Primerica, Inc.
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

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

Commission File Number: 001-34680

Primerica, Inc.

(Exact name of registrant as specified in its charter)

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

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

(770) 381-1000

(Registrant's telephone number, including area code)

Not applicable.

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

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

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

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

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

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

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

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

Class	As of April 30, 2018

Common Stock, $0.01 Par Value	43,737,898 shares

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	(Unaudited) March 31, 2018	December 31, 2017
	(In thousands)	
Assets:		
Investments:		
Fixed-maturity securities available-for-sale, at fair value (amortized cost: $1,944,123 in 2018 and $1,877,326 in 2017)	$ 1,961,982	$ 1,927,842
Fixed-maturity security held-to-maturity, at amortized cost (fair value: $806,672 in 2018 and $779,472 in 2017)	796,450	737,150
Equity securities available-for-sale, at fair value (amortized cost: $0 in 2018 and $31,331 in 2017)	-	41,107
Equity securities, at fair value (historical cost: $38,894 in 2018 and $0 in 2017)	40,632	-
Trading securities, at fair value (amortized cost: $28,825 in 2018 and $6,172 in 2017)	28,781	6,228
Policy loans	32,532	32,816
Total investments	2,860,377	2,745,143
Cash and cash equivalents	190,585	279,962
Accrued investment income	18,129	16,665
Reinsurance recoverables	4,263,111	4,205,173
Deferred policy acquisition costs, net	1,998,985	1,951,892
Agent balances, due premiums and other receivables	277,797	229,522
Intangible assets, net (accumulated amortization: $79,484 in 2018 and $78,633 in 2017)	50,662	51,513
Income taxes	49,130	48,614
Other assets	364,256	359,347
Separate account assets	2,419,707	2,572,872
Total assets	$ 12,492,739	$ 12,460,703
Liabilities and Stockholders' Equity:		
Liabilities:		
Future policy benefits	$ 6,004,101	$ 5,954,524
Unearned premiums	468	486
Policy claims and other benefits payable	308,319	307,401
Other policyholders' funds	384,436	377,998
Notes payable	373,381	373,288
Surplus note	795,697	736,381
Income taxes	184,161	177,468
Other liabilities	506,535	451,398
Payable under securities lending	89,433	89,786
Separate account liabilities	2,419,707	2,572,872

Commitments and contingent liabilities (see Commitments and Contingent Liabilities note)		
Total liabilities	11,066,238	11,041,602
Stockholders' equity:		
Common stock ($0.01 par value; authorized 500,000 in 2018 and 2017; issued and outstanding 43,953 shares in 2018 and 44,251 shares in 2017)	440	443
Paid-in capital	-	-
Retained earnings	1,416,564	1,375,090
Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	(4,406)	3,995
Net unrealized investment gains (losses) on available-for-sale securities:		
Net unrealized investment gains not other-than-temporarily impaired	14,040	39,686
Net unrealized investment losses other-than-temporarily impaired	(137)	(113)
Total stockholders' equity	1,426,501	1,419,101
Total liabilities and stockholders' equity	$12,492,739	$12,460,703

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income – Unaudited

	Three months ended March 31, 2018	2017
	(In thousands, except per-share amounts)	
Revenues:		
Direct premiums	$656,087	$627,698
Ceded premiums	(394,249)	(399,769)
Net premiums	261,838	227,929
Commissions and fees	166,827	144,268
Investment income net of investment expenses	27,390	25,612
Interest expense on surplus note	(8,373)	(5,718)
Net investment income	19,017	19,894
Realized investment gains (losses), including other-than-temporary impairment losses	(1,656)	134
Other, net	13,897	12,939
Total revenues	459,923	405,164
Benefits and expenses:		
Benefits and claims	116,890	102,385
Amortization of deferred policy acquisition costs	60,165	51,850
Sales commissions	82,519	73,704
Insurance expenses	41,109	37,621
Insurance commissions	5,877	4,899
Interest expense	7,173	7,127
Other operating expenses	63,227	52,736
Total benefits and expenses	376,960	330,322
Income before income taxes	82,963	74,842
Income taxes	17,248	22,772
Net income	$65,715	$52,070
Earnings per share:		
Basic earnings per share	$1.46	$1.12
Diluted earnings per share	$1.46	$1.11
Weighted-average shares used in computing earnings per share:		
Basic	44,740	46,301
Diluted	44,855	46,374
Supplemental disclosures:		
Total impairment losses	$(49)	$(211)
Impairment losses recognized in other comprehensive income before income taxes	-	-

Net impairment losses recognized in earnings	(49)	(211)
Other net realized investment gains	338	345
Net gains (losses) recognized on equity securities	(1,945)	-
Net realized investment gains (losses), including other-than-temporary impairment losses	$(1,656)	$134
Dividends declared per share	$0.25	$0.19

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) – Unaudited

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Net income	$65,715	$52,070
Other comprehensive income (loss) before income taxes:		
Unrealized investment gains (losses) on available-for-sale securities:		
Change in unrealized holding gains (losses) on investment securities	(32,343)	7,281
Reclassification adjustment for realized investment (gains) losses included in net income	(316)	(68)
Foreign currency translation adjustments:		
Change in unrealized foreign currency translation gains (losses)	(8,401)	1,126
Total other comprehensive income (loss) before income taxes	(41,060)	8,339
Income tax expense (benefit) related to items of other comprehensive income (loss)	(6,916)	2,539
Other comprehensive income (loss), net of income taxes	(34,144)	5,800
Total comprehensive income	$31,571	$57,870

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity – Unaudited

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Common stock:		
Balance, beginning of period	$443	$457
Repurchases of common stock	(5)	(5)
Net issuance of common stock	2	3
Balance, end of period	440	455
Paid-in capital:		
Balance, beginning of period	-	52,468
Share-based compensation	13,988	12,489
Net issuance of common stock	(2)	(3)
Repurchases of common stock	(13,986)	(36,348)
Balance, end of period	-	28,606
Retained earnings:		
Balance, beginning of period	1,375,090	1,138,851
Cumulative effect from the adoption of new accounting standards, net	24,610	-
Net income	65,715	52,070
Dividends	(11,278)	(8,882)
Repurchases of common stock	(37,573)	-
Balance, end of period	1,416,564	1,182,039
Accumulated other comprehensive income (loss):		
Balance, beginning of period	43,568	29,598
Cumulative effect from the adoption of new accounting standards, net	73	-
Change in foreign currency translation adjustment, net of income tax expense (benefit)	(8,401)	1,111
Change in net unrealized investment gains (losses) during the period, net of income taxes:		
Change in net unrealized investment gains (losses) not-other-than temporarily impaired	(25,719)	4,683
Change in net unrealized investment gains (losses) other-than-temporarily impaired	(24)	6
Balance, end of period	9,497	35,398
Total stockholders' equity	$1,426,501	$1,246,498

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows – Unaudited

	Three months ended March 31, 2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	$65,715	$52,070
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Change in future policy benefits and other policy liabilities	69,052	71,124
Deferral of policy acquisition costs	(111,422)	(102,666)
Amortization of deferred policy acquisition costs	60,165	51,850
Change in income taxes	6,444	9,805
Realized investment (gains) losses, including other-than-temporary impairments	1,656	(134)
Accretion and amortization of investments	(126)	(340)
Depreciation and amortization	3,044	3,409
Change in reinsurance recoverables	(66,974)	(24,360)
Change in agent balances, due premiums and other receivables	3,752	(5,119)
Trading securities sold, matured, or called (acquired), net	(24,025)	(5,361)
Share-based compensation	11,502	9,743
Change in other operating assets and liabilities, net	27,616	(7,474)
Net cash provided by (used in) operating activities	46,399	52,547
Cash flows from investing activities:		
Fixed-maturity securities — sold	14,873	28,538
Fixed-maturity securities — matured or called	106,833	46,430
Available-for-sale equity securities — sold	-	9
Fixed-maturity securities — acquired	(191,642)	(105,464)
Available-for-sale equity securities — acquired	-	(120)
Equity securities — acquired	(69)	-
Purchases of property and equipment and other investing activities, net	(2,080)	(3,134)
Cash collateral received (returned) on loaned securities, net	(353)	19,680
Sales (purchases) of short-term investments using securities lending collateral, net	353	(19,680)
Net cash provided by (used in) investing activities	(72,085)	(33,741)
Cash flows from financing activities:		
Dividends paid	(11,278)	(8,882)
Common stock repurchased	(46,328)	(29,858)
Tax withholdings on share-based compensation	(5,236)	(6,495)
Net cash provided by (used in) financing activities	(62,842)	(45,235)
Effect of foreign exchange rate changes on cash	(849)	215
Change in cash and cash equivalents	(89,377)	(26,214)
Cash and cash equivalents, beginning of period	279,962	211,976
Cash and cash equivalents, end of period	$190,585	$185,762

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements — Unaudited

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

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

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

The accompanying unaudited condensed consolidated financial statements contain all adjustments, generally consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of March 31, 2018 and December 31, 2017 and the statements of income, comprehensive income (loss), stockholders' equity and cash flows for the three months ended March 31, 2018 and 2017. Results of operations for interim periods are not necessarily indicative of results for the entire year or of the results to be expected in future periods.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are sufficient to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Annual Report").

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

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

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

Significant Accounting Policies. All significant accounting policies remain unchanged from the 2017 Annual Report unless otherwise described.

New Accounting Principles. In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 clarifies the principles for recognizing revenue by establishing the core principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue that is recognized. Insurance contracts are specifically excluded from the scope of ASU 2014-09 and therefore revenue from our insurance product lines will not be affected by the new standard. We adopted the amendments in ASU 2014-09 during the first quarter of 2018 using the modified retrospective method. The cumulative effect of adopting ASU 2014-09 resulted in an increase to retained earnings of approximately $24.7 million or 1.7% on January 1, 2018. The adjustment recognized upon the adoption of ASU 2014-09 primarily consisted of recognizing the after tax net impact of renewal commissions we anticipate collecting in future periods less the portion we pay to our agents for the sale of prepaid legal service subscriptions and the referral of auto and homeowners' insurance policies in our Corporate and Other Distributed

Products segment made prior to January 1, 2018. Specifically, the cumulative effect adjustment recognized as of January 1, 2018 increased the following balance sheet line items:

	January 1, 2018 (In thousands)
Agent balances, due premiums and other receivables	$ 45,730
Other liabilities	14,400
Income taxes (Liabilities)	6,647
Retained earnings	24,683

After the initial product sale or referral, we earn commissions from product providers for our distribution services as clients pay ongoing subscription fees for prepaid legal service subscriptions or premiums on auto and homeowners' insurance policies purchased through our referral channel. Prior to the adoption of ASU 2014-09, we recognized commission revenue upon receipt of the commission revenue from the product providers, which is the point in time when revenue becomes fixed and determinable, as the commissions earned are dependent on our clients' future renewal activity. After the adoption of ASU 2014-09, we recognize commission revenue equal to the expected value of the commissions we will earn over the life of the subscription or the referred policy when that initial subscription sale or policy referral occurs, which coincides with when we satisfy our performance obligation to the product provider. The application of ASU 2014-09 did not result in any material changes in the line items within our statement of income, comprehensive income (loss), or statement of cash flows during the three months ended March 31, 2018 as compared with guidance in effect prior to the adoption of ASU 2014-09, primarily due to the immaterial amount of revenue associated with these product distributions as well as the offsetting effect of replacing revenue for commissions received from existing sales prior to adopting ASU 2014-09 with revenue for future estimated commissions from new sales subsequent to adopting ASU 2014-09. Likewise, the application of ASU 2014-09 as compared with guidance in effect prior to the adoption of ASU 2014-09 did not have a material effect on the line items within our balance sheet or statement of stockholders' equity between January 1, 2018 and March 31, 2018. In addition, no changes in the timing or measurement of revenue recognition have been made in any of our other product lines as discussed further in Note 13 (Revenue from Contracts with Customers).

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 intends to enhance the reporting model for financial instruments and addresses certain aspects of recognition, measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. We adopted the amendments in ASU 2016-01 during the first quarter of 2018, which resulted in a cumulative-effect adjustment to retained earnings of approximately $7.8 million, equal to the after tax amount of the net unrealized gains and losses on investments in equity securities as of January 1, 2018. Prior to the adoption of ASU 2016-01, the change in fair value (except for other-than-temporary impairment) on available-for-sale equity securities was recognized in other comprehensive income (loss). Subsequent to the adoption of ASU 2016-01, the change in fair value on all investments in equity securities is recognized in net income. For the three months ended March 31, 2018, we recognized approximately $1.9 million of pre-tax losses in realized investment gains (losses) for the change in fair value of our investments in equity securities that would have been recorded as other comprehensive income (loss) prior to the adoption of ASU 2016-01. Additionally, we no longer maintain the classifications of available-for-sale or trading for equity securities but instead present all equity security investments held by the Company as equity securities in the balance sheet due to the adoption of ASU 2016-01. As a result, equity securities with a carrying value of approximately $1.4 million previously included within the trading securities classification as of December 31, 2017 are presented as equity securities in the balance sheet subsequent to the adoption of ASU

2016-01.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”). ASU 2018-02 allows for the reclassification of stranded tax effects on items resulting from the Tax Cuts and Jobs Act of 2017 (the “Tax Reform Act”) from accumulated other comprehensive income (loss) to retained earnings. ASU 2018-02 is effective for all entities in fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted. We chose to adopt the amendments in ASU 2018-02 during the first quarter of 2018 and recorded a decrease of approximately $7.8 million to retained earnings with a corresponding increase to accumulated other comprehensive income (loss) on January 1, 2018 to reclassify the stranded tax effects from the Tax Reform Act.

Future Application of Accounting Standards. Recent accounting guidance not discussed here or in the 2017 Annual Report is not applicable, is immaterial to our financial statements, or did not or is not expected to have a material impact on our business. For more information on recently-issued accounting guidance that has not yet been adopted, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) to our consolidated financial statements within our 2017 Annual Report.

Income Taxes. On December 22, 2017, the Tax Reform Act was enacted in the United States, which includes a broad range of tax reforms affecting businesses, including corporate tax rates, business deductions, and international tax provisions. Under U.S. GAAP, the effects of new legislation are recognized upon enactment, which, for federal legislation, is the date the president signs a bill into law. Accordingly, we recognized the tax effects of the Tax Reform Act as of December 31, 2017. Amounts recognized as of December 31, 2017 represent reasonable estimates based on obtaining, preparing, and analyzing the information necessary to account for the tax effects of the Tax Reform Act under Accounting Standards Codification Topic 740, Income Taxes ("ASC 740"). However, the breadth and complexity of reforms included in the Tax Reform Act combined with the lack of precedent in its application may result in changes to the tax effects recognized when interpretations of the legislation are finalized, including the Company's application of any additional guidance that may be issued by U.S. tax authorities. The SEC staff issued Staff Accounting Bulletin No. 118, which allows companies to recognize provisional amounts for the tax effects resulting from the enactment of the Tax Reform Act for which the accounting under ASC 740 is incomplete but a reasonable estimate can be determined. Adjustments to these provisional amounts, if any, are to be completed within a measurement period not to exceed one year.

During the three months ended March 31, 2018, we continued the effort to finalize our analysis of the incomplete areas and make any necessary adjustments to the provisional amounts recognized as of December 31, 2017. We identified the following updates to the areas discussed in the 2017 Annual Report that remain incomplete and subject to adjustment when the necessary information is available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting:

- The Company has made a policy election to account for estimated taxes in regard to global intangible low-taxed income under the provisions of the Tax Reform Act by recognizing such taxes as incurred. We recognized approximately $1.0 million of income tax expense for the estimated taxes incurred for global intangible low-taxed income during the three months ended March 31, 2018.
- We refined the provisional amount recognized for the one-time mandatory deemed repatriation of Canadian earnings required by the Tax Reform Act, which resulted in a $1.8 million reduction to income tax expense during the three months ended March 31, 2018. However, the provisional amount could be subject to further change upon the final completion of the Company's total post-1986 foreign earnings and profits calculation and foreign tax credit determination as of the dates specified in the Tax Reform Act.
- No changes have been made to the provisional amount recognized as of December 31, 2017 for the timing difference for the haircut on deductibility of future policy benefit reserves prescribed in the Tax Reform Act. The provisional amount could be subject to change upon the Company's final computation as it relates to insurance contracts identified with cash value features. Adjustments to the provisional amount are not expected to impact the Company's effective income tax rate or net deferred tax liability position but could impact the timing of when such temporary differences are eliminated.

We expect to finalize our analysis of the incomplete areas and make any necessary adjustments during the second half of 2018.

The Tax Reform Act reduced the U.S. federal statutory rate from 35% to 21% effective January 1, 2018 and had a significant impact on our effective tax rate during the three months ended March 31, 2018 as compared with the three months ended March 31, 2017. We have presented the primary components impacting our effective tax rate as follows:

	Three months ended March 31,	
	2018	2017
U.S. federal statutory rate	21.0%	35.0%
Difference between foreign statutory rate and U.S. statutory rate	1.4 %	(1.9)%
Excess tax benefits recognized on share-based compensation	(1.9)%	(4.4)%
Tax on global intangible low-taxed income under the provisions of the Tax Reform Act	1.2 %	— %
Updates to the provisional amount recognized for the one-time	(2.1)%	— %

mandatory deemed repatriation of Canadian earnings required by the Tax Reform Act		
Other	1.2 %	1.7 %
Effective tax rate	20.8 %	30.4 %

Subsequent Events. The Company has evaluated subsequent events for recognition and disclosure for occurrences and transactions after the date of the unaudited condensed consolidated financial statements dated as of March 31, 2018.

(2) Segment and Geographical Information

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

Notable information included in profit or loss by segment was as follows:

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Revenues:		
Term life insurance segment	$270,309	$234,051
Investment and savings products segment	162,041	140,407
Corporate and other distributed products segment	27,573	30,706
Total revenues	$459,923	$405,164
Net investment income:		
Term life insurance segment	$3,089	$2,303
Investment and savings products segment	-	-
Corporate and other distributed products segment	15,928	17,591
Total net investment income	$19,017	$19,894
Amortization of DAC:		
Term life insurance segment	$56,673	$50,133
Investment and savings products segment	3,442	1,734
Corporate and other distributed products segment	50	(17)
Total amortization of DAC	$60,165	$51,850
Non-cash share-based compensation expense:		
Term life insurance segment	$2,174	$1,775
Investment and savings products segment	1,193	1,180
Corporate and other distributed products segment	8,135	6,788
Total non-cash share-based compensation expense	$11,502	$9,743
Income (loss) before income taxes:		
Term life insurance segment	$59,621	$49,022
Investment and savings products segment	39,984	37,119
Corporate and other distributed products segment	(16,642)	(11,299)
Total income before income taxes	$82,963	$74,842

Total assets by segment were as follows:

	March 31, 2018	December 31, 2017
	(In thousands)	
Assets:		
Term life insurance segment	$6,307,019	$6,205,837
Investment and savings products segment [(1)]	2,539,187	2,684,717
Corporate and other distributed products segment	3,646,533	3,570,149
Total assets	$12,492,739	$12,460,703

[(1)] The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, the Investment and Savings Products segment assets were approximately $119.6 million and $112.0 million as of March 31, 2018 and December 31, 2017, respectively.

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

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Revenues by country:		
United States	$383,796	$339,794
Canada	76,127	65,370
Total revenues	$459,923	$405,164
Income before income taxes by country:		
United States	$63,214	$58,034
Canada	19,749	16,808
Total income before income taxes	$82,963	$74,842

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	March 31, 2018	December 31, 2017
	(In thousands)	
Long-lived assets by country:		
United States	$27,009	$ 27,443
Canada	607	656
Total long-lived assets	$27,616	$ 28,099

(3) Investments

Available-for-sale Securities. The period-end amortized cost, gross unrealized gains and losses, and fair value of available-for-sale securities were as follows:

	March 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$12,656	$ 203	$ (81)	$12,778
Foreign government	145,207	4,591	(968)	148,830
States and political subdivisions	52,951	1,495	(278)	54,168
Corporates	1,376,361	24,957	(12,792)	1,388,526
Residential mortgage-backed securities	134,287	2,773	(1,728)	135,332
Commercial mortgage-backed securities	137,615	1,907	(1,926)	137,596
Other asset-backed securities	85,046	303	(597)	84,752
Total available-for-sale securities[1]	$1,944,123	$ 36,229	$ (18,370)	$1,961,982

[1] Includes approximately $0.2 million of other-than-temporary impairment (“OTTI”) losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$11,577	$ 283	$ (47)	$11,813
Foreign government	139,486	5,651	(648)	144,489
States and political subdivisions	54,714	1,554	(141)	56,127
Corporates	1,337,321	42,616	(3,655)	1,376,282
Residential mortgage-backed securities	119,672	3,583	(297)	122,958
Commercial mortgage-backed securities	134,003	2,299	(910)	135,392
Other asset-backed securities	80,553	452	(224)	80,781
Total fixed-maturity securities[1]	1,877,326	56,438	(5,922)	1,927,842

Equity securities	31,331	9,796	(20)	41,107
Total fixed-maturity and equity securities	$1,908,657	$ 66,234	$ (5,942)	$1,968,949

(1) Includes approximately $0.2 million of OTTI losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

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

The scheduled maturity distribution of the available-for-sale fixed-maturity portfolio at March 31, 2018 was as follows:

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$170,007	$171,823
Due after one year through five years	840,614	851,357
Due after five years through 10 years	528,005	528,853
Due after 10 years	48,549	52,269
	1,587,175	1,604,302
Mortgage- and asset-backed securities	356,948	357,680
Total fixed-maturity securities	$1,944,123	$1,961,982

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

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

	March 31, 2018	December 31, 2017	
	(In thousands)		
Net unrealized investment gains on available-for-sale securities including OTTI:			
Available-for-sale securities	$17,859	$60,292	[1]
OTTI	173	174	
Net unrealized investment gains on available-for-sale securities excluding OTTI	18,032	60,466	
Deferred income taxes	(3,992)	(20,780)	
Net unrealized investment gains on available-for-sale securities excluding OTTI, net of tax	$14,040	$39,686	

[1] Includes approximately $9.8 million of net unrealized gains for equity securities recognized in accumulated other comprehensive income (loss) prior to the adoption of ASU 2016-01.

Trading Securities. The amortized cost and fair value of the securities classified as trading securities were as follows:

	March 31, 2018		December 31, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			
Fixed-maturity securities	$28,825	$28,781	$4,801	$4,800
Equity securities[1]	-	-	1,371	1,428
Total trading securities	$28,825	$28,781	$6,172	$6,228

[1] Equity securities, previously classified as trading securities, are no longer classified as trading securities due to the adoption of ASU 2016-01. As of March 31, 2018, all equity security investments held by the Company are presented in the balance sheet as equity securities.

Held-to-maturity Security. Concurrent with the execution of the Vidalia Re Coinsurance Agreement, Vidalia Re entered into a Surplus Note Purchase Agreement (the "Surplus Note Purchase Agreement") with Hannover Life Reassurance Company of America and certain of its affiliates (collectively, "Hannover Re") and a newly formed limited liability company (the "LLC") owned by a third party service provider. Under the Surplus Note Purchase Agreement, Vidalia Re issued a surplus note (the "Surplus Note") to the LLC in exchange for a credit enhanced note from the LLC with an equal principal amount (the "LLC Note"). The principal amount of both the LLC Note and the Surplus Note will fluctuate over time to coincide with the amount of reserves contractually supported under the Vidalia Re Coinsurance Agreement. Both the LLC Note and the Surplus Note mature on December 31, 2030 and bear interest at an annual interest rate of 4.50%. The LLC Note is guaranteed by Hannover Re through a credit enhancement feature in exchange for a fee, which is reflected in interest expense on our unaudited condensed consolidated statements of income.

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

The LLC Note is classified as a held-to-maturity debt security in the Company's invested asset portfolio as we have the positive intent and ability to hold the security until maturity. As of March 31, 2018, the LLC Note, which was rated A+ by Fitch Ratings, had an estimated unrealized holding gain of approximately $10.2 million based on its amortized cost and estimated fair value, which is derived using the valuation techniques described in Note 4 (Fair Value of Financial Instruments). See Note 12 (Debt) for more information on the Surplus Note.

Investments on Deposit with Governmental Authorities. As required by law, we have investments on deposit with governmental authorities and banks for the protection of policyholders. The fair values of investments on deposit were approximately $11.2 million and $11.1 million as of March 31, 2018 and December 31, 2017, respectively.

Securities Lending Transactions. We participate in securities lending transactions with broker-dealers and other financial institutions to increase investment income with minimal risk. We require minimum collateral on securities loaned equal to 102% of the fair value of the loaned securities. We accept collateral in the form of securities, which we are not able to sell or encumber, and to the extent the collateral declines in value below 100%, we require additional collateral from the borrower. Any securities collateral received is not reflected on our unaudited condensed consolidated balance sheets. We also accept collateral in the form of cash, all of which we reinvest. For loans involving unrestricted cash collateral, the collateral is reported as an asset with a corresponding liability representing our obligation to return the collateral. We continue to carry the loaned securities as invested assets on our unaudited condensed consolidated balance sheets during the terms of the loans, and we do not report them as sales. Cash collateral received and reinvested was approximately $89.4 million and $89.8 million as of March 31, 2018 and December 31, 2017, respectively.

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

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Fixed-maturity securities (available-for-sale)	$19,288	$19,069
Fixed-maturity security (held-to-maturity)	8,373	5,718
Equity securities	513	535
Policy loans and other invested assets	411	305
Cash and cash equivalents	586	194
Total return on deposit asset underlying 10% coinsurance agreement[(1)]	(107)	1,032
Gross investment income	29,064	26,853
Investment expenses	(1,674)	(1,241)
Investment income net of investment expenses	27,390	25,612
Interest expense on surplus note	(8,373)	(5,718)
Net investment income	$19,017	$19,894

(1) Includes approximately $1.3 million of loss recognized for the change in fair value of the deposit asset underlying the 10% coinsurance agreement for the three months ended March 31, 2018. The change in fair value of the deposit asset underlying the 10% coinsurance agreement for the three months ended March 31, 2017 was de minimis.

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

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Net realized investment gains (losses):		
Gross gains from sales of available-for-sale securities	$383	$293
Gross losses from sales of available-for-sale securities	(18)	(14)
OTTI losses of available-for-sale securities	(49)	(211)
Net gains (losses) recognized in net income during the period on equity securities	(1,945)	-
Gains (losses) from bifurcated options	(27)	66
Net realized investment gains (losses)	$(1,656)	$134

The components of net gains (losses) recognized in net income during the three months ended March 31, 2018 on equity securities still held as of period-end were as follows:

Net gains (losses) recognized on equity securities during the three months ended March 31, 2018	$(1,945)
Less: Net gains (losses) recognized on equity securities sold during the three months ended March 31, 2018	-
Net gains (losses) recognized in net income during the reporting period on equity securities still held at March 31, 2018	$(1,945)

Other-Than-Temporary Impairment. We conduct a review each quarter to identify and evaluate impaired investments that have indications of possible OTTI. An investment in a debt security is impaired if its fair value falls below its cost. Factors considered in determining whether an impairment is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects for the issue, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery, which may be maturity for fixed-maturity securities.

Available-for-sale fixed-maturity securities with a cost basis in excess of their fair values were approximately $993.8 million and $529.2 million as of March 31, 2018 and December 31, 2017, respectively.

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

	March 31, 2018					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	$6,535	$ (71)	6	$1,252	$ (10)	2
Foreign government	56,034	(800)	57	6,453	(168)	6
States and political subdivisions	19,317	(153)	17	6,240	(125)	7
Corporates	586,638	(10,728)	490	35,637	(2,064)	42
Residential mortgage-backed securities	82,173	(1,664)	41	2,450	(64)	6
Commercial mortgage-backed securities	92,608	(1,399)	77	19,547	(527)	24
Other asset-backed securities	47,898	(451)	49	12,653	(146)	16
Total fixed-maturity securities	$891,203	$ (15,266)		$84,232	$ (3,104)	

	December 31, 2017					
	Less than 12 months			12 months or longer		
	Fair value	Unrealized losses	Number of securities	Fair value	Unrealized losses	Number of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	$4,754	$ (34)	5	$2,975	$ (13)	3
Foreign government	40,287	(465)	45	7,102	(183)	7
States and political subdivisions	7,369	(43)	7	6,267	(98)	7
Corporates	247,613	(2,323)	216	39,767	(1,332)	43
Residential mortgage-backed securities	33,610	(263)	16	2,592	(34)	8
Commercial mortgage-backed securities	60,116	(394)	52	22,149	(516)	25
Other asset-backed securities	32,605	(121)	33	14,819	(103)	19
Total fixed-maturity securities	426,354	(3,643)		95,671	(2,279)	
Equity securities	1,076	(16)	4	170	(4)	2
Total fixed-maturity and equity securities	$427,430	$ (3,659)		$95,841	$ (2,283)	

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

	March 31, 2018		December 31, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			
Fixed-maturity securities in default	$504	$900	$503	$654

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

	Three months ended March 31,	
	2018	2017
	(In thousands)	
OTTI on fixed-maturity securities not in default	$49	$76
OTTI on fixed-maturity securities in default	-	-
OTTI on equity securities[1]	-	135
Total OTTI recognized in earnings	$49	$211

[1] Subsequent to the adoption of ASU 2016-01 all changes in the fair value of equity securities are recognized in net income and thus OTTI no longer applies to equity securities.

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

As of March 31, 2018, the unrealized losses on our available-for-sale fixed-maturity security portfolio were largely caused by interest rate sensitivity and changes in credit spreads. We believe that fluctuations caused by movement in interest rates and credit spreads have little bearing on the recoverability of our investments. We do not consider these investments to be other-than-temporarily impaired because we have the ability to hold these investments until maturity or a market price recovery, and we have no present intention to dispose of them.

OTTI recognized in earnings for available-for-sale securities were as follows:

	Three months ended March 31, 2018	2017
	(In thousands)	
Total OTTI related to securities which the Company does not intend to sell or more-likely-than-not will not be required to sell:		
Total OTTI losses recognized	$49	$76
Less portion of OTTI recognized in accumulated other comprehensive income (loss)	-	-
OTTI recognized in earnings for securities which the Company does not intend to sell or more-likely than-not will not be required to sell	49	76
OTTI recognized in earnings for securities which the Company intends to sell or more-likely-than-not will be required to sell before recovery	-	135
OTTI recognized in earnings	$49	$211

The rollforward of the OTTI recognized in net income for all fixed-maturity securities still held was as follows:

	Three months ended March 31, 2018	2017
	(In thousands)	
Cumulative OTTI recognized in net income for securities still held, beginning of period	$4,346	$5,774
Additions for securities where no OTTI were recognized prior to the beginning of the period	-	-
Additions for securities where OTTI have been recognized prior to the beginning of the period	49	76
Reductions due to sales, maturities, calls, amortization or increases in cash flows expected to be collected over the	-	(41)

remaining life of credit impaired securities		
Reductions for exchanges of securities previously impaired	(97)	(50)
Cumulative OTTI recognized in net income for securities still held, end of period	$4,298	$5,759

As of March 31, 2018, no cumulative impairment losses have been recognized on the LLC Note held-to-maturity security.

Derivatives. Embedded conversion options associated with fixed-maturity securities are bifurcated from the fixed-maturity security host contracts and separately recognized as equity securities. The change in fair value of these bifurcated conversion options is reflected in realized investment gains (losses), including OTTI losses. The fair value of these bifurcated options was approximately $0.9 million as of March 31, 2018 and December 31, 2017.

We have a deferred loss related to closed forward contracts, which were settled several years ago, that were used to mitigate our exposure to foreign currency exchange rates that resulted from the net investment in our Canadian operations. The amount of deferred loss included in accumulated other comprehensive income (loss) was approximately $26.4 million as of March 31, 2018 and December 31, 2017. These deferred losses will not be recognized until such time as we sell or substantially liquidate our Canadian operations; although we have no such intention.

(4) Fair Value of Financial Instruments

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

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

observable, or derived from observable information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed-maturity and equity securities; government or agency securities; certain mortgage- and asset-backed securities and bifurcated conversion options; and

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

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

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

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Available-for-sale fixed-maturity securities:				
U.S. government and agencies	$-	$12,778	$-	$12,778
Foreign government	-	148,830	-	148,830
States and political subdivisions	-	54,168	-	54,168
Corporates	3,225	1,385,298	3	1,388,526
Residential mortgage-backed securities	-	134,967	365	135,332
Commercial mortgage-backed securities	-	137,596	-	137,596
Other asset-backed securities	-	84,752	-	84,752
Total available-for-sale fixed-maturity securities	3,225	1,958,389	368	1,961,982
Equity securities	38,571	1,894	167	40,632
Trading securities	-	28,781	-	28,781
Separate accounts	-	2,419,707	-	2,419,707
Total fair value assets	$41,796	$4,408,771	$535	$4,451,102
Fair value liabilities:				
Separate accounts	$-	$2,419,707	$-	$2,419,707
Total fair value liabilities	$-	$2,419,707	$-	$2,419,707

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Available-for-sale fixed-maturity securities:				
U.S. government and agencies	$-	$11,813	$-	$11,813
Foreign government	-	144,489	-	144,489
States and political subdivisions	-	56,127	-	56,127
Corporates	3,240	1,373,039	3	1,376,282
Residential mortgage-backed securities	-	122,544	414	122,958

Commercial mortgage-backed securities	-	135,392	-	135,392
Other asset-backed securities	-	80,781	-	80,781
Total available-for-sale fixed-maturity securities	3,240	1,924,185	417	1,927,842
Available-for-sale equity securities	39,026	1,931	150	41,107
Trading securities	1,428	4,800	-	6,228
Separate accounts	-	2,572,872	-	2,572,872
Total fair value assets	$43,694	$4,503,788	$567	$4,548,049
Fair value liabilities:				
Separate accounts	$-	$2,572,872	$-	$2,572,872
Total fair value liabilities	$-	$2,572,872	$-	$2,572,872

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

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

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

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

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

	Three months ended March 31, [1]	
	2018	2017
	(In thousands)	
Level 3 assets, beginning of period	$567	$8,162
Net unrealized gains (losses) included in other comprehensive income	(9)	(14)
Realized gains (losses) and accretion (amortization)	18	7

recognized in earnings, including OTTI		
Settlements	(41)	(228)
Transfers into Level 3	-	2,435
Transfers out of Level 3 (2)	-	(573)
Level 3 assets, end of period	$535	$9,789

(1) Activities for investments that enter Level 3 in one quarter and exit Level 3 in another quarter within the same fiscal year are not eliminated until year-end when only the full year amounts are presented.

(2) During the three months ended March 31, 2017, transfers out of Level 3 assets primarily consisted of newly issued fixed-maturity securities in the previous quarter for which observable inputs, most notably quoted prices, used to derive valuations became readily available.

We obtain independent pricing quotes based on observable inputs as of the end of the reporting period for all securities in Level 2. Those inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers, quoted prices for similar instruments in markets that are not active, and other relevant data. We monitor these inputs for market indicators, industry and economic events. We recognize transfers into new levels and out of previous levels as of the end of the reporting period, including interim reporting periods, as applicable. There were no material transfers between Level 1 and Level 2 or between Level 1 and Level 3 during the three months ended March 31, 2018 and 2017.

The carrying values and estimated fair values of our financial instruments were as follows:

	March 31, 2018		December 31, 2017	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(In thousands)			
Assets:				
Fixed-maturity securities (available-for-sale)	$1,961,982	$1,961,982	$1,927,842	$1,927,842
Fixed-maturity security (held-to-maturity) (3)	796,450	806,672	737,150	779,472
Available-for-sale equity securities	-	-	41,107	41,107
Equity securities	40,632	40,632	-	-
Trading securities	28,781	28,781	6,228	6,228
Policy loans (3)	32,532	32,532	32,816	32,816
Deposit asset underlying 10% coinsurance agreement (3)	219,968	219,968	217,336	217,336
Separate accounts	2,419,707	2,419,707	2,572,872	2,572,872
Liabilities:				
Notes payable (1) (2)	$373,381	$393,117	$373,288	$400,628
Surplus note (1) (3)	795,697	806,331	736,381	778,050
Separate accounts	2,419,707	2,419,707	2,572,872	2,572,872

(1) Carrying value amounts shown are net of issuance costs.
(2) Classified as a level 2 fair value measurement.
(3) Classified as a level 3 fair value measurement.

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

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

(5) Reinsurance

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

Details on in-force life insurance were as follows:

	March 31, 2018	December 31, 2017
	(Dollars in thousands)	

Direct life insurance in force	$768,864,204	$767,001,938
Amounts ceded to other companies	(669,595,041)	(668,446,638)
Net life insurance in force	$99,269,163	$98,555,300
Percentage of reinsured life insurance in force	87 %	87 %

Reinsurance recoverables include ceded reserve balances and ceded claim liabilities. Reinsurance recoverables and financial strength ratings by reinsurer were as follows:

	March 31, 2018		December 31, 2017	
	Reinsurance recoverables	A.M. Best rating	Reinsurance recoverables	A.M. Best rating
	(In thousands)			
Pecan Re Inc. [1] [2]	$2,773,360	NR	$2,725,795	NR
SCOR Global Life Reinsurance Companies [3]	374,936	A+	354,458	A+
Munich Re of Malta [2] [5]	295,887	NR	302,391	NR
Swiss Re Life & Health America Inc. [4]	242,177	A+	245,543	A+
American Health and Life Insurance Company [2]	173,483	B	172,956	B
Munich American Reassurance Company	112,297	A+	112,841	A+
Korean Reinsurance Company	101,790	A	102,915	A
RGA Reinsurance Company	88,911	A+	90,037	A+
Hannover Life Reassurance Company	33,063	A+	32,250	A+
TOA Reinsurance Company	25,623	A	24,619	A
All other reinsurers	41,584	-	41,368	-
Reinsurance recoverables	$4,263,111		$4,205,173	

NR – not rated

[1] Pecan Re Inc. is a wholly owned subsidiary of Swiss Re Life & Health America Inc.
[2] Includes balances ceded under coinsurance transactions of term life insurance policies that were in force as of December 31, 2009. Amounts shown are net of their share of the reinsurance recoverables from other reinsurers.
[3] Includes amounts ceded to Transamerica Reinsurance Companies and fully retroceded to SCOR Global Life Reinsurance Companies.
[4] Includes amounts ceded to Lincoln National Life Insurance and fully retroceded to Swiss Re Life & Health America Inc.
[5] This entity is rated AA- by S&P.

Benefits and claims ceded to reinsurers during the three months ended March 31, 2018 and 2017 were approximately $340.3 million and $342.8 million, respectively.

(6) Policy Claims and Other Benefits Payable

Changes in policy claims incurred and other benefits payable were as follows:

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Policy claims and other benefits payable, beginning of period	$307,401	$268,136
Less reinsured policy claims and other benefits payable	322,137	323,195
Net balance, beginning of period	(14,736)	(55,059)
Incurred related to current year	47,787	41,497

Incurred related to prior years [1]	(2,250)	1,647
Total incurred	45,537	43,144
Claims paid related to current year, net of reinsured policy claims received	(143,302)	(126,492)
Reinsured policy claims received related to prior years, net of claims paid	23,287	60,648
Total paid	(120,015)	(65,844)
Foreign currency translation	(167)	16
Net balance, end of period	(89,381)	(77,743)
Add reinsured policy claims and other benefits payable	397,700	346,140
Balance, end of period	$308,319	$268,397

(1) Includes the difference between our estimate of claims incurred but not yet reported as of period end and the actual incurred claims reported after period end.

The liability for policy claims and other benefits payable on traditional life insurance products includes estimated unpaid claims that have been reported to us and claims incurred but not yet reported. We estimate claims incurred but not yet reported based on our historical claims activity and payment lag time experience.

(7) Stockholders' Equity

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

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Common stock, beginning of period	44,251	45,721
Shares issued for stock options exercised	-	38
Shares of common stock issued upon lapse of restricted stock units ("RSUs")	223	271
Common stock retired	(521)	(480)
Common stock, end of period	43,953	45,550

The above reconciliation excludes RSUs and performance-based stock units ("PSUs"), which do not have voting rights. As sales restrictions on RSUs lapse and PSUs are earned, we issue common shares with voting rights. As of March 31, 2018, we had a total of 779,869 RSUs and 65,983 PSUs outstanding. The PSU outstanding balance is based on the targeted number of PSUs granted in the award agreement; however, the actual number of common shares issued could be higher or lower based on actual versus targeted performance. See Note 9 (Share Based Transactions) for discussion of the PSU award structure.

On February 6, 2018, our Board of Directors authorized a share repurchase program for up to $275.0 million of our outstanding common stock for purchases through June 30, 2019 (the "share repurchase program"). Under the share repurchase program, we repurchased 467,614 shares of our common stock in the open market for an aggregate purchase price of approximately $46.3 million through March 31, 2018. Approximately $228.7 million remains available for repurchases of our outstanding common stock under the share repurchase program as of March 31, 2018.

(8) Earnings Per Share

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

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

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

We determine the potential dilutive effect of PSUs and stock options outstanding ("contingently-issuable shares") on EPS using the treasury-stock method. Under this method, we determine the proceeds that would be received from the issuance of the contingently-issuable shares if the end of the reporting period were the end of the contingency period. The proceeds from the contingently-issuable shares include the remaining unrecognized compensation expense of the awards and the cash received for the exercise price on stock options. We then use the average market price of our common shares during the period the contingently-issuable shares were outstanding to determine how many shares we could repurchase with the proceeds raised from the issuance of the contingently-issuable shares. The net incremental share count issued represents the potential dilutive securities. We then reallocate earnings to common shares and vested RSUs by incorporating the increased fully-diluted share count to determine diluted EPS.

The calculation of basic and diluted EPS was as follows:

	Three months ended March 31, 2018	2017
	(In thousands, except per-share amounts)	
Basic EPS:		
Numerator:		
Net income	$65,715	$52,070
Income attributable to unvested participating securities	(425)	(421)
Net income used in calculating basic EPS	$65,290	$51,649
Denominator:		
Weighted-average vested shares	44,740	46,301
Basic EPS	$1.46	$1.12
Diluted EPS:		
Numerator:		
Net income	$65,715	$52,070
Income attributable to unvested participating securities	(424)	(421)
Net income used in calculating diluted EPS	$65,291	$51,649
Denominator:		
Weighted-average vested shares	44,740	46,301
Dilutive effect of incremental shares to be issued for contingently-issuable shares	115	73
Weighted-average shares used in calculating diluted EPS	44,855	46,374
Diluted EPS	$1.46	$1.11

(9) Share-Based Transactions

The Company has outstanding equity awards under its Omnibus Incentive Plan ("OIP"). The OIP provides for the issuance of equity awards, including stock options, stock appreciation rights, restricted stock, deferred stock, RSUs, PSUs, and stock payment awards, as well as cash-based awards. In addition to time-based vesting requirements, awards granted under the OIP also may be subject to specified performance criteria. Since 2010, the Company has issued equity awards under the OIP to our management (officers and other key employees), non-employees who serve on our Board of Directors, and sales force leaders. For more information on equity awards granted under the OIP, see Note 14 (Share-Based Transactions) to our consolidated financial statements within our 2017 Annual Report.

Equity awards granted to our sales force prior to January 2018 contained sales restrictions that expired over three years. Because of such sales restrictions, the fair market value of the awards incorporated an illiquidity discount reflecting the risk associated with the post-vesting restrictions. Equity awards granted under quarterly contests starting in January 2018 no longer contain sales restrictions, thereby eliminating the need to incorporate an illiquidity discount. These awards are measured using the fair value at the conclusion of the quarterly contest. Awards granted before January 2018 maintain the post-vest restrictions established at the time of grant.

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

The impacts of equity awards granted are as follows:

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Total equity awards expense recognized	$11,502	$9,743
Quarterly incentive awards expense deferred	2,494	2,746

On February 26, 2018, the Compensation Committee of the Board of Directors granted the following equity awards to employees as part of the annual approval of management incentive compensation:

- 94,758 RSUs awarded to management with a measurement-date fair value of $100.55 per unit that have time-based vesting requirements with equal and annual graded vesting over approximately three years subsequent to the grant date.
- 30,579 PSUs awarded under the OIP to our four top executives with a measurement-date fair value of $100.55 per unit. The PSUs will be earned on March 1, 2021 contingent upon the Company achieving a target annual average three-year return on adjusted equity (“ROAE”) for the period from January 1, 2018 through December 31, 2020. The actual number of common

shares that will be issued will vary based on the actual ROAE relative to the target ROAE and can range from zero to 45,868 shares.

All awards granted to employees on February 26, 2018 vest upon voluntary termination of employment by any employee who is “retirement eligible” as of his or her termination date. In order to be retirement eligible, an employee must be at least 55 years old and his or her age plus years of service with the Company must equal at least 75. The number of PSUs that will ultimately vest for a retirement-eligible employee is equal to the amount calculated using the Company’s actual cumulative three-year ROAE ending on December 31, 2020, even if that employee retires prior to the completion of the three-year performance period.

(10) Commitments and Contingent Liabilities

Letter of Credit (“LOC”). Peach Re maintains a credit facility agreement with Deutsche Bank (the "Credit Facility Agreement") to support certain obligations for a portion of the Regulation XXX reserves related to the Peach Re Coinsurance Agreement. Under the Credit Facility Agreement, Deutsche Bank issued a letter of credit for the benefit of Primerica Life with a term ending on January 15, 2026. At March 31, 2018, the amount of the LOC outstanding was approximately $342.1 million. This amount will decline over the remaining term of the LOC to correspond with declines in the Regulation XXX reserves. As of March 31, 2018, the Company was in compliance with all financial covenants under the Credit Facility Agreement.

Further discussion on the Company’s letter of credit is included in Note 16 (Commitments and Contingent Liabilities) to our consolidated financial statements within our 2017 Annual Report.

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

The Company is currently undergoing multi-state unclaimed property audits by 30 jurisdictions, currently focusing on the life insurance claims paying practices of its subsidiaries, Primerica Life and NBLIC. Other jurisdictions may pursue similar audits. The potential outcome of such audits is difficult to predict but could subject the Company to adverse consequences, including, but not limited to, settlement payments, additional payments to beneficiaries and additional escheatment of funds deemed abandoned under state laws. At this time, the Company cannot reasonably estimate the likelihood or the impact of additional costs or liabilities that could result from the resolution of these matters.

(11) Other Comprehensive Income

The components of other comprehensive income (loss) ("OCI"), including the income tax expense or benefit allocated to each component, were as follows:

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Foreign currency translation adjustments:		
Change in unrealized foreign currency translation gains (losses)	$(8,401)	$1,126

before income taxes		
Income tax expense (benefit) on unrealized foreign currency translation gains (losses)	-	15
Change in unrealized foreign currency translation gains (losses), net of income taxes	$(8,401)	$1,111
Unrealized gain (losses) on available-for-sale securities:		
Change in unrealized holding gains (losses) arising during period before income taxes	$(32,343)	$7,281
Income tax expense (benefit) on unrealized holding gains (losses) arising during period	(6,850)	2,548
Change in unrealized holding gains (losses) on available-for-sale securities arising during period, net of income taxes	(25,493)	4,733
Reclassification from accumulated OCI to net income for (gains) losses realized on available-for-sale securities	(316)	(68)
Income tax (expense) benefit on (gains) losses reclassified from accumulated OCI to net income	(66)	(24)
Reclassification from accumulated OCI to net income for (gains) losses realized on available-for-sale securities, net of income taxes	(250)	(44)
Change in unrealized gains (losses) on available-for-sale securities, net of income taxes and reclassification adjustment	$(25,743)	$4,689

(12) Debt

Notes Payable. At March 31, 2018, the Company had $375.0 million of publicly-traded, senior unsecured notes (the "Senior Notes"), with an annual interest rate of 4.75% that are scheduled to mature on July 15, 2022. As of March 31, 2018, we were in compliance with the covenants of the Senior Notes. No events of default occurred on the Senior Notes during the three months ended March 31, 2018.

Further discussion on the Company’s Senior Notes is included in Note 10 (Debt) to our consolidated financial statements within our 2017 Annual Report.

Surplus Note. In May 2017, Primerica Life and Vidalia Re amended the Vidalia Re Coinsurance Agreement (the "Expanded Vidalia Re Coinsurance Agreement") whereby Primerica Life ceded level-premium term life insurance policies issued in 2015 and 2016 to Vidalia Re effective June 30, 2017. The Expanded Vidalia Re Coinsurance Agreement also provides the option for Primerica Life to cede level-premium term life insurance policies issued in 2017 to Vidalia Re at a future date. Concurrent with the execution of the Expanded Vidalia Re Coinsurance Agreement, Vidalia Re entered into an amendment to the Surplus Note Purchase Agreement (the "Expanded Surplus Note Purchase Agreement") with Hannover Re and the LLC. Under the Expanded Surplus Note Purchase Agreement, the capacity of the principal amount of both the Surplus Note and the credit-enhanced LLC Note will be increased over time in accordance with the expanded amount of policy reserves being contractually supported under the Expanded Vidalia Re Coinsurance Agreement. The maturity date of both notes has been extended from December 31, 2029 to December 31, 2030. Based on the estimated reserves for ceded policies issued in 2011 through 2016, the principal amounts of the Surplus Note and the LLC Note are expected to reach approximately $1.3 billion each. The amended financing arrangement remains non-recourse to the Parent Company and Primerica Life, meaning that neither of these companies has guaranteed the Surplus Note or is otherwise liable for reimbursement for any payments triggered by the credit enhancement feature. The Parent Company has agreed to support Vidalia Re’s obligation to pay the credit enhancement fee incurred on the LLC Note. No other material terms or conditions of the original Surplus Note Purchase Agreement were modified under the Expanded Surplus Note Purchase Agreement. At March 31, 2018, the principal amount outstanding on the Surplus Note issued by Vidalia Re was approximately $796.5 million, which is equal to the principal amount of the LLC Note.

Further discussion on the Company’s Surplus Note and LLC Note are included in Note 10 (Debt) and Note 4 (Investments) to our consolidated financial statements within our 2017 Annual Report.

Revolving Credit Facility. On December 19, 2017, we entered into a $200.0 million five-year unsecured revolving credit facility ("Revolving Credit Facility") with a syndicate of commercial banks. Amounts outstanding under the Revolving Credit Facility bear interest at a periodic rate equal to LIBOR or the base rate, plus in either case an applicable margin. The Revolving Credit Facility also permits the issuance of letters of credit. The applicable margins are based on our debt rating with such margins for LIBOR rate loans and letters of credit ranging from 1.125% to 1.625% per annum and for base rate loans ranging from 0.125% to 0.625% per annum. Under the Revolving Credit Facility, we incur a commitment fee that is payable quarterly in arrears and is determined by our debt rating. This commitment fee ranges from 0.125% to 0.225% per annum of the aggregate $200.0 million commitment of the lenders under the Revolving Credit Facility. As of March 31, 2018, no amounts have been drawn under the Revolving Credit Facility and we were in compliance with its covenants. Furthermore, no events of default have occurred under the Revolving Credit Facility.

(13) Revenue from Contracts with Customers

Our revenues from contracts with customers primarily include:

- Commissions and fees earned for the marketing and distribution of investment and savings products underwritten by mutual fund companies and annuity providers. For purposes of ASU 2014-09, mutual fund companies and annuity providers are considered the customers in marketing and distribution arrangements.

- Fees earned for investment advisory and administrative services within our managed investments programs.
- Account-based fees for transfer agent recordkeeping functions and non-bank custodial services.
- Fees associated with the distribution of other third-party financial products.
- Other revenue from the sale of miscellaneous products and services including monthly subscription fees from our sales representatives for access to Primerica Online ("POL"), our primary sales force support tool.

Premiums from insurance contracts we underwrite, fees received from segregated funds insurance contracts, and income earned on our invested assets are excluded from the definition of revenues from contracts with customers in accordance with U.S. GAAP.

The disaggregation of our revenues from contracts with customers were as follows:

	Three months ended March 31, 2018	2017
	(In thousands)	
Term Life Insurance segment revenues:		
Other, net	$10,415	$9,446
Total segment revenues from contracts with customers	10,415	9,446
Revenues from sources other than contracts with customers	259,894	224,605
Total Term Life Insurance segment revenues	$270,309	$234,051
Investment and Savings Products segment revenues:		
Commissions and fees		
Sales-based revenues	$64,461	$60,517
Asset-based revenues	59,540	50,464
Account-based revenues	20,595	13,217
Other, net	2,336	2,199
Total segment revenues from contracts with customers	146,932	126,397
Revenues from sources other than contracts with customers (segregated funds)	15,109	14,010
Total Investment and Savings Products segment revenues	$162,041	$140,407
Corporate and Other Distributed Products segment revenues:		
Commissions and fees [(1)]	$7,122	$6,060
Other, net	1,146	1,294
Total segment revenues from contracts with customers	8,268	7,354
Revenues from sources other than contracts with customers	19,305	23,352
Total Corporate and Other Distributed Products segment revenues	$27,573	$30,706

[(1)] Includes approximately $0.8 million attributable to performance obligations satisfied in a previous reporting period and represents the collection of variable consideration in the transaction price that had been previously constrained.

We recognize revenue upon the satisfaction of the related performance obligation, unless the transaction price includes variable consideration that is constrained; in which case, we recognize revenue when the uncertainty associated with the constrained amount is subsequently resolved. Variable consideration is not treated as constrained to the extent it is probable that no significant reversal in the amount of cumulative revenue recognized will occur when the uncertainty associated with the variable consideration is resolved. We have no material obligations for refunds of commission and fees on contracts with customers subsequent to completion of our performance obligation.

Investment and Savings Products Marketing and Distribution Services. We receive commissions and fees from mutual fund companies and annuity providers for the marketing and distribution by our licensed sales representatives of investment and savings products underwritten by such companies and providers. We recognize the sales-based marketing and distribution revenue received by such companies and providers at the point in time our performance obligation to them is satisfied, which is the trade date. The sales-based commissions from mutual fund companies and annuity providers are known and are due at the same time our performance obligation to such mutual fund companies and annuity providers is satisfied. We also receive ongoing asset-based commissions from mutual fund companies and annuity providers each reporting period based on client asset values. We do not recognize revenue for asset-based marketing and distribution commissions until the end of each subsequent reporting period when the amount becomes known and due from mutual fund companies or annuity providers as this revenue represents variable consideration that is fully constrained at the point in time our distinct performance obligation to mutual fund companies and annuity providers is satisfied. We consider variable consideration in the form of asset-based marketing and distribution commissions to be fully constrained as the amounts we will be entitled to collect are highly uncertain and susceptible to factors outside of our control. Such factors include the market values of assets under management and the length of time investors hold their accounts. Asset-based marketing and distribution commissions recognized during the current period are almost exclusively attributable to distinct performance obligations satisfied to mutual fund companies and annuity providers in previous periods. The adoption of ASU 2014-09 did not result in any changes in the timing or measurement of revenue recognition for marketing and distribution services of investment and savings products.

Investment Advisory and Administrative Services. We provide investment advisory and administrative services over time to investors in the managed investments programs we offer. We recognize revenue over time for daily investment advisory and administrative services that are substantially the same and have the same pattern of delivery. Fees for these services, which are based on a percentage of client assets in managed investment programs, become known and are charged to investors during the same reporting period in which the daily investment advisory and administrative services are performed. The adoption of ASU 2014-09 did not result in any changes in the timing or measurement of revenue recognition for investment advisory and administrative services.

Account-based Services. We provide distinct transfer agent recordkeeping services for certain mutual funds we distribute and non-bank custodial services to investors purchasing investment products we distribute through qualified retirement accounts in the United States. Fees charged for these account-based services consist primarily of a stated fee for each investment position or each qualified retirement account. Generally, our performance obligation for each account-based service arrangement is satisfied over time and is substantially the same with the same pattern of delivery. We recognize revenue to which we are entitled for each investment position or each qualified account over time based on the time-based pro-rata amount earned each reporting period. The adoption of ASU 2014-09 did not result in any changes in the timing or measurement of revenue recognition for account-based services.

Distribution of Other Third-party Financial Products. We distribute various other financial products on behalf of third parties to consumers. We receive upfront commissions and/or renewal commissions from product providers for sales of other financial product sales we have arranged. We recognize revenue at the point in time our performance obligation to product providers is satisfied, which is generally on the date the financial product is purchased by the consumer from the product provider. For certain financial products, most notably prepaid legal subscriptions and auto and homeowners' insurance referrals, we receive ongoing renewal commissions that coincide with recurring payments received by product providers from active subscribers or policyholders. Ongoing renewal commissions represent variable consideration that will not be resolved until after the reporting period in which our performance obligation has been satisfied. We estimate variable consideration in the transaction price for these financial products (with the exception of miscellaneous products for which we expect nominal ongoing commissions) as the expected amount of commissions to be received over the life of the subscription or referred policy and apply a constraint so that it is probable that a subsequent change in estimate will not result in a significant revenue reversal. Management judgement primarily is required to determine the average life of a subscription or referred policy, which we establish based on historical information. We recognize variable consideration in excess of the amount constrained in subsequent reporting periods when the uncertainty is resolved and the excess amounts are due from the product providers. Prior to the adoption of ASU 2014-09, we recognized revenue for ongoing renewal commissions associated with other third-party financial products upon receipt of the commission revenue from the product providers, which is the point in time when the amount became fixed and determinable.

Revenue for Other Services. We recognize revenue from the sale of other miscellaneous products and services, including monthly subscription fees from our sales representatives for access to POL, upon the transfer of the promised product or service. For POL subscriptions, we satisfy our performance obligation by providing subscribers access to the promised services over time during each monthly subscription period. Revenue recognized from the sale of other miscellaneous products and services becomes known and charged at the same time we satisfy the corresponding performance obligation.

Contract Balances. For revenue associated with ongoing renewal commissions on other distributed financial products, we record a contract asset for the amount of ongoing renewal commissions we anticipate collecting in reporting periods subsequent to the sale or referral, less amounts that are constrained. The contract asset is reduced for commissions that are billed and become due receivables from product providers during the reporting period.

Activity in the contract asset account was as follows:

	Three months ended March 31, 2018 (In thousands)
Balance, beginning of period	$ 48,533
Current period sales, net of collection of renewal commissions	(120)

Balance, at the end of period	$ 48,413

No significant estimate adjustments were made to the contract asset and no impairment losses were recognized on the contract asset during the three months ended March 31, 2018.

Incremental costs to obtain or fulfill contracts, most notably sales commissions to our sales representatives, are not incurred prior to the recognition of the related revenue. Therefore, we have no assets recognized for incremental costs to obtain or fulfill contracts.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to inform the reader about matters affecting the financial condition and results of operations