

Primerica, Inc.
Form 10-Q
November 09, 2016

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 September 30, 2016

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

1 Primerica Parkway

Edgar Filing: Primerica, Inc. - Form 10-Q

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

Class	As of October 31, 2016
Common Stock, \$0.01 Par Value	45,801,431 shares

TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	1
<u>Item 1. Financial Statements (unaudited).</u>	1
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	1
<u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2016 and 2015</u>	3
<u>Condensed Consolidated Statements of Stockholders’ Equity for the nine months ended September 30, 2016 and 2015</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	35
<u>Item 4. Controls and Procedures.</u>	35
<u>PART II – OTHER INFORMATION</u>	36
<u>Item 1. Legal Proceedings.</u>	36
<u>Item 1A. Risk Factors.</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	37
<u>Item 6. Exhibits.</u>	37
<u>Signatures</u>	38

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	(Unaudited)	
	September	December
	30, 2016	31, 2015
	(In thousands)	
Assets		
Investments:		
Fixed-maturity securities available-for-sale, at fair value (amortized cost: \$1,660,347 in 2016 and \$1,690,043 in 2015)	\$ 1,761,174	\$ 1,731,459
Fixed-maturity securities held-to-maturity, at amortized cost (fair value: \$500,823 in 2016 and \$371,742 in 2015)	454,000	365,220
Equity securities available-for-sale, at fair value (cost: \$37,966 in 2016 and \$39,969 in 2015)	47,539	47,839
Trading securities, at fair value (cost: \$12,268 in 2016 and \$5,383 in 2015)	12,259	5,358
Policy loans	30,801	28,627
Total investments	2,305,773	2,178,503
Cash and cash equivalents	195,323	152,294
Accrued investment income	17,449	17,080
Due from reinsurers	4,161,537	4,110,628
Deferred policy acquisition costs, net	1,672,454	1,500,259
Agent balances, due premiums and other receivables	226,539	190,379
Intangible assets, net (accumulated amortization: \$74,381 in 2016 and \$71,828 in 2015)	55,766	58,318
Income taxes	29,313	35,067
Other assets	356,713	304,356
Separate account assets	2,347,816	2,063,899
Total assets	\$ 11,368,683	\$ 10,610,783
Liabilities and Stockholders' Equity		
Liabilities:		
Future policy benefits	\$5,629,967	\$5,431,711
Unearned premiums	526	628
Policy claims and other benefits payable	246,514	238,157
Other policyholders' funds	348,975	356,123
Notes payable	372,827	372,552
Surplus note	453,247	364,424
Income taxes	215,454	148,125
Other liabilities	436,621	417,910
Payable under securities lending	95,843	71,482
Separate account liabilities	2,347,816	2,063,899

Edgar Filing: Primerica, Inc. - Form 10-Q

Commitments and contingent liabilities (see Commitments and Contingent Liabilities note)		
Total liabilities	10,147,790	9,465,011
Stockholders' equity:		
Common stock (\$0.01 par value; authorized 500,000 in 2016 and 2015; issued and		
outstanding 45,962 shares in 2016 and 48,297 shares in 2015)	460	483
Paid-in capital	66,510	180,250
Retained earnings	1,090,388	952,804
Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	(8,227)	(19,801)
Net unrealized investment gains (losses):		
Net unrealized investment gains not other-than-temporarily impaired	71,827	32,107
Net unrealized investment losses other-than-temporarily impaired	(65)	(71)
Total stockholders' equity	1,220,893	1,145,772
Total liabilities and stockholders' equity	\$ 11,368,683	\$ 10,610,783

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income – Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
(In thousands, except per-share amounts)				
Revenues:				
Direct premiums	\$616,587	\$587,882	\$1,825,906	\$1,753,589
Ceded premiums	(399,676)	(393,987)	(1,201,692)	(1,198,382)
Net premiums	216,911	193,895	624,214	555,207
Commissions and fees	134,282	132,368	400,005	404,353
Investment income net of investment expenses	24,356	22,487	74,742	67,918
Interest expense on surplus note	(4,957)	(3,772)	(13,716)	(8,954)
Net investment income	19,399	18,715	61,026	58,964
Realized investment gains (losses), including other-than-				
temporary impairment losses	(35)	(259)	2,623	1,623
Other, net	13,069	10,990	37,353	30,605
Total revenues	383,626	355,709	1,125,221	1,050,752
Benefits and expenses:				
Benefits and claims	93,022	88,599	272,983	253,621
Amortization of deferred policy acquisition costs	45,428	40,797	127,277	113,392
Sales commissions	66,700	67,402	203,489	207,358
Insurance expenses	32,837	30,266	98,873	93,365
Insurance commissions	4,709	4,619	13,328	11,953
Interest expense	7,184	8,718	21,534	26,036
Other operating expenses	45,309	40,355	137,206	126,439
Total benefits and expenses	295,189	280,756	874,690	832,164
Income before income taxes	88,437	74,953	250,531	218,588
Income taxes	30,400	25,603	87,991	76,664
Net income	\$58,037	\$49,350	\$162,540	\$141,924
Earnings per share:				
Basic earnings per share	\$1.22	\$0.98	\$3.38	\$2.73
Diluted earnings per share	\$1.22	\$0.98	\$3.37	\$2.73
Weighted-average shares used in computing earnings				
per share:				
Basic	47,008	50,082	47,736	51,494
Diluted	47,051	50,104	47,775	51,526
Supplemental disclosures:				
Total impairment losses	\$(478)	\$(1,564)	\$(3,308)	\$(2,433)
Impairment losses recognized in other comprehensive income				
before income taxes	-	-	-	-
Net impairment losses recognized in earnings	(478)	(1,564)	(3,308)	(2,433)

Edgar Filing: Primerica, Inc. - Form 10-Q

Other net realized investment gains (losses)	443	1,305	5,931	4,056
Realized investment gains (losses), including other-than-				
temporary impairment losses	\$(35)	\$(259)	\$2,623	\$1,623
Dividends declared per share	\$0.18	\$0.16	\$0.52	\$0.48

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) – Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Net income	\$58,037	\$49,350	\$162,540	\$141,924
Other comprehensive income (loss) before income taxes:				
Unrealized investment gains (losses):				
Change in unrealized holding gains/(losses) on investment				
securities	5,129	(18,019)	63,414	(35,078)
Reclassification adjustment for realized investment (gains) losses				
included in net income	33	381	(2,300)	(1,892)
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses)				
before income tax expense (benefit)	(3,165)	(16,323)	11,704	(33,731)
Total other comprehensive income (loss) before income taxes	1,997	(33,961)	72,818	(70,701)
Income tax expense (benefit) related to items of other comprehensive				
income (loss)	1,777	(6,345)	21,518	(13,306)
Other comprehensive income (loss), net of income taxes	220	(27,616)	51,300	(57,395)
Total comprehensive income	\$58,257	\$21,734	\$213,840	\$84,529

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity – Unaudited

	Nine months ended September 30,	
	2016	2015
	(In thousands)	
Common stock:		
Balance, beginning of period	\$483	\$522
Repurchases of common stock	(29)	(41)
Net issuance of common stock	6	5
Balance, end of period	460	486
Paid-in capital:		
Balance, beginning of period	180,250	353,337
Share-based compensation	21,564	28,073
Net issuance of common stock	(6)	(5)
Repurchases of common stock	(135,298)	(187,180)
Adjustments to paid-in capital, other	-	1,089
Balance, end of period	66,510	195,314
Retained earnings:		
Balance, beginning of period	952,804	795,740
Net income	162,540	141,924
Dividends	(24,956)	(24,915)
Balance, end of period	1,090,388	912,749
Accumulated other comprehensive income (loss):		
Balance, beginning of period	12,235	95,527
Change in foreign currency translation adjustment, net of income tax expense (benefit)	11,574	(33,365)
Change in net unrealized investment gains (losses) during the period, net of income taxes:		
Change in net unrealized investment gains (losses) not-other-than temporarily		
impaired, net of income tax expense (benefit)	39,720	(24,419)
Change in net unrealized investment losses other-than-temporarily impaired, net		
of income tax expense (benefit)	6	389
Balance, end of period	63,535	38,132
Total stockholders' equity	\$1,220,893	\$1,146,681

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows – Unaudited

	Nine months ended September 30, 2016 2015 (In thousands)	
Cash flows from operating activities:		
Net income	\$ 162,540	\$ 141,924
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Change in future policy benefits and other policy liabilities	177,744	167,886
Deferral of policy acquisition costs	(281,397)	(243,346)
Amortization of deferred policy acquisition costs	127,277	113,392
Change in income taxes	51,598	31,349
Realized investment (gains) losses, including other-than-temporary impairments	(2,623)	(1,623)
Accretion and amortization of investments	(1,091)	(1,094)
Depreciation and amortization	10,879	8,201
Change in due from reinsurers	(34,907)	(33,248)
Change in agent balances, due premiums and other receivables	(36,160)	(21,553)
Trading securities sold, matured, or called (acquired), net	(6,917)	1,143
Share-based compensation	11,754	12,918
Change in other operating assets and liabilities, net	(13,809)	(34,957)
Net cash provided by (used in) operating activities	164,888	140,992
Cash flows from investing activities:		
Available-for-sale investments sold, matured or called:		
Fixed-maturity securities — sold	76,540	104,097
Fixed-maturity securities — matured or called	195,803	201,722
Equity securities	4,864	4,700
Available-for-sale investments acquired:		
Fixed-maturity securities	(228,986)	(264,457)
Equity securities	(1,074)	(794)
Purchases of property and equipment and other investing activities, net	(11,410)	(5,924)
Cash collateral received (returned) on loaned securities, net	24,361	33,009
Sales (purchases) of short-term investments using securities lending collateral, net	(24,361)	(33,009)
Net cash provided by (used in) investing activities	35,737	39,344
Cash flows from financing activities:		
Dividends paid	(24,956)	(24,915)
Common stock repurchased	(131,570)	(181,121)
Excess tax benefits on share-based compensation	1,684	4,624
Tax withholdings on share-based compensation	(3,757)	(6,101)
Cash proceeds from stock options exercised	-	136
Net cash provided by (used in) financing activities	(158,599)	(207,377)
Effect of foreign exchange rate changes on cash	1,003	(4,395)
Change in cash and cash equivalents	43,029	(31,436)

Edgar Filing: Primerica, Inc. - Form 10-Q

Cash and cash equivalents, beginning of period	152,294	191,997
Cash and cash equivalents, end of period	\$195,323	\$160,561

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements — Unaudited

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

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

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

The accompanying unaudited condensed consolidated financial statements contain all adjustments, generally consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of September 30, 2016 and December 31, 2015 and the statements of income and comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015, and the statements of stockholders' equity and cash flows for the nine months ended September 30, 2016 and 2015. 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, 2015 ("2015 Annual Report").

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

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

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

Subsequent Events. The Company has evaluated subsequent events for recognition and disclosure for occurrences and transactions after the date of the unaudited condensed consolidated financial statements dated as of September 30, 2016.

Significant Accounting Policies. All significant accounting policies remain unchanged from the 2015 Annual Report.

Future Application of Accounting Standards. Recent accounting guidance not discussed is not applicable, is immaterial to our financial statements, or did not or is not expected to have a material impact on our business. For additional information on new accounting pronouncements and recent accounting principles and their impact, if any, on our financial position or results of operations, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) in our 2015 Annual Report and in the unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2016 and June 30, 2016.

(2) Segment and Geographical Information

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

Results of operations by segment were as follows:

	Three months ended September 30, 2016		Nine months ended September 30, 2016	
	2015	2016	2015	2016
	(In thousands)			
Revenues:				
Term life insurance segment	\$222,598	\$197,205	\$639,253	\$563,795
Investment and savings products segment	130,080	128,596	387,604	392,561
Corporate and other distributed products segment	30,948	29,908	98,364	94,396
Total revenues	\$383,626	\$355,709	\$1,125,221	\$1,050,752
Income (loss) before income taxes:				
Term life insurance segment	\$58,137	\$46,519	\$162,234	\$127,284
Investment and savings products segment	35,760	34,811	103,514	107,600
Corporate and other distributed products segment	(5,460)	(6,377)	(15,217)	(16,296)
Total income before income taxes	\$88,437	\$74,953	\$250,531	\$218,588

Total assets by segment were as follows:

	September 30, 2016	December 31, 2015
	(In thousands)	
Assets:		
Term life insurance segment	\$5,878,013	\$5,638,682
Investment and savings products segment ⁽¹⁾	2,462,111	2,157,548
Corporate and other distributed products segment	3,028,559	2,814,553
Total assets	\$11,368,683	\$10,610,783

⁽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 \$114.4 million and \$93.8 million as of September 30, 2016 and December 31, 2015, respectively.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this report for more information regarding the results of our operating segments.

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 September 30, 2016		Nine months ended September 30, 2016	
	2015	2016	2015	2016
	(In thousands)			
Revenues by country:				
United States	\$323,560	\$298,671	\$947,618	\$876,363

Edgar Filing: Primerica, Inc. - Form 10-Q

Canada	60,066	57,038	177,603	174,389
Total revenues	\$383,626	\$355,709	\$1,125,221	\$1,050,752
Income before income taxes by country:				
United States	\$71,525	\$61,116	\$200,137	\$170,172
Canada	16,912	13,837	50,394	48,416
Total income before income taxes	\$88,437	\$74,953	\$250,531	\$218,588

September
30, December
2016 31, 2015
(In thousands)

Long-lived assets by country:		
United States	\$27,997	\$28,621
Canada	865	787
Total long-lived assets	\$28,862	\$29,408

(3) Investments

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

	September 30, 2016			
	Cost or amortized cost (In thousands)	Gross unrealized gains	Gross unrealized losses	Fair value
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	\$ 15,515	\$ 547	\$ (1)	\$ 16,061
Foreign government	121,993	9,843	(106)	131,730
States and political subdivisions	43,326	3,167	(34)	46,459
Corporates	1,246,969	78,951	(2,840)	1,323,080
Residential mortgage-backed securities	78,549	6,836	(107)	85,278
Commercial mortgage-backed securities	104,471	4,355	(51)	108,775
Other asset-backed securities	49,524	352	(85)	49,791
Total fixed-maturity securities ⁽¹⁾	1,660,347	104,051	(3,224)	1,761,174
Equity securities	37,966	10,147	(574)	47,539
Total fixed-maturity and equity securities	\$ 1,698,313	\$ 114,198	\$ (3,798)	\$ 1,808,713

⁽¹⁾Includes approximately \$0.1 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, 2015			
	Cost or amortized cost (In thousands)	Gross unrealized gains	Gross unrealized losses	Fair value
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	\$ 20,233	\$ 448	\$ (22)	\$ 20,659
Foreign government	114,656	7,082	(1,522)	120,216
States and political subdivisions	38,995	2,111	(541)	40,565
Corporates	1,276,965	49,008	(24,211)	1,301,762
Residential mortgage-backed securities	94,532	6,814	(121)	101,225
Commercial mortgage-backed securities	97,666	2,875	(555)	99,986
Other asset-backed securities	46,996	129	(79)	47,046
Total fixed-maturity securities ⁽¹⁾	1,690,043	68,467	(27,051)	1,731,459
Equity securities	39,969	8,252	(382)	47,839
Total fixed-maturity and equity securities	\$ 1,730,012	\$ 76,719	\$ (27,433)	\$ 1,779,298

⁽¹⁾Includes approximately \$0.1 million of OTTI 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 September 30, 2016 follows:

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	\$94,127	\$95,946
Due after one year through five years	690,909	734,979
Due after five years through 10 years	594,927	632,004
Due after 10 years	47,840	54,401
	1,427,803	1,517,330
Mortgage-and asset-backed securities	232,544	243,844
Total fixed-maturity securities	\$1,660,347	\$1,761,174

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:

	September 30, 2016	December 31, 2015
	(In thousands)	
Net unrealized investment gains including OTTI:		
Fixed-maturity and equity securities	\$ 110,400	\$ 49,286
OTTI	103	109
Net unrealized investment gains excluding OTTI	110,503	49,395
Deferred income taxes	(38,676)	(17,288)
Net unrealized investment gains excluding OTTI, net of tax	\$ 71,827	\$ 32,107

Trading Securities. We maintain a portfolio mostly of fixed-maturity securities that are classified as trading securities. The carrying values of the fixed-maturity securities classified as trading securities were approximately \$12.3 million and \$5.4 million as of September 30, 2016 and December 31, 2015, respectively.

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

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

The LLC Note is classified as a held-to-maturity debt security in the Company's invested asset portfolio as we have the positive intent and ability to hold the security until maturity. As of September 30, 2016, the LLC Note, which was rated A+ by Fitch Ratings, had an estimated unrealized holding gain of \$46.8 million based on its amortized cost and estimated fair value, which is derived using the valuation techniques described in Note 4 (Fair Value of Financial Instruments).

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

Investments on Deposit with Governmental Authorities. As required by law, we have investments on deposit with governmental authorities and banks for the protection of policyholders. The fair values of investments on deposit were approximately \$19.4 million and \$18.1 million as of September 30, 2016 and December 31, 2015, 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 \$95.8 million and \$71.5 million as of September 30, 2016 and December 31, 2015, respectively.

Edgar Filing: Primerica, Inc. - Form 10-Q

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Fixed-maturity securities (available-for-sale)	\$18,578	\$18,786	\$56,204	\$58,132
Fixed-maturity security (held-to-maturity)	4,957	3,772	13,716	8,954
Equity securities	505	514	1,527	1,533
Policy loans and other invested assets	318	354	998	1,049
Cash and cash equivalents	148	51	497	141
Market return on deposit asset underlying 10% coinsurance agreement	1,058	220	5,443	1,776
Gross investment income	25,564	23,697	78,385	71,585
Investment expenses	(1,208)	(1,210)	(3,643)	(3,667)
Investment income net of investment expenses	24,356	22,487	74,742	67,918
Interest expense on surplus note	(4,957)	(3,772)	(13,716)	(8,954)
Net investment income	\$19,399	\$18,715	\$61,026	\$58,964

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Net realized investment gains (losses):				
Gross gains from sales	\$637	\$1,209	\$6,322	\$4,610
Gross losses from sales	(192)	(26)	(714)	(285)
Other-than-temporary impairment losses	(478)	(1,564)	(3,308)	(2,433)
Gains (losses) from bifurcated options	(2)	122	323	(269)
Net realized investment gains (losses)	\$(35)	\$(259)	\$2,623	\$1,623

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 or equity security is impaired if its fair value falls below its cost. Factors considered in determining whether an unrealized loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects for the issue, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery, which may be maturity for fixed-maturity securities or within a reasonable period of time for equity securities. For additional information, see Note 4 (Investments) to the consolidated financial statements in our 2015 Annual Report.

Available-for-sale fixed-maturity and equity securities with a cost basis in excess of their fair values were approximately \$152.4 million and \$626.0 million as of September 30, 2016 and December 31, 2015, 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:

Edgar Filing: Primerica, Inc. - Form 10-Q

	September 30, 2016			12 months or longer		
	Less than 12 months		Number	Fair value		Number
	Fair value	Unrealized losses	of securities	Fair value	Unrealized losses	of securities
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	\$1,729	\$ (1)	1	\$-	\$ -	-
Foreign government	3,398	(19)	2	3,134	(87)	3
States and political subdivisions	2,844	(34)	4	-	-	-
Corporates	31,616	(321)	29	58,781	(2,519)	65
Residential mortgage-backed securities	2,451	(39)	5	4,515	(68)	8
Commercial mortgage-backed securities	11,873	(18)	11	7,136	(33)	10
Other asset-backed securities	11,755	(53)	14	4,108	(32)	7
Total fixed-maturity securities	65,666	(485)		77,674	(2,739)	
Equity securities	1,752	(123)	11	3,500	(451)	9
Total fixed-maturity and equity securities	\$67,418	\$ (608)		\$81,174	\$ (3,190)	

	December 31, 2015		Number of securities	12 months or longer		Number of securities
	Less than 12 months			Fair value	Unrealized losses	
	Fair value	Unrealized losses		Fair value	Unrealized losses	
	(Dollars in thousands)					
Fixed-maturity securities:						
U.S. government and agencies	\$13,651	\$(22)	7	\$-	\$ -	-
Foreign government	23,572	(829)	20	2,396	(693)	3
States and political subdivisions	2,729	(44)	6	878	(497)	2
Corporates	413,131	(17,481)	393	34,624	(6,730)	54
Residential mortgage-backed securities	9,681	(61)	9	4,762	(60)	7
Commercial mortgage-backed securities	56,216	(493)	49	3,199	(62)	6
Other asset-backed securities	26,611	(77)	23	260	(2)	2
Total fixed-maturity securities	545,591	(19,007)		46,119	(8,044)	
Equity securities	3,652	(287)	17	3,209	(95)	8
Total fixed-maturity and equity securities	\$549,243	\$(19,294)		\$49,328	\$(8,139)	

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

	September 30, 2016	December 31, 2015
	Amortized cost	Amortized cost
	Fair value	Fair value
	(In thousands)	
Fixed-maturity securities in default	\$5 \$ 93	\$138 \$262

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

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(In thousands)			
Impairments on fixed-maturity securities not in default	\$466	\$1,287	\$3,145	\$2,075
Impairments on fixed-maturity securities in default	2	2	121	7
Impairments on equity securities	10	275	42	351
Total impairment charges	\$478	\$1,564	\$3,308	\$2,433

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 impairment losses related to

invested assets held at the Parent company that we intended to sell to fund share repurchases, as well as credit impairments on certain other investments.

As of September 30, 2016, the unrealized losses on our available-for-sale invested asset portfolio were largely caused by interest rate sensitivity and changes in credit spreads. We believe that fluctuations caused by movements in interest rates and credit spreads have little bearing on the recoverability of our investments. We do not consider these investments to be other-than-temporarily impaired because we have the ability to hold these investments until maturity or a market price recovery, and we have no present intention to dispose of them.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(In thousands)			
Total impairment losses related to securities which the Company does not intend to sell or more-likely-than-not will not be required to sell:				
Total OTTI losses recognized	\$445	\$150	\$1,374	\$251
Less portion of OTTI loss recognized in accumulated other comprehensive income (loss)	-	-	-	-
Net impairment losses recognized in earnings for securities which the Company does not intend to sell or more-likely-than-not will not be required to sell before recovery	445	150	1,374	251
OTTI losses recognized in earnings for securities which the Company intends to sell or more-likely-than-not will be required to sell before recovery	33	1,414	1,934	2,182
Net impairment losses recognized in earnings	\$478	\$1,564	\$3,308	\$2,433

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

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
	2016	2015	2016	2015
(In thousands)				
Cumulative OTTI recognized in net income for securities still held,				
beginning of period	\$7,489	\$7,701	\$11,856	\$9,550
Additions for OTTI securities where no OTTI were recognized				
prior to the beginning of the period	451	336	1,682	403
Additions for OTTI securities where OTTI have been recognized				
prior to the beginning of the period	17	953	1,584	1,679
Reductions due to sales, maturities, calls, amortization or increases				
in cash flows expected to be collected over the remaining life of				
credit impaired securities	(640)	(138)	(6,134)	(1,503)
Reductions for exchanges of securities previously impaired	(112)	-	(1,783)	(1,277)
Cumulative OTTI recognized in net income for securities still				
held, end of period	\$7,205	\$8,852	\$7,205	\$8,852

As of September 30, 2016, no impairment losses have been recognized on the LLC Note held-to-maturity security.

Derivatives. Embedded conversion options associated with fixed-maturity securities are bifurcated from the fixed-maturity security host contracts and separately recognized as equity securities. The change in fair value of these bifurcated conversion options is reflected in realized investment gains (losses), including OTTI losses. As of September 30, 2016 and December 31, 2015, the fair value of these bifurcated options was approximately \$4.6 million and \$5.4 million, respectively.

We have a deferred loss related to closed forward contracts, which were settled several years ago, that were used to mitigate our exposure to foreign currency exchange rates that resulted from the net investment in our Canadian operations. The amount of deferred loss included in accumulated other comprehensive income was approximately \$26.4 million as of September 30, 2016 and December 31, 2015. While we have no current intention to do so, these deferred losses will not be recognized until such time as we sell or substantially liquidate our Canadian operations.

(4) Fair Value of Financial Instruments

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

Level 1. Quoted prices for identical instruments in active markets. Level 1 primarily consists of financial instruments whose value is based on quoted market prices in active markets, such as exchange-traded common stocks and actively traded mutual fund investments;

Level 2. Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 includes those financial instruments that are valued using industry-standard pricing methodologies, models or other valuation methodologies. Various inputs are considered in deriving the fair value of the underlying financial instrument, including interest rate, credit spread, and foreign exchange rates. All significant inputs are observable, or derived from observable information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed-maturity and equity securities; government or agency securities; certain mortgage- and asset-backed securities and bifurcated conversion options; and

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

Edgar Filing: Primerica, Inc. - Form 10-Q

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

	September 30, 2016			Total
	Level 1	Level 2	Level 3	
(In thousands)				
Fair value assets:				
Fixed-maturity securities:				
U.S. government and agencies	\$-	\$16,061	\$-	\$16,061
Foreign government	-	131,730	-	131,730
States and political subdivisions	-	46,459	-	46,459
Corporates	3,374	1,317,982	1,724	1,323,080
Residential mortgage-backed securities	-	83,984	1,294	85,278
Commercial mortgage-backed securities	-	108,775	-	108,775
Other asset-backed securities	-	46,321	3,470	49,791
Total fixed-maturity securities	3,374	1,751,312	6,488	1,761,174
Equity securities	41,821	5,644	74	47,539
Trading securities	-	12,259	-	12,259
Separate accounts	-	2,347,816	-	2,347,816
Total fair value assets	\$45,195	\$4,117,031	\$6,562	\$4,168,788
Fair value liabilities:				
Separate accounts	\$-	\$2,347,816	\$-	\$2,347,816
Total fair value liabilities	\$-	\$2,347,816	\$-	\$2,347,816

	December 31, 2015			Total
	Level 1	Level 2	Level 3	
(In thousands)				
Fair value assets:				
Fixed-maturity securities:				
U.S. government and agencies	\$-	\$20,659	\$-	\$20,659
Foreign government	-	120,216	-	120,216
States and political subdivisions	-	40,565	-	40,565
Corporates	2,146	1,299,613	3	1,301,762
Residential mortgage-backed securities	-	100,493	732	101,225
Commercial mortgage-backed securities	-	99,986	-	99,986
Other asset-backed securities	-	47,046	-	47,046
Total fixed-maturity securities	2,146	1,728,578	735	1,731,459
Equity securities	41,341	6,450	48	47,839
Trading securities	-	5,358	-	5,358
Separate accounts	-	2,063,899	-	2,063,899
Total fair value assets	\$43,487	\$3,804,285	\$783	\$3,848,555
Fair value liabilities:				
Separate accounts	\$-	\$2,063,899	\$-	\$2,063,899
Total fair value liabilities	\$-	\$2,063,899	\$-	\$2,063,899

In assessing fair value of our investments, we use a third-party pricing service for approximately 95% of our securities that are measured at fair value on a recurring basis. The remaining securities are primarily thinly traded securities such

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

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

Because many fixed-maturity securities do not trade on a daily basis, third party pricing services generally determine fair value using industry-standard methodologies, which vary by asset class. For corporates, governments, and agency securities, these methodologies include developing prices by incorporating available market information such as U.S. Treasury curves, benchmarking of similar securities including new issues, sector groupings, quotes from market participants and matrix pricing. Observable information is compiled and integrates relevant credit information, perceived market movements and sector news. Additionally, security prices are periodically back-tested to validate and/or refine models as conditions warrant. Market indicators and industry and economic events are also monitored as triggers to obtain additional data. For certain structured securities (such as mortgage-and asset-backed securities) with limited trading activity, third-party pricing services generally use industry-standard pricing methodologies that incorporate market information, such as index prices, 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 treasury rates and credit spreads received from third-party sources to estimate fair value. The credit spreads incorporate the issuer's industry- or issuer-specific credit characteristics and the security's time to maturity, if warranted. Remaining unpriced securities are valued using an estimate of fair value based on indicative market prices that include significant unobservable inputs not based on, nor corroborated by, market information, including the utilization of non-binding broker quotes.

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

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
	2016	2015	2016	2015
	(In thousands)			
Level 3 assets, beginning of period	\$717	\$862	\$783	\$1,165
Net unrealized gains (losses) included in other comprehensive income	12	2	17	(4)
Realized gains (losses) and accretion (amortization) recognized in earnings, including OTTI	1	-	6	-
Purchases ⁽¹⁾	4,183	-	4,183	-
Sales	-	-	(3)	-
Settlements	(25)	(35)	(98)	(111)
Transfers into Level 3	1,675	-	1,676	2
Transfers out of Level 3	(1)	(2)	(2)	(225)
Level 3 assets, end of period	\$6,562	\$827	\$6,562	\$827

⁽¹⁾During the three and nine months ended September 30, 2016, purchases of Level 3 assets primarily consisted of newly issued fixed maturity securities in the third quarter for which observable inputs, most notably quoted prices, used to derive valuations are not yet 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 and nine months ended September 30, 2016. There were no material transfers between Level 1 and Level 2 or between Level 1 and Level 3 during the three months ended September 30, 2015. During the nine months ended September 30, 2015, we transferred a \$1.0 million equity security from Level 1 to Level 2 as it was not consistently trading in an active market. There were no material transfers between Level 1 and Level 3 during the nine months ended September 30, 2015.

Edgar Filing: Primerica, Inc. - Form 10-Q

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

	September 30, 2016		December 31, 2015	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
(In thousands)				
Assets:				
Fixed-maturity securities (available-for-sale)	\$1,761,174	\$1,761,174	\$1,731,459	\$1,731,459
Fixed-maturity security (held-to-maturity)	454,000	500,823	365,220	371,742
Equity securities	47,539	47,539	47,839	47,839
Trading securities	12,259	12,259	5,358	5,358
Policy loans	30,801	30,801	28,627	28,627
Deposit asset underlying 10% coinsurance agreement	198,275	198,275	181,889	181,889
Separate accounts	2,347,816	2,347,816	2,063,899	2,063,899
Liabilities:				
Notes payable ⁽¹⁾	\$372,827	\$410,296	\$372,552	\$398,649
Surplus note ⁽¹⁾	453,247	498,256	364,424	371,498
Separate accounts	2,347,816	2,347,816	2,063,899	2,063,899

⁽¹⁾Carrying value amounts shown are net of issuance costs.

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

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

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

The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximate their fair values due to the short-term nature of these

instruments. Consequently, such financial instruments are not included in the above table.

(5) Reinsurance

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

Details on in-force life insurance follow:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Direct life insurance in force	\$725,613,934	\$696,884,429
Amounts ceded to other companies	(638,417,864)	(616,252,839)
Net life insurance in force	\$87,196,070	\$80,631,590
Percentage of reinsured life insurance in force	88	88
	%	%

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

	September 30, 2016		December 31, 2015	
	Reinsurance receivable (In thousands)	A.M. Best rating	Reinsurance receivable	A.M. Best rating
Pecan Re Inc. ^{(1) (2)}	\$2,718,356	NR	\$-	-
Prime Reinsurance Company ⁽²⁾	-	-	2,692,721	NR
SCOR Global Life Reinsurance Companies ⁽³⁾	358,815	A	362,195	A
Munich Re Life Insurance Company of Vermont ^{(2) (5)}	290,384	NR	270,306	NR
Swiss Re Life & Health America Inc. ⁽⁴⁾	246,036	A+	254,461	A+
American Health and Life Insurance Company ⁽²⁾	177,295	B	176,790	B
Munich American Reassurance Company	106,446	A+	101,466	A+
Korean Reinsurance Company	96,066	A	91,605	A
RGA Reinsurance Company	83,313	A+	81,217	A+
TOA Reinsurance Company	22,339	A+	22,242	A+
Hannover Life Reassurance Company	22,606	A+	20,650	A+
All other reinsurers	39,881	-	36,975	-
Due from reinsurers	\$4,161,537		\$4,110,628	

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 receivable 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⁾Previously known as Financial Reassurance Company 2010, Ltd. This entity was acquired by Munich American Reassurance Company from Citigroup Inc. (“Citigroup”) as of September 23, 2016 and was subsequently renamed Munich Re Life Insurance Company of Vermont.

Prior to January 1, 2016, Primerica Life had a coinsurance agreement in place with Prime Reinsurance Company (“Prime Re”), an insurance company owned by Citigroup, under which we ceded 80% of the risks and rewards of our U.S. (except New York) term life insurance policies that were in force as of December 31, 2009 (the “80% Coinsurance Agreement”). Beginning on January 1, 2016, Pecan Re Inc. (“Pecan Re”), an insurance company owned by Swiss Re Life & Health America Inc. (“Swiss Re”), assumed Prime Re’s obligations under the 80% Coinsurance Agreement through a novation agreement (the “Novation Agreement”). In addition, the counterparties to the related trust and capital maintenance agreements that provide Primerica Life with statutory reinsurance credit for the 80% Coinsurance Agreement were replaced by Pecan Re and Swiss Re, respectively. No material terms and conditions of the 80% Coinsurance Agreement and the related trust and capital maintenance agreements were modified.

A separate 10% coinsurance agreement remains in place between Primerica Life and Prime Re (the “10% Coinsurance Agreement”) that includes an experience refund provision and does not satisfy U.S. GAAP risk transfer rules. In exchange for our consent to the Novation Agreement, the finance charge on the statutory reserves in excess of economic reserves funded by Prime Re in support of the 10% Coinsurance Agreement was reduced from 3.0% to 2.0% beginning on July 1, 2015 and then from 2.0% to 0.5% beginning on January 1, 2016.

(6) Debt

Notes Payable. At September 30, 2016, the Company had \$375.0 million of publicly-traded, senior unsecured notes with an annual interest rate of 4.75% that are scheduled to mature on July 15, 2022 (the "Senior Notes"). As of September 30, 2016, we were in compliance with the covenants of the Senior Notes. No events of default occurred on the Senior Notes during the three months ended September 30, 2016.

Further discussion on the Company's notes payable is included in Note 10 (Debt) to our consolidated financial statements within our 2015 Annual Report.

Surplus Note. At September 30, 2016, the principal amount outstanding on the Surplus Note issued by Vidalia Re was \$454.0 million, equal to the principal amount of the LLC Note invested asset. The principal amount of the Surplus Note and the LLC Note will fluctuate over time to coincide with the amount of reserves being contractually supported. Both the LLC Note and the Surplus Note mature on December 31, 2029 and bear interest at an annual interest rate of 4.50%. Based on the estimated reserves for ceded policies issued in 2011, 2012, 2013, and 2014, the maximum principal amounts of the Surplus Note and the LLC Note are expected to be approximately \$915.0 million each.

Further discussion on the Company's Surplus Note and LLC Note are included in Note 10 (Debt) and Note 4 (Investments) to our consolidated financial statements within our 2015 Annual Report.

(7) Stockholders' Equity

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

	Nine months ended September 30, 2016 2015 (In thousands)	
Common stock, beginning of period	48,297	52,169
Shares issued upon the exercise of stock options	108	89
Shares of common stock issued upon lapse		
of restricted stock units ("RSUs")	426	407
Common stock retired	(2,869)	(4,094)
Common stock, end of period	45,962	48,571

The above reconciliation excludes RSUs, which do not have voting rights. As the RSUs lapse, we issue common shares with voting rights. As of September 30, 2016, we had a total of approximately 1.1 million RSUs outstanding, excluding the performance-based vesting stock units ("PSUs") discussed in Note 9 (Share-Based Transactions).

Our Board of Directors authorized a share repurchase program for up to \$200.0 million of our outstanding common stock in August 2015 (the "share repurchase program") for purchases through December 31, 2016. Under the share repurchase program, we repurchased 3,831,300 shares of our common stock in open market transactions for an aggregate purchase price of approximately \$181.5 million through September 30, 2016. As of September 30, 2016, there is approximately \$18.5 million remaining for repurchases of our outstanding common stock under the share repurchase program.

(8) Earnings Per Share

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

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

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

We determine the potential dilutive effect of 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, the cash received for the exercise price on stock options, and the resulting effect on the income tax deduction from the vesting of PSUs and the exercise of 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 follows.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
(In thousands, except per-share amounts)				
Basic EPS				
Numerator:				
Net income	\$58,037	\$49,350	\$162,540	\$141,924
Income attributable to unvested participating securities	(494)	(379)	(1,353)	(1,196)
Net income used in calculating basic EPS	\$57,543	\$48,971	\$161,187	\$140,728
Denominator:				
Weighted-average vested shares	47,008	50,082	47,736	51,494
Basic EPS	\$1.22	\$0.98	\$3.38	\$2.73
Diluted EPS				
Numerator:				
Net income	\$58,037	\$49,350	\$162,540	\$141,924
Income attributable to unvested participating securities	(493)	(379)	(1,352)	(1,196)
Net income used in calculating diluted EPS	\$57,544	\$48,971	\$161,188	\$140,728
Denominator:				
Weighted-average vested shares	47,008	50,082	47,736	51,494
Dilutive effect of incremental shares to be issued for				
contingently issuable shares	43	22	39	32
Weighted-average shares used in calculating diluted EPS	47,051	50,104	47,775	51,526
Diluted EPS	\$1.22	\$0.98	\$3.37	\$2.73

(9) Share-Based Transactions

The Company has outstanding equity awards under its Omnibus Incentive Plan ("OIP"). The OIP provides for the issuance of equity awards, including stock options, stock appreciation rights, restricted stock, deferred stock, RSUs, unrestricted stock, as well as cash-based awards. In addition to time-based vesting requirements, awards granted under the OIP also may be subject to specified performance criteria. Since 2010, the Company has issued equity awards to our management (officers and other key employees), non-employee directors, and sales force leaders under the OIP. For more information on equity awards granted under the OIP, see Note 14 (Share-Based Transactions) to our consolidated financial statements within our 2015 Annual Report.

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

The impacts of equity awards granted are as follows:

	Three months ended September 30,	Nine months ended September 30,
--	--	---------------------------------------

Edgar Filing: Primerica, Inc. - Form 10-Q

	2016	2015	2016	2015
	(In thousands)			
Total equity awards expense recognized	\$1,723	\$2,056	\$11,754	\$12,918
Quarterly incentive awards expense deferred	2,732	3,412	8,126	10,531

On February 24, 2016, the Compensation Committee of the Board of Directors granted the following equity awards to employees in connection with the annual approval of management incentive compensation:

204,558 RSUs awarded to management with a measurement-date fair value of \$41.88 per unit that have time-based vesting requirements with equal and annual graded vesting over approximately three years subsequent to the grant date.

89,540 stock options awarded to the four members of our executive management team (the “executive team”) with a measurement-date fair value of \$8.21 per option that have time-based vesting requirements with equal and annual graded vesting over approximately three years subsequent to the grant date.

18,385 PSUs awarded under the OIP to the executive team with a measurement-date fair value of \$41.88 per unit. The PSUs will be earned on March 1, 2019 contingent upon the Company achieving a target annual average three-year return on adjusted equity (“ROAE”) for the period from January 1, 2016 through December 31, 2018. The actual number of PSUs that will vest will vary based on the actual ROAE relative to the target ROAE and can range from zero PSUs to 27,577.

All awards granted to employees on February 24, 2016 provide for such awards to 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, 2018, 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. As of September 30, 2016, the Company was in compliance with all financial covenants under the Credit Facility Agreement. At September 30, 2016, the amount of the LOC outstanding was approximately \$422.9 million. This amount will decline over the remaining term of the LOC to correspond with declines in the Regulation XXX reserves.

Further discussion on the Company’s letter of credit is included in Note 16 (Commitments and Contingent Liabilities) to our consolidated financial statements within our 2015 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 treasurer unclaimed property audits by 30 jurisdictions focusing on the life insurance claims paying practices of its subsidiaries, Primerica Life and NBLIC. Other jurisdictions may pursue similar audits and litigation. The potential outcome of such actions is difficult to predict but could subject the Company to adverse consequences, including, but not limited to, settlement payments, additional payments to beneficiaries and additional escheatment of funds deemed abandoned under state laws. At this time, the Company cannot reasonably estimate the likelihood or the impact of additional costs or liabilities that could result from the resolution of these matters.

(11) Other Comprehensive Income

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

	Three months ended September 30, 2016		Nine months ended September 30, 2016	
	2015	2015	2015	2015
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses)	\$(3,165)	\$(16,323)	\$11,704	\$(33,731)

Edgar Filing: Primerica, Inc. - Form 10-Q

before income taxes				
Income tax expense (benefit) on unrealized foreign currency translation gains (losses)	(29)	(171)	130	(366)
Change in unrealized foreign currency translation gains (losses), net of income taxes	\$(3,136)	\$(16,152)	\$11,574	\$(33,365)
Unrealized gain (losses) on available-for-sale securities: Change in unrealized holding gains (losses) arising during period before income taxes	\$5,129	\$(18,019)	\$63,414	\$(35,078)
Income tax expense (benefit) on unrealized holding gains (losses) arising during period	1,795	(6,308)	22,193	(12,278)
Change in unrealized holding gains (losses) on available-for-sale securities arising during period, net of income taxes	3,334	(11,711)	41,221	(22,800)
Reclassification from accumulated OCI to net income for (gains) losses realized on available-for-sale securities	33	381	(2,300)	(1,892)
Income tax (expense) benefit on (gains) losses reclassified from accumulated OCI to net income	11	134	(805)	(662)
Reclassification from accumulated OCI to net income for (gains) losses realized on available-for-sale securities, net of income taxes	22	247	(1,495)	(1,230)
Change in unrealized gains (losses) on available-for-sale securities, net of income taxes and reclassification adjustment	\$3,356	\$(11,464)	\$39,726	\$(24,030)

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to inform the reader about matters affecting the financial condition and results of operations of Primerica, Inc. (the "Parent Company") and its subsidiaries (collectively, "we", "us" or the "Company") for the period from December 31, 2015 to September 30, 2016. As a result, the following discussion should be read in conjunction with MD&A and the consolidated financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Annual Report"). This discussion contains forward-looking statements that constitute our plans, estimates and beliefs. These forward-looking statements involve numerous risks and uncertainties, including, but not limited to, those discussed under the heading "Risk Factors" in the 2015 Annual Report as well as Item 1A of Part II (Other Information) included elsewhere in this report. Actual results may differ materially from those contained in any forward-looking statements.

This MD&A is divided into the following sections:

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

Business Overview

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

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

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

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

Corporate and Other Distributed Products segment, with the exception of the assumed net interest accreted to our Term Life Insurance segment's future policy benefit reserve liability less deferred acquisition costs. Interest expense incurred by the Company is attributed solely to the Corporate and Other Distributed Products segment.

Business Trends and Conditions

The relative strength and stability of financial markets and economies in the United States and Canada affect our growth and profitability. Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions. Economic conditions, including unemployment levels and consumer confidence, influence investment and spending decisions by middle income consumers, who are generally our primary clients. These conditions and factors also impact prospective recruits' perceptions of the business opportunity that becoming a Primerica sales representative offers, which can drive or dampen recruiting. Consumer spending and borrowing levels affect how consumers evaluate their savings and debt management plans. In addition, interest rates and equity market returns impact consumer demand for the savings and investment products we distribute. Our customers' perception of the strength of the capital markets will influence their decisions to invest in the Investment and savings products we distribute.

The financial and distribution results of our operations in Canada, as reported in U.S. dollars, are affected by changes in the currency exchange rate. The effects of these trends and conditions are discussed below and in the Results of Operations section.

Size of Our Independent Sales Force.

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

Regulatory changes can also impact the size of our independent sales force. For example, the insurance regulators in Canada have recently implemented a new life insurance licensing examination program. We believe that the new licensing program has the potential to result in a decrease in the number of applicants who obtain their life insurance licenses in Canada. However, we have undertaken efforts to adapt our licensing process to the new program in order to help mitigate any such decline. In addition, the Canadian regulators have committed to evaluate the new program in an effort to ensure that it will remain an entry level credentialing exam constructed in accordance with generally accepted psychometric principles.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
New recruits	73,706	65,945	202,406	179,491
New life-licensed sales representatives	11,739	11,160	33,576	29,085

The increase in new recruits and new life-licensed sales representatives during the three and nine months ended September 30, 2016 compared to the prior year periods was largely due to the growing size of our sales force resulting in more agents available to actively recruit and our strong focus on training new representatives to become licensed to sell life insurance.

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

	September 30, 2016	June 30, 2016
Life-licensed insurance sales representatives	115,345	112,365

Growth in the size of our life-licensed sales force at September 30, 2016 was primarily driven by the ongoing growth in new life-licensed representatives despite slightly higher non-renewals and terminations during the third quarter of 2016 compared to the second quarter of 2016.

Term Life Insurance Product Sales and Face Amount In Force.

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

	Three months ended September	Nine months ended September 30,
--	---------------------------------	------------------------------------

Edgar Filing: Primerica, Inc. - Form 10-Q

	30, 2016	2015	2016	2015
Average number of life-licensed sales representatives	113,748	102,850	110,466	100,283
Number of new policies issued	75,374	66,658	219,134	190,432
Average monthly rate of new policies issued per life- licensed sales representative	0.22	0.22	0.22	0.21

The average monthly rate of new policies issued per life-licensed sales representative during the three and nine months ended September 30, 2016 remained consistent with the three and nine months ended September 30, 2015 and at the high end of our historical range. The increase in the number of new policies issued during the three and nine months ended September 30, 2016 compared to the prior year period was largely driven by the growth in the size of our life-licensed sales force in recent periods.

Edgar Filing: Primerica, Inc. - Form 10-Q

The changes in the face amount of our in-force book of term life insurance policies were as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2016	% of beginning balance	2015	% of beginning balance	2016	% of beginning balance	2015	% of beginning balance
Face amount in force, beginning of period	\$714,756		\$688,163		\$693,194		\$681,927	
Net change in face amount:								
Issued face amount	22,775	3 %	20,321	3 %	65,710	9 %	58,087	9 %
Terminations	(14,407)	(2)%	(13,659)	(2)%	(40,921)	(6)%	(39,067)	(6)%
Foreign currency	(962)	*	(5,509)	(1)%	4,179	1 %	(11,631)	(2)%
Net change in face amount	7,406	1 %	1,153	*	28,968	4 %	7,389	1 %
Face amount in force, end of period	\$722,162		\$689,316		\$722,162		\$689,316	

*Less than 1%.

The face amount of term life insurance policies in force as of September 30, 2016 increased 5% as compared with September 30, 2015, largely due to the impact of strong policy sales and consistent persistency levels, which allowed issued face amount to outpace policy terminations face amount.

As a percentage of the increased beginning face amount in force, issued face amount as well as terminations remained consistent during each of the three and nine months ended September 30, 2016 and the three and nine months ended September 30, 2015. During the nine months ended September 30, 2016, the cumulative effect from the strengthening of the Canadian dollar spot rate relative to the U.S. dollar favorably impacted the face amount in force. The opposite effect of the weakening of the Canadian dollar spot rate relative to the U.S. dollar during the three and nine months ended September 30, 2015 largely contributed to the decline in the overall face amount in force.

Investment and Savings Products Sales and Asset Values and Accounts.

Investment and savings products sales and average client asset values were as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	Change \$	Change %	2016	2015	Change \$	Change %
	(Dollars in millions)				(Dollars in millions)			
Product sales:								
Retail mutual funds	\$797	\$755	\$42	6 %	\$2,459	\$2,480	\$(21)	(1)%
Annuities and other	422	480	(58)	(12)%	1,353	1,502	(149)	(10)%
Total sales-based revenue generating product sales	1,219	1,235	(16)	(1)%	3,812	3,982	(170)	(4)%
Managed investments	54	57	(3)	(6)%	155	195	(41)	(22)%
Segregated funds and other	69	74	(5)	(7)%	220	271	(51)	(19)%
Total product sales	\$1,342	\$1,366	\$(24)	(2)%	\$4,187	\$4,448	\$(261)	(6)%
Average client asset values:								
Retail mutual funds	\$31,331	\$30,016	\$1,315	4 %	\$30,163	\$30,705	\$(542)	(2)%

Edgar Filing: Primerica, Inc. - Form 10-Q

Annuities and other	15,233	14,210	1,023	7 %	14,663	14,257	406	3 %
Managed investments	1,776	1,532	244	16 %	1,679	1,501	178	12 %
Segregated funds	2,339	2,205	134	6 %	2,249	2,326	(77)	(3)%
Total average client asset								
values	\$50,679	\$47,963	\$2,716	6 %	\$48,754	\$48,789	\$(35)	*

*Less than 1%.

Edgar Filing: Primerica, Inc. - Form 10-Q

The rollforward of asset values in client accounts was as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2016	% of beginning balance	2015	% of beginning balance	2016	% of beginning balance	2015	% of beginning balance
	(Dollars in millions)				(Dollars in millions)			
Asset values, beginning of period	\$49,372		\$49,372		\$47,353		\$48,656	
Net change in asset values:								
Inflows	1,341	3 %	1,367	3 %	4,187	9 %	4,448	9 %
Redemptions	(1,141)	(2) %	(1,168)	(2) %	(3,516)	(7) %	(3,680)	(8) %
Net inflows	200	*	199	*	671	1 %	768	2 %
Change in market value, net	1,860	4 %	(3,142)	(6) %	2,885	6 %	(2,382)	(5) %
Foreign currency, net	(99)	*	(581)	(1) %	424	1 %	(1,194)	(2) %
Net change in asset values	1,961	4 %	(3,524)	(7) %	3,980	8 %	(2,808)	(6) %
Asset values, end of period	\$51,333		\$45,848		\$51,333		\$45,848	

*Less than 1%.

Average number of fee-generating positions was as follows:

	Three months ended September 30, 2016				Nine months ended September 30, 2016			
	2015	Change	Positions	%	2015	Change	Positions	%
	(Positions in thousands)				(Positions in thousands)			
Average number of fee-generating positions:								
Recordkeeping and custodial	2,203	24	1 %	2,198	61	3 %	2,137	
Recordkeeping only	690	28	4 %	680	31	5 %	649	
Total average number of fee-generating positions	2,893	52	2 %	2,878	92	3 %	2,786	

Changes in Investment and Savings Products Sales and Asset Values and Positions during the Three Months Ended September 30, 2016

Product sales. The decrease in investment and savings product sales during the three months ended September 30, 2016 compared with the prior year period was largely driven by weakness in variable annuity sales, partially offset by an increase in U.S. retail mutual fund and fixed indexed annuity sales. Our annuity sales activity has been consistent with an industry-wide shift from variable annuities to fixed indexed annuities while strong market performance in recent periods has lifted demand for U.S. retail mutual funds.

Average client asset values. Average client asset values increased in the third quarter of 2016 compared with the prior year period largely due to favorable market performance in the last 12 months and continued net positive inflows.

Rollforward of client asset values. Client asset values during the three months ended September 30, 2016 increased primarily due to an increase in market value during the third quarter of 2016. Despite lower product sales, inflows from product sales outpaced redemptions and remained consistent as a percentage of beginning client asset values when compared with the three months ended September 30, 2015.

Average number of fee-generating positions. The average number of fee-generating positions during the three months ended September 30, 2016 increased from the prior year period primarily due to the cumulative effect of product sales of mutual funds and managed accounts investments that are serviced on the Company's recordkeeping and custodial services platform.

Changes in Investment and Savings Products Sales and Asset Values and Accounts during the Nine Months Ended September 30, 2016

Product sales. Investment and savings products sales decreased during the nine months ended September 30, 2016 compared with the prior year period largely due to industry-wide weakness in variable annuity sales, partially offset by an increase in fixed indexed annuity sales.

Average client asset values. Average client asset values during the nine months ended September 30, 2016 compared with the prior year period was largely consistent due to offsetting movements in client asset values during each respective period. In 2015, client asset values began the year at a higher level and decreased during the nine month period mostly due to negative market performance and the foreign exchange rate effect on Canadian client assets from the declining value of the Canadian dollar. In 2016, client asset values began the year at a lower level and increased during the nine month period mostly due to positive market performance and the foreign exchange rate effect on Canadian client assets from the improved value of the Canadian dollar. These dynamics in the client asset values in 2015 and 2016 caused average values to be consistent year-over-year.

Rollforward of client asset values. The increase in client asset values during the nine months ended September 30, 2016 was largely due to the increase in market value as well as the positive effect on the translated U.S. dollar value of Canadian client assets in 2016 caused by an improved Canadian dollar period end spot rate. During 2015, unfavorable market performance as well as the negative effect of a lower Canadian dollar period end spot rate on the translated amount of Canadian client assets largely impacted client asset values.

Average number of fee-generating positions. The average number of fee-generating positions during the nine months ended September 30, 2016 increased from the prior year period primarily due to the same factors impacting average number of fee-generating positions as described above in the three-month comparison as well as the addition of a mutual fund provider on our recordkeeping and custodial services platform that occurred in March 2015.

Other business trends and conditions.

Regulatory changes can also impact our product sales. On April 8, 2016, the Department of Labor (“DOL”) published a final regulation (“the DOL Fiduciary Rule”), which more broadly defines the circumstances under which a person or entity may be considered a fiduciary for purposes of the prohibited transaction rules of the Employee Retirement Income Security Act and Internal Revenue Code (“IRC”) Section 4975. IRC Section 4975 prohibits certain types of compensation paid by third parties with respect to transactions involving assets in qualified accounts, including individual retirement accounts (“IRAs”). In connection with the DOL Fiduciary Rule, the DOL also issued new exemptions and amended the existing exemptions. In so doing, the DOL stated its intent to avoid disruption of common compensation arrangements provided the conditions of the exemptions are met. The DOL Rule has an applicability date of April 10, 2017 with the application of certain requirements delayed until January 1, 2018.

IRAs and other qualified accounts are an important component of the investment and savings products we distribute. We believe that the DOL Fiduciary Rule will necessitate certain changes to our qualified plan business in order for us to continue to help investors save for retirement. We are diligently working through our evaluation of the DOL Fiduciary Rule but have not yet finalized our plans or determined the extent and nature of those changes. Additionally, we anticipate, but have not yet determined the extent to which we will make necessitated compensation, product or other changes to our qualified plan business consistent across our non-qualified business. As a result, we are currently unable to quantify the impact on our business, financial position or results of operations. During the year ended December 31, 2015, average client assets held in U.S. qualified retirement plans accounted for an estimated 59% of total average client account assets. During the year ended December 31, 2015, product sales of assets held in U.S. qualified retirement plans accounted for approximately 55% of total investment and savings product sales.

Factors Affecting Our Results

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

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

Historically, we have found that while sales volume of term life insurance products between fiscal periods may vary based on a variety of factors, the productivity of our individual sales representatives generally remains within a relatively narrow range (i.e., an average monthly rate of new policies issued per life-licensed sales representative between 0.18 and 0.22), and consequently, our sales volume over the longer term generally correlates to the size of our sales force.

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

Persistency. Persistency is a measure of how long our insurance policies stay in force. As a general matter, persistency that is lower than our pricing assumptions adversely affects our results over the long term because we lose the recurring revenue stream associated with the policies that lapse. Determining the near-term effects of changes in persistency is more complicated. When actual persistency is lower than our pricing assumptions, we must accelerate the amortization of deferred policy acquisition costs ("DAC"). The resultant increase in amortization expense is offset by a corresponding release of reserves associated with lapsed policies, which causes a reduction in benefits and claims expense. The future policy benefit reserves associated with any given policy will change over the term of such policy. As a general matter, future policy benefit reserves are lowest at the inception of a policy term and rise steadily to a peak before declining to

zero at the expiration of the policy term. Accordingly, depending on when the lapse occurs in relation to the overall policy term, the reduction in benefits and claims expense may be greater or less than the increase in amortization expense, and, consequently, the effects on earnings for a given period could be positive or negative. Persistency levels will impact results to the extent actual experience deviates from the persistency assumptions used to price our products.

Mortality. Our profitability will fluctuate to the extent actual mortality rates differ from those used in our pricing assumptions. We mitigate a significant portion of our mortality exposure through reinsurance.

Interest Rates. We use an assumption for future interest rates that initially reflects the current low interest rate environment gradually increasing to a level consistent with historical experience. Both DAC and the future policy benefit reserve liability increase with the assumed interest rate. Since DAC is higher than the future policy benefit reserve liability in the early years of a policy, a lower assumed interest rate generally will result in lower profits. In the later years, when the future policy benefit reserve liability is higher than DAC, a lower assumed interest rate generally will result in higher profits. These assumed interest rates, which like other pricing assumptions are locked in at issue, impact the timing but not the aggregate amount of DAC and future policy benefit reserve changes. We allocate net investment income generated by the investment portfolio to the Term Life Insurance segment in an amount equal to the assumed net interest accreted to the segment's U.S. generally accepted accounting principles ("U.S. GAAP")-measured future policy benefit reserve liability less DAC. All remaining net investment income, and therefore the impact of actual interest rates, is attributed to the Corporate and Other Distributed Products segment.

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

In 2010, as part of our corporate reorganization and the initial public offering of our common stock, we entered into significant coinsurance transactions (the "IPO coinsurance transactions") and ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009. We continue to administer all policies subject to these coinsurance agreements.

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

Ceded premiums. Ceded premiums are the premiums we pay to reinsurers. These amounts are deducted from the direct premiums we earn to calculate our net premium revenues. Similar to direct premium revenues, ceded coinsurance premiums remain level over the initial term of the insurance policy. Ceded YRT premiums increase over the period that the policy has been in force. Accordingly, ceded YRT premiums generally constitute an increasing percentage of direct premiums over the policy term.

Benefits and claims. Benefits and claims include incurred claim amounts and changes in future policy benefit reserves. Reinsurance reduces incurred claims in direct proportion to the percentage ceded. Coinsurance also reduces the change in future policy benefit reserves in direct proportion to the percentage ceded, while YRT reinsurance does not significantly impact the change in these reserves.

Amortization of DAC. DAC, and therefore amortization of DAC, is reduced on a pro-rata basis for the coinsured business, including the business reinsured under the IPO coinsurance transactions. There is no impact on amortization of DAC associated with our YRT contracts.

Insurance expenses. Insurance expenses are reduced by the allowances received from coinsurance. There is no impact on insurance expenses associated with our YRT contracts.

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

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

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

Sales. We earn commissions and fees, such as dealer re-allowances, and marketing and support fees, based on sales of mutual fund products and annuities. Sales of investment and savings products are influenced by the overall demand for investment products in the United States and Canada, as well as by the size and productivity of our sales force. We generally experience seasonality in our Investment and Savings Products segment results due to our high concentration of sales of retirement account products. These

accounts are typically funded in February through April, coincident with our clients' tax return preparation season. While we believe the size of our sales force is a factor in driving sales volume in this segment, there are a number of other variables, such as economic and market conditions, which may have a significantly greater effect on sales volume in any given fiscal period.

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

Accounts. We earn recordkeeping fees for administrative functions we perform on behalf of several of our retail and managed mutual fund providers. An individual client account may include multiple fund positions for which we earn recordkeeping fees. We may also receive fees earned for non-bank custodial services that we provide to clients with retirement plan accounts.

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

- sales of annuity products in the United States will generate higher revenues in the period such sales occur than sales of other investment products that either generate lower upfront revenues or, in the case of managed investments and segregated funds, no upfront revenues;

- sales of a higher proportion of managed investments and segregated funds products will generally extend the time over which revenues can be earned because we are entitled to higher revenues based on assets under management for these accounts in lieu of upfront revenues; and

- sales of a higher proportion of mutual fund products and the composition of the fund families sold will impact the timing and amount of revenue we earn given the marketing, support, recordkeeping and custodial services we provide for the various mutual fund products we distribute.

Corporate and Other Distributed Products Segment. We earn revenues and pay commissions and referral fees for various other insurance products, prepaid legal services and other financial products, all of which are originated by third parties. NBLIC also has in-force policies from several discontinued lines of insurance, including its closed block of student life insurance business.

Corporate and Other Distributed Products segment net investment income reflects actual net investment income realized by the Company less the amount allocated to our Term Life Insurance segment based on the assumed net interest accreted to the segment's U.S. GAAP-measured future policy benefit reserve liability less DAC. Actual net investment income reflected in the Corporate and Other Distributed Products segment is impacted by the size and performance of our invested asset portfolio, which can be influenced by interest rates, credit spreads, and the mix of invested assets.

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

Capital Structure. Our financial results are affected by our capital structure, which includes our Senior Notes and our common stock. For additional information regarding our capital structure, see Note 6 (Debt) and Note 7 (Stockholders' Equity) to our unaudited condensed consolidated financial statements included elsewhere in this report.

Foreign Currency. The Canadian dollar is the functional currency for our Canadian subsidiaries and our financial results, reported in U.S. dollars, are affected by changes in the currency exchange rate. As such, the translated amount of revenues, expenses, assets and liabilities attributable to our Canadian subsidiaries will be higher or lower in periods where the Canadian dollar appreciates or weakens relative to the U.S. dollar. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Canadian Currency Risk included in our 2015 Annual Report and Note 2 (Segment and Geographical Information) to our unaudited condensed consolidated financial statements included elsewhere in this report for more information on our Canadian subsidiaries and the impact of foreign currency on our financial results.

Critical Accounting Estimates

We prepare our financial statements in accordance with U.S. GAAP. These principles are established primarily by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions based on currently available information when recording transactions resulting from business operations. Our significant accounting policies are described in Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) to our consolidated financial statements included in our 2015 Annual Report. The most significant items on our condensed consolidated balance sheets are based on fair value determinations, accounting estimates and actuarial determinations, which are susceptible to changes in future periods and could affect our results of operations and financial position.

Edgar Filing: Primerica, Inc. - Form 10-Q

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

Accounting Policy Changes. During the three months ended September 30, 2016, there have been no changes in the accounting methodology for items that we have identified as critical accounting estimates. For additional information regarding our critical accounting estimates, see the Critical Accounting Estimates section of MD&A included in our 2015 Annual Report.

Results of Operations

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

	Three months ended				Nine months ended			
	September 30,		Change		September 30,		Change	
	2016	2015	\$	%	2016	2015	\$	%
	(Dollars in thousands)							
Revenues:								
Direct premiums	\$616,587	\$587,882	\$28,705	5 %	\$1,825,906	\$1,753,589	\$72,317	4 %
Ceded premiums	(399,676)	(393,987)	5,689	1 %	(1,201,692)	(1,198,382)	3,310	*
Net premiums	216,911	193,895	23,016	12 %	624,214	555,207	69,007	12 %
Commissions and fees	134,282	132,368	1,914	1 %	400,005	404,353	(4,348)	(1) %
Investment income net of								
investment expenses	24,356	22,487	1,869	8 %	74,742	67,918	6,824	10 %
Interest expense on								
surplus note	(4,957)	(3,772)	1,185	31 %	(13,716)	(8,954)	4,762	53 %
Net investment income	19,399	18,715	684	4 %	61,026	58,964	2,062	3 %
Realized investment gains								
(losses),								
including								
other-than-temporary								
impairment losses	(35)	(259)	(224)	(86) %	2,623	1,623	1,000	62 %
Other, net	13,069	10,990	2,079	19 %	37,353	30,605	6,748	22 %
Total revenues	383,626	355,709	27,917	8 %	1,125,221	1,050,752	74,469	7 %
Benefits and expenses:								
Benefits and claims	93,022	88,599	4,423	5 %	272,983	253,621	19,362	8 %
Amortization of DAC	45,428	40,797	4,631	11 %	127,277	113,392	13,885	12 %
Sales commissions	66,700	67,402	(702)	(1) %	203,489	207,358	(3,869)	(2) %
Insurance expenses	32,837	30,266	2,571	8 %	98,873	93,365	5,508	6 %
Insurance commissions	4,709	4,619	90	2 %	13,328	11,953	1,375	12 %
Interest expense	7,184	8,718	(1,534)	(18) %	21,534	26,036	(4,502)	(17) %
Other operating expenses	45,309	40,355	4,954	12 %	137,206	126,439	10,767	9 %
Total benefits and								
expenses	295,189	280,756	14,433	5 %	874,690	832,164	42,526	5 %
	88,437	74,953	13,484	18 %	250,531	218,588	31,943	15 %

Income before income taxes								
Income taxes	30,400	25,603	4,797	19 %	87,991	76,664	11,327	15 %
Net income	\$58,037	\$49,350	\$8,687	18 %	\$162,540	\$141,924	\$20,616	15 %

*Less than 1%.

Results for the Three Months Ended September 30, 2016 and 2015

Total revenues. Total revenues for the three months ended September 30, 2016 compared to the prior year period increased primarily due to incremental premiums on term life insurance policies that are not subject to the IPO coinsurance transactions as well as direct premium growth due to the increase in the number of new policies issued in recent periods. The modest increase in commissions and fees was primarily due to growth in client asset values in our Investment and Savings Products segment, partially offset by lower sales.

Net investment income increased modestly during the three months ended September 30, 2016 compared to the prior year period driven by approximately \$0.8 million from a higher market return on the deposit asset backing a 10% coinsurance agreement that is subject to deposit method accounting and \$0.6 million from the increase in the size of our invested assets portfolio. This increase was partially offset by lower yield on invested assets of approximately \$1.0 million. Interest expense on surplus note line item will fluctuate from period to period along with the principal amount of our surplus note (the "Surplus Note") based on the balance of reserves being contractually supported under a redundant reserve financing transaction used by our Vidalia Re, Inc. ("Vidalia Re") captive insurance company. Investment income earned on our held-to-maturity invested asset completely offsets the interest expense on Surplus Note line item, thereby eliminating any impact on net investment income.

Edgar Filing: Primerica, Inc. - Form 10-Q

For more information on the Surplus Note, see Note 6 (Debt) and for additional information on the redundant reserve financing transaction used by Vidalia Re, see Note 3 (Investments) to our unaudited condensed consolidated financial statements included elsewhere in this report.

Other, net revenues increased during the three months ended September 30, 2016 compared with the same period a year ago primarily due to the increase in fees for our proprietary sales force support system Primerica Online, consistent with subscriber growth. We allocate fees collected for our proprietary sales force support system between our Term Life Insurance segment and our Investment and Savings Products segment based on the estimated number of sales force representatives that are licensed to sell products in each respective segment.

Total benefits and expenses. Total benefits and expenses for the three months ended September 30, 2016 increased primarily as a result of higher premium-related expenses such as benefits and claims, amortization of DAC and insurance expenses. Also contributing to the increase in insurance expenses and other operating expenses was higher employee costs of approximately \$2.3 million, implementation costs related to the DOL Fiduciary Rule of approximately \$1.7 million, and technology spending of approximately \$2.7 million for enhancing our sales force support system's mobile application and accommodating increased capacity for the growth in subscribers discussed above in the "Total revenues" narrative. Partially offsetting the growth in benefits and expenses was the decrease in interest expense incurred on our 10% coinsurance agreement which is discussed further in Note 5 (Reinsurance) to our unaudited condensed consolidated financial statements included elsewhere in this report.

Income taxes. Our effective income tax rate was relatively consistent at 34.4% and 34.2% for the three months ended September 30, 2016 and 2015, respectively.

Results for the Nine Months Ended September 30, 2016 and 2015

Total revenues. Total revenues grew for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 mostly due to the same factors impacting total revenues as discussed above in the three-month comparison.

Total benefits and expenses. The increase in total benefits and expenses for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was mostly attributable to the same factors impacting total benefits and expenses as discussed above in the three-month comparison.

Income taxes. Our effective income tax rate was consistent at 35.1% during each of the nine months ended September 30, 2016 and 2015.

For additional information, see the Segment Results discussions below.

Segment Results

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

	Three months ended		Change		Nine months ended		Change	
	September 30, 2016	September 30, 2015	\$	%	September 30, 2016	September 30, 2015	\$	%
	(Dollars in thousands)							
Revenues:								
Direct premiums	\$608,396	\$579,527	\$28,869	5 %	\$1,801,757	\$1,728,563	\$73,194	4 %
Ceded premiums	(397,214)	(391,440)	5,774	1 %	(1,194,977)	(1,190,772)	4,205	*
Net premiums	211,182	188,087	23,095	12 %	606,780	537,791	68,989	13 %
	1,903	1,508	395	26 %	5,624	4,348	1,276	29 %

Edgar Filing: Primerica, Inc. - Form 10-Q

Allocated net investment income								
Other, net	9,513	7,610	1,903	25 %	26,849	21,656	5,193	24 %
Total revenues	222,598	197,205	25,393	13 %	639,253	563,795	75,458	13 %
Benefits and expenses:								
Benefits and claims	88,800	83,816	4,984	6 %	259,430	240,074	19,356	8 %
Amortization of DAC	43,365	37,265	6,100	16 %	121,067	105,079	15,988	15 %
Insurance expenses	31,125	28,521	2,604	9 %	93,288	88,291	4,997	6 %
Insurance commissions	1,171	1,084	87	8 %	3,234	3,067	167	5 %
Total benefits and expenses	164,461	150,686	13,775	9 %	477,019	436,511	40,508	9 %
Income before income taxes	\$58,137	\$46,519	\$11,618	25 %	\$162,234	\$127,284	\$34,950	27 %

*Less than 1%.

Results for the Three Months Ended September 30, 2016 and 2015

Net premiums. Direct premiums increased during the three months ended September 30, 2016 compared to the prior year period primarily due to the increase in the number of new policies issued in recent periods. Ceded premiums increased compared to the prior year period reflecting our increasing yearly renewable term ceded premiums, partially offset by the run-off of business subject to the IPO coinsurance transactions. Additionally, the reprocessing and recapture of certain reinsurance transactions recognized during the third quarter of 2015 reduced the year-over-year change in ceded premiums by approximately \$2.8 million. The ongoing growth in

direct premiums not subject to the IPO coinsurance transactions and the corresponding impact from the run-off of business subject to the IPO coinsurance transactions caused net premiums to grow faster than direct premiums.

Benefits and claims. Benefits and claims for the three months ended September 30, 2016 increased less than the growth in net premiums largely due to incurred claims experience during the third quarter of 2016 being approximately \$3 million lower than historical levels combined with slightly lower persistency. Additionally, the reprocessing of certain reinsurance transactions during the third quarter of 2015 as noted in the net premiums section above, reduced the change in benefits and claims by approximately \$1.2 million.

Amortization of DAC. The rate of DAC amortization for the three months ended September 30, 2016 was higher than the growth in net premiums due to slightly lower persistency experience compared to the prior year period.

Insurance expenses. In comparing the three months ended September 30, 2016 to the three months ended September 30, 2015, insurance expenses increased primarily due to higher technology spending related to our proprietary sales force support system, as discussed above in the “Benefits and claims” narrative of the consolidated “Primerica, Inc. and Subsidiaries Results” section.

Results for the Nine Months Ended September 30, 2016 and 2015

Net premiums. Net premiums grew for the nine months ended September 30, 2016 compared to the prior year period mostly due to the same factors impacting net premiums as discussed above in the three-month comparison.

Benefits and claims. Benefits and claims for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 increased at a slower rate than net premiums due to the same factors impacting benefits and claims as discussed in the three-month comparison.

Amortization of DAC. The increase in amortization of DAC for the nine months ended September 30, 2016 compared to the prior year period was primarily due to the same factors impacting amortization of DAC as discussed above in the three-month comparison.

Insurance expenses. The increase in insurance expenses for the nine months ended September 30, 2016 compared to the prior year period was largely due to higher growth-related expenses of approximately \$4.0 million and higher technology expenses of approximately \$6.0 million. Partially offsetting the increase in insurance expenses were lower employee-related expenses of approximately \$3.3 million due to the change in the Company’s management structure in the first quarter of 2015, which reallocated expenses from the Term Life Insurance segment to the Corporate and Other Distributed Products segment.

Investment and Savings Products Segment Results. Investment and Savings Products segment results were as follows:

	Three months ended				Nine months ended			
	September 30,		Change		September 30,		Change	
	2016	2015	\$	%	2016	2015	\$	%
(Dollars in thousands)								
Revenues:								
Commissions and fees:								
Sales-based revenues	\$55,149	\$56,418	\$(1,269)	(2)%	\$170,425	\$179,524	\$(9,099)	(5)%
Asset-based revenues	60,759	58,794	1,965	3 %	175,606	174,775	831	*
Account-based revenues	11,899	11,444	455	4 %	34,819	32,891	1,928	6 %
Other, net	2,273	1,940	333	17 %	6,754	5,371	1,383	26 %
Total revenues	130,080	128,596	1,484	1 %	387,604	392,561	(4,957)	(1)%
Expenses:								

Edgar Filing: Primerica, Inc. - Form 10-Q

Amortization of DAC	1,636	3,299	(1,663)	(50)%	5,258	7,400	(2,142)	(29)%
Insurance commissions	3,001	2,957	44	1 %	8,515	7,111	1,404	20 %
Sales commissions:								
Sales-based	38,276	40,036	(1,760)	(4)%	120,643	127,074	(6,431)	(5)%
Asset-based	25,271	24,374	897	4 %	73,272	71,683	1,589	2 %
Other operating expenses	26,136	23,119	3,017	13 %	76,402	71,693	4,709	7 %
Total expenses	94,320	93,785	535	1 %	284,090	284,961	(871)	*
Income before income taxes	\$35,760	\$34,811	\$949	3 %	\$103,514	\$107,600	\$(4,086)	(4)%

*Less than 1%.

Results for the Three Months Ended September 30, 2016 and 2015

Commissions and fees. Commissions and fees increased during the three months ended September 30, 2016 compared to the prior year period primarily due to higher asset-based revenues reflecting higher average client asset values. The decrease in sales-based revenues was due to lower sales volume, which was largely driven by industry-wide weakness in variable annuity sales.

Amortization of DAC. Amortization of DAC declined during the three months ended September 30, 2016 compared to the prior year period largely due to stronger Canadian segregated fund market performance, as well as lower redemptions in the third quarter of 2016.

Edgar Filing: Primerica, Inc. - Form 10-Q

Sales commissions. Sales-based commissions declined in the three months ended September 30, 2016 compared to the prior year period primarily due to lower sales volume. Growth in asset-based commissions was in-line with asset-based revenues.

Other operating expenses. Other operating expenses increased during the three months ended September 30, 2016 compared to the prior year period largely due to higher technology spending related to our proprietary sales force support system as described above in the “Benefits and claims” narrative of the consolidated “Primerica, Inc. and Subsidiaries Results” section, as well as \$1.7 million of implementation costs related to the DOL Fiduciary Rule. By way of comparison, we incurred approximately \$1.0 million of expenses during the third quarter of 2015 in connection with our assessment and comment letter related to the proposed version of the DOL Fiduciary Rule that was finalized in April 2016.

Results for the Nine Months Ended September 30, 2016 and 2015

Commissions and fees. Commissions and fees decreased during the nine months ended September 30, 2016 compared to the prior year period largely due to lower sales-based revenues driven by an industry-wide decline in variable annuity sales. The decrease was partially offset by higher account-based revenues that resulted from the increase in the average number of fee-generating positions and the addition of a mutual fund company to our recordkeeping and custodial services platform during the second quarter of 2015. Asset-based revenue remained flat year-over-year reflecting consistent average client asset values.

Amortization of DAC. During the nine months ended September 30, 2016, amortization of Canadian segregated funds DAC decreased compared to the prior year period mainly due to the impact of favorable market performance of the underlying funds during the second and third quarter of 2016, partially offset by comparatively lower market performance in the first quarter of 2016 versus 2015.

Insurance commissions. Insurance commissions increased during the nine months ended September 30, 2016 compared to the prior year period due in large part to a change in trail commission rate earned by the sales force on our Canadian segregated funds during the second quarter of 2015.

Sales commissions. The decrease in sales-based commissions in the nine months ended September 30, 2016 compared to the prior year period was consistent with the decline in sales-based revenues. The increase in asset-based commissions outpaced the increase in asset-based revenues in the nine months ended September 30, 2016 compared to the prior year period primarily due to the mix of asset-based commissions paid on Canadian client mutual fund assets and U.S. client mutual fund assets.

Other operating expenses. Other operating expenses increased in the nine months ended September 30, 2016 compared to the prior year period primarily due to the result of similar items impacting other operating expenses as described above in the three-month comparison.

Corporate and Other Distributed Products Segment Results. Corporate and Other Distributed Products segment results were as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	Change \$	%	2016	2015	Change \$	%
	(Dollars in thousands)							
Revenues:								
Direct premiums	\$8,191	\$8,355	\$(164)	(2)%	\$24,149	\$25,025	\$(876)	(4)%
Ceded premiums	(2,462)	(2,547)	(85)	(3)%	(6,715)	(7,610)	(895)	(12)%

Edgar Filing: Primerica, Inc. - Form 10-Q

Net premiums	5,729	5,808	(79)	(1)%	17,434	17,415	19	*
Commissions and fees	6,475	5,711	764	13 %	19,155	17,162	1,993	12 %
Allocated investment income net								
of investment expenses	22,453	20,979	1,474	7 %	69,118	63,570	5,548	9 %
Interest expense on surplus note	(4,957)	(3,772)	1,185	31 %	(13,716)	(8,954)	4,762	53 %
Allocated net investment income	17,496	17,207	289	2 %	55,402	54,616	786	1 %
Realized investment gains (losses),								
including OTTI losses	(35)	(259)	224	(86)%	2,623	1,623	1,000	62 %
Other, net	1,283	1,441	(158)	(11)%	3,750	3,580	170	5 %
Total revenues	30,948	29,908	1,040	3 %	98,364	94,396	3,968	4 %
Benefits and expenses:								
Benefits and claims	4,222	4,783	(561)	(12)%	13,553	13,547	6	*
Amortization of DAC	427	235	(192)	(82)%	952	915	37	4 %
Insurance expenses	1,712	1,745	(33)	(2)%	5,585	5,073	512	10 %
Insurance commissions	537	578	(41)	(7)%	1,579	1,775	(196)	(11)%
Sales commissions	3,153	2,991	162	5 %	9,574	8,600	974	11 %
Interest expense	7,184	8,718	(1,534)	(18)%	21,534	26,036	(4,502)	(17)%
Other operating expenses	19,173	17,235	1,938	11 %	60,804	54,746	6,058	11 %
Total benefits and expenses	36,408	36,285	123	*	113,581	110,692	2,889	3 %
Loss before income taxes	\$(5,460)	\$(6,377)	\$(917)	(14)%	\$(15,217)	\$(16,296)	\$(1,079)	(7)%

*Less than 1%.

Results for the Three Months Ended September 30, 2016 and 2015

Total revenues. Total revenues increased for the three months ended September 30, 2016 compared to the prior year period largely due to commissions and fees revenue from stronger sales of other fee-based distributed products. Net premiums for the closed blocks of business issued by our NBLIC subsidiary remained relatively consistent with the prior year period. The increase in allocated net investment income was driven by the same factors discussed above in the “Total revenues” narrative of the consolidated “Primerica, Inc. and Subsidiaries Results” section.

Total benefits and expenses. The slight increase in total benefits and expenses for the three months ended September 30, 2016 compared to the prior year period was primarily attributable to higher employee-related expenses in other operating expenses, partially offset by the reduction in the interest expense incurred on our 10% coinsurance agreement.

Results for the Nine Months Ended September 30, 2016 and 2015

Total revenues. The activity in total revenues for the nine months ended September 30, 2016 was primarily attributable to the same factors discussed above in the three-month comparison. In addition, the year-over-year increase in realized investment gains (losses), including OTTI losses was primarily attributable to the higher realized investment gains we recognized in the second quarter of 2016 from the sale of certain securities where the Company was able to reduce its exposure to specific issuers.

Total benefits and expenses. The increase in total benefits and expenses for the nine months ended September 30, 2016 compared to the prior year period was primarily due to the items described above in the three-month comparison as well as the reallocated employee-related expenses of approximately \$3.3 million between segments in the first quarter as described in the Term Life Insurance segment discussion above.

Financial Condition

Investments. Our insurance business is primarily focused on selling term life insurance, which does not include an investment component for the policyholder. The invested asset portfolio funded by premiums from our term life insurance business does not involve the substantial asset accumulations and spread requirements that exist with other non-term life insurance products. As a result, the profitability of our term life insurance business is not as sensitive to the impact that interest rates have on our invested asset portfolio and investment income as the profitability of other companies that distribute non-term life insurance products.

We follow a conservative investment strategy designed to emphasize the preservation of our invested assets and provide adequate liquidity for the prompt payment of claims. To meet business needs and mitigate risks, our investment guidelines provide restrictions on our portfolio’s composition, including limits on asset type, per issuer limits, credit quality limits, portfolio duration, limits on the amount of investments in approved countries and permissible security types. We also manage and monitor our allocation of investments to limit the accumulation of any disproportionate concentrations of risk among industry sectors or issuer countries outside of the U.S. and Canada. As of September 30, 2016, we did not hold any industry concentrations of corporate bonds that represented more than 10% of the fair value of our available-for-sale invested asset portfolio. In addition, as of September 30, 2016, we did not hold any country of issuer concentrations outside of the U.S. or Canada that represented more than 5% of the fair value of our available-for-sale invested asset portfolio.

We may direct our investment managers to invest some of our invested asset portfolio in currencies other than the U.S. dollar. For example, a portion of our portfolio is invested in assets denominated in Canadian dollars, which, at minimum, would equal our reserves for policies denominated in Canadian dollars. Additionally, to ensure adequate liquidity for payment of claims, we take into account the maturity and duration of our invested asset portfolio and our general liability profile.

We hold within our invested asset portfolio a credit enhanced note (“LLC Note”) issued by a limited liability company owned by a third party service provider which is classified as a held-to-maturity security. The LLC Note, which is scheduled to mature on December 31, 2029, was obtained in exchange for the Surplus Note of equal principal amount issued by Vidalia Re, a special purpose financial captive insurance company and wholly owned subsidiary of Primerica Life. For more information on the LLC Note, see Note 3 (Investments) to our unaudited condensed consolidated financial statements included elsewhere in this report.

We have an investment committee composed of members of our senior management team that is responsible for establishing and maintaining our investment guidelines and supervising our investment activity. Our investment committee regularly monitors our overall investment results and our compliance with our investment objectives and guidelines. We use a third-party investment advisor to assist us in the management of our investing activities. Our investment advisor reports to our investment committee.

Our invested asset portfolio is subject to a variety of risks, including risks related to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk. Investment guideline restrictions have been established to minimize the effect of these risks but may not always be effective due to factors beyond our control. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A significant increase in interest rates could result in significant losses, realized or unrealized, in the value of our invested asset portfolio. Additionally, with respect to some of our investments, we are subject to prepayment and, therefore, reinvestment risk.

Edgar Filing: Primerica, Inc. - Form 10-Q

Details on asset mix (excluding our held-to-maturity security) were as follows:

	September 30, 2016	December 31, 2015
Average rating of our fixed-maturity portfolio	A-	A-
Average duration of our fixed-maturity portfolio	4.0 years	4.0 years
Average book yield of our fixed-maturity portfolio	4.29%	4.40%

The distribution of our investments in fixed-maturity securities (excluding our held-to-maturity security) by rating follows:

	September 30, 2016		December 31, 2015	
	Amortized		Amortized	
	cost	%	cost	%
(Dollars in thousands)				
AAA	\$268,783	16 %	\$292,169	17 %
AA	158,974	10 %	125,682	7 %
A	354,181	21 %	386,140	23 %
BBB	797,250	48 %	801,732	48 %
Below investment grade	87,084	5 %	89,301	5 %
Not rated	6,284	*	377	*
Total	\$1,672,556	100 %	\$1,695,401	100 %

*Less than 1%.

The ten largest holdings within our invested asset portfolio (excluding our held-to-maturity security) were as follows:

Issuer	September 30, 2016			
	Fair value	Cost or amortized cost	Unrealized gain (loss)	Credit rating
(Dollars in thousands)				
Canada	\$24,367	\$22,815	\$ 1,552	AAA
National Rural Utilities Cooperative	11,749	10,269	1,480	A
General Electric Co	10,179	9,590	589	AA+
Wells Fargo & Co	9,661	9,022	639	A
Anheuser-Busch InBev SA/NV	9,195	8,569	626	A-
Iberdrola SA	8,925	8,473	452	BBB+
National Fuel Gas Co	8,826	8,068	758	BBB
TransCanada Corp	8,336	7,920	416	A-
US Bancorp	8,002	7,382	620	A+
AT&T Inc.	7,712	6,414	1,298	BBB+
Total – ten largest holdings	\$106,952	\$98,522	\$ 8,430	
Total – fixed-maturity and equity securities	\$1,820,972	\$1,710,572		
Percent of total fixed-maturity and equity securities	6	%	6	%

For additional information on our invested asset portfolio, see Note 3 (Investments) to our unaudited condensed consolidated financial statements included elsewhere in this report.

Liquidity and Capital Resources

Dividends and other payments to the Parent Company from its subsidiaries are our principal sources of cash. The amount of dividends paid by the subsidiaries is dependent on their capital needs to fund future growth and applicable regulatory restrictions. The primary uses of funds by the Parent Company include the payments of stockholder

dividends, interest on notes payable, general operating expenses, and income taxes, as well as repurchases of shares outstanding. At September 30, 2016, the Parent Company had cash and invested assets of approximately \$72.5 million.

The Parent Company's subsidiaries generate operating cash flows primarily from term life insurance premiums (net of premiums ceded to reinsurers), income from invested assets, commissions and fees collected from the distribution of investment and savings products as well as other financial products. The subsidiaries' principal operating cash outflows include the payment of insurance claims and benefits (net of ceded claims recovered from reinsurers), commissions to our sales force, insurance and other operating expenses, interest expense for future policy benefit reserves financing transactions, and income taxes.

The distribution and underwriting of term life insurance requires upfront cash outlays at the time the policy is issued as we pay a substantial majority of the sales commission during the first year following the sale of a policy and incur costs for underwriting activities at the inception of a policy's term. During the early years of a policy's term, we generally receive level term premiums in excess of claims paid. We invest the excess cash generated during earlier policy years in fixed-maturity and equity securities held in support of future policy benefit reserves. In later policy years, cash received from the maturity or sale of invested assets is used to pay claims in excess of level term premiums received.

Historically, cash flows generated by our businesses, primarily from our existing block of term life policies and our investment and savings products, have provided us with sufficient liquidity to meet our operating requirements. We anticipate that cash flows from our businesses will continue to provide sufficient operating liquidity over the next 12 months.

We may seek to enhance our liquidity position or capital structure through borrowings from third-party sources, sales of debt or equity securities, reserve financings or some combination of these sources. Additionally, we believe that cash flows from our businesses and potential sources of funding will sufficiently support our long-term liquidity needs.

Cash Flows. The components of the change in cash and cash equivalents were as follows:

	Nine months ended		Change \$
	September 30, 2016	2015	
	(In thousands)		
Net cash provided by (used in) operating activities	\$ 164,888	\$ 140,992	\$ 23,896
Net cash provided by (used in) investing activities	35,737	39,344	(3,607)
Net cash provided by (used in) financing activities	(158,599)	(207,377)	(48,778)
Effect of foreign exchange rate changes on cash	1,003	(4,395)	5,398
Change in cash and cash equivalents	\$ 43,029	\$ (31,436)	\$ 74,465

Operating Activities. The increase in operating cash flows during the nine months ended September 30, 2016 was due to lower tax payments relative to income tax expense recorded in net income as a result of temporary tax basis differences in our term life insurance operations, as well as the timing impact of when outstanding checks were paid from our bank disbursement accounts. Partially offsetting the increase in operating cash flows was higher payments for acquisition costs in 2016 compared to 2015 reflecting the growth in new term life insurance policies issued.

Investing Activities. During the nine months ended September 30, 2016, net cash provided by investing activities decreased modestly compared to the same period in 2015 primarily due to higher capital expenditures for our information technology infrastructure.

Financing Activities. Cash used in financing activities decreased during the first nine months of 2016 compared to the first nine months of 2015 as we utilized the additional \$50 million of capacity authorized in our share repurchase programs in 2015 as compared with 2016.

Risk-Based Capital (“RBC”). The National Association of Insurance Commissioners has established RBC standards for U.S. life insurers, as well as a risk-based capital model act (the “RBC Model Act”) that has been adopted by the insurance regulatory authorities. The RBC Model Act requires that life insurers annually submit a report to state regulators regarding their RBC based upon four categories of risk: asset risk; insurance risk; interest rate risk; and business risk. The capital requirement for each is determined by applying factors that vary based upon the degree of risk to various asset, premiums and policy benefit reserve items. The formula is an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action.

As of September 30, 2016, our U.S. life insurance subsidiaries had statutory capital substantially in excess of the applicable statutory requirements to support existing operations and to fund future growth. Primerica Life’s RBC ratio remained well positioned to support existing operations and fund future growth.

In Canada, an insurer’s minimum capital requirement is overseen by the Office of the Superintendent of Financial Institutions (“OSFI”) and determined as the sum of the capital requirements for five categories of risk: asset default risk; mortality/morbidity/lapse risks; changes in interest rate environment risk; segregated funds risk; and foreign exchange risk. As of September 30, 2016, Primerica Life Canada was in compliance with Canada’s minimum capital

requirements as determined by OSFI.

Redundant Reserve Financings. The Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, requires insurers to carry statutory policy benefit reserves for term life insurance policies with long-term premium guarantees which are often significantly in excess of the future policy benefit reserves that insurers deem necessary to satisfy claim obligations ("redundant policy benefit reserves"). Accordingly, many insurance companies have sought ways to reduce their capital needs by financing redundant policy benefit reserves through bank financing, reinsurance arrangements and other financing transactions.

We have established Peach Re, Inc. ("Peach Re") and Vidalia Re as special purpose financial captive insurance companies and wholly owned subsidiaries of Primerica Life. Primerica Life has ceded certain term life policies issued prior to 2011 to Peach Re as part of a Regulation XXX redundant reserve financing transaction (the "Peach Re Redundant Reserve Financing Transaction") and has ceded certain term life policies issued in 2011, 2012, 2013 and 2014 to Vidalia Re as part of a Regulation XXX redundant reserve financing transaction (the "Vidalia Re Redundant Reserve Financing Transaction"). These redundant reserve financing transactions allow us to more efficiently manage and deploy our capital. See Note 10 (Commitments and Contingent Liabilities), Note 3 (Investments) and Note 6 (Debt) to our unaudited condensed consolidated financial statements included elsewhere in this report for more information on these redundant reserve financing transactions.

Notes Payable. The Company has \$375.0 million of publicly-traded, Senior Notes outstanding with an annual interest rate of 4.75%, payable semi-annually in arrears on January 15 and July 15. The Senior Notes mature July 15, 2022.

We were in compliance with the covenants of the Senior Notes at September 30, 2016. No events of default(s) occurred during the three months ended September 30, 2016.

Rating Agencies. There have been no changes to Primerica, Inc.'s Senior Notes ratings or Primerica Life's financial strength ratings since December 31, 2015.

Short-term Borrowings. We had no short-term borrowings as of or during the three months ended September 30, 2016.

Surplus Note. Vidalia Re issued the Surplus Note in exchange for a credit enhanced note (the "LLC Note") as a part of the Vidalia Re Redundant Reserve Financing Transaction. The Surplus Note has a principal amount equal to the LLC Note and is scheduled to mature on December 31, 2029. For more information on the Surplus Note, see Note 6 (Debt) to our unaudited condensed consolidated financial statements included elsewhere in this report.

Off-Balance Sheet Arrangements. Our off-balance sheet arrangements as of September 30, 2016 consisted of the letter of credit issued under the credit facility agreement with Deutsche Bank (the "Credit Facility Agreement") and associated with the Peach Re Redundant Reserve Financing Transaction as described in Note 10 (Commitments and Contingent Liabilities) to our unaudited condensed consolidated financial statements included elsewhere in this report.

Contractual Obligations Update. There has been no material change in contractual obligations from those disclosed in the 2015 Annual Report.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this report as well as some statements in periodic press releases and some oral statements made by our officials during our presentations are "forward-looking" statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words "expect", "intend", "plan", "anticipate", "estimate", "believe", "will be", "will continue", "will likely result", and similar expressions, or future conditional verbs such as "may", "should", "would", and "could." In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries are also forward-looking statements. These forward-looking statements involve external risks and uncertainties, including, but not limited to, those described under the section entitled "Risk Factors" included herein.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond the control of our management team. All forward-looking statements in this report and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these risks and uncertainties. These risks and uncertainties include, among others:

- our failure to continue to attract new recruits, retain sales representatives or license or maintain the licensing of our sales representatives would materially adversely affect our business, financial condition and results of operations;
- there are a number of laws and regulations that could apply to our distribution model, which subject us to the risk that we may have to modify our distribution structure;
- there may be adverse tax, legal or financial consequences if the independent contractor status of our sales representatives is overturned;
- the Company or its independent sales representatives' violation of, or non-compliance with, laws and regulations and the related claims and proceedings could expose us to material liabilities;
- any failure to protect the confidentiality of client information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations;
-

we may face significant losses if our actual experience differs from our expectations regarding mortality or persistency;

- the occurrence of a catastrophic event could materially adversely affect our business, financial condition and results of operations;
- our insurance business is highly regulated, and statutory and regulatory changes may materially adversely affect our business, financial condition and results of operations;
- a decline in the regulatory capital ratios of our insurance subsidiaries could result in increased scrutiny by insurance regulators and ratings agencies and have a material adverse effect on our business, financial condition and results of operations;
- a significant ratings downgrade by a ratings organization could materially adversely affect our business, financial condition and results of operations;
- the failure by any of our reinsurers to perform its obligations to us could have a material adverse effect on our business, financial condition and results of operations;
- our investment and savings products segment is heavily dependent on mutual fund and annuity products offered by a relatively small number of companies, and, if these products fail to remain competitive with other investment options or we lose our relationship with one or more of these fund companies or with the source of our annuity products, our business, financial condition and results of operations may be materially adversely affected;
- our ability to launch and execute levelized compensation and advisory platform programs consistent with applicable regulations;
- the failure of mutual fund and variable annuity product manufacturers to manufacture levelized compensation product offerings;

- the Company or its securities-licensed sales representatives' violations of, or non-compliance with, laws and regulations could expose us to material liabilities;
- if heightened standards of conduct or more stringent licensing requirements, such as those proposed by the SEC and adopted by the DOL, are imposed on us or our sales representatives or selling compensation is reduced as a result of new legislation or regulations, it could have a material adverse effect on our business, financial condition and results of operations;
- if our suitability policies and procedures were deemed inadequate, it could have a material adverse effect on our business, financial condition and results of operations;
- our sales force support tools may fail to appropriately identify financial needs or suitable investment products;
- non-compliance with applicable regulations could lead to revocation of our subsidiary's status as a non-bank custodian;
- as our securities sales increase, we become more sensitive to performance of the equity markets;
- credit deterioration in, and the effects of interest rate fluctuations on, our invested asset portfolio could materially adversely affect our business, financial condition and results of operations;
- valuation of our investments and the determination of whether a decline in the fair value of our invested assets is other-than-temporary are based on estimates that may prove to be incorrect;
- changes in accounting standards can be difficult to predict and could adversely impact how we record and report our financial condition and results of operations;
- the effects of economic down cycles in the United States and Canada could materially adversely affect our business, financial condition and results of operations;
- we are subject to various federal, state and provincial laws and regulations in the United States and Canada, changes in which or violations of which may require us to alter our business practices and could materially adversely affect our business, financial condition and results of operations;
- litigation and regulatory investigations and actions may result in financial losses and harm our reputation;
- the current legislative and regulatory climate with regard to financial services may adversely affect our business, financial condition, and results of operations;
- the inability of our subsidiaries to pay dividends or make distributions or other payments to us in sufficient amounts would impede our ability to meet our obligations and return capital to our stockholders;
- a significant change in the competitive environment in which we operate could negatively affect our ability to maintain or increase our market share and profitability;
- the loss of key employees and sales force leaders could negatively affect our financial results and impair our ability to implement our business strategy;
- if one of our significant information technology systems fails, if its security is compromised or if the Internet becomes disabled or unavailable, our business, financial condition and results of operations may be materially adversely affected;
- in the event of a disaster, our business continuity plan may not be sufficient, which could have a material adverse effect on our business, financial condition and results of operations;
- we may be materially adversely affected by currency fluctuations in the United States dollar versus the Canadian dollar.

Developments in any of these areas could cause actual results to differ materially from those anticipated or projected or cause a significant reduction in the market price of our common stock.

The foregoing list of risks and uncertainties may not contain all of the risks and uncertainties that could affect us. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this report may not in fact occur. Accordingly, undue reliance should not be placed on these statements. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as otherwise required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes in our exposures to market risk since December 31, 2015. For details on the Company's interest rate, foreign currency exchange, and credit risks, see "Item 7A. Quantitative and Qualitative Information About Market Risks" in our 2015 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report (the "Evaluation Date"). Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are involved from time to time in legal disputes, regulatory inquiries and arbitration proceedings in the normal course of business. Additional information regarding certain legal proceedings to which we are a party is described under “Contingent Liabilities” in Note 10 (Commitments and Contingent Liabilities) to our unaudited condensed consolidated financial statements included elsewhere in this report, and such information is incorporated herein by reference. As of the date of this report, we do not believe any pending legal proceeding to which Primerica or any of its subsidiaries is a party is required to be disclosed pursuant to this item.

ITEM 1A. RISK FACTORS.

The following supplements and amends the Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2015, which are incorporated herein by reference.

If heightened standards of conduct or more stringent licensing requirements, such as those proposed by the Securities and Exchange Commission (“SEC”) and those adopted by the Department of Labor (“DOL”), are imposed on us or our sales representatives or selling compensation is reduced as a result of new legislation or regulations, it could have a material adverse effect on our business, financial condition and results of operations.

Our U.S. sales representatives are subject to federal and state regulation as well as state licensing requirements. PFS Investments, which is regulated as a broker-dealer, and our U.S. sales representatives are currently subject to general anti-fraud limitations under the Exchange Act and SEC rules and regulations, as well as other conduct standards prescribed by the Financial Industry Regulatory Authority (“FINRA”). These standards generally require that broker-dealers and their sales representatives disclose conflicts of interest that might affect the advice or recommendations they provide and require them to make suitable investment recommendations to their customers. In January 2011 under the authority of the Dodd-Frank Act, which gives the SEC the power to impose on broker-dealers a heightened standard of conduct that is currently applicable only to investment advisers, the SEC staff submitted a report to Congress in which it recommended that the SEC adopt a fiduciary standard of conduct for broker-dealers that is uniform with that of investment advisors. The SEC has slated the rule on its regulatory agenda for “long-term action” without a specific timetable.

On April 8, 2016, the DOL published a final regulation (the “DOL Fiduciary Rule”), which more broadly defines the circumstances under which a person or entity may be considered a fiduciary for purposes of the prohibited transaction rules of the Employee Retirement Income Security Act and IRC Section 4975. IRC Section 4975 prohibits certain types of compensation paid by third parties with respect to transactions involving assets in qualified accounts, including individual retirement accounts (“IRAs”). Simultaneously with publication of the DOL Fiduciary Rule, the DOL issued new, and amended existing, exemptions (the “Prohibited Transaction Exemptions”) intended, among other things, to allow advisers and their firms to continue to receive common forms of compensation that would otherwise be prohibited due to the DOL Fiduciary Rule, provided the conditions of the exemptions are met. The DOL Fiduciary Rule has an applicability date of April 10, 2017 with the application of certain requirements delayed until January 1, 2018.

We believe that the DOL Fiduciary Rule will necessitate certain changes to our qualified plan business in order for us to continue to help investors save for retirement. At this time, we have not yet finalized the extent and nature of those changes. Additionally, we anticipate, but have not yet determined the extent to which we will make necessitated compensation, product or other changes to our qualified plan business consistent across our non-qualified business. While we expect to incur increased costs, we cannot yet quantify the collective impact of those costs and other changes on the Company. IRAs and other qualified accounts are a core component of the Investment and Savings Products segment of our business and accounted for a significant portion of the total revenue of this segment for the

year ended December 31, 2015. Changes resulting from the DOL Fiduciary Rule could make it more difficult for us and our sales representatives to profitably serve the middle-income market and could result in a reduction in the number of IRAs and qualified accounts that we serve, which could materially adversely affect the amount of revenue that we generate from this line of business and ultimately could result in a decline in the number of our securities-licensed sales representatives.

Heightened standards of conduct as a result of either of the above items or another similar rule or regulation could also increase the compliance and regulatory burdens on our representatives, and could lead to increased litigation and regulatory risks, changes to our business model, a decrease in the number of our securities-licensed representatives and a reduction in the products we offer to our clients, any of which could have a material adverse effect on our business, financial condition and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the quarter ended September 30, 2016, we repurchased shares of our common stock as follows:

Period	Total number of shares purchased ⁽¹⁾	Average price paid per share ⁽¹⁾	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
July 1-31, 2016	229,273	\$ 55.61	229,273	\$47,387,817
August 1-31, 2016	285,182	53.82	285,182	32,039,322
September 1-30, 2016	229,137	56.39	228,757	19,139,715
Total	743,592	\$ 55.16	743,212	\$ 19,139,715

⁽¹⁾ Consists of (a) repurchases of 380 shares at an average price of \$54.09 arising from share-based compensation tax withholdings and stock option exercises and (b) open market repurchases of shares under the share repurchase program approved by our Board of Directors.

For information regarding year-to-date share repurchases, refer to Note 7 (Stockholders' Equity) to our unaudited condensed consolidated financial statements included elsewhere in this report.

ITEM 6. EXHIBITS.

The agreements included as exhibits to this report are included to provide you with information regarding the terms of these agreements and are not intended to provide any other factual or disclosure information about the Company or its subsidiaries, our business or the other parties to these agreements. These agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the application agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to our investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time, and should not be relied upon by investors.

Exhibit Number	Description	Reference
31.1	Rule 13a-14(a)/15d-14(a) Certification, executed by Glenn J. Williams, Chief Executive Officer.	Filed with the Securities and Exchange Commission as part of this Quarterly Report.

31.2

Edgar Filing: Primerica, Inc. - Form 10-Q

Rule 13a-14(a)/15d-14(a) Certification, executed by Alison S. Rand, Executive Vice President and Chief Financial Officer.

Filed with the Securities and Exchange Commission as part of this Quarterly Report.

32.1	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), executed by Glenn J. Williams, Chief Executive Officer, and Alison S. Rand, Executive Vice President and Chief Financial Officer.	Filed with the Securities and Exchange Commission as part of this Quarterly Report.
101.INS	XBRL Instance Document ⁽¹⁾	Filed with the Securities and Exchange Commission as part of this Quarterly Report.
101.SCH	XBRL Taxonomy Extension Schema	Filed with the Securities and Exchange Commission as part of this Quarterly Report.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed with the Securities and Exchange Commission as part of this Quarterly Report.
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed with the Securities and Exchange Commission as part of this Quarterly Report.
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed with the Securities and Exchange Commission as part of this Quarterly Report.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed with the Securities and Exchange Commission as part of this Quarterly Report.

⁽¹⁾Includes the following materials contained in this Quarterly Report on Form 10-Q for the period ended September 30, 2016, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Primerica, Inc.

November 9, 2016 /s/ Alison S. Rand

Alison S. Rand

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)