FBL Financial Group, Inc.
4Q18 Conference Call

Jim Brannen
Chief Executive Officer

Thanks, Kathleen. And thank you to everyone on the call. I'm glad you're able to join us today.

While I am pleased FBL Financial Group reported record full year 2018 earnings with non-GAAP operating income of $4.36 per share, we did report lower than expected earnings for the fourth quarter of 2018. Net income totaled $0.26 per share and non-GAAP operating income was $0.75 per share. There were several items that negatively impacted the results for the quarter. We previously issued a Form 8-K on two nonrecurring items - the correction of an immaterial error and a charge related to ongoing expense savings. We were also impacted by the volatile equity markets in the quarter. I am pleased to share that aside from the nonrecurring items, it was a solid quarter.

Don will review the financial results in detail. I'll focus my comments primarily on our sales and current initiatives.

Total premium collected for the fourth quarter of 2018 grew to $157 million, with increases in both life insurance and annuities.

Annuity premium collected for the fourth quarter increased to $70.5 million. Indexed annuity sales were up 10.5% compared to the fourth quarter of 2017, while we experienced a decline in fixed rate annuity sales.

Life sales were very strong throughout all of 2018, including the fourth quarter. Life premium collected for the fourth quarter of 2018 totaled $76.2 million, that's up 5.3% from the fourth quarter of 2017. Universal life sales were particularly strong with fourth quarter premium collected up 16.0%. Term life sales were also strong with fourth quarter premium collected up 4.2%.

As important, the number of life insurance and annuity applications increased significantly in the fourth quarter of 2018, with a year-over-year increase in total apps of 19%. I'm pleased that we're reaching more clients with products they need, and fulfilling our purpose to protect livelihoods and futures.

Turning now to our agency force, as of December 31, 2018, we had 1,839 exclusive agents and agency managers. I am pleased with very strong performance in the fourth quarter with the addition of a net 29 agents. We had higher agent attrition in the first half of 2018, and made various modifications to our recruiting and compensation plans, introducing a new agent development program mid-year. We are now better positioned and continue to focus on increasing total agent count as it is crucial to our success.

Recently our agent training program received recognition. Our agent academy was presented the Excellence in Practice Award by the Association for Talent Development. This award is particularly notable as we were the only multi-line insurance company to be honored.

Next, I am pleased to give you an update on our wealth management initiative. We've been building and investing in this initiative over the past year. It's an exciting time for us as we're now beginning to be active in the market recruiting experienced advisors in our territories. To date in 2019 we've appointed four Farm Bureau wealth management advisors, and have many active recruiting discussions in progress. The value proposition that we offer incoming advisors is the ability to partner with our existing agency force. Through this partnership, they're able to provide local financial advisory services to our existing client/members. This is a unique opportunity for an investment advisor to team up with an insurance agent.

These wealth management advisors are in addition to our 51 exclusive agents who are agent financial advisors. They now have the tools and products to offer fee-based financial planning and investment management services for their client/members.

As part of this initiative, in 2018 we introduced a new mutual fund platform for our exclusive agents. Since that time, we have seen growth in new accounts opened and increased mutual fund deposits.

This initiative allows our agents to add more value, positioning them as the go-to person for all of their clients' insurance and financial needs.

The costs associated with this initiative are included in our Corporate & Other segment. Ultimately, we expect it to add a diversified earnings stream to FBL Financial Group, given the fee-based nature of the business.

As I look back on 2018, I am very proud of our many activities and accomplishments:
- We launched an all-new advertising campaign, featuring TV ads in several of our core states.
- We continued our pilot of accelerated underwriting to incorporate new and expanded data-driven underwriting decisions while removing fluid testing or paramedical exams on certain business. This allowed us to attract additional middle market customers who need to protect their family's livelihood with life insurance.
- We introduced a new life insurance underwriting rating for smokeless tobacco users, making the purchase of life insurance more appealing to certain customer segments.
- We implemented additional automation in our life underwriting area to provide additional data to improve future risk selection.
- We introduced a new increasing term life insurance product. It allows our clients to automatically increase the face amounts to provide more protection over time.
- We are increasing our net promoter score through a multiyear customer experience initiative, and
- We're investing in more innovation and digital initiatives.

I have a positive outlook as we move forward in 2019.
- Next month we launch additional TV advertising and are expanding its reach in our territories.
- We'll continue to add Farm Bureau wealth management advisors.
- We remain focused on our core Farm Bureau niche customer, offering new farm succession planning seminars.

Combined with our financial strength, exclusive Farm Bureau Financial Services agent force and dedicated employees, we are well positioned for the future.

Now I'll turn the call over to Don Seibel to review our financial results. Don.

Don Seibel
Chief Financial Officer

Thanks Jim. I also want to welcome everyone on the call.

As Jim indicated, earnings for the fourth quarter of 2018 were below our expectations with net income of $0.26 per share.

Net income includes net realized losses on investments and the change in the fair value of derivatives. In the fourth quarter of 2018, we experienced net realized losses on investments due to a decrease in the fair value of equity securities of $3.6 million after tax as well as other-than-temporary impairments of investments totaling $3.8 million after tax. Also, due to the decline in the equity markets, we had a decrease in the fair value of derivatives. Our non-GAAP operating income excludes these items, resulting in non-GAAP operating income for the fourth quarter of 2018 of $0.75 per share.

Non-GAAP operating income for the fourth quarter of 2018 was below our expectations due to three key drivers.

- First, during the fourth quarter we offered a voluntary early retirement program to eligible employees. The program provided enhanced retirement benefits to these employees while also supporting our efforts for ongoing expense savings. This program resulted in a charge of $7.7 million in the fourth quarter. This includes a non-cash charge of $5.3 million for the acceleration of the amortization of an accumulated actuarial loss in the defined benefit plan. On a per share basis, this charge totaled $0.24 per share after tax. The program allows us to reduce operating expenses going forward, and we anticipate annual savings in 2019 of approximately $1.5 million, or $0.05 per share after tax.

- Second, in the fourth quarter we updated the estimate of the impact of an immaterial error related to a closed block of life insurance business along with accrued interest associated with remediating the error. This resulted in increased benefit expenses of $0.17 per share after tax.
- Third, due to a decline in the equity markets in the fourth quarter, we had higher amortization of acquisition costs in the Corporate and Other segment. We estimate this increased amortization totaled $3.5 million, or $0.11 per share after tax.

These negative items, which total $0.52 per share after tax, were partially offset by better than expected mortality experience. I'll review these items in more detail as I discuss our segment results.

Annuity segment results for the fourth quarter of 2018 were impacted by the early retirement program with a charge of $2.5 million. Investment prepayment fee income was lower in the fourth quarter and totaled $832,000 for this segment. Point-in-time spreads on our individual annuities increased four basis points during the fourth quarter of 2018 due primarily to a change in reporting our point-in-time portfolio yield on a tax adjusted basis. Under this basis, the yield on tax exempt securities in the point-in-time calculation is grossed up to take into account the benefit of the tax exemption. Without this tax adjustment, our point-in-time spreads would have decreased one basis point.

Life insurance segment results for the fourth quarter of 2018 reflect a growing book of business as well as several moving pieces. This segment incurred a charge of $4.0 million related to the early retirement program. Additionally, it included the update of the estimate of the immaterial error on a closed block of business. This segment also had lower than usual investment prepayment fee income, with less than $100,000 earned during the quarter. Partially offsetting these negative items was better than expected mortality experience for the quarter. We had fewer term life insurance claims and a lower than average claim size.

Point-in-time spreads on our universal life business increased two basis points during the fourth quarter due to the change in reporting the yield on tax-exempt securities noted in the Annuity Segment discussion. Without the tax adjustment, our point-in-time spreads during the fourth quarter would have decreased three basis points.

Corporate and Other Segment results were impacted by several items in the fourth quarter. This segment had a charge of $1.1 million related to the early retirement program. Costs related to our wealth management initiative totaled $1.0 million for the quarter and in the investor supplement are included in this segment in the other expense line. In addition, our closed block variable business experienced $3.5 million higher amortization of acquisition costs due to the negative impact of equity market returns on separate account performance.

Income taxes for the fourth quarter of 2018 include a one-time benefit of approximately $900,000 due to the execution of strategies to capture deductions at the historical 35% effective income tax rate.

The investment environment remains challenging, but we were able to take advantage of higher market interest rates for a portion of the fourth quarter. The tax-adjusted yield on new investment acquisitions backing our long-term business was 4.56% for the fourth quarter of 2018. This is 64 basis points higher than acquisitions made in the fourth quarter of 2017. These rates remain less than our portfolio yield, and we continue to have pressure on spreads.

Next I'll comment on our capital level.

At December 31, 2018, our subsidiary, Farm Bureau Life, had an estimated company action level risk based capital ratio of 552%. This is even with where we were at the end of 2017. This RBC ratio incorporates the impact of the NAIC's changes to the RBC factors to reflect the lower income tax rate due to the Tax Cuts and Jobs Act.

Our capital levels remained high in 2018 even with $99 million of capital returned to shareholders in the form of common stock repurchases, our regular quarterly dividend and a special dividend in the first quarter of 2018.

We have significant financial flexibility. Options for deploying our excess capital include stock repurchases, our regular quarterly dividend and the payment of special dividends. However, given our limited public float, we currently plan to limit future stock repurchases.

Our board of directors reviews the dividend rate regularly and is committed to having an attractive dividend yield, given our strong and consistent operating results. As demonstrated in recent years, we also view the payment of special dividends, on occasion, as an attractive option for distributing a portion of our excess capital. Our board will next review the payment of dividends when it meets later this month.

In closing, 2018 was a strong year for FBL Financial Group. We were able to increase sales, grow our business and maintain our strong financial foundation. Even with lower fourth quarter earnings, FBL achieved record full year 2018 non-GAAP operating income. We move forward in 2019 with financial discipline to continue to profitably grow our business.

I'm pleased to have been able to share these results with you. We will now turn the call over to the operator and open it up to any questions you may have.