was a slight increase in total life insurance in-force as of December 31, 2010 when compared to 2009, as new policies issued exceeded the aggregate face amount of older policies terminated by death, lapse, or surrender.
The total life insurance in-force experienced a minimal decrease as of December 31, 2009 when compared to 2008. The decrease was mainly attributed to a reduction in the average face amount of our interest sensitive life policies, partially offset by an increase in the average face amount of the traditional life policies.
The decreasing policy count, from 2008 through 2010, is attributable primarily to the natural attrition of a larger number of older policies, partially offset by newer policies that are fewer in number but larger in face amount.

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Annuity

We develop, sell and support a variety of immediate and deferred annuities, including fixed, equity-indexed and variable products. We sell these products through independent agents, brokers, financial institutions, and multiple-line and employee agents.

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

	Years ended December 31,			Change over prior year	
	2010	2009	2008	2010	2009
Revenues:					
Premiums	$ 174,193	$ 220,284	$ 116,248	$ (46,091)	$ 104,036
Other policy revenues	15,076	14,756	19,915	320	(5,159)
Net investment income	510,106	449,035	374,023	61,071	75,012
Other income (expense)	(7,900)	(3,870)	(5,718)	(4,030)	1,848
Total revenues	**691,475**	**680,205**	**504,468**	**11,270**	**175,737**
Benefits, losses and expenses:					
Policy benefits	205,948	249,709	142,867	(43,761)	106,842
Interest credited to policy account balances	333,970	311,580	237,612	22,390	73,968
Commissions	95,701	107,053	79,213	(11,352)	27,840
Other operating costs and expenses	62,791	59,254	45,491	3,537	13,763
Change in deferred policy acquisition costs	(44,569)	(62,013)	(20,690)	17,444	(41,323)
Total benefits, losses and expenses	**653,841**	**665,583**	**484,493**	**(11,742)**	**181,090**
Income before other items and federal income taxes	**$ 37,634**	**$ 14,622**	**$ 19,975**	**$ 23,012**	**$ (5,353)**

Earnings for the year ended December 31, 2010 improved significantly when compared to 2009 primarily due to an increase in our net investment income offset by an increase in interest credited to policy account balances. These changes are explained further in the *Interest Credited to Policy Account Balances* section.

Earnings decreased for the year ended December 31, 2009 compared to 2008. A number of factors contributed to the lower earnings, including compressed earned investment spreads, decreased annuity surrender charge revenue and certain non-recurring expenses. The expense increases are primarily due to our initial SEC registration. Interest spreads in 2009 were below 2008 levels as a result of lower yields on our larger cash and cash equivalents position from those in 2008.

Surrender charge revenue decreased in 2009 compared to 2008 as a result of fewer surrenders. Additionally, some policies surrendered in 2009 with positive market value adjustments which increased the cash surrender value paid and consequently decreased surrender charges collected.

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Premiums

Amounts received on SPIA are classified as premiums and are earned immediately as income. Amounts received from fixed deferred annuity policyholders and equity-indexed deferred annuity policyholders are classified as policy deposits and are not part of earned premiums. Annuity premium and deposit amounts received are shown in the table below (in thousands):

	Years ended December 31,			Change over prior year	
	2010	**2009**	**2008**	**2010**	**2009**
Fixed deferred annuity	$ 1,045,429	$ 1,715,871	$ 1,573,237	$ (670,442)	$ 142,634
Equity-indexed deferred annuity	340,920	239,664	85,334	101,256	154,330
Single premium immediate annuity	177,688	227,937	121,952	(50,249)	105,985
Variable deferred annuity	90,188	99,429	103,233	(9,241)	(3,804)
Total	**1,654,225**	**2,282,901**	**1,883,756**	**(628,676)**	**399,145**
Less: policy deposits	1,480,032	2,062,617	1,767,508	(582,585)	295,109
Total earned premiums	**$ 174,193**	**$ 220,284**	**$ 116,248**	**$ (46,091)**	**$ 104,036**

Fixed deferred annuity receipts decreased for the year ended December 31, 2010 compared to 2009, which had abnormally high sales in the first quarter of 2009 due to a flight to safety related to the credit crisis of late 2008. Equity-indexed deferred annuity premiums and deposits increased for the year ended December 31, 2010 compared to 2009 as certain annuitants accepted some exposure to volatility in the pursuit of potentially higher returns. Equity-indexed deferred annuities allow policyholders to participate in equity returns while also having certain downside protection resulting from the guaranteed minimum returns defined in the products.

Fixed deferred annuity receipts for the year ended December 31, 2009 increased compared to 2008. The increase in sales of our fixed deferred annuity products was a result of lower yields on competing products such as CD s and money market funds and policyholders looking for an alternative to the volatile stock market. Equity-indexed deferred annuity sales also increased for the year ended December 31, 2009 compared to 2008 as investors accepted some risk in the pursuit of potentially higher returns while receiving some guaranteed minimum return.

SPIA premiums decreased for the year ended December 31, 2010 compared to 2009. The competitiveness of rates in the SPIA line change very quickly and premium income reflects changes in our position relative to the financial marketplace. We believe that the current low interest rate environment has led some prospective SPIA buyers to defer their purchase of a payout annuity and temporarily invest in cash and cash equivalents, in the hope that rates will be higher at a later date, affording a higher annuity payment per premium dollar.

SPIA premiums increased in 2009 compared to 2008 as a direct result of consumers search for a more stable retirement income.

Variable deferred annuity products are a relatively small portion of our annuity portfolio. Variable deferred annuity premiums decreased for the past two years. This decrease is primarily attributable to our competitive position, as we do not offer income guarantees on our variable deferred annuity products.

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Net Investment Income

Net investment income, a key component of the profitability of the Annuity segment, increased for the year ended December 31, 2010 compared to 2009 and 2009 compared to 2008. The increase is mainly attributed to growth in the assets backing the in-force fixed deferred annuity account balances of 10.5% and 17.8% for 2010 and 2009, respectively.

In 2009, our fixed deferred annuity account values rose by $1.2 billion to $8.2 billion compared to an increase of $707.9 million in 2008. Also contributing to the increases in net investment income was the positive change in realized and unrealized gains on equity options. Equity option gains increased $29.8 million to $5.4 million during 2009.

For a number of years, earnings in the Annuity segment have been pressured by lower average yield rates on the bonds and mortgage loans supporting the reserves. Offsetting the effect of lower yield rates, crediting rates on interest-sensitive products have decreased accordingly where permitted by policy terms. Since approximately 90% of the Annuity segment is interest-sensitive, offsetting credited rate adjustments are usually possible subject to minimum interest rate guarantees that may apply. We have reconfigured the product portfolio to lower those guarantees in response to the current low interest rate environment.

We utilize equity calls as a means to hedge equity-indexed deferred annuity benefits. The realized and unrealized gains or losses on the equity options causes fluctuations in net investment income. Accordingly, we analyze net investment income with and without equity option returns. Refer to the analysis of net investment income with and without equity options in the table shown below (in thousands):

	With Options			Without Options		
	Years ended December 31,			Years ended December 31,		
	2010	2009	2008	2010	2009	2008
Net investment income	$ 510,106	$ 449,035	$ 374,023	$ 500,163	$ 443,655	$ 398,423

The fluctuations in net investment income due to equity option returns is offset in part by changes in equity-indexed deferred annuity interest credited (which has an implied embedded derivative gain/(loss) component). See the discussion in the Interest Credited to Policy Account Balances section for presentation of interest credited with and without equity-indexed deferred annuity interest credited.

Account Values

We monitor account values and changes in those values as a key indicator of the performance of our Annuity segment. Changes in account values are mainly the result of net inflows, surrenders, policy fees, interest credited and market value changes (in thousands):

	Years Ended December 31,		
	2010	**2009**	**2008**
Fixed deferred annuity:			
Account value, beginning of period	$ 8,151,365	$ 6,918,365	$ 6,210,456
Net inflows	528,338	930,417	487,410
Fees	(10,080)	(10,592)	(15,363)
Interest credited	337,069	313,175	235,862
Account value, end of period	**$ 9,006,692**	**$ 8,151,365**	**$ 6,918,365**
Variable deferred annuity:			
Account value, beginning of period	$ 400,624	$ 309,011	$ 429,505
Net inflows/(outflows)	(27,792)	20,452	24,364
Fees	(4,795)	(4,096)	(4,582)
Change in market value and other	47,720	75,257	(140,276)
Account value, end of period	**$ 415,757**	**$ 400,624**	**$ 309,011**
Single premium immediate annuity:			
Reserve, beginning of period	$ 820,295	$ 701,141	$ 693,137
Net inflows/(outflows)	42,476	84,785	(26,330)
Interest and mortality	40,355	34,369	34,334
Reserve, end of period	**$ 903,126**	**$ 820,295**	**$ 701,141**

Fixed Deferred Annuity: For the year ended December 31, 2010, fixed deferred annuity account values increased $855.3 million compared to an increase of $1.2 billion in 2009. The reduced growth in 2010 was primarily the result of the abnormally high levels of growth in 2009. Slower growth in 2010 was partially offset by a decrease in surrenders when compared to 2009.

Account values associated with fixed deferred annuities increased $1.2 billion for the year ended December 31, 2009 as a result of an increase in sales of fixed deferred annuity products.

Fees charged against account values decreased $4.8 million for the year ended December 31, 2009 compared to 2008 due to a decline in surrender charges.

Variable Deferred Annuity: For the year ended December 31, 2010, variable deferred annuity account values increased $15.1 million compared to an increase of $91.6 million in 2009. This lower increase was attributed mainly to an increase in surrenders and a decrease in market appreciation in 2010 compared to 2009.

Variable deferred annuity account values increased $91.6 million for the year ended December 31, 2009 primarily due to fluctuations in market value.

A portion of the variable deferred annuity policies include guaranteed minimum death benefits. The total account value related to variable deferred annuity policies with guaranteed minimum death benefit features was $67.0 million, $66.8 million and $60.4 million as of December 31, 2010, 2009 and 2008, respectively.

We are subject to equity market volatility related to these guaranteed minimum death benefits. We use reinsurance to mitigate the mortality exposure associated with such benefits. Our maximum guaranteed minimum death benefit exposure, before reinsurance, in the event that all annuitants die, was $3.0 million, $6.6 million and $17.9 million as of December 31, 2010, 2009 and 2008, respectively. The decreases in the amounts at risk was due to an improved equity investment market.

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SPIA: For the year ended December 31, 2010, SPIA reserves increased $82.8 million compared to an increase of $119.2 million in 2009. The decrease in growth was primarily due to lower sales in a lower interest rate environment**.** SPIA reserves increased $119.2 million for the year ended December 31, 2009 primarily due to reserves established on inflows from new sales and accretion of reserves on existing policies due to interest and survivorship.

Policy Benefits

Benefits consist of annuity payments and reserve increases on SPIA contracts. Benefits decreased for the year ended December 31, 2010 compared to 2009. The decrease was mainly attributed to a reduced amount of new-issue reserve additions due to lower SPIA premium receipts in 2010. Benefits increased for the year ended December 31, 2009 compared to the year ended December 31, 2008 due to higher SPIA in-force policies resulting from increased SPIA sales.

Interest Credited to Policy Account Balances

Interest credited to policy account balances is generally comprised of interest accruals to fixed deferred annuity account balances. Equity-indexed deferred annuities include a fixed host annuity contract and an embedded equity derivative. In addition to the accrual of interest on the host contract, the gain or loss on the embedded equity derivative is also recognized as interest credited to policy account balances. Equity-indexed deferred annuity interest credited can fluctuate from one period to the next as a result of this embedded equity derivative. For this reason, we analyze interest credited to policy account balances with and without equity-indexed deferred annuities. A comparison of interest credited to policy account balances with and without equity-indexed deferred annuities are shown in the table below (in thousands):

	With Equity-Indexed Deferred Annuities Years ended December 31,			Without Equity-Indexed Deferred Annuities Years ended December 31,		
	2010	2009	2008	2010	2009	2008
Interest credited to policy account balances	$ 333,970	$ 311,580	$ 237,612	$ 309,031	$ 293,857	$ 254,313

The fluctuations in interest credited due to the embedded equity derivative returns is offset in part by changes in equity option investment income (loss), since the equity options are held to hedge the equity-indexed deferred annuity benefits. See the discussion in the Net Investment Income section for presentation of investment income with and without investment income (loss) from equity options.

The equity-indexed deferred annuities portion of the interest credited to account balances amounted to increases of $24.9 million, $17.7 million and a decrease of $16.7 million for the years ended December 31, 2010, 2009 and 2008, respectively. The increase in the interest credited amounts each year was primarily attributable to the growth of in-force account balances due to sales. The negative amount in 2008 was primarily a result of the volatile financial market conditions during 2008, and the resulting fall of financial indexes during the year.

Interest credited to policy account balances without equity-indexed deferred annuities increased for the past two years. The increase was primarily attributed to increases in in-force fixed deferred annuity account balances due to new premiums.

The profits on fixed deferred annuity contracts are driven by interest spreads and, to a lesser extent, other policy fees. When determining crediting rates for fixed deferred annuities, management considers current investment yields in setting new money crediting rates and looks at average portfolio yields when setting renewal rates. In setting rates, management takes into account target spreads established by pricing models while also factoring in price levels needed to maintain a competitive position. Target interest spreads vary by product depending on specific attributes**.**

Commissions

Commissions decreased for the year ended December 31, 2010 compared to 2009, and increased for the year ended December 31, 2009 compared to 2008 primarily due to fluctuations in sales each year.

Other Operating Costs and Expenses

Other operating costs and expenses increased slightly during 2010 compared to 2009 primarily the result of increases to our allocated overhead expenses during the year.

Other operating costs and expenses increased during 2009 compared to 2008. This was primarily the result of increases to our allocated overhead expenses and our initial SEC registration. Also, there were expense increases that were attributable to agent production bonus payments resulting from the increased level of new business written.

Change in Deferred Policy Acquisition Costs

The change in DAC represents acquisition costs capitalized, net of amortization of existing DAC. The amortization of DAC is calculated in proportion to gross profits. The following table presents the components of change in DAC (in thousands):

	Years ended December 31,			**Change over prior year**	
	2010	**2009**	**2008**	**2010**	**2009**
Acquisition cost capitalized	$ 117,090	$ 126,769	$ 96,544	$ (9,679)	$ 30,225
Amortization of DAC	(72,521)	(64,756)	(75,854)	(7,765)	11,098
Change in deferred policy acquisition costs (1)	**$ 44,569**	**$ 62,013**	**$ 20,690**	**$ (17,444)**	**$ 41,323**

(1) A positive amount of net change indicates more expense was deferred than amortized and is a decrease to expense in the periods indicated.

An important measure of the Annuity segment is amortization of DAC as a percentage of gross profits. The amortization of DAC as a percentage of gross profits for the years ended December 31, 2010, 2009, and 2008 was 57.3%, 63.7%, and 68.9%, respectively. The reduction in the ratio was due to improved persistency. We believe low interest rates on competing guaranteed interest products, such as certificates of deposit and money market funds, was a contributing factor to our improved persistency.

Acquisition costs capitalized increased in 2009 compared to 2008 due to higher sales of fixed deferred annuities, which resulted in increases to commissions and other operating costs and expenses.

Reinsurance

We employ reinsurance for guaranteed minimum death benefit risks on certain variable annuity contracts. Our maximum guaranteed minimum death benefit exposure, before reinsurance, which represents the total exposure in the event that all annuity policyholders die, was $3.0 million and $6.6 million as of December 31, 2010 and 2009, respectively. After reinsurance, the net amounts at risk were $1.1 million and $3.3 million, as of December 31, 2010 and 2009, respectively. All such guaranteed minimum death benefit reinsurance is with reinsurers rated A or higher by A.M. Best.

Health

The Health segment has been primarily focused on supplemental and limited benefit coverage products including Medicare Supplement insurance for the aged population as well as hospital surgical and cancer policies for the general population. In 2010, premium volume for health insurance-related products was concentrated in our Medicare Supplement (44.5%) and medical expense (25.5%) lines. Our other health products include credit accident and health policies, employer-based stop loss, and dental coverage. Our health insurance products are distributed through our network of independent agents and MGUs.

Health Segment results for the periods indicated were as follows (in thousands):

	Years ended December 31,			Change over prior year	
	2010	**2009**	**2008**	**2010**	**2009**
Revenues:					
Premiums	$ 263,294	$ 309,701	$ 290,883	$ (46,407)	$ 18,818
Net investment income	14,855	15,992	16,566	(1,137)	(574)
Other income	10,384	10,382	13,252	2	(2,870)
Total premiums and other revenues	**288,533**	**336,075**	**320,701**	**(47,542)**	**15,374**
Benefits and expenses:					
Policy benefits	184,554	239,407	223,055	(54,853)	16,352
Commissions	35,263	51,717	43,219	(16,454)	8,498
Other operating costs and expenses	49,634	62,134	69,961	(12,500)	(7,827)
Change in deferred policy acquisition costs	4,886	5,017	5,023	(131)	(6)
Total benefits and expenses	**274,337**	**358,275**	**341,258**	**(83,938)**	**17,017**
Income (loss) before other items and federal income taxes	**$ 14,196**	**$ (22,200)**	**$ (20,557)**	**$ 36,396**	**$ (1,643)**

Earnings for the Health segment improved for the year ended December 31, 2010 compared to 2009, primarily as a result of reductions in policy benefits and a decrease in commissions. Lower operating costs and expenses also contributed to the improvement in earnings resulting from lower personnel costs. A decrease in premiums resulting from a reduction of in-force policies partially offset the improvement in earnings.

Earnings for the Health segment experienced a slight decline in 2009 relative to 2008. During 2009, earnings were negatively impacted by one-time charges of $5.9 million, which included a $2.8 million marketing expense, as well as several large claims incurred on our medical expense line.

During 2009, as a matter of standard practice, a review of the records of one of our MGUs resulted in the following adjustments, which were recorded in 2009 (the review adjustments): $23.6 million increase in premiums, $12.9 million increase in policy benefits and $10.7 million increase in commissions. These review adjustments had no material net impact to the consolidated statements of operations for 2009.

Premiums

Premiums for the periods indicated are as follows (in thousands, except percentages):

	Years ended December 31,					
	2010 Premiums		**2009 Premiums**		**2008 Premiums**	
	dollars	percentage	dollars	percentage	dollars	percentage
Medicare Supplement	$ 117,132	44.5%	$ 123,102	39.8%	$ 120,757	41.5%
Medical expense	67,050	25.5	80,716	26.1	78,291	26.9
Group	29,343	11.1	33,484	10.8	33,758	11.6
Credit accident and health	21,553	8.2	19,627	6.3	24,676	8.5
All other	28,216	10.7	52,772	17.0	33,401	11.5
Total	**$ 263,294**	**100.0%**	**$ 309,701**	**100.0%**	**$ 290,883**	**100.0%**

The Health segment s earned premiums decreased during the year ended December 31, 2010 compared to 2009, which was mainly attributable to the discontinuation of sales of our medical expense insurance plans effective June 30, 2010. Additionally, the decrease was driven by the non-renewal of two MGUs (included in the *All other* line), decreased sales of our Medicare Supplement product in 2010, and the the recording in 2009 of a one-time premium associated with the unwinding of an MGU.

The Health segment s earned premiums increased for the year ended December 31, 2009 compared to 2008. The increase was primarily driven by premium rate increases on our Medicare Supplement line and the review adjustments previously described.

Our in-force certificates or policies as of the dates indicated are as follows:

	Years ended December 31,					
	2010		**2009**		**2008**	
	number	percentage	number	percentage	number	percentage
Medicare Supplement	48,584	8.0%	58,627	8.9%	60,264	8.2%
Medical expense	11,057	1.8	18,368	2.8	20,352	2.8
Group	17,038	2.8	23,890	3.7	21,409	2.9
Credit accident and health	294,702	48.2	309,695	47.2	323,158	44.0
All other	239,624	39.2	245,689	37.4	309,938	42.1
Total	**611,005**	**100.0%**	**656,269**	**100.0%**	**735,121**	**100.0%**

Our total in-force policies had a net decrease during the year ended December 31, 2010 compared to 2009. The net decrease was mainly attributed to a decrease in the credit accident and health line due to a decrease in short-term furniture and finance company credit product. Management expects a decreasing trend on this product to continue in the future. Also contributing to the decrease in the in-force policies were the decrease in Medicare Supplement line production resulting from current market conditions and a decrease in medical expense line as a result of discontinuance of sales.

Policy Benefits

A reduction in the medical expense benefit ratio, the loss of two MGUs, and the discontinuance of medical expense sales produced a decrease in benefits. The medical expense benefit ratio, measured as the ratio of claims and other benefits to premiums, decreased to 70.1% for the year ended December 31, 2010, from 77.3% for the same period in 2009. Unexpected high claim payments on medical expense products in 2009, with a subsequent return to lower levels during 2010, contributed to the decrease in the benefit ratio.

The benefit ratio increased slightly to 77.3% for 2009 from 76.7% for 2008. The medical expense line was the largest driver of the increase in benefit ratio. The increase in benefit ratio on the medical expense line was primarily attributable to aggressive rates and underwriting practices in prior periods as well as several large claims incurred in 2009. The MGU line (included in the *All other* line) had a decrease in benefit ratio which helped offset the increase from the medical expense line. The 2009 benefit ratio was positively impacted by the review adjustments previously described. The 2008 benefit ratio was negatively impacted by expenses associated with litigation involving one MGU that resulted in $8.9 million of reinsurance write-offs in the first quarter of 2008. We have terminated our relationship with this particular MGU.

As of December 31, 2010, Health claim reserves decreased $8.7 million to $107.2 million from $115.9 million as of December 31, 2009. The decrease was primarily due to the decrease in medical expense and MGU reserves. As of December 31, 2009, the Health claim reserve had increased $3.1 million from $112.8 million as of December 31, 2008. The increase was primarily due to an increase in the benefit ratio in 2009.

Commissions

Commissions decreased during the year ended December 31, 2010 compared to 2009 as a result of lower sales and a large ceded commission in the MGU line in 2009 that did not occur in 2010.

Commissions increased for the year ended December 31, 2009 as compared to the same period in 2008. The majority of the increase was attributed to the review adjustments previously discussed. The increase was partially offset by lower commissions incurred on our credit accident and health product, which resulted from a decline in the related earned premiums.

Other Operating Costs and Expenses

Other operating costs and expenses decreased for the year ended December 31, 2010 compared to 2009, which was mainly attributable to lower payroll costs and a one-time write-off of agent balances in 2009.

In 2009, other operating costs and expenses decreased when compared to the same period in 2008. The decrease was primarily attributed to the absence of a $10.9 million legal reserve for the previously noted settlement, which was established in September 2008. The above decrease was partially offset by increases in an excise tax on reinsured foreign premiums, employee benefits, information technology consulting fees and a one-time marketing expense of $2.8 million for the write-off of agents   balances as part of reconciliations performed during 2009.

Change in Deferred Policy Acquisition Costs

Health premiums are recognized as revenue when due, but certain expenses associated with the acquisition of new business, such as commissions, are incurred before premiums can be earned. In order to recognize profits over the life of the policy, the expenses are deferred and amortized over the life of the policy. Generally, we expect the change in DAC to continue to follow the changes in the in-force block by policy duration.

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

	Years ended December 31,			Change over prior year	
	2010	2009	2008	2010	2009
Acquisition cost capitalized	$ 18,087	$ 16,729	$ 22,762	$ 1,358	$ (6,033)
Amortization of DAC	(22,973)	(21,746)	(27,785)	(1,227)	6,039
Change in deferred policy acquisition costs (1)	**$ (4,886)**	**$ (5,017)**	**$ (5,023)**	**$ 131**	**$ 6**

(1) A negative amount of net change indicates less expense was deferred than amortized and represents an increase to expenses in the periods indicated.

As of December 31, 2010, the Health related DAC balance was $65.1 million compared to $69.9 million in 2009. The decrease in DAC was caused by the overall decrease in the sales of health products, particularly the medical expense, Medicare Supplement, and credit accident and health products.

As of December 31, 2009, the Health related DAC balance was $69.9 million compared to $74.9 million in 2008. The $5.0 million decrease in DAC reflects a reversal of acquisition costs previously capitalized and related amortization expense associated with the previously noted settlement as well as a reduction in the acquisition costs capitalized due to the decline in new sales of our Medicare Supplement and credit accident and health products.

Reinsurance

For the major medical business, we use reinsurance on an excess of loss basis. Our retention limit is $500,000 per claim on these types of policies. Certain amounts of stop-loss and other types of catastrophe health reinsurance programs are also reinsured. We manage these risks by reinsuring a majority of the risk to highly rated reinsurance companies. We also maintain reinsurance on a quota share basis for our long-term care and disability income business. Reinsurance is also used in the credit accident and health business. In certain cases, particularly in the auto retail market, we may also reinsure the policy written through offshore producer-owned captive reinsurer to allow the dealer to participate in the performance of these credit accident and health contracts. A majority of the treaties entered into by our Credit Insurance Division are written on a 100% coinsurance basis with benefit limits of $1,000 per month.

The companies where we have placed material amounts of reinsurance for the Health segment are shown in the table below (in thousands, except percentages):

Reinsurer	A.M. Best Rating(1)	Ceded Premium	Percentage of Gross Premium
Maiden Re Insurance Company	A-	$ 21,916	18.8%
Harbour Life and Reinsurance Co. Ltd.	NR(2)	15,102	13.0
Munich Reinsurance America	A+	13,800	11.8
AmFirst Insurance Company	B+	11,045	9.5
United States Fire Insurance Company	A	8,768	7.5
Madison National Life Insurance Company	A-	7,433	6.4
Other reinsurers with no single company greater than 5% of the total		38,593	33.0
Total health reinsurance ceded		**$ 116,657**	**100.0%**

(1) A.M. Best rating as of the most current information available February 22, 2011.

(2) Not Rated.

Property and Casualty

Property and Casualty business is written through our multiple-line and Credit Insurance Division agents. Evaluation of our property and casualty insurance operations is based on the total underwriting results (net premiums earned less incurred losses and loss expenses, policy acquisition costs and other underwriting expenses) and the ratios noted in the table below. Property and Casualty segment results for the periods indicated were as follows (in thousands, except percentages):

	Years ended December 31,			Change over prior year	
	2010	**2009**	**2008**	**2010** amount	**2009** amount
Revenues:					
Net premiums written	$ 1,185,366	$ 1,164,136	$ 1,184,686	$ 21,230	$ (20,550)
Net premiums earned	$ 1,158,261	$ 1,159,509	$ 1,182,026	$ (1,248)	$ (22,517)
Net investment income	67,545	66,175	69,348	1,370	(3,173)
Other income	8,192	7,064	8,973	1,128	(1,909)
Total premiums and other revenues	**1,233,998**	**1,232,748**	**1,260,347**	**1,250**	**(27,599)**
Benefits and expenses:					
Policy benefits	923,736	923,064	939,854	672	(16,790)
Commissions	226,748	209,203	226,100	17,545	(16,897)
Other operating costs and expenses	124,410	124,266	132,601	144	(8,335)
Change in deferred policy acquisition costs	1,551	(8,151)	(9,669)	9,702	1,518
Total benefits and expenses	**1,276,445**	**1,248,382**	**1,288,886**	**28,063**	**(40,504)**
Income before other items and federal income taxes	**$ (42,447)**	**$ (15,634)**	**$ (28,539)**	**$ (26,813)**	**$ 12,905**
Loss ratio	79.8%	79.6%	79.5%	0.2	0.1
Underwriting expense ratio	30.5	28.1	29.5	2.4	(1.4)
Combined ratio	**110.3%**	**107.7%**	**109.0%**	**2.6**	**(1.3)**
Effect of net catastrophe losses on combined ratio	10.6%	7.8%	11.1%	2.8	(3.3)

The Property and Casualty segment net loss worsened significantly during the year ended December 31, 2010 compared to 2009. The change was primarily driven by increases in commissions, the change in deferred policy acquisition costs, and a $33.0 million increase in catastrophe losses. This deterioration was offset by a $32.3 million improvement in non-catastrophe loss results.

The Property and Casualty segment net loss improved in 2009 compared to 2008 due to a $40.5 million decrease in net catastrophe losses from those in 2008, partially offset by a $17.1 million increase in non-catastrophe related policy benefits and by a decrease in net premiums earned.

Net Premiums Written and Earned

Net premiums written are the premiums charged for policies issued during a fiscal period. Property and casualty premiums are recognized as earned premiums proportionately over the contract period. The majority of our automobile policies have terms of six months to one year while our credit related property policies have terms of six months to seven years, depending on the related loan term. All other policies, such as homeowners policies and the agribusiness policies, have terms of twelve months. The portion of the premiums written applicable to the unexpired terms of the policies are recorded as other policyholder funds in our consolidated statements of financial position.

Net premiums written increased for the year ended December 31, 2010 compared to 2009, due primarily to increases in our credit-related property insurance and personal auto products partially offset by decreases in our commercial lines.

Net premiums earned remained relatively flat during 2010 primarily due to increases in our personal lines, partially offset by decreases in our commercial lines.

Net premiums written and earned decreased in 2009 compared to 2008 as a result of decreases in our personal auto and workers compensation insurance products.

Reinsurance costs increased 7.1% during 2010 compared to the 6.9% increase for 2009, due primarily to a $2.3 million reinstatement premium and the cost of additional catastrophe reinsurance coverage purchased as part of our management of our catastrophe exposure. Refer to the discussion of our reinsurance program and the effect on the consolidated financial statements, under Part I, Item 1*, Business.*

Policy Benefits

Policy benefits include losses and loss adjustment expenses incurred on property and casualty policies. Policy benefits remained flat during the year ended December 31, 2010 compared to 2009 as a result of the net catastrophe experience increase over the prior year, offset by the decreases in our credit-related property products and non-catastrophe loss experience. Policy benefits decreased for the year ended December 31, 2009 as compared to the same period in 2008 as a result of the decrease in net catastrophe experience. The loss ratios have remained relatively flat for the years ended December 31, 2010, 2009, and 2008.

For the year ended December 31, 2010, gross catastrophe losses increased to $141.7 million compared to $80.9 million in 2009. Net catastrophe losses increased to $123.3 million from $90.3 million as a result of 33 catastrophes experienced in 2010 compared to 27 in 2009. The increase was primarily incurred in the second and fourth quarters of 2010, when we experienced increases of $23.9 million and $17.7 million, respectively, in net catastrophe losses compared to 2009 due to spring and fall storm activity throughout our geographic coverage area.

For the year ended December 31, 2009, gross catastrophe losses decreased to $80.9 million, compared to $191.6 million for the year ended December 31, 2008. Estimated reinsurance recoveries on all catastrophe losses were a negative $9.4 million for the year-end December 31, 2009 and $60.8 million for the year ended December 31, 2008. The negative amount of estimated reinsurance recoverables for 2009 arose mainly from a decrease in the ultimate gross loss estimates for Hurricanes Ike and Gustav at December 31, 2009 compared to December 31, 2008. These 2008 hurricanes produced losses, which are recoverable under our reinsurance program, and a decrease in the ultimate gross loss estimates resulted in a decrease in estimated reinsurance recoverables.

Net catastrophe losses contributed to increases of 10.6%, 7.8%, and 11.1% in the combined ratio during 2010, 2009 and 2008, respectively. The property losses as a result of catastrophes are a part of the variability in this segment and are the result of differences in both the frequency and severity of catastrophic events. We continue to evaluate and manage our aggregate catastrophe risk exposures, and manage our risk with targeted rate activity and purchasing additional reinsurance coverage where we believe it is cost efficient to do so.

Commissions and Change in Deferred Policy Acquisition Costs

Commissions increased significantly during the year ended December 31, 2010 compared to the same period in 2009. This was primarily the result of a $10.0 million expense for post termination compensation for certain agents in addition to increases in our credit-related property products due to a change in our product mix.

Commissions decreased in 2009 compared to 2008 as the result of a $9.6 million decrease in credit-related insurance commissions due to a shift in our credit insurance products towards those with lower commission structures. Commissions on personal and commercial auto policies also decreased compared to the same period in 2008 due to reductions in net premiums earned in these lines as well as an overall decrease in commissions.

The increase in expense as a result of the change in DAC for the year ended December 31, 2010, was primarily driven by the change in our deferral estimates during 2009, deferring less in some policies and more in others in order to improve our consistency among subsidiaries. An increase in commissions of our credit-related property insurance products added to this increase. The decrease in expense as a result of the change in DAC was slightly less in 2009 compared to 2008 due to the decrease in commissions.

We regularly review the recoverability of DAC, and if the actual emergence of future profitability were to be substantially lower than estimated, we would accelerate DAC amortization to account for any recoverability issues or premium deficiency. We have not historically experienced these issues with our DAC balances as catastrophe losses have been a significant contribution to our underwriting losses.

Other Operating Costs and Expenses

Other operating costs and expenses were virtually level for the year ended December 31, 2010, compared to the same period in 2009 due to a focus on expense management. For the year ended December 31, 2009 compared to the same period in 2008, the decrease was primarily due to a one time accrual relating to the *Farm Bureau* lawsuit during 2008. For additional information, refer to Note 18, Commitments and Contingencies, in the Notes to the Consolidated Financial Statements.

Products

Our Property and Casualty segment consists of three product lines: (i) Personal Lines, which we market primarily to individuals, representing 61.1% of net premiums written, (ii) Commercial Lines, which focus primarily on businesses engaged in agricultural and other targeted markets, representing 26.0% of net premiums written, and
(iii) Credit-related property insurance products which are marketed to financial institutions and retailers and represent 12.9% of net premiums written.

Property and Casualty segment results for Personal Products for the periods indicated were as follows (in thousands, except percentages):

	Years ended December 31,			Change over prior year	
	2010	**2009**	**2008**	**2010**	**2009**
Net premiums written					
Auto	$ 468,100	$ 456,960	$ 462,545	$ 11,140	$ (5,585)
Homeowner	217,785	217,963	203,516	(178)	14,447
Other Personal	38,875	38,815	34,610	60	4,205
Total net premiums written	**724,760**	**713,738**	**700,671**	**11,022**	**13,067**
Net premiums earned					
Auto	470,535	452,754	469,425	17,781	(16,671)
Homeowner	216,849	208,558	205,764	8,291	2,794
Other Personal	39,298	37,283	31,990	2,015	5,293
Total net premiums earned	**$ 726,682**	**$ 698,595**	**$ 707,179**	**$ 28,087**	**$ (8,584)**
Loss ratio					
Auto	78.0%	83.9%	78.0%	(5.9)	5.9
Homeowner	104.1	100.6	111.0	3.5	(10.4)
Other Personal	61.6	44.9	87.7	16.7	(42.8)
Personal line loss ratio	**84.9%**	**86.8%**	**88.1%**	(1.9)	(1.3)
Combined Ratio					
Auto	102.3%	104.9%	101.6%	(2.6)	3.3
Homeowner	129.6	122.8	138.0	6.8	(15.2)
Other Personal	68.7	51.3	110.1	17.4	(58.8)
Personal line combined ratio	**108.6%**	**107.4%**	**112.6%**	1.2	(5.2)

Personal Automobile: Net written and earned premiums increased in our personal automobile line during 2010 as a result of premium rate increases implemented during the second half of 2009. The increase in premium per policy is slightly offset by a 3.4% decline in the number of policies.

Net premiums written and earned decreased in 2009 compared to 2008 despite flat policy counts during these periods. A portion of the decrease in net premiums earned during 2009 was due to an internal review of our methodology for establishing reserves for our Cashback program, which estimates the potential refund portion of premiums paid on homeowners and auto policies within certain product lines, certain states and specific time frames.

The loss ratio remained relatively flat for the years ending December 31, 2010 and 2008, while the same period in 2009 experienced a slight deterioration as a result of the combination of the decrease in premiums, as well as a significant increase in loss severity. The increase in loss severity was due primarily to increased bodily injury claims, increased litigation costs and increased property damage liabilities.

The combined industry ratios for 2010 (estimated), 2009 and 2008 of 99.0%, 101.3%, and 100.3%, respectively, per A.M. Best s U.S. Property/Casualty-Review and Preview are comparable to our combined ratios for the same periods.

Homeowners: Net premiums written experienced a large increase during the year ended December 31, 2009 compared to the same period in 2008, which resulted in an increase in net premiums earned during the year-end December 31, 2010 as compared to the same period in 2009. These increases were primarily a result of rate increases across this product line, as well as increases in policyholder-insured values as replacement and repair costs were partially offset by a 4.1% decline in the number of policies from our risk management initiatives and the impact of the rate increases.

The loss and combined ratios deteriorated during the year ended December 31, 2010 compared to the same period in 2009 due to an increase in catastrophe and non-catastrophe claims affecting this line, resulting in a total increase of $15.9 million in policy benefits. The additional increase in the combined ratio was primarily a result of the lower amount of expenses being deferred.

The loss ratio improved in 2009 compared to 2008 due to the $40.5 million decrease in catastrophe experience from the prior year and a decline in loss reserves of $17.8 million due to favorable loss reserve development. These decreases were offset by a decrease in reinsurance ceded losses from $35.8 million in 2008 to $0.2 million in 2009. The combined ratio decreased in 2009 compared to 2008 due to the litigation expense described in the *Other Operating Costs and Expenses.*

The combined industry ratios for 2010 (estimated), 2009 and 2008 of 103.5%, 105.6%, and 117.0%, respectively per A.M. Best are comparable to our combined ratios. Our combined ratio was negatively impacted during these years due to the concentration of catastrophe events occurring in the Midwest, and was also negatively impacted in 2010 from an unusual $20.0 million catastrophe event in Arizona, resulting in a combined ratio of 26.1%, 17.2% and 21.0% above the industry averages, respectively.

Other Personal: This product line is comprised primarily of watercraft, rental-owner and umbrella coverages for individuals seeking to protect their personal property not covered within their homeowner and auto policies. Net premiums written and earned remained relatively level during the year ended December 31, 2010 as compared to the same period in 2009, which experienced an increase over the same period in 2008 due to an increase in policy counts and an increase in the average premium per policy.

The loss and combined ratios deteriorated during 2010 compared to 2009, which were significantly below 2008 levels, due to the increase in premiums during 2009 and a claim frequency well below those experienced in 2010 and 2008. As this is currently our smallest earned premium in our Personal Products line, minor fluctuations in results can more easily cause volatility in these operating results.

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Property and Casualty segment results for Commercial Products for the periods indicated were as follows (in thousands, except percentages):

	Years ended December 31,			Change over prior year	
	2010	2009	2008	2010	2009
Net premiums written					
Other Commercial	$ 123,605	$ 127,291	$ 139,266	$ (3,686)	$ (11,975)
Agribusiness	103,937	101,074	101,243	2,863	(169)
Auto	80,109	88,642	95,155	(8,533)	(6,513)
Total net premiums written	**307,651**	**317,007**	**335,664**	**(9,356)**	**(18,657)**