Primerica, Inc.
Form 10-K
February 26, 2019

0001475922 --12-31 Large Accelerated Filer 2018 FY PRI false Yes No Yes false false false P12M P3Y P3Y P15Y 172956000 0.18 0.24 0.34 0.42 0.19 0.17 0.20 0.18 0.03 0.02 96.60 67.82 39.87 120.55 91.88 61.50 0.10 0.10 0.11 0001475922 2018-01-01 2018-12-31 xbrli:shares 0001475922 2019-01-31 iso4217:USD 0001475922 2018-06-30 0001475922 2018-12-31 0001475922 2017-12-31 iso4217:USD xbrli:shares 0001475922 2017-01-01 2017-12-31 0001475922 2016-01-01 2016-12-31 0001475922 us-gaap:FinancialServiceMember 2018-01-01 2018-12-31 0001475922 us-gaap:FinancialServiceMember 2017-01-01 2017-12-31 0001475922 us-gaap:FinancialServiceMember 2016-01-01 2016-12-31 0001475922 us-gaap:CommonStockMember 2017-12-31 0001475922 us-gaap:CommonStockMember 2016-12-31 0001475922 us-gaap:CommonStockMember 2015-12-31 0001475922 us-gaap:CommonStockMember 2018-01-01 2018-12-31 0001475922 us-gaap:CommonStockMember 2017-01-01 2017-12-31 0001475922 us-gaap:CommonStockMember 2016-01-01 2016-12-31 0001475922 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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from __________ to __________

Commission File Number: 001-34680

Primerica, Inc.

(Exact name of registrant as specified in its charter)

Delaware	27-1204330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Primerica Parkway Duluth, Georgia	30099
(Address of principal executive offices)	(ZIP Code)

Registrant’s telephone number, including area code: (770) 381-1000

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 Par Value	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2018, was $4,316,019,688. The number of shares of the registrant's Common Stock outstanding at January 31, 2019, with $0.01 par value, was 42,582,850.

Documents Incorporated By Reference

Certain information contained in the Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 16, 2019 is incorporated by reference into Part III hereof.

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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", "w "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 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 could require us to modify our distribution structure;
- there may be adverse tax, legal or financial consequences if the independent contractor status of sales representatives is overturned;
- the Company's or the independent sales representatives' violation of, or non-compliance with, laws and regulations and 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 or reserve financing counterparties 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 companies, our business, financial condition and results of operations may be materially adversely affected;
- the Company's or the 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 Securities and Exchange Commission and those proposed or adopted by state legislatures or regulators or Canadian securities regulators, are imposed on us or the 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, or our policies and procedures for compliance with federal or state regulations governing standards of care, were deemed inadequate, it could have a material adverse effect on our business, financial condition and results of operations;
- 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;
- 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;
- the current legislative and regulatory climate with regard to cybersecurity may adversely affect our business, financial condition, and results of operations;
- 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;
- credit deterioration in, and the effects of interest rate fluctuations on, our invested asset portfolio and other assets that are subject to changes in credit quality and interest rates 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 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;
- we may be materially adversely affected by currency fluctuations in the United States dollar versus the Canadian dollar; and
- the market price of our common stock may fluctuate.

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.

PART I

ITEM 1. BUSINESS.
Primerica, Inc. (“Primerica”, “we”, “us” or the “Parent Company”) is a leading provider of financial products to middle-income households in the United States and Canada with 130,736 licensed sales representatives as of December 31, 2018. This network of independent contractor sales representatives (“sales representatives” or “sales force”) assists our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities, managed investments and other financial products, which we distribute primarily on behalf of third parties. We insured approximately five million lives and have over two million client investment accounts as of December 31, 2018. Our distribution model uniquely positions us to reach underserved middle-income consumers in a cost-effective manner and has proven itself in both favorable and challenging economic environments.

Our mission is to serve middle-income families by helping them make informed financial decisions and providing them with a strategy and tools to gain financial independence. Our distribution model is designed to:

- *Address our clients’ financial needs.* Licensed sales representatives primarily use our proprietary financial needs analysis tool (“FNA”) and an educational approach to demonstrate how our product offerings can assist clients to provide financial protection for their families, save for their retirement and other needs, and manage their debt. Typically, our clients are the friends, family members and personal acquaintances of sales representatives. Meetings are generally held in informal, face-to-face settings, usually in the clients’ homes.
- *Provide a business opportunity.* We provide an entrepreneurial business opportunity for individuals to distribute financial products. Low entry fees as well as the ability to select their own schedules and time commitments allow sales representatives to supplement their income by starting their own independent businesses without leaving their current jobs. Our unique compensation structure, technology, sales support and back-office processing are designed to enable sales representatives to successfully grow their independent businesses.

We believe there is significant opportunity to meet the increasing array of financial services needs of our clients. We intend to leverage the sales force to meet such client needs, which will drive long-term value for all of our stakeholders. Our strategy is organized across four primary areas:

- Maximizing sales force growth, leadership and productivity;
- Broadening and strengthening our protection product portfolio;
- Providing offerings that enhance our Investment and Savings Products (“ISP”) business; and
- Developing digital capabilities to deepen our client relationships.

Corporate Structure

We conduct our core business activities in the United States through three principal entities, all of which are direct or indirect wholly owned subsidiaries of the Parent Company:

- Primerica Financial Services, LLC (“PFS”), our general agency and marketing company;
- Primerica Life Insurance Company (“Primerica Life”), our principal life insurance underwriting company; and
- PFS Investments Inc. (“PFS Investments”), our investment and savings products company, broker-dealer and registered investment advisor.

Primerica Life is domiciled in Tennessee, and its wholly owned subsidiary, National Benefit Life Insurance Company (“NBLIC”), is a New York-domiciled life insurance underwriting company.

We conduct our core business activities in Canada through three principal entities, all of which are indirect wholly owned subsidiaries of the Parent Company:

- Primerica Life Insurance Company of Canada (“Primerica Life Canada”), our Canadian life insurance underwriting company;
- PFSL Investments Canada Ltd. (“PFSL Investments Canada”), our Canadian licensed mutual fund dealer; and

- PFSL Fund Management Ltd. (“PFSL Fund Management”), our Canadian investment funds manager.

Primerica was incorporated in the United States as a Delaware corporation in October 2009 to serve as a holding company for the Primerica businesses (collectively, the “Company”). Our businesses, which prior to April 1, 2010, were wholly owned indirect subsidiaries of Citigroup Inc. (“Citigroup”), were transferred to us by Citigroup on April 1, 2010 in a reorganization pursuant to which we completed an initial public offering in April 2010 (the “IPO”). On March 31, 2010, we entered into certain coinsurance transactions to cede between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009. We administer all policies subject to these coinsurance agreements.

Our Clients

Our clients are generally middle-income consumers, which we define as households with $30,000 to $100,000 of annual income. According to the 2017 U.S. Census Bureau Current Population Survey, the latest period for which data is available, almost 50% of U.S. households fall in this range. We believe that we understand the financial needs of the middle-income segment, which include:

- *Many have inadequate or no life insurance coverage.* Individual life insurance sales in the United States declined from 12.5 million policy sales in 1975 to 9.8 million policy sales in 2017, the latest period for which data is available, according to the Life Insurance Marketing and Research Association International, Inc. ("LIMRA"), a worldwide association of insurance and financial services companies. We believe that term life insurance, which we have provided to middle-income clients for many years, is generally the best option for them to meet their life insurance needs.
- *Many need help saving for retirement and other personal goals.* Many middle-income families find it challenging to save for retirement and other personal goals. By developing personalized savings programs for our clients using our proprietary FNA and offering a wide range of mutual funds, annuities, managed investments and segregated fund products sponsored and managed by established firms, sales representatives are well equipped to help clients develop long-term savings plans to address their financial needs.
- *Many need to reduce their debt.* Many middle-income families have numerous debt obligations from credit cards, auto loans, and home mortgages. We help our clients address these financial burdens by providing personalized and client-driven debt resolution techniques.
- *Many prefer to meet face-to-face when considering financial products.* Historically, many middle-income consumers have indicated a preference to meet face-to-face when considering financial products or services. As such, we have designed our distribution model to address this preference in a cost-effective manner through a network of more than 130,000 life insurance-licensed sales representatives.

Our Distribution Model

Our distribution model, which is a modified traditional insurance agency model, is designed to reach and serve middle-income consumers efficiently through the sales force. Key characteristics of our unique distribution model include:

- *Independent entrepreneurs:* Sales representatives are independent contractors building and operating their own businesses. This approach means that sales representatives are entrepreneurs who take responsibility for selling products, recruiting and developing sales representatives, setting their own schedules and managing and paying the administrative expenses associated with their sales activities.
- *Flexible time commitment:* By offering a flexible time commitment opportunity, we are able to attract a significant number of recruits who desire to earn supplemental income and generally concentrate on smaller-sized transactions typical of middle-income consumers. Sales representatives are able to start their independent businesses for low entry fees, for which they receive technological support, pre-licensing training and access to licensing examination preparation programs. Sales representatives sell or refer products directly to consumers, and therefore our business opportunity does not require recruits to purchase and resell our products. Most sales representatives begin selling products on a part-time basis, which enables them to hold jobs while exploring an entrepreneurial business opportunity with us.
- *Incentive to build distribution:* When a sale is made, the selling representative receives a commission, as does the licensed representative who recruited him or her in most cases. Sales commissions are paid through several levels of the selling representative's recruitment organization. This structure motivates existing sales representatives to grow the sales force and provides them with commission income from the sales completed by representatives in their sales organizations.
- *Sales force leadership*: A sales representative who has built a successful organization and has obtained his or her life insurance and securities licenses can achieve the sales designation of Regional Vice President ("RVP"), which qualifies him or her for a higher commission schedule. RVPs are independent contractors who open and operate offices for

their sales organizations and devote their full-time attention to their businesses. RVPs also support and monitor the sales representatives, on whose sales they earn commissions, in achieving compliance with applicable regulatory requirements. RVPs' efforts to expand their businesses are a primary driver of our success.

- *Innovative compensation structure:* We have developed an innovative system for compensating the sales force that is contingent upon product sales. We advance to sales representatives a significant portion of their insurance commissions upon their submission of an insurance application and the first month's premium payment. In addition to being a source of motivation, this advance provides sales representatives with immediate cash flow to offset their costs. In addition, monthly production bonuses are paid to RVPs whose sales organizations meet certain sales levels. With compensation tied to sales activity, our approach accommodates varying degrees of individual productivity, which allows us to effectively use a large group of part-time sales representatives while providing a variable cost structure. In addition, we incentivize RVPs with quarterly stock awards based largely on sales production ("agent equity awards"), which aligns their interests with those of our stockholders.
- *Large, dynamic sales force:* Members of the sales force primarily serve their friends, family members and personal acquaintances through individually driven networking activities. We believe that this warm market approach is an effective way to distribute our product offerings because it facilitates face-to-face interaction initiated by a trusted acquaintance of the prospective client, which is difficult to replicate using other distribution approaches. Due to the large size of the sales force and

the active recruiting of new sales representatives, the sales force is able to continually access an expanding base of prospective clients without engaging costly media channels.

- *Motivational culture:* In addition to the motivation for sales representatives to achieve financial success, we seek to create a culture that inspires and rewards sales representatives for their personal successes and those of their sales organizations through sales force recognition events and contests. We also use Intranet-streamed broadcasts and local, regional and national meetings to inform and teach sales representatives, as well as facilitate camaraderie and the exchange of ideas across the sales force. These initiatives encourage and empower sales representatives to develop their own successful sales organizations.
- *Inclusive culture*: Building and maintaining an ethnically and demographically diverse sales force is important to us, as we believe the sales force reflects the middle market communities we serve. As the communities we serve become more diverse, the sales force does as well.

Structure and Scalability of the Sales Force

New sales representatives are recruited by existing sales representatives. When these new recruits become sales representatives, they become part of the sales organization of the sales representative who recruited them as well as the sales organizations to which the recruiting sales representative belongs. We encourage sales representatives to bring in new recruits to build their own sales organizations, enabling them to earn commissions on sales made by members of their sales organizations.

RVPs establish and maintain their own offices, which we refer to as field offices. Additionally, they are responsible for funding the costs of their administrative staff, marketing materials, travel, training and certain recognition events for the sales representatives in their respective sales organizations. Field offices provide a location for sales representatives to conduct recruiting meetings, training events and sales-related meetings, disseminate our Intranet-streamed broadcasts, conduct compliance functions, and house field office business records. Some business locations house more than one field office. At December 31, 2018, approximately 5,200 field offices in 2,917 locations were managed by sales representatives that served as RVPs.

RVPs play a major role in training, motivating and monitoring their sales force organization. Because the sales representative’s compensation grows with the productivity of his or her sales organization, our distribution model provides financial rewards to sales representatives who successfully develop, support and monitor productive sales representatives. In addition to our commission structure, we offer the Primerica Ownership Program. This program provides qualifying RVPs a contractual right, upon meeting certain criteria, to transfer their Primerica businesses to another RVP or a qualifying family member at such time as they desire. Furthermore, we have developed proprietary tools and technology to enable RVPs to reduce the time spent on administrative responsibilities associated with their sales organizations so they can devote more time to the sales, recruiting and training activities that drive our growth. We believe that our tools and technology, coupled with our sales compensation programs, further incentivize sales representatives to become RVPs.

Both the structure of the sales force and the capacity of our support capabilities provide us with a high degree of scalability as we grow our business. Our support systems and technology are capable of supporting a large sales force and a high volume of transactions. In addition, by sharing training and compliance activities with RVPs, we are able to grow without incurring proportionate overhead expenses.

Recruitment of Sales Representatives

The recruitment of sales representatives is undertaken by existing sales representatives, who identify prospects and share with them the benefits of associating with our organization. Sales representatives showcase our organization as dynamic and capable of improving the lives of middle-income families.

After the initial contact, prospective recruits typically are invited to an opportunity meeting, which is conducted by an RVP. The objective of an opportunity meeting is to inform prospective recruits about our mission and their opportunity to start their own businesses by becoming sales representatives. At the conclusion of each opportunity meeting, prospective recruits are asked to complete an application and pay a nominal fee to commence their pre-licensing training and licensing examination preparation programs and, depending on the state or province, to cover their licensing exam registration costs, which are provided by the Company generally at no additional charge. Recruits are not obligated to purchase any of the products we offer in order to become sales representatives, though they may elect to make such purchases.

Recruits may become our clients or provide us with access to their friends, family members and personal acquaintances. As a result, we continually work to improve our systematic approach to recruiting and training new sales representatives.

Similar to other distribution systems that rely upon part-time sales representatives and typical of the life insurance industry in general, we experience wide disparities in the productivity of individual sales representatives. Many new recruits do not get licensed, often due to the time commitment required to obtain licenses and various regulatory and licensing hurdles. Many licensed sales representatives are only marginally active, as there are no minimum life insurance production requirements. As a result, we plan for this disparate level of productivity and view a continuous recruiting cycle as a key component of our distribution model. Our distribution model is designed to address the varying productivity associated with sales representatives by paying production-based compensation, emphasizing recruiting, and developing initiatives to address barriers to licensing new recruits. By providing commissions to sales representatives on the sales generated by their sales organization, our compensation structure aligns the interests of sales representatives with our interests in recruiting new representatives and creating sustainable sales production.

The following table provides information on new recruits and life insurance-licensed sales representatives:

	Year ended December 31,		
	2018	2017	2016
Number of new recruits	290,886	303,867	262,732
Number of newly life insurance-licensed sales representatives	48,041	48,535	44,724
Number of life insurance-licensed sales representatives, at period end	130,736	126,121	116,827
Average number of life insurance-licensed sales representatives during period	128,977	121,291	111,843

We define new recruits as individuals who have submitted an independent business application to become sales representatives together with payment of the nominal fee to commence their pre-licensing training. Certain recruits may not meet the compliance standards to become a sales representative, and others elect to withdraw prior to becoming actively engaged.

On average, it takes approximately three months for sales representatives to complete the necessary applications and pre-licensing coursework and to pass the applicable state or provincial examinations to obtain a license to sell our term life insurance products. As a result, individuals recruited to become sales representatives within a given fiscal period may not become licensed sales representatives or meet compliance standards until a subsequent period.

Sales Force Motivation, Training, Communication and Sales Support Tools

Motivating, training and communicating with the sales force are critical to our success and that of the sales force.

Motivation. Through our proven system of sales force recognition events, contests and communications, we provide incentives that drive our results. Motivation is driven in part by sales representatives' desire to achieve higher levels of financial success by building their own businesses as sales representatives. The opportunity to help underserved middle-income households address financial challenges is also a source of motivation for many sales representatives.

We motivate sales representatives to succeed in their businesses by:

- compensating sales representatives for product sales made by them and their sales organizations;
- training sales representatives on financial fundamentals so they can confidently and effectively assist our clients;
- reducing the administrative burden on the sales force, which allows them to devote more of their time to building a sales organization and selling products; and
- creating a culture in which sales representatives are encouraged to achieve goals through the recognition of their sales and recruiting achievements, as well as those of their sales organizations.

We conduct numerous local, regional and national meetings to help inform and motivate the sales force. In June 2019, we will be hosting our biennial international convention and associated meetings at the Georgia World Congress Center and Mercedes-Benz Stadium in Atlanta, Georgia. In previous years, tens of thousands of sales representatives, including new recruits, have attended our conventions and associated meetings at their own expense, which we believe further demonstrates their commitment to our organization and mission.

Training, Communication and Sales Support Tools: Primerica Online ("POL"), delivered through a secure Intranet website and a cross-platform mobile application ("Primerica App"), is our primary tool designed to support sales representatives and assist them in building their own businesses. We provide sales representatives with communication, training, and sales support tools on POL that allow both new and experienced sales representatives to offer financial information and products to our clients. POL provides sales representatives with access to various business tracking and management tools, licensing support tools, product-specific training, and sales procedures and tools. Additionally, POL provides access to internal training programs and videos covering sales, management skills, business ownership, and compliance. We also use POL to provide real-time recognition of sales representatives' successes and scoreboards for sales force production, contests, and incentive trips. In addition, POL is a gateway to our product providers and product support. Subscribers generally pay a small monthly fee to subscribe to POL, which helps cover the cost of developing new resources and maintaining this support system. A limited version of POL that provides access to Primerica e-mail, compliance and compensation information, newsletters and bulletins is available at no cost.

The primary features and tools available on POL include:

- *Training and Licensing Tool*s: POL provides sales representatives with access to study tools for life insurance and securities licensing examinations such as pre-licensing study materials, on-demand videos, personalized licensing study plans, exam simulators, progress tracking, and exam and license registration. POL also provides access to obtain online certifications to sell certain other distributed products.
- *Communication Tool*s: POL provides access to marketing materials for our product offerings, Company news and events, live streaming shows, on-demand videos, home office bulletins, Primerica e-mail, contact lists, and a hosted professional business

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website for sales representatives. We broadcast and deliver video content on POL through our own digital video channel, PFN TV. We create original broadcasts and videos that enable senior management to provide business updates to the sales force as well as training and motivational presentations. We broadcast live programs hosted by home office management and selected RVPs that focus on new developments and provide motivational messages to the sales force. We also broadcast training-oriented programs to the sales force on a weekly basis and profile successful sales representatives, allowing these individuals to educate and train other sales representatives by sharing their methods for success.

• *Sales Support and Client Management Tools*:

- *Our Financial Needs Analysis:* Our FNA is a proprietary, needs-based analysis tool. The FNA gives sales representatives the ability to collect and synthesize client financial data and develop a financial analysis for the client that is easily understood. The FNA helps our clients understand their financial needs in the areas of debt, financial protection, and savings as well as introduces prudent financial concepts, such as regular saving and accelerating the repayment of high cost credit card debt to help them reach their financial goals. The FNA also provides clients with a snapshot of their current financial position and identifies their life insurance, savings and debt resolution needs.
- *Our Point-of-Sale Application Tool:* Our point-of-sale technology, TurboApps, is an internally developed system that streamlines the application process for our insurance and investment products. These applications populate client information from the FNA to eliminate redundant data collection and provide real-time feedback to eliminate incomplete and illegible applications. Integrated with our paperless field office management system described below and with our home office systems, TurboApps allows RVPs and us to realize the efficiencies of straight-through-processing of application data and other information collected on sales representatives' mobile devices, which results in expedited processing of product sales. TurboApps is available on the sales representatives' portal, POL and our mobile platform, the Primerica App.
    - *EZ-Key:* In 2018, we launched our latest addition to our TurboApps offerings, EZ-Key. EZ-Key allows sales representatives to seamlessly move from a mobile life insurance application to a pre-filled investment and savings products application, streamlining the investment discussion. This tool helps sales representatives guide clients through the investment decision process and ultimately provides investment alternatives based on the client's individual situation. Further, we believe the new technology creates efficiencies and drives long-term productivity as well as makes the ISP business more attractive to sales representatives who are considering obtaining a securities license.
- *Primerica App:* The mobile Primerica App platform has experienced broad adoption and provides the sales force with access to the critical components needed to start, build and maintain their business. We continue to enhance and expand the scope and resources available in this strategic platform.
- *Virtual Base Shop:* In an effort to ease the administrative burden on RVPs and simplify sales force operations, we make available to RVPs a secure Intranet-based paperless field office management system as part of the POL subscription. This virtual office is designed to automate the RVP's administrative responsibilities and can be accessed by subscribing sales representatives in an RVP's immediate sales organization, which we refer to as his or her base shop.
- *Shareholder Account Manager ("SAM"):* SAM is a web-based tool that allows securities-licensed representatives to service client investments in mutual funds accessed through our transfer agent recordkeeping platform.
    - *Client Relationship Manager ("CRM")*: Our CRM tool allows sales representatives and their RVPs to organize client information, such as personal contact information, product relationships, account details, notes, appointments and follow-ups, in one place to enable fast and convenient access for managing client relationships.

In addition, our publications department produces materials to support, motivate and inform the sales force. We sell recruiting materials, sales brochures, business cards and stationery and provide communications services that include web design, print presentations, graphic design and script writing. We also produce a weekly mailing that includes materials promoting our current incentives, as well as the latest news about our product offerings.

Performance-Based Compensation Structure

Our commission structure is rooted in our origin as an insurance agency. Sales representatives can receive compensation in multiple ways, including:

- sales commissions and fees based on their personal sales, referrals, and client assets under management;
- sales commissions based on sales and referrals by sales representatives in their sales organizations and fees based on client assets under management in their sales organizations; and
- bonuses and other compensation, including agent equity awards, generated by their own sales performance, the aggregate sales performance of their sales organizations and other criteria.

Our compensation structure pays commissions to the sales representative who sells the product and to several representatives above the selling representative within their sales organization. With respect to term life insurance sales, commissions are calculated based on the total first-year premium (excluding the policy fee) for all policies and riders. To motivate the sales force, we compensate sales representatives for term life insurance product sales as quickly as possible. We advance a majority of the insurance commission upon the submission of a completed application and the first month's premium payment. As the client makes his or her premium payments, the commission is earned by the sales representative and the commission advance is recovered by the Company. If premium payments are not made by the client and the policy terminates, any outstanding advance commission is charged back to the sales representative. The chargeback, which only occurs in the first year of a policy, equals that portion of the advance that was made, but not earned, by the sales representative because the client did not pay the full premium for the period of time for which the advance was made to the sales representative. Chargebacks, which occur in the normal course of business, may be recovered by reducing any cash amounts otherwise payable by the Company to the sales representative.

Sales representatives and representatives above them in their sales organizations are contractually obligated to repay us any commission advances that are ultimately not earned due to the underlying policy lapsing prior to the full commission being earned. Additionally, we hold back a portion of the commissions earned by sales representatives as a reserve out of which we may recover chargebacks. The amounts held back are referred to as deferred compensation account commissions ("DCA commissions"). DCA commissions are available to reduce amounts owed to the Company by sales representatives and they provide a sales representative with a cushion against the chargeback obligations of representatives in their sales organization. DCA commissions, unless applied to amounts owed, are ultimately released to sales representatives.

We pay most term life insurance commissions during the first policy year. One of our term riders provides for coverage increases after the first year. For such riders, we pay first-year and renewal commissions only for premium increases related to the increased coverage. Additionally, we pay renewal commissions on some older in-force policies. At the end of a policy's level premium paying period, we pay commissions on policy exchanges and bonuses on some policy exchanges and continuations.

We also pay bonuses as a percentage of premiums to RVPs with respect to sales of term life policies and riders, up to a maximum premium. Bonuses are paid to RVPs for achieving specified production levels.

For most mutual funds (non-managed investments) and annuity products, commissions are paid both on the sale and on the value of assets under management. Commissions are calculated based on the dealer reallowance and trail compensation actually paid to us. For managed investment products, fees earned are primarily based on the assets under management and represent the fee we receive as compensation for as long as we retain the account. For our Canadian segregated fund investment products, we pay sales representatives a sales commission based on the amount invested and a monthly fee based on clients' asset values.

We also pay the sales force with respect to sales of prepaid legal services subscriptions and referrals for customers purchasing other distributed products. Prepaid legal services commissions paid to the sales force are earned in fixed amounts on a monthly basis as long as the prepaid legal service subscription remains active. Commissions related to other distributed products are calculated based on the type of product sold or referred.

In addition to these methods of compensation, RVPs can earn agent equity awards every quarter based largely on sales production.

Sales Force Licensing and Support

The states, provinces and territories in which sales representatives operate generally require sales representatives to obtain and maintain licenses to sell our insurance and securities products, requiring sales representatives to pass applicable examinations. Sales representatives may also be required to maintain licenses to sell certain of our other distributed products. To encourage new recruits to obtain their life insurance licenses, we either pay directly or reimburse the sales representative for certain licensing-related fees and expenses once he or she passes the applicable exam and obtains the applicable life insurance license.

To sell insurance products, sales representatives must be licensed by their resident state, province or territory and by any other state, province or territory in which they do business. In most states, sales representatives must be appointed by our applicable insurance subsidiary. Our in-house life insurance licensing program offers new recruits a significant number of classroom life insurance pre-licensing courses to meet applicable state and provincial licensing requirements and prepares recruits to pass applicable licensing exams.

To sell mutual funds and variable annuity products, U.S. sales representatives must be registered with the Financial Industry Regulatory Authority (“FINRA”) and hold the appropriate license(s) designated by each state in which they sell securities products, as well as be appointed by the annuity underwriter in the states in which they market annuity products. Sales representatives must meet all state and federal regulatory requirements and be designated as an investment advisor representative in order to sell our managed investment products. We contract with third-party training firms to conduct securities license exam preparation for sales representatives, and we also offer supplemental training tools.

Canadian sales representatives selling mutual fund products are required to be licensed by the securities regulators in the provinces and territories in which they sell mutual fund products. Canadian sales representatives who are licensed to sell our insurance products do not need any further licensing to sell our segregated funds products.

For sales of our other distributed products, appropriate state, provincial and territorial licensing may be required.

Supervision and Compliance

To ensure compliance with various federal, state, provincial and territorial legal requirements, we along with the RVPs share responsibility for maintaining an overall compliance program that involves compliance training and supporting as well as monitoring the activities of sales representatives. We work with the RVPs to develop and maintain appropriate compliance procedures and systems.

Generally, all RVPs must obtain a principal license (FINRA Series 26 in the United States and Branch Manager license in Canada), and, as a result, they assume responsibility over the activities of their sales organizations. Additional supervision is provided by designated Offices of Supervisory Jurisdiction ("OSJs"), which are currently run by select RVPs who receive additional compensation for assuming responsibility for certain supervision and monitoring across all product lines. OSJs are required to periodically inspect sales force field offices and report to us any compliance issues they observe. In 2019, some responsibilities of the OSJs will transition to our Compliance Department, which will take on an expanded role in the supervision and monitoring of RVPs. As part of the transition, the select RVPs that were designated as OSJ will no longer maintain the regulatory OSJ designation, which will afford them more time to focus on growing their businesses. In addition, our Compliance Department regularly runs surveillance reports designed to monitor the activity of the sales force and investigates any unusual or suspicious activity identified during these reviews or during periodic inspections of RVP offices.

All sales representatives are required to participate in our annual regulatory-required compliance meeting, a program administered by our senior management and our legal and compliance staff. We provide a compliance training overview across all product lines and require the completion of compliance checklists by each licensed sales representative for each product he or she offers. Additionally, sales representatives receive periodic compliance communications regarding new compliance developments and issues of special significance. Furthermore, OSJs are required to complete an annual training program that focuses on regulatory compliance requirements.

Our Field Audit Department regularly conducts audits of all sales representative offices, including scheduled and no-notice audits. The Field Audit Department reviews all regulatory-required records that are not maintained at our home office. Any compliance deficiencies noted in the audit must be corrected, and we carefully monitor all corrective action. Audit deficiencies are addressed through reprimands, probations and contract terminations.

Our Product Offerings

Reflecting our philosophy of helping middle-income clients with their financial product needs and ensuring compatibility with our distribution model, our product offerings generally meet the following criteria:

- *Consistent with sound individual finance principles:* Products must be consistent with good personal finance principles for middle-income consumers, such as financial protection, encouraging long-term savings and reducing debt.
- *Designed to support multiple client goals:* Products are designed to address and support a broad range of financial goals rather than compete with or cannibalize each other. For example, term life insurance does not compete with mutual funds because term life insurance has no cash value or investment element.
- *Ongoing needs based:* Products are generally designed to meet the ongoing financial needs of many middle-income consumers. This long-term approach bolsters our relationship with our clients by allowing us to continue to serve them as their financial needs evolve.

We use three operating segments to organize, evaluate and manage our business: Term Life Insurance; Investment and Savings Products; and Corporate and Other Distributed Products.

The following table provides information on our principal product offerings and the principal sources thereof by operating segment as of December 31, 2018.

Operating Segment	Principal Product Offerings	Principal Sources of Products (Applicable Geographic Territory)
Term Life Insurance	Term Life Insurance	Primerica Life (U.S. (except New York), the District of Columbia and certain territories)
		NBLIC (New York)
		Primerica Life Canada (Canada)
Investment and Savings Products	Mutual Funds and Certain Retirement Plans	American Century Investments (U.S.)
		American Funds (U.S.)
		AXA Distributors, LLC (U.S.)
		Franklin Templeton Investments (U.S.)
		VOYA Financial, Inc. (U.S.)
		Invesco (U.S. and Canada)
		Legg Mason Global Asset Management (U.S.)
		Amundi Pioneer Investments (U.S.)
		AGF Investments (Canada)
		PFSL Fund Management Ltd. (Canada)
		Mackenzie Investments (Canada)
		Fidelity Investments (Canada)
	Managed Investments	PFS Investments (dba Primerica Advisors) (as a program sponsor) (U.S.)
	Variable Annuities	American General Life Insurance Company and its affiliates (U.S.)
		AXA Distributors, LLC (U.S.)
		Brighthouse Financial, Inc. (U.S.)
		Lincoln National Life Insurance Company and its affiliates (U.S.)
	Fixed Indexed Annuities	American General Life Insurance Company and its affiliates (U.S.)
		Lincoln National Life Insurance Company and its affiliates (U.S.)
		Universal Life Insurance Company (Puerto Rico)
	Fixed Annuities	Brighthouse Financial, Inc. (U.S.)
		Universal Life Insurance Company (Puerto Rico)
	Segregated Funds	Primerica Life Canada (Canada)
Corporate and Other Distributed Products	Prepaid Legal Services	LegalShield (U.S. and Canada)
	ID Theft Defense	LegalShield (U.S. and Canada)
	Supplemental Health and Accidental Death &	The Edge Benefits Inc. and its affiliates (Canada)

Disability Insurance	
Auto and Homeowners' Insurance [1]	Various insurance companies, as offered through Answer Financial, Inc. (U.S.)
Mortgage Loans [1]	B2B Bank (Canada)
Home Automation Solutions [1]	Vivint, Inc. (U.S.) and Vivint Canada, Inc. (Canada)

[1] Referrals only.

Term Life Insurance

Through our three life insurance subsidiaries – Primerica Life, NBLIC and Primerica Life Canada – we offer term life insurance to clients in the United States, its territories, the District of Columbia and Canada. In 2017, the latest period for which data is available from LIMRA, we ranked as a leading provider of individual term life insurance in the United States.

We believe that term life insurance is generally a better alternative for middle-income clients than cash value life insurance. Term life insurance provides a guaranteed death benefit if the insured dies during the fixed coverage period of an in-force policy, thereby providing financial protection for his or her named beneficiaries in return for the periodic payment of premiums. Term insurance products, which are sometimes referred to as pure protection products, have no savings or investment features. By buying term life insurance rather than cash value life insurance, a policyholder initially pays a lower premium and, as a result, may have funds available to invest for retirement and other needs. We also believe that a person’s need for life insurance is inversely proportional to that person’s need for retirement savings, a concept we refer to as the theory of decreasing responsibility. Young adults with children, new mortgages and other obligations need to buy higher amounts of insurance to protect their family from the loss of future income resulting from the death of a primary bread winner. With its lower initial premium, term life insurance lets young families buy more coverage for their premium dollar when their needs are greatest and still have the ability to have funds for their retirement and other savings goals.

We design our term life insurance products to be easily understood by, and meet the needs of, our clients. Clients purchasing our term life insurance products generally seek stable, longer-term income protection products for themselves and their families. In response to this demand, we offer term life insurance products with level-premium coverage periods that range from 10 to 35 years and a wide range of coverage face amounts. Additionally, certain term life insurance policies may be customized through the addition of riders to provide coverage for specific protection needs, such as mortgage and college expense protection. Policies remain in force until the expiration of the coverage period or until the policyholder ceases to make premium payments and terminates the policy. Our in-force term life 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.

One of the innovative term life insurance products that we offer is TermNow, our rapid issue term life product that provides for face amounts of up to $300,000 (local currency). TermNow allows a sales representative to submit an application via TurboApps and, with the client's permission, allows the Company to access databases, including Medical Information Bureau ("MIB") data in the United States and Canada and prescription drug and motor vehicle records in the United States, as part of the underwriting process. The Company uses this data and the client's responses to application questions to determine any additional underwriting requirements. Results of these processes are reported in real time to our underwriting system, which then determines whether or not we can rapidly issue a policy.

The average face amount of our in-force policies issued in 2018 was approximately $246,200. The following table sets forth selected information regarding our term life insurance product portfolio:

	Year ended December 31,		
	2018	2017	2016
Life insurance issued:			
Number of policies issued	301,589	312,799	298,244
Face amount issued *(in millions)*	$95,209	$95,635	$89,869

	December 31,		
	2018	2017	2016
Life insurance in force:			
Number of policies in force	2,606,825	2,560,334	2,489,493
Face amount in force *(in millions)*	$781,041	$763,831	$728,385

Pricing and Underwriting. We believe that effective pricing and underwriting are significant drivers of the profitability of our life insurance business and we have established our pricing assumptions to be consistent with our underwriting practices. We set pricing assumptions for expected claims, lapses and expenses based on our experience and other factors while also considering the competitive environment. These other factors include:

- expected changes from relevant experience due to changes in circumstances, such as (i) revised underwriting procedures affecting future mortality and reinsurance rates, (ii) new product features, and (iii) revised administrative programs affecting sales levels, expenses, and client continuation or termination of policies; and
- observed trends in experience that we expect to continue, such as general mortality changes in the general population and better or worse policy persistency (the period over which a policy remains in force) due to changing economic conditions.

Under our current underwriting guidelines, we individually assess each insurable adult applicant and place each applicant into a risk classification based on current health, medical history and other factors. Each classification (generally preferred plus, preferred, non-tobacco and tobacco) has specific health criteria. We may decline an applicant's request for coverage if his or her health or activities create unacceptable risks for us.

Sales representatives ask applicants a series of "yes" or "no" questions regarding the applicant's medical history. We may also consider information about the applicant from third-party sources, such as the MIB, prescription drug databases, motor vehicle records and physician statements. If we believe that further information regarding an applicant's medical history is necessary, we use a third-party provider and its trained personnel to contact the applicant by telephone to obtain a more detailed medical history. Additionally, we may require copies of applicants' medical information from their attending physicians. The report resulting from this process is electronically transmitted to us and is evaluated in our underwriting process. Paramedical requirements are also needed on applicants applying for the Custom Advantage product.

To accommodate the significant volume of insurance business that we process, we and the sales force use specialized technology. We offer sales representatives an electronic life insurance application that supports TermNow and other term life insurance products. Approximately 95% of the life insurance applications we received in 2018 were submitted electronically via TurboApps. Our electronic life insurance application reduces errors in submitted applications, collects the applicant's electronic signatures and populates the RVP's sales log. Once an application is complete, the pertinent application data is uploaded to our life insurance administrative systems, which manage the underwriting process by electronically analyzing data, recommending underwriting decisions, identifying requirements for higher face amounts or older ages and communicating with the sales representative and third-party service providers.

Claims Management. Our insurance subsidiaries processed over 15,400 life insurance benefit claims in 2018 on policies underwritten by us and sold by sales representatives. These claims fall into three categories: death, waiver of premium (applicable to disabled policyholders who purchased a rider pursuant to which we agree to waive remaining life insurance premiums during a qualifying disability), or terminal illness. The claim may be reported by a sales representative, a beneficiary or, in the case of qualifying disability or terminal illness, the policyholder. Following are the benefits paid by us for each category of claim:

	Year ended December 31,		
	2018	2017	2016
	(In thousands)		
Death	$1,391,755	$1,388,027	$1,238,393
Waiver of premium	46,690	45,146	43,168
Terminal illness (1)	16,474	16,389	14,232

(1) We consider claims paid for terminal illness to be loans made to the beneficiary that are repaid to us upon death of the beneficiary from the death benefit.

In the United States, after coverage has been in force for two years, we may not contest the policy for misrepresentations in the application or the suicide of the insured. In Canada, we have a similar two-year contestability period, but we are permitted to contest insurance fraud at any time. As a matter of policy, we do not contest any coverage issued by us to replace the face amount of another insurance company's individual coverage to the extent the replaced coverage would not be contestable by the replaced company. We believe this approach helps sales representatives sell replacement policies, as it reassures clients that claims made under their replacement policies are not more likely to be contested as to the face amount replaced. Through our claims administration system, we record, process and pay the appropriate benefit for any reported claim. Our claims system is used by our home office investigators to order medical and investigative reports from third-party providers, calculate amounts due to the beneficiary (including interest), and report payments to the appropriate reinsurance providers.

Primerica Life and NBLIC regularly consult the Social Security Administration's Death Master File in accordance with applicable state requirements. These processes help identify potential deceased policyholders for whom claims have not been presented in the normal course of business. If unreported deaths are identified, Primerica Life and NBLIC attempt to determine if a valid claim exists, to locate beneficiaries, and to pay benefits accordingly.

Reinsurance. We use reinsurance primarily to reduce the volatility risk with respect to mortality. Since 1994, we have reinsured death benefits in the United States on a first dollar quota share yearly renewable term basis. We pay premiums to each reinsurer based on rates in the applicable agreement.

We generally reinsure between 80% and 90% of the mortality risk for all term life insurance policies, excluding coverage under certain riders. We also reinsure substandard cases on a facultative basis to capitalize on the extensive experience some of our reinsurers have with substandard cases. A substandard case has a level of risk that is acceptable to us, but at higher premium rates than a standard case because of the health, habits or occupation of the applicant.

While our reinsurance agreements have indefinite terms, both we and our reinsurers are entitled to discontinue any reinsurance agreement as to future policies by giving advance notice of 90 days to the other. Each reinsurer's ability to terminate coverage for existing policies is limited to circumstances such as a material breach of contract or nonpayment of premiums by us. Each reinsurer has the right to increase rates with certain restrictions. If a reinsurer increases rates, we have the right to immediately recapture the business. Either party may offset any balance due from the other party. For additional information on our reinsurance, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) and Note 6 (Reinsurance) to our consolidated financial statements included elsewhere in this report.

Financial Strength Ratings. Ratings with respect to financial strength are an important factor in establishing our competitive position and maintaining public confidence in us and our ability to market products. Ratings organizations review the financial performance and condition of most insurers and provide opinions regarding financial strength, operating performance and ability to meet obligations to policyholders. For additional information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financial Ratings.”

Investment and Savings Products

We believe that many middle-income families have significant unmet retirement and savings needs. Using our FNA tool, sales representatives help our clients understand their current financial situations and how they can use time-tested financial principles, such as prioritizing personal savings, to reach their savings goals. Our product offerings comprise saving and investment vehicles that seek to meet the needs of clients in all stages of life.

Through PFS, PFS Investments, Primerica Life Canada, PFSL Investments Canada, and licensed sales representatives, we distribute and sell to our clients a variety of mutual funds, managed investments, variable and fixed annuities, fixed indexed annuities and segregated funds. As of December 31, 2018, approximately 25,370 sales representatives were licensed to distribute mutual funds in the United States (including Puerto Rico) and Canada. As of December 31, 2018, approximately 13,820 sales representatives were licensed and appointed to distribute annuities in the United States and approximately 12,470 sales representatives were licensed to sell segregated funds in Canada.

In the United States, clients acquire securities products from PFS Investments in either a brokerage or advisory relationship. In a brokerage relationship, a PFS Investments registered representative is required pursuant to FINRA rules to make a suitable recommendation for the client, but provides no ongoing monitoring of the client's investments. PFS Investments markets mutual funds and variable annuities on a brokerage basis. In an advisory relationship, namely our managed investment offerings, PFS Investments and its investment advisory representative have a fiduciary obligation to provide suitable initial recommendations to the client and ongoing monitoring of the client's investments.

Mutual Funds. In the United States, licensed sales representatives primarily distribute mutual funds from the following select asset management firms: American Century Investments, American Funds, Franklin Templeton, Invesco, Legg Mason and Amundi Pioneer. These firms have diversified product offerings, including domestic and international equity, fixed-income and money market funds. Each firm continually evaluates its fund offerings and adds new funds on a regular basis. Additionally, their product offerings reflect diversified asset classes and varied investment styles. We have selling agreements with a number of other fund companies and we believe that, collectively, these asset management firms provide funds that meet the investment needs of our clients.

During 2018, four of these fund families (Legg Mason, Invesco, American Funds, and Franklin Templeton) accounted for approximately 94% of our mutual fund sales in the United States. Legg Mason and Invesco each have large wholesaling teams that support the sales force in distributing their mutual fund products. Our selling agreements with these firms all have indefinite terms and provide for termination at will.

A wholly owned indirect subsidiary of the Parent Company and affiliate of PFS Investments, Primerica Shareholder Services, Inc. ("PSS"), provides transfer agent recordkeeping services to investors who purchase shares of mutual funds offered by American Century Investments, Franklin Templeton, Invesco, Legg Mason or Amundi Pioneer through PFS Investments. In exchange for these services, PSS receives recordkeeping and account maintenance fees from the applicable fund company. PSS has retained BNY Mellon Asset Servicing to perform the necessary transfer agent recordkeeping services for these accounts on its proprietary *SuRPASS* system. PFS Investments serves as the Internal Revenue Service ("IRS") approved non-bank custodian for customers that open individual retirement accounts ("IRA") (or certain other retirement accounts) with PFS Investments and invest in shares of mutual funds offered by American Century Investments, Franklin Templeton, Invesco, Legg Mason or Amundi Pioneer. For these services, PFS Investments receives an annual custodian fee.

In Canada, sales representatives offer Primerica-branded Concert™ Series funds, which accounted for approximately 40% of our Canadian mutual fund product sales in 2018. Our Concert™ Series funds consist of six different asset allocation funds with varying investment objectives ranging from fixed income to aggressive growth. Each Concert™ Series fund is a fund of funds that allocates fund assets among equity and income mutual funds of AGF Investments, a leading asset management firm in Canada. The asset allocation within each Concert™ Series fund is determined on an advisory contract basis by Morneau Shepell Asset and Risk Management Ltd. The principal non-proprietary funds that we offer our clients in Canada are funds of AGF Investments, Mackenzie Investments, Fidelity Investments, and Invesco. Sales of these non-proprietary funds accounted for approximately 52% of mutual fund product sales in Canada in 2018. Like our U.S. fund family list, the asset management partners we have chosen in Canada have a diversified offering of equity, fixed-income and money market funds, including domestic and international funds with a variety of investment styles.

A key part of our investment philosophy for our clients is the long-term benefits of dollar cost averaging through systematic investing. To accomplish this, we assist our clients by facilitating monthly contributions to their investment account by bank draft against their checking accounts. During the year ended December 31, 2018, average client assets held in individual retirement accounts in the United States and Canada accounted for an estimated 74% and 71% of total average client account assets, respectively. Our individual retirement accounts in Canada are considered registered retirement savings plans ("RRSP"). An RRSP is similar to a traditional IRA, in the United States in that contributions are made to the RRSP on a pre-tax basis and income is earned on a tax-deferred basis. Our high concentration of retirement plan accounts and our systematic savings philosophy are beneficial to us as these accounts tend to have lower redemption rates than the industry and, therefore, generate more recurring asset-based revenues.

Managed Investments. PFS Investments (dba PFS Advisors) is a registered investment advisor in the United States, and it offers a managed investments program, Primerica Advisors Lifetime Investment Platform (the “Lifetime Investment Platform”), which we launched in 2017. The Lifetime Investment Platform, which replaced our previous Freedom Portfolios managed investments platform, is a robust advisory offering designed for clients who have at least $25,000 of investable assets. It provides our customers access to mutual fund and exchange-traded fund investment models designed and managed by several unaffiliated investment advisers. PFS Investments, as sponsor and portfolio manager of the program, evaluates models for inclusion in the program and conducts ongoing due diligence of the models and unaffiliated investment advisers made available through the program. TD Ameritrade Institutional, an unaffiliated broker-dealer, provides custody, trade execution, clearing, settlement and other services for customer assets invested through the Lifetime Investment Platform.

Variable Annuities. U.S. securities licensed sales representatives also distribute variable annuities issued by American General Life Insurance Company and its affiliates (“AIG”), AXA Equitable Life Insurance Company (“AXA Life”), Lincoln National Life Insurance Company and its affiliates (“Lincoln National”), and Brighthouse Life Insurance Company (“Brighthouse Life”). Variable annuities are insurance products that enable our clients to invest in accounts with attributes similar to mutual funds, but also have benefits not found in mutual funds, including death benefits that protect beneficiaries from losses due to a market downturn and income benefits that guarantee future income payments for the life of the policyholder(s). We also offer structured variable annuities issued by AXA Life and Brighthouse Life. Structured variable annuities are insurance contracts that provide investors with potential growth, subject to a cap, and partial downside protection against losses. Gains and losses are measured over a fixed period, typically three to six years, based on the performance of a securities index. Although linked to an index, an investment in these contracts does not involve ownership of any underlying portfolio securities by the client. Each of these companies bears the insurance risk on its variable annuities and structured variable annuities that we distribute.

Fixed Indexed Annuities. We offer fixed indexed annuity products in the U.S. through Lincoln National, AIG, and Universal Life Insurance Company ("Universal Life") (Puerto Rico). These products combine safety of principal and guaranteed rates of return with additional investment options tied to equity market indices that allow for returns that move based on the performance of an index. We believe these and other fixed annuity products give both life and securities representatives more ways to assist our clients with their retirement planning needs.

Fixed Annuities. We sell fixed annuities underwritten by Brighthouse in the U.S. Our current offering includes a fixed premium deferred annuity and a single premium immediate annuity. The fixed premium deferred annuity allows our clients to accumulate savings on a tax deferred basis with safety of principal and a guaranteed rate of return. The single premium immediate annuity provides clients with an immediate income alternative. In Puerto Rico, we currently offer two annuity products: a fixed annuity and a fixed bonus annuity underwritten by Universal Life. These products provide guarantees against loss with several income options.

Segregated Funds. In Canada, we offer segregated fund products, branded as our Common Sense Funds™, that have some of the characteristics of our variable annuity products distributed in the United States. Our Common Sense Funds™ are underwritten by Primerica Life Canada and offer our clients the ability to participate in a diversified managed investments program that can be opened for as little as $25. While the assets and corresponding liability (reserves) are recognized on our consolidated balance sheets, the assets are held in trust for the benefit of the segregated fund contract owners and are not commingled with the general assets of the Company.

There are three fund products within our segregated funds offerings: the Asset Builder Funds, the Strategic Retirement Income Funds ("SRIF"), and a money market fund known as the Cash Management Fund. The investment objective of Asset Builder Funds is long-term capital appreciation combined with some guarantee of principal. Unlike mutual funds, our Asset Builder Funds product guarantees clients at least 75% of their net contributions (net of withdrawals) at the earlier of the date of their death or at the Asset Builder Funds' maturity date, which is selected by the client. The portfolio consists of both equities and fixed-income securities with the equity component consisting of a pool of primarily large cap Canadian and U.S. equities and the fixed-income component consisting of Canadian federal government zero coupon treasuries and government-backed floating rate notes. The portion of the Asset Builder Funds' portfolio allocated to zero coupon treasuries are held in sufficient quantity to satisfy the guarantees payable at the maturity date of each Asset Builder Fund. As a result, our potential loss exposure is very low as it comes from the guarantees payable upon the death of the client prior to the maturity date.

The investment objective of the SRIF is to provide income during retirement plus the opportunity for modest capital appreciation. The SRIF product guarantees clients 75% of their net contributions (net of withdrawals) at the earlier of the date of their death or age 100. The portfolio consists of both equities and fixed-income securities, with the equities consisting of a pool of primarily large cap Canadian and U.S. equites that are capped at 25% of the portfolio. The balance is a fixed-income portfolio consisting of investment-grade government and corporate bonds. The high quality of the investments and the percentage cap on equities results in a relatively low potential loss exposure. All accounts in the SRIF are held as Registered Retirement Income Funds which carry government-mandated minimum annual withdrawals. Similar to the Asset Builder Funds, our potential exposure for loss associated with the SRIF is very low as its investment allocations are conservatively aligned with the risks of the client contracts.

The Cash Management Fund invests in government guaranteed short-term bonds and short-term commercial and bank papers, with the principal investment objective being the provision of interest income while maintaining liquidity and preserving capital.

With the guarantee level at 75% and in light of the time until the scheduled maturity of our segregated funds contracts, we currently do not believe it is necessary to allocate any corporate capital as reserves for segregated fund contract benefits.

Investment and Savings Products Revenue. In the United States, we earn revenue from our ISP business in three ways: commissions and payments earned on the sale of such products; fees and payments earned based upon client asset values; and account-based revenue. On the sale of mutual funds (not including managed investments) and annuities, we earn a dealer re-allowance or commission on new purchases as well as trail commissions on the assets held in our clients' accounts. We also receive marketing and distribution fees from most of our mutual fund and annuity providers. These payments are typically a percentage of sales or a percentage of the clients' total asset values, or a combination of both. For investments into the Lifetime Investment Platform, we receive an asset-based fee as compensation for the investment advisory and other administrative services we provide.

As the IRS approved non-bank custodian for certain funds noted above, PFS Investments receives annual fees on a per-account basis for as long as it services the account. As explained above, PSS receives transfer agent recordkeeping fees for the services it provides to the five fund families noted above in "Mutual Funds" section. An individual client account may include multiple fund positions for which we earn recordkeeping fees.

Because the total amount of these fees fluctuates with the number of such accounts and positions within those accounts, the opening or closing of accounts has a direct impact on our revenues. From time to time, the fund companies for whom we provide these services request that accounts or positions with small balances be closed.

In Canada, we earn revenue from the sales of our investment and savings products in two ways: commissions (or dealer reallowance) on mutual fund sales and fees paid based upon clients' asset values (mutual fund trail commissions and investment advisory fees from segregated funds and Concert™ Series funds). On segregated funds, we also earn deferred sales charges for early withdrawals at an annual declining rate within seven years of an investor's original contribution.

Other Distributed Products

We distribute other products, including prepaid legal services, auto and homeowners' insurance referrals, and home automation solutions. In Canada, we also offer mortgage loan referrals and insurance offerings for small businesses. While some of these products are Primerica-branded, all of them are underwritten or otherwise provided by a third party.

We offer our U.S. and Canadian clients a Primerica-branded prepaid legal services program on a subscription basis that is underwritten and provided by LegalShield. The prepaid legal services program offers a network of attorneys in each state, province or territory to assist subscribers with legal matters such as drafting wills, living wills and powers of attorney, trial defense and motor vehicle-related matters. We receive a commission based on sales and renewals of these subscriptions.

We have an arrangement with Answer Financial, Inc. ("Answer Financial"), an independent insurance agency, whereby U.S. sales representatives refer clients to Answer Financial to receive multiple, competitive auto and homeowners' insurance quotes. Answer Financial's comparative quote process allows clients to easily identify the underwriter that is most competitively priced for their type of risk. We receive commissions based on completed auto and homeowners' placement of insurance and policy renewals and pay sales representatives a flat referral fee for each completed application and policy renewal.

We have an arrangement with Vivint, Inc. ("Vivint"), a company that offers homeowners in the U.S. and many provinces in Canada a comprehensive suite of products and services to protect and remotely control, monitor and manage their homes using any Internet-connected smart device. We receive commissions based on referrals that result in a subscription to Vivint's home services and pay sales representatives a referral fee for each such subscription.

In Canada, we have a referral program for mortgage loan products offered by a third-party lender, B2B Bank. Due to regulatory requirements, sales representatives in Canada only refer clients to the lender and are not involved in the loan application and closing process. We receive referral fees based on the funded loan amount and, in turn, pay a commission to sales representatives.

In Canada, we offer insurance products, including supplemental medical and dental, accidental death, and disability, to small businesses. These insurance products are underwritten and provided by The Edge Benefits Inc. and its affiliates. We receive a commission based on sales and renewals of these policies.

Regulation

Our business is subject to extensive laws and governmental regulations, including administrative determinations, court decisions and similar constraints. The purpose of the laws and regulations affecting our business is primarily to protect our clients and other consumers. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations.

Regulatory authorities periodically make inquiries regarding compliance by us and our subsidiaries with insurance, securities and other laws and regulations regarding the conduct of our insurance and securities businesses. At any given time, a number of financial or market conduct examinations of our subsidiaries may be ongoing. We cooperate with such inquiries and take corrective action when warranted.

Regulation of Our Insurance Business. Primerica Life, as a Tennessee-domiciled insurer, is regulated by the Tennessee Department of Commerce and Insurance and is licensed to transact business in the United States (except New York), the District of Columbia and certain U.S. territories. NBLIC, as a New York-domiciled life insurance underwriting company and a wholly owned subsidiary of Primerica Life, is regulated by the New York State Department of Financial Services ("NYDFS") and is licensed to transact business in all 50 U.S. states, the District of Columbia and the U.S. Virgin Islands.

State insurance laws and regulations regulate all aspects of our U.S. insurance business. Such regulation is vested in state agencies having broad administrative and, in some instances, discretionary power dealing with many aspects of our business, which may include, among other things, premium rates and increases thereto, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy.

Our U.S. insurance subsidiaries are required to file certain annual, quarterly and periodic reports with the supervisory agencies in the jurisdictions in which they do business, and their business and accounts are subject to examination by such agencies at any time. These examinations generally are conducted under National Association of Insurance Commissioners ("NAIC") guidelines. Under the rules of these jurisdictions, insurance companies are examined periodically (generally every three to five years) by one or more of the supervisory agencies on behalf of the states in which they do business. Our most recent examinations of the financial condition and affairs of Primerica Life and NBLIC, as well as Peach Re, Inc. (“Peach Re”) and Vidalia Re, Inc. (“Vidalia Re”), special purpose financial captive insurance companies and wholly owned subsidiaries of Primerica Life, performed by the respective domiciliary state insurance department at the time of the exams, were completed during 2016 with no material findings or recommendations noted.

Primerica Life Canada is federally incorporated and provincially licensed and is required to file periodic reports with Canadian regulatory agencies. It transacts business in all Canadian provinces and territories. Primerica Life Canada is regulated federally by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) and provincially by the Superintendents of Insurance for each province and territory. Canadian federal and provincial insurance laws regulate all aspects of our Canadian insurance business. OSFI regulates insurers’ corporate governance, financial and prudential oversight, and regulatory compliance, while provincial and territorial regulators oversee insurers’ market conduct practices and related compliance.

Our Canadian insurance subsidiary files quarterly and annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and other locally accepted standards with OSFI in compliance with legal and regulatory requirements. OSFI conducts periodic detailed examinations of insurers’ business and financial practices, including the control environment, internal and external auditing and minimum capital adequacy, surpluses and related testing, legislative compliance and appointed actuary requirements. These examinations also address regulatory compliance with anti-money laundering practices, outsourcing, related-party transactions, privacy and corporate governance. Provincial regulators conduct periodic market conduct examinations of insurers doing business in their jurisdiction.

In addition to federal and provincial oversight, Primerica Life Canada is also subject to the guidelines set out by the Canadian Life and Health Insurance Association (“CLHIA”). CLHIA is an industry association that works closely with federal and provincial regulators to establish market conduct guidelines and sound business and financial practices addressing matters such as sales representative suitability and screening, insurance illustrations and partially guaranteed savings products.

The laws and regulations governing our U.S. and Canadian insurance businesses include numerous provisions governing the marketplace activities of insurers, including policy filings, payment of insurance commissions, disclosures, advertising, product replacement, sales and underwriting practices and complaints and claims handling. The state insurance regulatory authorities in the United States and the federal and provincial regulators in Canada generally enforce these provisions through periodic market conduct examinations.

In addition, most U.S. states and Canadian provinces and territories, as well as the Canadian federal government, have laws and regulations governing the financial condition of insurers, including standards of solvency, types and concentration of investments, establishment and maintenance of reserves, reinsurance and requirements of capital adequacy. As discussed previously, U.S. state insurance law and Canadian provincial insurance law also require certain licensing of insurers and their agents.

Insurance Holding Company Regulation; Limitations on Dividends. The states in which our U.S. insurance subsidiaries are domiciled have enacted legislation and adopted regulations regarding insurance holding company systems. These laws require registration of, and periodic reporting by, insurance companies domiciled within the jurisdiction that control, or are controlled by, other corporations or persons so as to constitute an insurance holding company system. These laws also affect the acquisition of control of insurance companies as well as transactions between insurance companies and companies controlling them.

The Parent Company is a holding company that has no significant operations. Our primary asset is the capital stock of our subsidiaries, and our primary liability is $375.0 million in principal amount of senior unsecured notes (the “Senior Notes”). As a result, we depend on dividends or other distributions from our insurance and other subsidiaries as the principal source of cash to meet our obligations, including the payment of interest on, and repayment of, principal of any debt obligations.

The states in which our U.S. insurance subsidiaries are domiciled impose certain restrictions on our insurance subsidiaries' ability to pay dividends to us. In Canada, dividends can be paid subject to the paying insurance company's continuing compliance with regulatory requirements and upon notice to OSFI. We determine the dividend capacity of our insurance subsidiaries using statutory accounting principles ("SAP") promulgated by the NAIC and each subsidiaries domiciliary state in the United States and using IFRS in Canada.

The following table sets forth the amount of cash and distributions paid or payable by our insurance subsidiaries:

	Year ended December 31,		
	2018	2017	2016
	(In thousands)		
Primerica Life	$200,000	$138,000	$94,700
Primerica Life Canada	22,755	22,924	22,342

For additional information on dividend capacity and restrictions, see Note 15 (Statutory Accounting and Dividend Restrictions) to our consolidated financial statements included elsewhere in this report.

<u>Policy and Contract Reserve Sufficiency Analysis.</u> Under the laws and regulations of their jurisdictions of domicile, our U.S. insurance subsidiaries are required to conduct annual analyses of the sufficiency of their life insurance statutory reserves. In addition, other U.S. jurisdictions in which our U.S. subsidiaries are licensed may have certain reserve requirements that differ from those of their

domiciliary jurisdictions. In each case, a qualified actuary must submit an opinion that states that the aggregate statutory reserves, when considered in light of the assets held with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurer. If such an opinion cannot be provided, then the affected insurer must set up additional reserves by moving funds from surplus. Our U.S. insurance subsidiaries most recently submitted these opinions without qualification to applicable insurance regulatory authorities.

Primerica Life Canada is also required to conduct regular analyses of the sufficiency of its life insurance statutory reserves. Life insurance reserving and reporting requirements are completed by Primerica Life Canada's appointed actuary. Materials provided by the appointed actuary are filed with OSFI as part of our annual filing and are subject to OSFI's review. Based upon this review, OSFI may institute remedial action against Primerica Life Canada as OSFI deems necessary. Primerica Life Canada has not been subject to any such remediation or enforcement by OSFI.

<u>Surplus and Capital Requirements.</u> U.S. insurance regulators have the discretionary authority, in connection with the ongoing licensing of our U.S. insurance subsidiaries, to limit or prohibit the ability of an insurer to issue new policies if, in the regulators' judgment, the insurer is not maintaining a minimum amount of surplus or is in hazardous financial condition. Insurance regulators may also limit the ability of an insurer to issue new life insurance policies and annuity contracts above an amount based upon the face amount and premiums of policies of a similar type issued in the prior year. We do not believe that the current or anticipated levels of statutory surplus of our U.S. insurance subsidiaries present a material risk that any such regulator would limit the amount of new policies that our U.S. insurance subsidiaries may issue.

The NAIC has established risk-based capital ("RBC") standards for U.S. life insurance companies, as well as a risk-based capital model act (the "RBC Model Act") that has been adopted by the state insurance regulatory authorities. The RBC Model Act provides that life insurance companies must submit an annual RBC report to state regulators regarding their RBC based upon four categories of risk: asset risk; insurance risk; interest rate risk; and business risk. For each category, the capital requirement is determined by applying factors that vary based upon the degree of risk to various asset, premium and policy benefit reserve items. The formula is intended to be used by insurance regulators as an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action. If an insurer's RBC falls below specified levels, then the insurer would be subject to different degrees of regulatory action depending upon the level. These actions range from requiring the insurer to propose actions to correct the capital deficiency to placing the insurer under regulatory control.

In Canada, OSFI has authority to request an insurer to enter into a prudential agreement implementing measures to maintain or improve the insurer's safety and soundness. OSFI also may issue orders to an insurer directing it to refrain from unsafe or unsound practices or to take action to remedy financial concerns. OSFI has neither requested that Primerica Life Canada enter into any prudential agreement nor has OSFI issued any order against Primerica Life Canada.

In Canada, OSFI oversees an insurer's minimum capital requirement and determines the sum of 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.

<u>NAIC Pronouncements and Reviews.</u> The NAIC promulgates model insurance laws and regulations for adoption by the states in order to standardize insurance industry accounting and reporting guidance. Although many state regulations emanate from NAIC model statutes and pronouncements, SAPs continue to be established by individual state laws, regulations and permitted practices. Certain changes to NAIC model statutes and pronouncements, particularly as they affect accounting issues, may take effect automatically without affirmative action by a given state. With respect to some financial regulations and guidelines, non-domiciliary states sometimes defer to the interpretation of the insurance department of the state of domicile. However, neither the action of the domiciliary state nor the action of the NAIC is binding on a non-domiciliary state. Accordingly, a non-domiciliary state could choose to follow a

different interpretation.

The NAIC has established guidelines to assess the financial strength of insurance companies for U.S. state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of 12 financial ratios prepared on a statutory basis. The annual statements are submitted to state insurance departments to assist them in monitoring insurance companies in their state.

Statutory Accounting Principles. SAP is a basis of accounting developed by U.S. insurance regulators to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with evaluating an insurer's ability to pay all of its current and future obligations to policyholders. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer's domiciliary jurisdiction. Uniform statutory accounting practices are established by the NAIC and generally adopted by regulators in the various U.S. jurisdictions. These accounting principles and related regulations determine, among other things, the amounts our insurance subsidiaries may ultimately pay to us as dividends, and they differ in many instances from U.S. generally accepted accounting principles ("U.S. GAAP"), which are designed to measure a business on a going-concern basis. Under U.S. GAAP, incremental direct costs of successful policy acquisitions are capitalized when incurred and then amortized over the life of the associated policies. The valuation of assets and liabilities under U.S. GAAP is based in part upon best estimate assumptions made by the insurer. U.S. GAAP-basis stockholders' equity represents the ownership interest in the U.S. GAAP-measured net assets held by stockholders. As a result, the values for assets, liabilities and equity reflected in financial statements prepared in accordance with U.S. GAAP will be different from those reflected in financial statements prepared under SAP.

State Insurance Guaranty Funds Laws. Under most state insurance guaranty fund laws, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. Most insurance guaranty fund laws currently provide that an assessment may be excused or deferred if it would threaten an insurer's own financial strength. In addition, assessments may be partially offset by credits against future state premium taxes.

Other Regulatory Changes. From time to time, various jurisdictions make changes to the state or provincial licensing examination process that may make it more difficult for sales representatives to obtain their life insurance licenses. In addition, certain jurisdictions have passed laws or proposed regulations that require insurers and insurance agents in the sale of life insurance, including term life insurance and annuities, to disclose conflicts of interest to consumers or meet standards of care requiring that their advice be in the customer's best interest. The impact on our business and the level of resources necessary to conform to such new regulations will vary depending on the extent of changes required and the jurisdictions that adopt such regulations.

Regulation of Our Investment and Savings Products Business. PFS Investments is registered with, and regulated by, FINRA and the Securities and Exchange Commission ("SEC"). It is subject to regulation by the Department of Labor ("DOL") and by the federal and other state agencies with respect to certain retirement plans, and by state agencies. PFS Investments operates as an introducing broker-dealer, which does not hold client accounts, and is registered in all 50 U.S. states and certain territories and with the SEC. All aspects of PFS Investments' business are regulated, including sales methods and charges, trade practices, the use and safeguarding of customer securities, capital structure, recordkeeping, conduct and supervision of its independent salespeople.

PFS Investments is required to file monthly reports as well as annual audited financial statements with the SEC pursuant to Section 17 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and Rule 17a-5 thereunder. As part of filing these reports, PFS Investments is subject to minimum net capital requirements, as mandated by Rule 15c3 1 of the Exchange Act.

The SEC rules and regulations that currently apply to PFS Investments and registered representatives generally require that we make suitable investment recommendations to our customers and disclose conflicts of interest that might affect the recommendations or advice we provide. The SEC proposed new regulations that include: (i) a new rule to establish a "best interest" standard of conduct for broker-dealers and their associated persons when making a recommendation of any securities transaction or investment strategy involving securities to a retail customer; (ii) new and amended rules and forms to require registered broker-dealers, investment advisers and their investment professionals to provide a relationship summary to retail investors; (iii) required disclosures in retail communications; and (iv) an SEC interpretation of the fiduciary standard of conduct for investment advisers (together, the "SEC Best Interest Proposal"). The SEC Regulatory Flexibility Agenda, released in December 2018, indicates that final action on the SEC Best Interest Proposal is expected to be taken in September 2019.

PFS Investments is also approved as a non-bank custodian under IRS regulations and, in that capacity, may act as a custodian or trustee for certain retirement accounts. In addition, PFS Investments is an SEC-registered investment advisor and, under the name Primerica Advisors, offers managed investment programs. In most states, sales representatives are required to obtain an additional license to offer these programs.

PSS is registered with the SEC as a transfer agent and, accordingly, is subject to SEC rules and examinations. Acting in this capacity, PSS and third-party vendors employed by PSS are responsible for certain client investment account shareholder services.

PFSL Investments Canada is a mutual fund dealer registered with and regulated by the Mutual Fund Dealers Association of Canada (the "MFDA"), the national self-regulatory organization for the distribution side of the Canadian mutual fund industry. It is also registered with provincial and territorial securities commissions throughout Canada ("Canadian Securities Administrators" or "CSA"). As a registered mutual fund dealer, PFSL Investments Canada performs the suitability review of mutual fund investment recommendations, and like our U.S. broker-dealer, it does not hold client accounts. PFSL Investments Canada is subject to the rules and regulations established by the Canadian Securities Administrators for the sale of securities, which include standards of conduct for the firm and its sales representatives.

PFSL Investments Canada is required to file monthly and annual financial statements and reports with the MFDA that are prepared to comply with the prescribed MFDA reporting requirements. The MFDA has established a risk adjusted capital standard for mutual fund dealers. Its formula is designed to provide advance warning of a member encountering difficulties. If a mutual fund dealer falls below specified levels, then restrictions would apply until rectified, including not being able to act on certain matters without prior written consent from the MFDA.

PFSL Investments Canada sales representatives are required to be registered in the provinces and territories in which they do business, including regulation by the Autorité des marchés financiers in Quebec, and are also subject to regulation by the MFDA. These regulators have broad administrative powers, including the power to limit or restrict the conduct of our business and impose censures or fines for failure to comply with the law or regulations.

PFSL Fund Management in Canada is registered as an Investment Fund Manager in connection with our Concert™ Series mutual funds and is regulated by provincial securities commissions.

PFSL Fund Management is required to file quarterly and annual financial statements with the Ontario Securities Commission ("OSC") prepared to meet the requirements of National Instrument 31-103, Registration Requirements, Exemptions and Ongoing Registrant Obligations, based on the financial reporting framework specified in National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards. PFSL Fund Management is required to maintain a minimum level of capital and file its quarterly and annual calculation of excess working capital with the OSC. As an investment fund manager, PFSL Fund Management is required to file periodic reports with provincial and territorial securities commissions throughout Canada for its Concert™ Series mutual funds. Such reports include semi-annual and annual financial statements prepared in accordance with IFRS.

As the segregated funds are separate accounts of Primerica Life Canada, the segregated funds are also regulated by OSFI and included as part of the quarterly and annual financial statement filings for Primerica Life Canada. In addition, the segregated funds are also subject to the guidelines set out by the CLHIA.

Other Laws and Regulations. The USA Patriot Act of 2001 (the "Patriot Act") contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

U.S. federal and state laws and regulations require financial institutions, including insurance companies, to protect the security and confidentiality of consumer financial information and to notify consumers about their policies and practices relating to their collection and disclosure of consumer information and their policies relating to protecting the security and confidentiality of that information. Similarly, federal and state laws and regulations also govern the disclosure and security of consumer health information. In particular, regulations promulgated by the U.S. Department of Health and Human Services regulate the disclosure and use of protected health information by health insurers and others (including certain life insurers), the physical and procedural safeguards employed to protect the security of that information and the electronic storage and transmission of such information. Congress and state legislatures are expected to consider additional legislation relating to privacy and other aspects of consumer information.

The Financial Consumer Agency of Canada ("FCAC"), a Canadian federal regulatory body, is responsible for ensuring that federally regulated financial institutions, which include Primerica Life Canada and PFSL Investments Canada, comply with federal consumer protection laws and regulations, voluntary codes of conduct and their own public commitments. The Financial Transactions and Reports Analysis Centre of Canada ("FINTRAC") is Canada's financial intelligence unit. Its mandate includes ensuring that entities subject to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act comply with reporting, recordkeeping and other obligations under that act. We are also subject to privacy laws under the jurisdiction of federal and provincial privacy commissioners, anti-money laundering laws enforced by FINTRAC and OSFI, and the consumer complaints provisions of federal insurance laws under the mandate of the FCAC, which requires insurers to belong to a complaints ombud-service and file a copy of their complaints handling policy with the FCAC.

Competition

We operate in a highly competitive environment with respect to the sale of financial products and the retention of the more productive members of the sales force. Competitors with respect to our term life insurance products consist both of stock and mutual insurance companies, as well as other financial intermediaries. Competitive factors affecting the sale of life insurance products include the level of premium rates, benefit features, risk selection practices, compensation of sales representatives and financial strength ratings from ratings agencies such as A.M. Best.

In offering our securities products, sales representatives compete with a range of other advisors, broker-dealers and direct channels, including wirehouses, regional broker-dealers, independent broker-dealers, insurers, banks, asset managers, registered investment advisors, mutual fund companies and other direct distributors. The mutual funds that we offer face competition from other mutual fund families and alternative investment products, such as exchange-traded funds, while our managed investment programs compete with other fee-based advisory services offered by financial services firms. Our annuity products compete with products from numerous other companies. Competitive factors affecting the sale of annuity products include price, product features, investment performance, commission structure, perceived financial strength, claims-paying ratings, service, and distribution capabilities.

Information Technology and Information Security

Our business is dependent on maintaining a secure, confidential environment for clients, sales representatives, employees and other partners' information. Data security and privacy are becoming increasingly important as we depend more and more on Internet-centric and mobile technologies to conduct business and bring solutions to our clients who entrust their data to us. We have built a sophisticated set of information technology platforms to support our clients, operations and sales force. Our data center houses an enterprise-class IBM mainframe that serves as the repository for all client and sales force data and operates as a database server for our distributed environment. This infrastructure also supports a combination of local and remote recovery solutions that are continually tested to ensure we can resume business in the event of a disaster. Our business applications, many of which are proprietary, are supported by experienced application developers and data center staff at our main campus. Our information security teams provide internal services that include project consulting, threat assessments and management, application and infrastructure assessments, secure configuration management, and information security administration. We utilize, continually assess, and update our technical tools and process to industry norms, which by way of example include multiple external threat detection services, external Security Operations Centers, host-based threat detections and prevention, application and infrastructure firewalls and prevention systems, sophisticated assessment and patching systems, and multi-factor controls.

We have developed a comprehensive information security risk management program and policies governing privacy and data protection that apply to all business lines and subsidiaries. We have an active Cyber Security Steering Committee ("Steering Committee") composed of several of the Company's top executives, including the Chief Operating Officer, General Counsel, Chief Compliance and Risk Officer, Chief Information Officer, and the Chief Governance Officer, among others. The Steering Committee, which holds quarterly meetings, coordinates corporate security initiatives to enable us to optimize spending, manage infrastructure, and minimize security risk. The Steering Committee also provides high-level guidance on technology and security related issues of importance to the Company. We also developed a special cybersecurity program for New York licensees, in connection with the new cybersecurity regulations issued by the NYDFS, that includes information security, compliance training, and incident response planning. As part of the program, we completed a comprehensive cybersecurity risk assessment, which we update annually.

We continually assess information security risks and perform recurring internal and external audits. In 2018, we began a triennial cyber maturity assessment process with a specialized external partner, where they evaluate the actual level of maturity of each of our cyber-related processes against the National Institute of Standards and Technology Cybersecurity Framework. The assessment provides unique insights of our maturity in each area, compared to a large comparable set of firms, to further assist in making strategic investments in each area of risk and control. We also manage regularly scheduled external penetration tests of our infrastructure and application logic against emerging security threats and best practices. Employees receive regular alerts advising them of the most relevant data security risks as well as privacy-related risks and procedures. Employees and third parties with access are required to receive cyber-related training, with certain positions requiring additional, specialized training. Employees are also subject to quarterly phishing tests.

We have an Incident Response Plan ("Plan") that is reviewed and updated regularly. Under this Plan, our Incident Response Team consists of employees from our information security, legal, compliance, public relations, and business teams. This Plan is designed to help us identify and promptly respond to information security incidents, contain, eradicate and recover from such incidents, notify affected parties and, where appropriate, notify government and regulatory authorities. This Plan documents the roles and responsibilities of our personnel and third-party vendors in responding to information security incidents, including when and to whom incidents should be reported based on level of severity. On a semi-annual basis, the team undertakes facilitator-led trainings and simulations of information security incidents. We also maintain cyber insurance coverage.

The reporting of all cyber-related risks and assessments is ongoing to senior management and to our Board of Directors, and our Board of Directors has oversight responsibility for our cyber security program pursuant to our Plan.

Employees

As of December 31, 2018, we had 1,899 full-time employees in the United States and 267 full-time employees in Canada. In addition, as of December 31, 2018, we had 533 on-call employees in the United States and 68 on-call employees in Canada who provided services on an as-needed hourly basis. None of our employees is a member of any labor union, and we have never experienced any business interruption as a result of any labor disputes.

Available Information

We make available free of charge on our website (*www.primerica.com*) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable upon filing such information with, or furnishing it to, the SEC. Information included on our website is not incorporated by reference into this report. The Company’s reports are also available on the SEC’s website. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

ITEM 1A.RISK FACTORS.

Risks Related to Our Distribution Structure

Our failure to continue to attract new recruits, retain sales representatives or license or maintain the licensing of sales representatives would materially adversely affect our business, financial condition and results of operations.

New sales representatives provide us with access to new clients, enable us to increase sales and provide the next generation of successful sales representatives. As is typical with distribution businesses, we experience a high rate of turnover among the part-time sales representatives, which requires us to attract, retain and motivate a large number of sales representatives. Recruiting is performed by current sales representatives, and the effectiveness of recruiting is generally dependent upon our reputation as a provider of a rewarding and potentially lucrative income opportunity, as well as the general competitive and economic environment. Whether recruits are motivated to complete their training and licensing requirements and commit to selling our products is largely dependent upon the effectiveness of our compensation and promotional programs, as well as the competitiveness of such programs compared with other companies, including other part-time business opportunities and the recruits' desire to help middle-income families in their communities become educated about their finances and assist them in identifying products that provide income protection and savings opportunities.

If our new business opportunities and products do not generate sufficient interest to attract new recruits, motivate them to become licensed sales representatives and maintain their licenses, and incentivize them to sell our products and recruit other new sales representatives, our business would be materially adversely affected.

Certain key RVPs have large sales organizations that include thousands of sales representatives. These key RVPs are responsible for attracting, motivating, supporting and assisting the sales representatives in their sales organizations. The loss of one or more key RVPs together with a substantial number of their sales representatives for any reason could materially adversely affect our financial results and could impair our ability to attract new sales representatives.

Furthermore, if we or any other businesses with a similar distribution structure engage in practices resulting in increased negative public attention for our business model, the resulting reputational challenges could adversely affect our ability to attract new recruits. Companies such as ours that use independent agents to sell directly to customers can be the subject of negative commentary on website postings, social media and other non-traditional media. This negative commentary can spread inaccurate or incomplete information about distribution companies in general or our Company in particular, which can make our recruiting more difficult.

From time to time, various jurisdictions make changes to the state or provincial licensing examination process that may make it more difficult for sales representatives to obtain their life insurance licenses. Likewise, FINRA restructured its representative-level qualification examination program in October 2018. While the objective of the new program is to improve efficiencies, if the changes create barriers to entry that are not relevant to assessing an applicant's competence, the costs significantly increase, or the program is implemented without adequate transitions, the restructured program could result in a decrease in the number of U.S. representatives obtaining their securities licenses in the United States.

There are a number of laws and regulations that could apply to our distribution model, which could require us to modify our distribution structure.

In the past, certain distribution models that use independent agents to sell directly to customers have been subject to challenge under various laws, including laws relating to business opportunities, franchising and unfair or deceptive trade practices.

In general, state business opportunity and franchise laws in the United States prohibit sales of business opportunities or franchises unless the seller provides potential purchasers with a pre-sale disclosure document that has first been filed with a designated state agency and grants purchasers certain legal recourse against sellers of business opportunities and franchises. Certain Canadian provinces have enacted legislation dealing with franchising, which typically requires mandatory disclosure to prospective franchisees.

We have not been, and are not currently, subject to business opportunity laws because the amounts paid by the new sales representatives to us: (i) are less than the minimum thresholds set by many state and provincial statutes and (ii) are not fees paid for the right to participate in a business, but rather are for bona fide expenses such as state and provincial-required insurance examinations and pre-licensing training. We have not been, and are not currently, subject to franchise laws for similar reasons. However, there is a risk that a governmental agency or court could disagree with our assessment or that these laws and regulations could change. In addition, although we do not believe that the Federal Trade Commission ("FTC")'s Business Opportunity Rule applies to our Company, it could be interpreted in a manner inconsistent with our interpretation. Becoming subject to business opportunity or franchise laws or regulations could require us to provide additional disclosures and regulate the manner in which we recruit sales representatives that may increase the expense of, or adversely impact our recruitment of new sales representatives.

There are various laws and regulations that prohibit fraudulent or deceptive schemes known as pyramid schemes. In general, a pyramid scheme is defined as an arrangement in which new participants are required to pay a fee to participate in the organization and then receive compensation primarily for recruiting other persons to participate, either directly or through sales of goods or services that are merely disguised payments for recruiting others. The application of these laws and regulations to a given set of business practices is inherently fact-based and, therefore, is subject to interpretation by applicable enforcement authorities. Sales representatives are paid commissions and other compensation based on sales of our products and services to bona fide purchasers, and for this and other reasons we do not believe that we are subject to laws regulating pyramid schemes. Moreover, sales representatives are not required to purchase any of the products marketed by us. However, even though we believe that our distribution practices are currently in compliance with, or exempt from, these laws and regulations, there is a risk that a governmental agency or court could disagree with our assessment or that these laws and regulations could change, which could require us to restructure our operations in certain jurisdictions or result in other costs or fines.

There are also federal, state and provincial laws of general application, such as the Federal Trade Commission Act (the “FTC Act”), and state or provincial unfair and deceptive trade practices laws that could potentially be invoked to challenge aspects of our recruiting of sales representatives. In particular, our recruiting efforts include promotional materials for recruits that describe the potential business opportunity available to them if they become sales representatives. These materials, as well as our other recruiting efforts and those of the sales representatives, are subject to scrutiny by the FTC and state and provincial enforcement authorities with respect to misleading statements, including misleading earnings or lifestyle claims made to encourage potential new recruits to become sales representatives. If claims made by us or by the sales representatives are deemed to be unfair, deceptive, or misleading, it could result in violations of the FTC Act or similar state and provincial statutes prohibiting unfair or deceptive trade practices or result in reputational harm.

Being subject to, or out of compliance with, the aforementioned laws and regulations could require us to change our distribution structure, which could materially adversely affect our business, financial condition and results of operations.

There may be adverse tax, legal or financial consequences if the independent contractor status of sales representatives is overturned.

Sales representatives are independent contractors who operate their own businesses. In the past, we have been successful in defending our Company in various contexts before courts and governmental agencies against claims that sales representatives should be treated like employees. Although we believe that we have properly classified sales representatives as independent contractors, there is nevertheless a risk that the IRS, the Canada Revenue Agency, a court or other authority will take a different view. Furthermore, the tests governing the determination of whether an individual is considered to be an independent contractor or an employee are typically fact-sensitive and vary from jurisdiction to jurisdiction. Laws and regulations that govern the status and misclassification of independent sales representatives are subject to change or interpretation.

The classification of workers as independent contractors has been the subject of federal, state and provincial legislative, regulatory and judicial interest over the last several years. In some jurisdictions, regulatory proposals have been introduced and judicial decisions have been made that call for or result in greater scrutiny of independent contractor classifications. We cannot predict the outcome of any such legislative, regulatory, or judicial activity.

If there is an adverse determination with respect to the classification of some or all of the independent contractors by a court or governmental agency, we could incur significant costs in complying with such laws and regulations, including in respect of tax withholding, social security payments, retirement plan contributions and recordkeeping, employee benefits, payment of wages or modification of our business model, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, there is the risk that we may be subject to significant monetary liabilities arising from fines or judgments as a result of any such actual or alleged non-compliance with federal, state, or provincial laws.

The Company’s or the independent sales representatives' violation of, or non-compliance with, laws and regulations and related claims and proceedings could expose us to material liabilities.

Extensive federal, state, provincial and territorial laws regulate our product offerings and our relationships with our clients, imposing certain requirements that sales representatives must follow. At any given time, we may have pending state, federal or provincial examinations or inquiries of our investment and savings products, insurance and other businesses. In addition to imposing requirements that sales representatives must follow in their dealings with clients, these laws and regulations generally require us to maintain a system of supervision reasonably designed to ensure that sales representatives comply with the requirements to which they are subject. We have policies and procedures to comply with these laws and regulations. However, despite these compliance and supervisory efforts, the breadth of our operations and the broad regulatory requirements could result in oversight failures and instances of non-compliance on the part of the Company or the sales representatives.

From time to time, we are subject to private litigation as a result of alleged misconduct by sales representatives. Examples include claims that a sales representative's failure to disclose underwriting-related information regarding the insured on an insurance application resulted in the denial of a life insurance policy claim, and with respect to investment and savings products sales, errors or omissions that a sales representative made in connection with the purchase or sale of a securities product. Non-compliance with laws or regulations by the sales representatives could result in adverse findings in either examinations or litigation and could subject us to sanctions, monetary liabilities, restrictions on or the loss of the operation of our business, or reputational harm, any of which could have a material adverse effect on our business, financial condition and results of operations.

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.

Pursuant to federal, state and provincial laws, various government agencies have established rules protecting the privacy and security of personal information, which vary significantly from jurisdiction to jurisdiction. Many sales representatives, employees, and third-party service providers have access to, and routinely process, personal information of clients on paper and on personal and company-owned hardware, the cloud and mobile devices through a variety of media, including the Internet and software applications. We rely on various internal processes and controls to protect the confidentiality of client information that is accessible to, or in the possession of, our Company, our employees and the sales representatives. If a sales representative, employee, or third-party service provider intentionally or unintentionally discloses or misappropriates confidential client information or our data is the subject of a cybersecurity attack, or if we fail to maintain adequate internal controls or sales representatives, employees, or service providers fail to comply with our policies and procedures, misappropriation or intentional or unintentional inappropriate disclosure or misuse of client information could occur. Such internal control inadequacies or non-compliance could materially damage our reputation or lead to civil or criminal penalties, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Insurance Business and Reinsurance

We may face significant losses if our actual experience differs from our expectations regarding mortality or persistency.

We set prices for life insurance policies based upon expected claim payment patterns derived from assumptions we make about the mortality rates, or likelihood of death, of our policyholders in any given year. The long-term profitability of these products depends upon how our actual mortality rates compare to our pricing assumptions. For example, if mortality rates are higher than those assumed in our pricing assumptions, we could be required to make more death benefit payments under our life insurance policies or to make such payments sooner than we had projected, which may decrease the profitability of our term life insurance products and result in an increase in the cost of our subsequent reinsurance transactions.

The prices and expected future profitability of our life insurance products are also based, in part, upon assumptions related to persistency. Actual persistency that is lower than our persistency assumptions could have an adverse effect on profitability, especially in the early years of a policy, primarily because we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy. Actual persistency that is higher than our persistency assumptions could have an adverse effect on profitability in the later years of a block of policies because the anticipated claims experience is higher in these later years. If actual persistency is significantly different from that assumed in our pricing assumptions, our reserves for future policy benefits may prove to be inadequate. We are precluded from adjusting premiums on our in-force business during the initial term of the policies, and our ability to adjust premiums on in-force business after the initial policy term is limited to the maximum premium rates in the policy.

Our assumptions and estimates regarding mortality and persistency require us to make numerous judgments and, therefore, are inherently uncertain. We cannot determine with precision the actual persistency or ultimate amounts that we will pay for actual claim payments on a block of policies, the timing of those payments, or whether the assets supporting these contingent future payment obligations will increase to the levels we estimate before payment of claims. If we conclude that our future policy benefit reserves, together with future premiums, are insufficient to cover actual or expected claims payments and the scheduled amortization of our deferred policy acquisition costs ("DAC"), we would be required to first accelerate our amortization of DAC and then increase our future policy benefit reserves in the period in which we make the determination, which could materially adversely affect our business, financial condition and results of operations.

The occurrence of a catastrophic event could materially adversely affect our business, financial condition and results of operations.

Our insurance operations are exposed to the risk of catastrophic events, which could cause a large number of premature deaths of our insureds. A catastrophic event could also cause significant volatility in global financial markets and disrupt the economy. Although we have ceded a significant majority of our mortality risk to reinsurers, a catastrophic event could cause a material adverse effect on our business, financial condition and results of operations. Claims resulting from a catastrophic event could cause substantial volatility in our financial results for any quarter or year and could also materially harm the financial condition of our reinsurers, which would increase the probability of default on reinsurance recoveries. Our ability to write new business could also be adversely affected.

In addition, most of the jurisdictions in which our insurance subsidiaries are licensed to transact business require life insurers to participate in guaranty associations, which raise funds to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed issuers. It is possible that a catastrophic event could require extraordinary assessments on our insurance companies, which could have a material adverse effect on 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.

Life insurance statutes and regulations are generally designed to protect the interests of the public and policyholders. Those interests may conflict with the interests of our stockholders. Currently, in the United States, the power to regulate insurance resides almost exclusively with the states. The laws of the various U.S. jurisdictions grant state insurance regulators broad powers to regulate almost all aspects of our insurance business. Much of this state regulation follows model statutes or regulations developed or amended by the NAIC, which is composed of the insurance commissioners of each U.S. jurisdiction. The NAIC re-examines and amends existing model laws and regulations (including holding company regulations) in addition to determining whether new ones are needed.

The Dodd-Frank Act created the Federal Insurance Office and authorized it to, among other things, study methods to modernize and improve insurance regulation. We cannot predict with certainty whether, or in what form, reforms will be enacted and, if so, whether the enacted reforms will materially affect our business. Changes in federal statutes, including the Gramm-Leach-Bliley Act and the McCarran-Ferguson Act, financial services regulation and federal taxation, in addition to changes to state statutes and regulations, may be more restrictive than current requirements or may result in higher costs, and could materially adversely affect our business, financial condition and results of operations.

On July 18, 2018, the NYDFS issued a final version of amendments to its suitability regulation for annuities (the “Amended Suitability Rule”), which imposes certain duties and obligations on insurers and insurance producers in the sale of life insurance, including term life insurance, and annuities. Under the Amended Suitability Rule, the NYDFS requires firms and insurance representatives to ensure that transactions are suitable and consistent with the customer’s “best interest”. While the factors considered to satisfy suitability requirements for term life insurance are less onerous than for other products, the Amended Suitability Rule may necessitate changes to our term life insurance business in New York. The Amended Suitability Rule will become effective for annuity products on August 1, 2019 and for life insurance products on February 1, 2020.

Federal and provincial insurance laws regulate all aspects of our Canadian insurance business. Changes to federal or provincial statutes and regulations may be more restrictive than current requirements or may result in higher costs, which could materially adversely affect our business, financial condition and results of operations. If OSFI determines that our corporate actions do not comply with applicable Canadian law, Primerica Life Canada could face sanctions or fines, and Primerica Life Canada could be subject to increased capital requirements or other requirements deemed appropriate by OSFI.

We received approval from the Minister of Finance (Canada) under the Insurance Companies Act (Canada) in connection with our indirect acquisition of Primerica Life Canada. The Minister expects that a person controlling a federal insurance company will provide ongoing financial, managerial or operational support to its subsidiary should such support prove necessary. This ongoing support may take the form of additional capital, the provision of managerial expertise or the provision of support in such areas as risk management, internal control systems and training. In the event that OSFI determines Primerica Life Canada is not receiving adequate support from the Parent Company under applicable Canadian law, Primerica Life Canada may be subject to increased capital requirements or other requirements deemed appropriate by OSFI.

If there were to be extraordinary changes to statutory or regulatory requirements in the United States or Canada, we may be unable to fully comply with or maintain all required insurance licenses and approvals. Regulatory authorities have relatively broad discretion to grant, renew and revoke licenses and approvals. If we do not have all requisite licenses and approvals, or do not comply with applicable statutory and regulatory requirements, the regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our insurance activities or impose fines or penalties on us, which could materially adversely affect our business, financial condition and results of operations. We cannot predict with certainty the effect any proposed or future legislation or regulatory initiatives may have on the conduct of our business.

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.

Each of our U.S. insurance subsidiaries is subject to RBC standards (imposed under the laws of its respective jurisdiction of domicile). The RBC formula for U.S. life insurance companies generally establishes capital requirements relating to asset, insurance, interest rate and business risks. Our U.S. insurance subsidiaries are required to report their results of RBC calculations annually to the applicable state department of insurance and the NAIC. Our Canadian life insurance subsidiary is subject to the Life Insurance Capital Adequacy Test Guideline (“LICAT”), and is required to provide its capital ratio calculations to the Canadian regulators. The capitalization of our insurance subsidiaries is maintained at levels in excess of the effective minimum requirements of the NAIC in the United States and OSFI in Canada. In any particular year, statutory capital and surplus amounts and RBC and LICAT ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses generated by our insurance subsidiaries, the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in their reserve requirements, the value of securities in their investment portfolios, the credit ratings of investments held in their portfolios, changes in interest rates, credit market volatility, changes in consumer behavior, as well as changes to the NAIC's RBC formula or the LICAT calculation of OSFI. Many of these factors are outside of our control.

Our financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC and LICAT ratios of our insurance company subsidiaries. Ratings agencies may change their internal models, effectively increasing or decreasing the amount of statutory capital our insurance subsidiaries must hold to maintain their current ratings. Further, errors in programming, data entry, or our calculations could impact the accuracy of our estimates. Ratings agencies also may downgrade the ratings of securities held in our insurance subsidiaries' portfolios, which could result in a reduction of our insurance subsidiaries' statutory capital and surplus and RBC. There is no assurance that our insurance subsidiaries will not need additional capital or, if needed, that we will be able to provide it to maintain the targeted RBC and LICAT levels to support their business operations.

The failure of any of our insurance subsidiaries to meet its applicable RBC and LICAT requirements or minimum capital and surplus requirements could subject it to further examination or corrective action imposed by insurance regulators, including limitations on its ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on our business, financial condition and results of operations. A decline in RBC or LICAT also limits the ability of our insurance subsidiaries to pay dividends or make distributions and could be a factor in causing ratings agencies to downgrade the financial strength ratings of all our insurance subsidiaries. Such downgrades would have an adverse effect on our ability to write new insurance policies and, therefore, could 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.

Each of our insurance subsidiaries, with the exception of Peach Re and Vidalia Re, has been assigned a financial strength rating by A.M. Best. Primerica Life currently also has an insurer financial strength rating from each of Standard & Poor's and Moody's.

The financial strength ratings of our insurance subsidiaries are subject to periodic review using, among other things, the ratings agencies' proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Insurance financial strength ratings are directed toward the concerns of policyholders and are not intended for the protection of stockholders or as a recommendation to buy, hold or sell securities. Our financial strength ratings will affect our competitive position relative to other insurance companies. If the financial strength ratings of our insurance subsidiaries fall below certain levels, some of our policyholders may move their business to our competitors. In addition, the models used by ratings agencies to determine financial strength are different from the capital requirements set by insurance regulators.

Ratings organizations review the financial performance and financial conditions of insurance companies, and provide opinions regarding financial strength, operating performance and ability to meet obligations to policyholders. A significant downgrade in the financial strength ratings of any of our insurance subsidiaries, or the announced potential for a downgrade, could have a material adverse effect on our business, financial condition and results of operations by, among other things:

- reducing sales of insurance products;
- adversely affecting our relationships with sales representatives;
- materially increasing the amount of policy cancellations by our policyholders;
- requiring us to reduce prices to remain competitive; and
- adversely affecting our ability to obtain reinsurance at reasonable prices or at all.

If the rating agencies or regulators change their approach to financial strength ratings and statutory capital requirements, we may need to take action to maintain current ratings and capital adequacy ratios, which could have a material adverse effect on our business, financial condition and results of operations.

In addition to financial strength ratings of our insurance subsidiaries, the Parent Company currently has investment grade credit ratings from Standard & Poor's, Moody's, and A.M. Best. These ratings are indicators of a debt issuer's ability to meet the terms of debt obligations and are important factors in its ability to access liquidity in the debt markets. A rating downgrade by a rating agency can occur at any time if the rating agency perceives an adverse change in our financial condition, results of operations or ability to service debt. If such a downgrade occurs, it could have a material adverse effect on our financial condition and results of operations in many ways, including adversely limiting our access to capital in the unsecured debt market and potentially increasing the cost of such debt.

The failure by any of our reinsurers or reserve financing counterparties to perform its obligations to us could have a material adverse effect on our business, financial condition and results of operations.

We extensively use reinsurance in the United States to diversify our risk and to manage our loss exposure to mortality risk. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. We, as the insurer, are required to pay the full amount of death benefits even in circumstances where we are entitled to receive payments from the reinsurer. Due to factors such as insolvency, adverse underwriting results or inadequate investment returns, our reinsurers may not be able to pay the amounts they owe us on a timely basis or at all. Further, reinsurers might refuse or fail to pay losses that we cede to them or might delay payment. Since death benefit claims may be paid long after a policy is issued, we bear credit risk with respect to our reinsurers. The creditworthiness of our reinsurers may change before we can recover amounts to which we are entitled. Any such failure to pay by our reinsurers could have a material adverse effect on our business, financial condition and results of operations.

We also have in place coinsurance agreements that we originally entered into at the time of our IPO, pursuant to which we ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009. Under this arrangement, our existing reinsurance agreements remain in place. Each coinsurer entered into trust agreements with our respective insurance subsidiaries and a trustee pursuant to which the coinsurer placed assets (primarily treasury and fixed-income securities) in trust for such subsidiary's benefit to secure the coinsurer's obligations to such subsidiary. Each such coinsurance agreement requires each coinsurer to maintain assets in trust, which amount will not be less than the amount of the reserves for the coinsured liabilities. In Canada, the IPO reinsurer must hold pledged assets in a Canadian financial institution, not affiliated with the IPO reinsurer, with our Canadian insurance company having an enforceable security interest that has priority over any other security interest for the pledged assets. Furthermore, our insurance subsidiaries have the right to recapture the business upon the occurrence of an event of default under their respective coinsurance agreement subject to any applicable cure periods. While any such recapture would be at no cost to us, such recapture would result in a substantial increase in our insurance exposure and require us to be fully responsible for the management of the assets set aside to support statutory reserves. The type of assets we might obtain as a result of a recapture may not be as liquid as our current invested asset portfolio and could result in an unfavorable impact on our risk profile.

There is no assurance that the relevant coinsurer will pay the coinsurance obligations owed to us now or in the future or that it will pay these obligations on a timely basis. If any of the coinsurers becomes insolvent, the trust account to support the obligations of such coinsurer is insufficient to pay such coinsurer's obligations to us and we fail to enforce our right to recapture the business, it could have a material adverse effect on our business, financial condition and results of operations.

We have entered into transactions by which we finance redundant statutory reserves of certain issue years of our term life insurance business. Under these transactions, we pay a fee to financial counterparties for their commitment to support redundant reserves and provide corresponding statutory reinsurance credit, allowing us to more efficiently manage our capital. While we monitor the credit quality and financial strength of these counterparties, if their financial strength was significantly impaired to the extent that their support of our redundant reserves could no longer be relied upon, it could have a material adverse effect on our business, financial condition, and results of operations.

Risks Related to Our Investments and Savings Products Business

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 companies, our business, financial condition and results of operations may be materially adversely affected.

We earn a significant portion of our earnings through our relationships with a small group of mutual fund and annuity companies. A decision by one or more of these companies to alter or discontinue their current arrangements or product offerings with us, or a change in law or regulation that compels us to alter or discontinue such arrangements, could materially adversely affect our business, financial condition and results of operations. If any of our investment and savings products fail to achieve satisfactory investment performance, our clients may seek higher yielding alternative investment products, and we could experience higher redemption rates. In addition, we earn a growing portion of our earnings through our asset-based advisory platform. A mix shift of new investments to our advisory platform could materially impact cash flows to our business, financial condition and results of operations.

In recent years there has been an increase in the popularity of alternative investments such as exchange traded funds (ETFs), which we do not currently offer on our brokerage platform, but which are available indirectly to our clients on our advisory platform. These investment options typically have low fee structures and provide some of the attributes of mutual funds, such as risk diversification. If these products continue to gain traction among our client base as viable alternatives to mutual fund investments, or if other product innovations not offered by us gain traction, our investment and savings products revenues could decline.

In addition to sales commissions and asset-based compensation, a portion of our earnings from investment and savings products comes from recordkeeping services that we provide to mutual fund companies and from fees earned for custodial services that we provide to clients with retirement plan accounts in the funds of these mutual fund companies. We also receive marketing and support fees from each of these mutual fund companies. A decision by one or more of these fund companies to alter or discontinue their current arrangements with us, or a change in law or regulation that compels us to alter or discontinue such arrangements, would materially adversely affect our business, financial condition and results of operations.

The Company’s or the securities-licensed sales representatives' violations of, or non-compliance with, laws and regulations could expose us to material liabilities.

Our subsidiary broker-dealer and registered investment advisor, PFS Investments, and the sales representatives, are subject to federal and state regulation of its securities business. These regulations cover sales practices, trade suitability, supervision of registered representatives, recordkeeping, the conduct and qualification of officers and employees, net capital requirements, business operations, the rules and regulations of the MSRB and state blue sky regulation. Investment advisory representatives are generally held to a higher standard of conduct than registered representatives. Our subsidiary, PSS, is a registered transfer agent engaged in the recordkeeping business and is subject to SEC regulation. Violations of laws or regulations applicable to the activities of PFS Investments or PSS, or violations by a third party with which PFS Investments or PSS contracts, could subject us to disciplinary actions and litigation and could result in the imposition of cease and desist orders, fines or censures, restitution to clients, suspension or revocation of SEC registration, suspension or expulsion from FINRA, reputational damage and legal expense, any of which could materially adversely affect our business, financial condition and results of operations.

Our Canadian broker-dealer subsidiary, PFSL Investments Canada and the sales representatives are subject to the securities laws of the provinces and territories of Canada in which we sell our mutual fund products and to the rules of the MFDA, the self-regulatory organization governing mutual fund dealers. PFSL Investments Canada is subject to periodic review by both the MFDA and the provincial and territorial securities commissions to assess its compliance with, among other things, applicable capital requirements and sales practices and procedures. These regulators have broad administrative powers, including the power to limit or restrict the conduct of our business for failure to comply with applicable laws or regulations. Possible sanctions that could be imposed include the suspension of individual sales representatives, limitations on the activities in which the dealer may engage, suspension or revocation of the dealer registration, the ability to withhold licenses or to impose restrictive terms and conditions on the licenses of sales representatives, censure or fines, any of which could materially adversely affect our business, financial condition and results of operations.

If heightened standards of conduct or more stringent licensing requirements, such as those proposed by the SEC and those proposed or adopted by state legislatures or regulators or Canadian securities regulators, are imposed on us or the 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.

The 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 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 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. On April 18, 2018, the SEC proposed: (i) a new rule to establish a best interest standard of conduct for broker-dealers and their associated persons when making a recommendation of any securities transaction or investment strategy involving securities to a retail customer; (ii) new and amended rules and forms to require registered broker-dealers, investment advisers and their investment professionals to provide a relationship summary to retail investors; (iii) required disclosures in retail communications; and (iv) an SEC interpretation of the fiduciary standard of conduct for investment advisers (collectively, the “SEC Best Interest Proposal”). The SEC Regulatory Flexibility Agenda indicates that final action on the SEC Best Interest Proposal is expected to be taken in September 2019. Similarly, in Canada, CSA published a notice requesting public comment on reforms to obligations of registered firms and individuals to enhance conflict of interest mitigation rules (“Client Focused Reforms”).

In addition to federal regulators, certain states, including Connecticut, Illinois, Maryland, Nevada, New Jersey, and New York, have proposed or passed laws or proposed or issued regulations requiring investment advisers, broker-dealers, and/or insurance agents to meet fiduciary standards or standards of care that their advice be in the customer’s best interest, and to disclose conflicts of interest to consumers of investment and insurance products. The severity of the impact that such laws or regulations could have on our business vary from state to state depending on the content of the legislation or regulation and how it is applied by state regulators and interpreted by the courts. We cannot quantify the financial impact, if any, of any changes to our business that may be necessary in order to comply with such laws or regulations at this time.

In Canada, on September 13, 2018, the CSA published for comment proposed amendments that would prohibit upfront sales commissions by fund companies for the sale of mutual funds offered under a prospectus. The CSA expects that the prohibition of upfront sales commissions by fund companies will eliminate the use of the mutual fund deferred sales charge compensation model, which is the primary model for the mutual funds we distribute in Canada. These proposed amendments follow the June 21, 2018 publication of the CSA’s policy decision on embedded commissions and its proposed Client Focused Reforms. Under proposed enhanced conflict of interest rules in the Client Focused Reforms, all embedded commissions would be considered conflicts that must be addressed in the best interests of clients or avoided. The proposed amendments were open for comment until December 13, 2018. If such rules are adopted, changes in compensation arrangements with the fund companies that offer the mutual fund products we distribute in Canada may be necessary.

Heightened standards of conduct or restrictions on compensation as a result of any of the above items or other similar proposed rules or regulations could also increase the compliance and regulatory burdens on the sales representatives and could lead to increased litigation and regulatory risks, changes to our business model, a decrease in the number of 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.

If our suitability policies and procedures, or our policies and procedures for compliance with federal or state regulations governing standards of care, were deemed inadequate, it could have a material adverse effect on our business, financial condition and results of operations.

We review the account applications that we receive for our investment and savings products for suitability and for compliance with other federal or state regulations governing standards of care. While we believe that the policies and procedures we implement to help sales representatives assist clients in making appropriate and suitable investment choices, and that will satisfy other federal and state standards of care, are reasonably designed to achieve compliance with applicable securities laws and regulations, it is possible that the SEC, FINRA, the DOL, the IRS, state securities and insurance regulators or MFDA may not agree. Further, we could be subject to regulatory actions or private litigation, which could materially adversely affect our business, financial condition and results of operations.

Sales force support tools may fail to appropriately identify financial needs or suitable investment products.

The support tools we make available to the sales force are designed to educate potential and existing clients, help identify their financial needs, generally introduce the potential benefits of our product offerings, and identify suitable investment products. The tools themselves or the assumptions and methods of analyses embedded in them could be challenged and subject us to regulatory action by the SEC, the DOL, FINRA or other regulators, or private litigation, which could materially adversely affect our business, financial condition and results of operations.

Non-compliance with applicable regulations could lead to revocation of our subsidiary's status as a non-bank custodian.

PFS Investments is a non-bank custodian of retirement accounts, as permitted under Treasury Regulation 1.408-2. A non-bank custodian is an entity that is not a bank and that is permitted by the IRS to act as a custodian for retirement plan account assets of our clients. The IRS retains authority to revoke or suspend that status if it finds that PFS Investments is unwilling or unable to administer retirement accounts in a manner consistent with the requirements of the applicable regulations. Revocation of PFS Investments' non-bank custodian status would affect its ability to earn revenue for providing such services and, consequently, could materially adversely affect our business, financial condition and results of operations.

As our securities sales increase, we become more sensitive to performance of the equity markets.

A significant portion of our investment sales and assets under management are comprised of North American equity-based products. The multi-year growth in equity valuations has increased proportionally the Company’s revenue and product income derived from the sale of these products. A significant correction in the North American equity markets that decreases the Company’s assets under management, or a protracted long-term downturn in equity market performance that has a negative effect on the Company’s sales of securities products, could have an adverse effect on our business, financial condition and results of operations.

Other Risks Related to Our Business

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.

Our business is highly dependent upon the effective operation of our information technology systems and third-party technology systems, networks and clouds to record, process, transmit and store information, including sensitive customer and proprietary information. We rely on these systems throughout our business for a variety of functions including to conduct many of our business activities and transactions with customers, sales representatives, vendors and other third parties, to prepare our financial statements and to communicate with our Board of Directors. Our information technology systems and applications run a variety of third-party and proprietary software, including POL (our secure intranet website designed to be a support system for the sales force), the Primerica App, our insurance administration system, Virtual Base Shop (our secure intranet-based paperless field office management system), TurboApps (our point-of-sale tool that streamlines our application processes), our FNA tool, our licensing decision and support system, and our compensation system. Our business also relies on the use by employees, representatives and other third parties of electronic mobile devices, such as laptops, tablets and smartphones, which are particularly vulnerable to loss and theft.

Maintaining the integrity of these systems and networks is critical to the success of our business operations, including the retention of sales representatives and customers, and to the protection of our proprietary information and our customers’ confidential and personal information. We could experience a failure of one or more of these systems or could fail to complete all necessary data reconciliation or other conversion controls when implementing new software systems. In addition, despite the implementation of security and back-up measures, our information technology systems may be vulnerable to physical or electronic intrusions, viruses or other attacks, programming errors and similar disruptions.

We are subject to international, federal and state regulations, and in some cases contractual obligations, that require us to establish and maintain policies and procedures designed to protect sensitive customer, employee, sales representative and third-party information. We have implemented and maintain security measures, including industry-standard commercial technology, designed to protect against breaches of security and other interference with our systems and networks resulting from attacks by third parties, including hackers, and from employee or representative error or malfeasance. We continually assess our ability to monitor, respond to, and recover from such threats. We also require third-party vendors, who in the provision of services to us are provided with or process information pertaining to our business or our customers, to meet certain information security standards. Despite the measures we have taken and may in the future take to address and mitigate cybersecurity and technology risks, we cannot assure that our systems and networks will not be subject to breaches or interference. Any such breaches or interference by third parties or by sales representatives or employees that may occur in the future including the failure of any one of these systems for any reason, could cause significant interruptions to our operations, which could have a material adverse effect on our business, financial condition and results of operations.

Anyone who is able to circumvent our security measures and penetrate our information technology systems could access, view, misappropriate, alter, or delete information in the systems, including personally-identifiable client information and proprietary business information. In addition, an increasing number of jurisdictions require that regulators and clients be notified if a security breach results in the disclosure of personally-identifiable client information, which could exacerbate the harm to our business, financial condition or results of operations. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks and systems used in connection with our business.

Operating system failures, ineffective system implementation, loss of the Internet or the compromise of security with respect to internal, external or third-party operating systems or electronic devices could subject us to significant civil and criminal liability, harm our reputation, interrupt our business operations, deter people from purchasing our products, require us to incur significant technical, legal and other expenses, and adversely affect our internal control over financial reporting, business, financial condition, or results of operations.

The current legislative and regulatory climate with regard to cybersecurity may adversely affect our business, financial condition, and results of operations.

Various international, federal and state legislative and regulatory bodies are considering or have considered, proposed, or adopted new standards and rules regarding protection of personally-identifiable information. The NYDFS Cybersecurity Requirements for Financial Services Companies, a regulation requiring covered financial services institutions to implement a cybersecurity program designed to protect information systems, became effective in March 2017. In October 2017, the NAIC adopted the Insurance Data Security Model Law ("Model Law"), which, among other things, would require insurers and insurance producers to develop and maintain a written information security program, conduct risk assessments, and assess the data security practices of third-party service providers. The Model Law, which has some similarities as well as differences from the NYDFS's cybersecurity regulation, has been adopted by several states. In June 2018, California adopted the California Consumer Protection Act of 2018 ("CCPA") designed to give consumers more control over their personal data. The CCPA will become effective in January 2020. All 50 U.S. states and Canada have breach notification requirements.

Such laws or regulations could require us to implement new technologies or revise and maintain policies and procedures designed to protect sensitive customer, employee, representative and third-party information. Being subject to, or out of compliance with, the aforementioned laws and regulations could result in material costs, fines, penalties or litigation, which could materially adversely affect our business, financial condition and results of operations.

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.

Our infrastructure supports a combination of local and remote recovery solutions for business resumption in the event of a disaster, including a security incident. In the event of either a campus-wide destruction or the inability to access our data center or main campus in Duluth, Georgia, our business recovery plan provides for a limited number of our employees to perform their work functions via a dedicated business backup/recovery site located around 20 miles from our main campus or by remote access from an employee's home. However, in the event of campus-wide destruction, our business recovery plan may be inadequate, and our employees and the sales representatives may be unable to carry out their work, which could have a material adverse effect on our business, financial condition and results of operations.

Credit deterioration in, and the effects of interest rate fluctuations on, our invested asset portfolio and other assets that are subject to changes in credit quality and interest rates could materially adversely affect our business, financial condition and results of operations.

A large percentage of our invested asset portfolio is invested in fixed-income securities. As a result, credit deterioration and interest rate fluctuations could materially affect the value of and earnings generated by our invested asset portfolio. Fixed-income securities decline in value if there is no active trading market for the securities or the market's impression of, or the ratings agencies' views on, the credit quality of an issuer worsens. During periods of declining market interest rates, we must invest the cash we receive as interest, return of principal on our investments and cash from operations in lower-yielding, high-grade instruments or in lower-credit instruments to maintain comparable returns. Issuers of fixed-income securities could also decide to prepay their obligations to borrow at lower market rates, which would increase our reinvestment risk. If interest rates generally increase, the fair value of our fixed rate income portfolio decreases. Additionally, if the fair value of any security in our invested asset portfolio decreases, we may realize losses if we deem the value of the security to be other-than-temporarily impaired. We also have an asset on deposit with a coinsurer backing a 10% coinsurance agreement entered into at the time of our IPO. The fair value of this asset is influenced by fluctuation in credit spreads and interest rates, and changes in fair value are recognized in income. To the extent that any fluctuations in fair value or interest rates are significant or we recognize impairments that are material, it could have a material adverse effect on 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.

U.S. GAAP requires that when the fair value of any of our invested assets declines and such decline is deemed to be other-than-temporary, we recognize a loss in either our statement of income or in other comprehensive income based on certain criteria in the period that such determination is made. The determination of the fair value of certain invested assets, particularly those that do not trade on a regular basis, requires an assessment of available data and the use of assumptions and estimates. Once it is determined that the fair value of an asset is below its carrying value, we must determine whether the decline in fair value is other-than-temporary, which is based on subjective factors and involves a variety of assumptions and estimates.

There are certain risks and uncertainties associated with determining whether declines in fair value are other-than-temporary. These include significant changes in general economic conditions and business markets, trends in certain industry segments, interest rate fluctuations, rating agency actions, changes in significant accounting estimates and assumptions and legislative actions. In the case of mortgage- and asset-backed securities, there is added uncertainty as to the performance of the underlying collateral assets. To the extent that we are incorrect in our determination of the fair value of our investment securities or our determination that a decline in their value is other-than-temporary, we may realize losses that never actually materialize or may fail to recognize losses within the appropriate reporting period.

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.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. U.S. GAAP continues to evolve and, as a result, will change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to anticipate and implement and can materially impact how we record and report our financial condition and results of operations. For example, in August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2018-12, *Financial Services—Insurance (Topic 944) — Targeted Improvements to the Accounting for Long-Duration Contracts* ("ASU 2018-12"). The amendments in this update will change the accounting guidance we follow for long-duration insurance contracts. The most notable amendment included in ASU 2018-12 will require us to update assumptions used in measuring future policy benefits, including mortality and persistency, at least annually instead of locking those assumptions at contract inception and reflecting differences in assumptions and actual performance as the experience occurs. ASU 2018-12 also includes changes to how we amortize DAC and determine and update the discount rate assumptions used in measuring future policy benefits reserves while increasing the level of financial statement disclosures required. The amendments in ASU 2018-12 are scheduled to be effective for the Company beginning in 2021 as of the earliest period presented in the consolidated financial statements. We anticipate that the adoption of ASU 2018-12 will have a pervasive impact on our consolidated financial statements and related disclosures and will require changes to certain of our processes, systems, and controls. This new accounting standard, in addition to other financial reporting standard changes being discussed by the FASB and the SEC, could adversely impact both our financial condition and results of operations as reported on a U.S. GAAP basis.

Additionally, the Company’s insurance company subsidiaries prepare statutory financial statements in accordance with accounting principles designated by regulators in the jurisdictions in which they are domiciled. The financial statements of our U.S. insurance subsidiaries are prepared in accordance with SAPs prescribed or permitted by state insurance departments and the NAIC. SAPs, including actuarial methodologies for estimating reserves, are subject to continuous evaluation by the NAIC and state insurance departments. Similarly, our Canadian life insurance subsidiary is required to prepare statutory financial statements in accordance with IFRS, as prescribed by the OSFI in Canada. In 2017, the International Accounting Standards Board (the “IASB”) finalized a new IFRS standard that will significantly overhaul our Canadian life insurance subsidiary’s accounting for insurance contracts (“IFRS 17”) for statutory reporting purposes. The IASB recently proposed deferring the effective date of IFRS 17 from 2021 to 2022 due to implementation complexities faced by financial statement preparers. The statutory financial statements of our insurance company subsidiaries, which are used to determine dividend capacity and risk-based capital, could be adversely affected by these and other future changes implemented by jurisdictional insurance departments. Therefore, the ability of our insurance companies to comply with regulatory minimum capital requirements and ultimately pay dividends to the Parent Company could be adversely impacted.

The effects of economic down cycles could materially adversely affect our business, financial condition and results of operations.

Our business, financial condition and results of operations may be materially adversely affected by economic downturns in the United States and Canada, as well as issues in the global economy that may have repercussions on our local markets. Economic downturns, which are often characterized by higher unemployment, lower family income, lower valuation of retirement savings accounts, lower corporate earnings, lower business investment and lower consumer spending, have adversely affected the demand for the term life insurance, investment and savings and other financial products that we sell. Future economic down cycles could adversely affect new sales and cause clients to liquidate mutual funds and other investments sold by sales representatives. This could cause a decrease in the asset value of client accounts, reduce our trailing commission revenues and result in a decline in the fair value of our invested asset portfolio. In addition, we may experience an elevated incidence of lapses or surrenders of insurance policies, and some of our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Further, volatility in equity markets or downturns could discourage purchases of the investment products that we distribute and could have a materially adverse effect on our business, including our ability to recruit and retain sales representatives.

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.

In the United States, we are subject to many regulations, including the Gramm-Leach-Bliley Act and its implementing regulations, including Regulation S-P, the Fair Credit Reporting Act, the Right to Financial Privacy Act, the Foreign Corrupt Practices Act, the Sarbanes-Oxley Act, the Telemarketing and Consumer Fraud and Abuse Prevention Act, the Telephone Consumer Protection Act, the FTC Act, the Health Insurance Portability and Accountability Act (HIPAA), the Electronic Funds Transfer Act, and the Interlink

Network Inc. Operating Regulations. We are also subject to anti-money laundering laws and regulations, including the Bank Secrecy Act, as amended by the Patriot Act, which requires us to develop and implement customer identification and risk-based anti-money laundering programs, report suspicious activity and maintain certain records. Further, we are required to follow certain economic and trade sanctions programs that are administered by the Office of Foreign Asset Control that prohibit or restrict transactions with suspected countries, their governments, and in certain circumstances, their nationals.

In Canada, we are subject to provincial and territorial regulations, including consumer protection legislation that pertains to unfair and misleading business practices, provincial and territorial credit reporting legislation that provides requirements in respect of obtaining credit bureau reports and providing notices of decline, the Personal Information Protection and Electronic Documents Act, the Competition Act, the Corruption of Foreign Public Officials Act, the Telecommunications Act and certain Canadian Radio-television and Telecommunications Commission Telecom Decisions in respect of unsolicited telecommunications. We are also subject to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and its accompanying regulations, which require us to develop and implement anti-money laundering policies and procedures relating to customer indemnification, reporting and recordkeeping, develop and maintain ongoing training programs for employees, perform a risk assessment on our business and clients and institute and document a third-party independent review of our anti-money laundering program at least once every two years. We are also required to follow certain economic and trade sanctions and legislation that prohibit us from, among other things, engaging in transactions with, and providing services to, persons on lists created under various federal statutes and regulations and blocked persons and foreign countries and territories subject to Canadian sanctions administered by Foreign Affairs and International Trade Canada and the Department of Public Safety Canada.

Changes in, or violations of, any of these laws or regulations may require additional compliance procedures, or result in enforcement proceedings, sanctions or penalties, which could have a material adverse effect on our business, financial condition and results of operations.

Litigation and regulatory investigations and actions may result in financial losses and harm our reputation.

We face a risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses. From time to time, we are subject to private litigation as a result of alleged sales representative misconduct or alleged failure of the Company to follow applicable insurance, securities or other laws or regulations. For example, we may become subject to lawsuits alleging, among other things, issues relating to sales or underwriting practices, product design and disclosure, delay of benefits, and product pricing. In addition, we are subject to litigation arising out of our general business activities. For example, we have a large sales force and we could face claims by current or former sales representatives arising out of their relationship with us as independent contractors or regarding compensation-related issues. If we become subject to any such litigation, the associated legal expense and any judgment or settlement of the claims could have a material adverse effect on our business, financial condition and results of operations.

We are undergoing multi-state treasurer unclaimed property audits by 30 jurisdictions currently focused on the life insurance claims paying practices of our 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 us to adverse consequences, including, but not limited to, settlement payments, additional payments to beneficiaries, and additional escheatment of funds deemed abandoned under state laws. We cannot reasonably estimate the likelihood or the impact of additional costs or liabilities that could result from resolution of these matters, or the effect these matters may have on the conduct of our business, financial condition and results of operations.

We are also routinely subject to regulatory inquiries, such as information requests, subpoenas and books and record examinations, from state, provincial and federal regulators and other authorities and from time to time, regulatory investigations as a result of alleged sales representative misconduct or alleged failure of the Company to follow applicable laws or regulations. A substantial legal liability or a significant regulatory action against us could have a material adverse effect on our business, financial condition and results of operations.

Moreover, even if we ultimately prevail in any litigation, regulatory action or investigation, we could suffer significant reputational harm and we could incur significant legal expenses, either of which could have a material adverse effect on our business, financial condition and results of operations. In addition, increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal precedents and industry-wide regulations or practices that could materially adversely affect our business, financial condition and results of operations.

The current legislative and regulatory climate with regard to financial services may adversely affect our business, financial condition, and results of operations.

The volume of legislative and regulatory activity relating to financial services has increased substantially in recent years, and the level of enforcement actions and investigations by federal, state and provincial regulators may increase correspondingly. Legislative, regulatory and enforcement activity at the federal level may contribute to heightened activity at the state and provincial level. If we or the sales representatives become subject to new requirements or regulations, it could result in increased litigation, regulatory risks, changes to our business model, a decrease in the number of securities-licensed representatives or a reduction in the products we offer to our clients or the profits we earn, which could have a material adverse effect on our business, financial condition and results of operations.

Regulators could adopt laws or interpret existing laws in a way that would require retroactive changes to our business, accounting practices, or redundant reserve financing structures. Any such retroactive changes could have a material adverse effect on 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.

Operations of the Company are conducted by its subsidiaries. As such, Primerica, Inc. is a holding company that has no significant operations. Our primary asset is the capital stock of our subsidiaries and our primary liability is our Senior Notes. We rely primarily on dividends and other payments from our subsidiaries to meet our operating costs, other corporate expenses, Senior Note obligations, as well as to return capital to our stockholders. The ability of our subsidiaries to pay dividends to us depends on their earnings, covenants contained in existing and future financing or other agreements and on regulatory restrictions. The ability of our insurance subsidiaries to pay dividends will further depend on their statutory income and surplus. If the cash we receive from our subsidiaries pursuant to dividend payments and tax sharing arrangements is insufficient for us to fund our obligations or if a subsidiary is unable to pay dividends to us, we may be required to raise cash through the incurrence of debt, the issuance of equity or the sale of assets. However, given the historic volatility in the capital markets, there is no assurance that we would be able to raise cash by these means.

The jurisdictions in which our insurance subsidiaries are domiciled impose certain restrictions on their ability to pay dividends to us. In the United States, these restrictions are based, in part, on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts are subject to approval by the insurance commissioner of the state of domicile. In Canada, dividends can be paid, subject to the paying insurance company continuing to meet the regulatory requirements for capital adequacy and liquidity and upon 15 days' minimum notice to OSFI. No assurance is given that more stringent restrictions will not be adopted from time to time by jurisdictions in which our insurance subsidiaries are domiciled, and such restrictions could have the effect, under certain circumstances, of significantly reducing dividends or other amounts payable to us by our subsidiaries without prior approval by regulatory authorities. In addition, in the future, we may become subject to debt covenants or other agreements that limit our ability to return capital to our stockholders. The ability of our insurance subsidiaries to pay dividends to us is also limited by our need to maintain the financial strength ratings assigned to us by the ratings agencies.

If any of our subsidiaries were to become insolvent, liquidate or otherwise reorganize, we, as sole stockholder, will have no right to proceed against the assets of that subsidiary. Furthermore, with respect to our insurance subsidiaries, we, as sole stockholder, will have no right to cause the liquidation, bankruptcy or winding-up of the subsidiary under the applicable liquidation, bankruptcy or winding-up laws, although, in Canada, we could apply for permission to cause liquidation. The applicable insurance laws of the jurisdictions in which each of our insurance subsidiaries is domiciled would govern any proceedings relating to that subsidiary. The insurance authority of that jurisdiction would act as a liquidator or rehabilitator for the subsidiary. Both creditors of the subsidiary and policyholders (if an insurance subsidiary) would be entitled to payment in full from the subsidiary's assets before we, as the sole stockholder, would be entitled to receive any distribution from the subsidiary.

If the ability of our insurance or non-insurance subsidiaries to pay dividends or make other distributions or payments to us is materially restricted by regulatory requirements, bankruptcy or insolvency, or our need to maintain our financial strength ratings, or is limited due to operating results or other factors, it could materially adversely affect our ability to fund 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.

We face competition in all of our business lines. Our competitors include financial services companies, banks, investment management firms, broker-dealers, insurance companies, insurance brokers, direct sales companies, and technology companies. In many of our product offerings, we face competition from competitors that may have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations, have lower fee and expense ratios, have higher financial strength ratings or offer more robust digital tools and self-service capabilities than we do. More recently, significant capital has been invested in direct-to-consumer offerings, including wealth management, retirement and life insurance products. In addition, regulatory changes and competitive factors are leading to innovations in product offerings. To the extent these entrants create a significant change in the competitive environment, our ability to maintain or increase our market share and profitability could be materially adversely affected.

The loss of key employees and sales force leaders could negatively affect our financial results and impair our ability to implement our business strategy.

Our success substantially depends on our ability to attract and retain key members of our senior management team. The efforts, personality and leadership of our senior management team have been, and will continue to be, critical to our success. The loss of service of our senior management team due to disability, death, retirement or some other cause could reduce our ability to successfully motivate the sales representatives, or implement our business plan which could have a material adverse effect on our business, financial condition and results of operations. Although our senior executive officers have entered into employment agreements with us, there is no assurance that they will complete the term of their employment agreements or that they or the Company will renew them upon expiration.

In addition, the loss of key RVPs for any reason could negatively affect our financial results, impair our ability to attract new sales representatives and hinder future growth.

We may be materially adversely affected by currency fluctuations in the United States dollar versus the Canadian dollar.

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. The assets, liabilities, revenues, and expenses of our Canadian subsidiaries are generally all denominated in Canadian dollars. However, the Canadian dollar financial statements of our Canadian subsidiaries are translated into U.S. dollars in our consolidated financial statements. Therefore, significant exchange rate fluctuations between the U.S. dollar and the Canadian dollar could have a material adverse effect on our financial condition and results of operations. A weaker Canadian dollar relative to the U.S. dollar would result in lower levels of reported revenues, expenses, net income, assets, liabilities and accumulated other comprehensive income as translated in our U.S. dollar reporting currency financial statements. In addition, our net investment in our Canadian subsidiaries is significantly affected by fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar.

The market price of our common stock may fluctuate.

The stock market in general, and the market for companies in the financial services industry in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Also, broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance. Our stock could be subject to wide fluctuations in price in response to various factors, many of which are beyond our control, that include the following:

- fluctuations in stock market prices and trading volumes of similar companies, and general market conditions and overall fluctuations in U.S. equity markets;
- low trading volume and short interest positions in our common stock;
- our ability to meet or exceed our own forecasts or expectations of analysts or investors;
- changes in our securities analysts’ estimates of our future financial performance;
- variations in our quarterly operating results;
- changes, or the expectation of changes in federal and state law, policy and regulation, or changes in the ways that laws and regulations are interpreted and applied;
- the initiation, pendency or outcome of litigation, regulatory reviews and investigations, and any adverse publicity related thereto;
- actions by the New York Stock Exchange (“NYSE”), or uncertainty related to possible actions by the NYSE, related to the continued listing of our common stock;
- negative media reports with respect to us and/or our industry;
- the loss of key personnel;
- general economic or geopolitical conditions; and
- other risks and uncertainties described in these risk factors.

ITEM 1B. UNRESOLVED STAFF COMMENTS.
Not applicable.

ITEM 2. PROPERTIES.

We lease all of our office, warehouse, printing, and distribution properties. Our executive and home office operations for substantially all of our domestic U.S. operations (except New York) are located in Duluth, Georgia. We lease office space for our executive and home office operations at two properties located in Duluth, Georgia under leases expiring in June 2028 and September 2029.

We also lease continuation of business, print/distribution, and warehouse space in or around Duluth, Georgia under leases expiring in February 2020, June 2028, and June 2023, respectively.

NBLIC subleases general office space in Long Island City, New York under a sublease expiring in March 2020.

In Canada, we lease general office space in Mississauga, Ontario under a lease expiring in October 2030 and warehouse and printing operation space in Mississauga, Ontario under a separate lease also expiring in October 2030.

Each of these leased properties is used by all of our operating segments, with the exception of our NBLIC office space, which is not used by our Investment and Savings Products segment.

We believe that our existing facilities in the U.S. and Canada are adequate for our current requirements and for our operations for the foreseeable future.

For additional details on our operating leases, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Contractual Obligations” and Note 16 (Commitments and Contingent Liabilities) to our consolidated financial statements included elsewhere in this report.

ITEM 3. 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 16 (Commitments and Contingent Liabilities) to our 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 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM X. EXECUTIVE OFFICERS AND CERTAIN SIGNIFICANT EMPLOYEES OF THE REGISTRANT

Our executive officers are elected by our Board of Directors.

The name, age at February 26, 2019, and position of each of our executive officers and certain significant employees are presented below. These officers comprise our senior management team.

Name	Age	Position
Glenn J. Williams	59	Chief Executive Officer
Peter W. Schneider	62	President
Alison S. Rand	51	Executive Vice President and Chief Financial Officer
Gregory C. Pitts	56	Executive Vice President and Chief Operating Officer
William A. Kelly	63	Chief Executive Officer, PFS Investments
John A. Adams	60	Chief Executive Officer, Primerica Life Insurance Company of Canada
Michael C. Adams	62	Executive Vice President and Chief Business Technology Officer
Jeffrey S. Fendler	62	Executive Vice President and Chief Compliance and Risk Officer
Alexis P. Ginn	71	Executive Vice President and General Counsel
Kathryn E. Kieser	49	Executive Vice President and Chief Reputation Officer
Michael W. Miller	41	Executive Vice President and Head of Corporate Development and Strategic Planning
Robert H. Peterman, Jr.	53	Executive Vice President and Chief Marketing Officer
Julie A. Seman	49	Executive Vice President, Primerica Life, Client Solutions, Strategic Markets and Training and Development

Set forth below is biographical information concerning our executive officers.

Glenn J. Williams has served as Chief Executive Officer since April 2015. He served as President from 2005 to April 2015, as Executive Vice President of Field and Product Marketing for international operations from 2000 to 2005, as President and Chief Executive Officer of Primerica Canada from 1996 to 2000, and in roles of increasing responsibility as part of Primerica’s international expansion team in Canada from 1985 to 2000. He began his career with Primerica in 1981. Mr. Williams earned his B.S. in education from Baptist University of America in 1981. He currently serves on the board of trustees for the Georgia Baptist Foundation.

Peter W. Schneider has served as President since April 2015. He served as Executive Vice President, General Counsel, and Chief Administrative Officer from 2000 to April 2015 and as Corporate Secretary from 2000 through January 2014. He worked at the law firm of Rogers & Hardin LLP as a partner from 1988 to 2000. Mr. Schneider earned both his B.S. in political science and industrial relations in 1978 and his J.D. in 1981 from the University of North Carolina at Chapel Hill. He serves on the boards of directors of the Securities Industry and Financial Markets Association (SIFMA), and the Camp John W. Hanes (YMCA).

Alison S. Rand has served as Executive Vice President and Chief Financial Officer since 2000 and in various capacities at the Company since 1995. Prior to 1995, Ms. Rand worked in the audit department of KPMG LLP. Ms. Rand earned her B.S. in accounting from the University of Florida in 1990 and is a certified public accountant. She is a board member of Cool Girls, Inc., Junior Achievement of Georgia and the University of Florida National Foundation. She also serves on the Terry College of Business Executive Education CFO Roundtable Advisory Board.

Gregory C. Pitts has served as Executive Vice President and Chief Operating Officer since December 2009, as Executive Vice President since 1995 with responsibilities within the Term Life Insurance and Investment and Savings Products segments and information technology division and in various capacities at the Company since 1985. Mr. Pitts earned his B.S.B.A. in general business from the University of Arkansas in 1985. He serves on the Boy Scouts of America Atlanta Area Council.

William A. Kelly has served as Chief Executive Officer of PFS Investments since May 2018, as President and Chief Executive Officer from 2005 to May 2018 and in various capacities at the Company since 1985. Mr. Kelly graduated from the University of Georgia in 1979 with a B.B.A. in accounting.

Set forth below is biographical information concerning certain significant employees.

John A. Adams has served as the Chief Executive Officer of Primerica Life Insurance Company of Canada ("Primerica Life Canada") since 2003. He previously served Primerica Life Canada as Chief Financial Officer and before that as Vice President of Finance. Before joining Primerica, Mr. Adams served as the Director of Finance of a major Canadian university and Treasurer of an insurance group of companies. He began his career in 1980 with KPMG LLP. He graduated from Trinity College at the University of Toronto in 1980 with a Bachelor of Commerce, and is a Chartered Accountant and Chartered Professional Accountant. Mr. Adams has provided industry leadership as a board member of the Investment Funds Institute of Canada (the mutual fund industry association) since 2005 and recently served a two-year term as its Board Chairman. He is also a board member of the Federation of Mutual Fund Dealers.

Michael C. Adams has served as Chief Business Technology Officer since April 2010, as Executive Vice President responsible for business technology since 1998 and in various capacities at the Company since 1980. Mr. Adams earned his B.A. in business and economics from Hendrix College in 1978.

Jeffrey S. Fendler has served as Executive Vice President and Chief Compliance and Risk Officer of the Company since February 2014. He served as President of Primerica Life from 2005 through January 2014 and in various capacities at the Company since 1980. Mr. Fendler received a B.A. in economics from Tulane University.

Alexis P. Ginn has served as our Executive Vice President and General Counsel since May 2015 and as Executive Vice President and Deputy General Counsel from July 1998 to May 2015. She has served in various legal capacities with Primerica since 1991. Ms. Ginn began her career as a trial attorney in the Civil Division of the Department of Justice. She received her B.S. with honors from Tufts University and her J.D. from George Washington University Law School where she was on the law review and a member of the Order of the Coif.

Kathryn E. Kieser has served as Executive Vice President and Chief Reputation Officer of Primerica, Inc. and Chair of the Primerica Foundation since January 2019. Previously, she served as Executive Vice President of Investor Relations from April 2010 to December 2018. Ms. Kieser joined Primerica in October 1995 and has held many positions over her career including Vice President of Sales and Product Marketing, Senior Vice President of Auto and Homeowners Insurance, and Chief Marketing Officer for Primerica Life Insurance Company. Ms. Kieser earned her B.S. degree in Business Administration from Auburn University and a Master of Science degree from Georgia State University. She serves on the boards of directors for the Gwinnett Chamber of Commerce and the Community Foundation for Northeast Georgia.

Michael W. Miller has served as Executive Vice President and Head of Primerica's Corporate Development and Strategic Planning function since September 2015. He leads the Company's strategic undertakings, including strategic partnerships, organic growth initiatives, M&A and long-term business planning. He was previously a senior investment banker at Lazard from 2006 to September 2015, where he specialized in providing strategic advice to a broad array of financial institutions, primarily insurance companies, and their regulators. While at Lazard, Mr. Miller advised on over $85 billion of successful transactions/restructuring assignments. Mr. Miller also worked in the insurance industry in various sales and underwriting capacities. He holds a B.S. from Brigham Young University in Business Administration and Finance and earned the Charted Property & Casualty Underwriter designation.

Robert H. Peterman, Jr. has served as Executive Vice President and Chief Marketing Officer since June 2018. He previously served as President of Primerica Distribution from December 2013 to June 2018, where he was responsible for recruiting, licensing, licensing education, field compensation, field equity, and decision support. In 2005, he became Executive Vice President and was given responsibility for the Company's Grow the Sales Force initiative. He also served as Chief Executive Officer of Primerica's New York life insurance company from January 2017 to June 2018. Mr. Peterman joined the Company in October 1984 and has served in many varying roles throughout the business.

Julie A. Seman has served since May 2018 as Chief Marketing Officer and Executive Vice President of Primerica Life, Client Solutions, Strategic Markets and Training and Development. From August 2014 she has been responsible for sales force growth and increased product distribution through the training and development of financial services representatives in the United States, Canada, Puerto Rico and Guam. In addition, Ms. Seman augments Primerica's strategic markets which include African American, Hispanic, Partnership and Women with a focus on personal financial education and entrepreneurship. Prior thereto, she was Senior Vice President of Client Solutions from April 2010 to August 2014 where she supervised all front end products, including Auto & Home

Marketing and Legal Protection and oversaw field communication tools. Ms. Seman joined the Company in September 1998 and has served in many roles with increasing responsibility. Ms. Seman received her Bachelors of Business Management from Southern Illinois University.

PART II

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

Market Information

The common stock of Primerica, Inc. ("Primerica", "we", "us" or the "Parent Company") is listed for trading on the New York Stock Exchange ("NYSE") under the symbol "PRI."

Holders

As of January 31, 2019, we had 115 holders of record of our common stock.

Dividends

In the first quarter of 2019, we declared a quarterly dividend to stockholders of $0.34 per share. We currently expect to continue to pay quarterly cash dividends to holders of our common stock. Our payment of cash dividends is at the discretion of our Board of Directors in accordance with applicable law after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for growth. Under Delaware law, we can only pay dividends either out of surplus or out of the current or the immediately preceding year's earnings. Therefore, no assurance is given that we will continue to pay any dividends to our common stockholders, or as to the amount of any such dividends.

Issuer Purchases of Equity Securities

Depending on market conditions, shares of our common stock may be repurchased from time to time at prevailing market prices through open market or privately negotiated transactions.

The Parent Company has no obligation to repurchase any shares. Subject to applicable corporate and securities laws, repurchases may be made at such times and in such amounts as management deems appropriate. Repurchases under a publicly announced program can be discontinued at any time if management believes additional repurchases are not warranted.

During the quarter ended December 31, 2018, 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 (2)	Approximate dollar value of shares that may yet be purchased under the plans or programs (3)
October 1 - 31, 2018	125,319	$115.29	125,319	$93,298,770
November 1 - 30, 2018	131,859	115.27	131,859	78,100,000
December 1 - 31, 2018	125,275	108.89	120,630	65,000,507
Total	382,453	$113.19	377,808	$65,000,507

(1) Consists of (a) repurchases and withholdings of 4,645 shares at an average price of $116.65 arising from share-based compensation tax withholdings, and (b) open market repurchases of shares under the share repurchase program approved by our Board of Directors.
(2) On February 6, 2018, our Board of Directors authorized a share repurchase program for up to $275.0 million of our outstanding common stock for purchases through June 30, 2019. We repurchased $210.1 million of shares under this program through December 31, 2018 and the program was terminated on February 7, 2019.
(3) On February 7, 2019, our Board of Directors authorized a new share repurchase program for up to $275.0 million of our outstanding common stock (including $65.0 million remaining from the prior repurchase program) for purchases through June 30, 2020.

For more information on our share repurchases, see Note 12 (Stockholders' Equity) to our consolidated financial statements included elsewhere in this report.

Stock Performance Table [1]

The following graph compares the performance of our common stock to the Standard & Poor's ("S&P") MidCap 400 Index and the S&P 500 Insurance Index by assuming $100 was invested in each investment option as of December 31, 2013 and the reinvestment of all dividends. The S&P MidCap 400 Index measures the performance of the United States middle market capitalization ("mid-cap") equities sector. The S&P 500 Insurance Index is a capitalization-weighted index of domestic equities of insurance companies traded on the NYSE and NASDAQ. Our common stock is included in the S&P MidCap 400 index.

	Period Ended					
Index	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Primerica, Inc.	$ 100.00	$ 127.75	$ 112.68	$ 167.13	$ 247.74	$ 240.60
S&P 500 Insurance	100.00	108.29	110.81	130.29	151.38	134.41
S&P MidCap 400	100.00	109.77	107.38	129.65	150.70	134.00

(1) The stock performance table is not deemed "soliciting material" or subject to Section 18 of the Securities Exchange Act of 1934.

ITEM 6. SELECTED FINANCIAL DATA.

The selected financial data should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and accompanying notes included elsewhere in this report.

	Year ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except per-share amounts)				
Statements of income data					
Revenues:					
Direct premiums	$2,667,104	$2,562,109	$2,444,268	$2,345,444	$2,301,332
Ceded premiums	(1,581,164)	(1,600,771)	(1,600,559)	(1,595,220)	(1,616,817)
Net premiums	1,085,940	961,338	843,709	750,224	684,515
Commissions and fees	677,607	591,317	541,686	537,146	527,166
Net investment income	81,430	79,017	79,025	76,509	86,473
Realized investment gains (losses), including other- than-temporary impairment losses	(2,121)	1,339	4,088	(1,738)	(261)
Other, net	56,987	56,091	50,576	42,058	39,203
Total revenues	1,899,843	1,689,102	1,519,084	1,404,199	1,337,096
Benefits and expenses:					
Benefits and claims	457,583	416,019	367,655	339,315	311,417
Amortization of deferred policy acquisition costs	239,730	209,399	180,582	157,727	144,378
Sales commissions	335,384	297,988	272,815	274,893	268,775
Insurance expenses	168,156	147,280	132,348	123,030	113,871
Insurance commissions	24,490	21,108	17,783	16,340	15,353
Interest expense	28,809	28,488	28,691	33,507	34,570
Other operating expenses	229,607	189,300	181,615	168,406	173,010
Total benefits and expenses	1,483,759	1,309,582	1,181,489	1,113,218	1,061,374
Income from continuing operations before income taxes	416,084	379,520	337,595	290,981	275,722
Income taxes	91,990	29,265	118,181	101,110	95,888
Income from continuing operations	324,094	350,255	219,414	189,871	179,834
Income from discontinued operations, net of income taxes	-	-	-	-	1,578
Net income	$324,094	$350,255	$219,414	$189,871	$181,412
Basic earnings per share:					
Continuing operations	$7.35	$7.63	$4.59	$3.70	$3.26
Discontinued operations	-	-	-	-	0.03
Basic earnings per share	$7.35	$7.63	$4.59	$3.70	$3.29
Diluted earnings per share:					
Continuing operations	$7.33	$7.61	$4.59	$3.70	$3.26
Discontinued operations	-	-	-	-	0.03
Diluted earnings per share	$7.33	$7.61	$4.59	$3.70	$3.29
Dividends declared per share	$1.00	$0.78	$0.70	$0.64	$0.48

	December 31,				
	2018	2017	2016	2015	2014

	(In thousands)				
Balance sheet data					
Investments (excluding the held-to-maturity security)	$2,160,596	$2,007,993	$1,875,631	$1,813,283	$1,848,316
Cash and cash equivalents	262,138	279,962	211,976	152,294	191,997
Reinsurance recoverables	4,141,569	4,205,173	4,193,562	4,110,628	4,115,533
Deferred policy acquisition costs, net	2,133,920	1,951,892	1,713,065	1,500,259	1,351,180
Total assets	12,595,048	12,460,703	11,438,943	10,610,783	10,735,929
Future policy benefits	6,168,157	5,954,524	5,673,890	5,431,711	5,264,608
Notes payable	373,661	373,288	372,919	372,552	372,187
Total liabilities	11,133,535	11,041,602	10,217,569	9,465,011	9,490,803
Stockholders' equity	1,461,513	1,419,101	1,221,374	1,145,772	1,245,126

ITEM 7.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 three-year period ended December 31, 2018. As a result, the following discussion should be read in conjunction with the consolidated financial statements and accompanying notes that are included herein. 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 in "Risk Factors". Actual results may differ materially from those contained in any forward-looking statements.

This MD&A is divided into the following sections:

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

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 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 may 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. As a result, changes in the Canadian dollar exchange rate may significantly affect the result of our business for all amounts translated and reported in U.S. dollars. The effects of these trends and conditions are discussed below and in the Results of Operations section.

Size of the Independent Sales Force.

Our ability to increase the size of the independent sales force ("sales representatives" or "sales force") is largely based on the success of the sales force's recruiting efforts as well as training and motivating 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 the licensed sales force because new recruits may obtain the requisite licenses at rates above or below historical levels.

New recruits declined in 2018 to 290,886 from 303,867 in 2017, which benefitted from approximately 19,000 additional recruits whose Independent Business Application ("IBA") fees were waived from areas affected by severe hurricanes in 2017. Recruiting activity in 2018 and 2017 was relatively consistent when excluding the impact of recruits with waived IBA fees.

In 2017, new recruits increased to 303,867 from 262,732 in 2016 primarily due to sustained growth in the size of the sales force, resulting in more agents available to actively recruit as well as the inclusion of recruits whose IBA fees were waived.

The life-licensed sales force increased to 130,736 sales representatives at December 31, 2018 from 126,121 at December 31, 2017 reflecting continued growth in the number of new life-licensed sales representatives that followed strong recruiting trends through 2017, which allowed new life-license sales representatives of 48,041 to outpace non-renewals of 43,426.

In 2017, the size of the life-licensed sales force increased to 126,121 from 116,827 at December 31, 2016 primarily due to the benefit of robust recruiting activity in prior periods. The number of life-licensed sales representatives as of December 31, 2017 was not significantly affected by the additional recruits from the hurricane-affected areas who received the IBA fee waivers.

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:

	Year ended December 31, 2018	2017	2016
Average number of life-licensed sales representatives	128,977	121,291	111,843
Number of new policies issued	301,589	312,799	298,244
Average monthly rate of new policies issued per life-licensed sales representative	0.19	0.21	0.22

New life insurance policies issued in 2018 were lower compared to 2017, which benefited from strong productivity at the high end of our historical experience range. Productivity, measured by the average monthly rate of new policies issued per life-licensed sales representative, in 2018 was below 2017 and 2016 levels, but continues to be within the historical range.

New life insurance policies increased in 2017 from 2016 largely due to sustained growth in the size of the life-licensed sales force in prior periods. Productivity in 2017 was consistent with 2016 productivity and at the higher end of our historical range.

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

	Year ended December 31, 2018	% of beginning balance	2017	% of beginning balance	2016	% of beginning balance
	(Dollars in millions)					
Face amount in force, beginning of period	$763,831		$728,385		$693,194	
Net change in face amount:						
Issued face amount	95,209	12 %	95,635	13 %	89,869	13 %
Terminations	(70,291)	(9)%	(65,958)	(9)%	(57,238)	(8)%
Foreign currency	(7,708)	(1)%	5,769	1 %	2,560	*
Net change in face amount	17,210	2 %	35,446	5 %	35,191	5 %
Face amount in force, end of period	$781,041		$763,831		$728,385	

* Less than 1%.

The face amount of term life insurance policies in force increased from 2017 to 2018 and from 2016 to 2017 as the level of face amount issued continued to exceed the face amount of policy terminations. As a percentage of the beginning face amount in force, issued face amount as well as terminated face amount during 2018 remained consistent with 2017 and 2016. The effect of a stronger U.S. dollar in relation to the Canadian dollar unfavorably impacted the translated face amount in force and partially offset the overall increase in issued face amount in 2018. During 2017, the strengthening of the Canadian dollar relative to the U.S. dollar contributed to the increase in face amount. Our average issued face amount in 2018 was relatively consistent with 2017 at approximately $246,200 and $244,800, respectively. In 2017, our average issued face amount increased modestly from approximately $241,500 in 2016.

Investment and Savings Product Sales, Asset Values and Accounts/Positions. Investment and savings products sales and average client asset values were as follows:

	Year ended December 31, 2018	2017	2016	2018 vs. 2017 change $	%	2017 vs. 2016 change $	%
	(Dollars in millions)						

Product sales:								
Retail mutual funds	$3,964	$3,802	$3,279	$162	4	%	$523	16 %
Annuities and other	2,096	1,670	1,813	426	26	%	(143)	(8)%
Total sales-based revenue generating product sales	6,060	5,472	5,092	588	11	%	380	7 %
Managed investments	753	428	212	325	76	%	216	102%
Segregated funds	227	292	290	(65)	(22)%		2	1 %
Total product sales	$7,040	$6,192	$5,594	$848	14	%	$598	11 %
Average client asset values:								
Retail mutual funds	$38,108	$35,174	$30,566	$2,934	8	%	$4,608	15 %
Annuities and other	18,315	17,002	14,880	1,313	8	%	2,122	14 %
Managed investments	3,009	2,195	1,720	814	37	%	475	28 %
Segregated funds	2,410	2,420	2,262	(10)	*		158	7 %
Total average client asset values	$61,842	$56,791	$49,428	$5,051	9	%	$7,363	15 %

*Less than 1%.

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

	Year ended December 31,					
	2018	% of beginning balance	2017	% of beginning balance	2016	% of beginning balance
	(Dollars in millions)					
Asset values, beginning of period	$61,167		$52,340		$47,354	
Net change in asset values:						
Inflows	7,040	12 %	6,192	12 %	5,594	12 %
Redemptions	(5,944)	(10)%	(5,147)	(10)%	(4,620)	(10)%
Net flows	1,096	2 %	1,045	2 %	974	2 %
Change in fair value, net	(3,712)	(6)%	7,158	14 %	3,758	8 %
Foreign currency, net	(847)	(1)%	624	1 %	254	1 %
Net change in asset values	(3,463)	(6)%	8,827	17 %	4,986	11 %
Asset values, end of period	$57,704		$61,167		$52,340	

Average number of fee-generating positions was as follows:

	Year ended December 31,			2018 vs. 2017 change		2017 vs. 2016 change	
	2018	2017	2016	Positions	%	Positions	%
	(Positions in thousands)						
Average number of fee-generating positions (1):							
Recordkeeping and custodial	2,081	2,226	2,201	(145)	(7)%	25	1 %
Recordkeeping only	658	675	677	(17)	(2)%	(2)	*
Total average number of fee-generating positions	2,739	2,901	2,878	(162)	(6)%	23	1 %

(1) We receive transfer agent recordkeeping fees by mutual fund positions. An individual client account may include multiple mutual fund positions. We may also receive fees, which are earned on a per account basis, for custodial services that we provide to clients with retirement plan accounts that hold positions in these mutual funds.

* Less than 1%.

Product sales. The increase in investment and savings product sales in 2018 from 2017 was largely attributable to strong growth in managed investments as a result of the Lifetime Investment Platform that we launched in the second quarter of 2017 as well as higher variable annuity sales, reflecting enhanced product offerings by our product partners and improved investor demand for variable annuities. Higher retail mutual funds sales also contributed to the increase in product sales as strong market performance experienced through most of 2018 contributed to higher investor demand for retail mutual funds in 2018.

In 2017, investment and savings product sales increased from 2016 largely due to the positive impact of market performance on investor demand for U.S. retail mutual funds as well as increased sales of managed investments reflecting the launch of the Primerica Advisors Lifetime Investment Platform product during the second quarter of 2017. These increases were partially offset by lower sales of variable annuity products, in line with industry trends and a shift in 2017 from 2016 of larger size trades to managed accounts and retail mutual funds.

Average client asset values. Average client asset values increased in 2018 from 2017 largely due to strong market conditions experienced for most of 2018 and positive net flows.

In 2017, the average client asset values increased from 2016 primarily due to market appreciation and continued positive net flows in prior periods.

Rollforward of client asset values. Client asset values decreased during 2018 from 2017 largely due to a decline in market value reflecting unfavorable market performance near the end of 2018. Also contributing to the decrease in client asset values was the negative effect of a lower Canadian dollar on the translated amount of Canadian client assets. Inflows from product sales outpaced redemptions and remained consistent as a percentage of beginning client assets when compared with 2017.

In 2017, client asset values increased from 2016 largely due to positive market performance and continued inflows from product sales, which outpaced redemptions.

Average number of fee-generating positions. The average number of fee-generating positions decreased in 2018 from 2017 primarily due to the transition of our clients' managed account investments since the second quarter of 2017 from Freedom Portfolios, for which we earn transfer agent recordkeeping fees and custodial fees, to the Lifetime Investments Platform, for which we do not earn transfer agent recordkeeping fees and custodial fees.

In 2017, the average number of fee-generating positions slightly increased from 2016, reflecting the layered effect of growth in new product sales outpacing redemptions for those mutual funds that are serviced on the Company's transfer agent recordkeeping and custodial services platform. Partially offsetting the growth in recordkeeping fee-generating positions in 2017 was the launch of the Lifetime Investment Platform and the closing of the Freedom Portfolios product line to new investments.

Regulatory changes on business trends. The Securities and Exchange Commission ("SEC") proposed new regulations that include: (i) a new rule to establish a "best interest" standard of conduct for broker-dealers and their associated persons when making a recommendation of any securities transaction or investment strategy involving securities to a retail customer; (ii) new and amended rules and forms to require registered broker-dealers, investment advisers and their investment professionals to provide a relationship summary to retail investors; (iii) required disclosures in retail communications; and (iv) an SEC interpretation of the fiduciary standard of conduct for investment advisers (collectively, the "SEC Best Interest Proposal"). The SEC Regulatory Flexibility Agenda, released in December 2018, indicates that final action on the SEC Best Interest Proposal is expected to be taken in September 2019. Similarly, in Canada, the organization of provincial and territorial securities regulators ("Canadian Securities Administrators" or "CSA") published a notice requesting public comment on reforms to obligations of registered firms and individuals to enhance conflict of interest mitigation rules ("Client Focused Reforms"). Because of the uncertain status of the rules, we have not determined the extent to which changes to our business would be necessary and are, therefore, unable to quantify the impact, if any, on our business, nor are we able to project the timing of the adoption of any such reforms or transition timeline.

In addition to federal regulators, certain states, including Connecticut, Illinois, Maryland, Nevada, New Jersey, and New York, have proposed or passed laws or proposed or issued regulations requiring investment advisers, broker-dealers, and/or insurance agents to meet fiduciary standards or standards of care that their advice be in the customer's best interest, and to disclose conflicts of interest to consumers of investment and insurance products. The severity of the impact that such laws or regulations could have on our business vary from state to state depending on the content of the legislation or regulation and how it is applied by state regulators and interpreted by the courts. We cannot quantify the financial impact, if any, of any changes to our business that may be necessary in order to comply with such laws or regulations at this time.

On September 13, 2018, the CSA published for comment proposed amendments that would prohibit upfront sales commissions by fund companies for the sale of mutual funds offered under a prospectus in Canada. The CSA has indicated that the prohibition of upfront sales commissions by fund companies will eliminate the use of the mutual fund deferred sales charge compensation model, which is the primary model for the mutual funds we distribute in Canada. These proposed amendments follow the June 21, 2018 publication of the CSA's policy decision on embedded commissions and its proposed Client Focused Reforms. Under proposed enhanced conflict of interest rules in the Client Focused Reforms, all embedded commissions would be considered conflicts that must be addressed in the best interests of clients or avoided. The proposed amendments were open for comment through December 13, 2018. If such rules are adopted, changes in compensation arrangements with the fund companies that offer the mutual fund products we distribute in Canada may be necessary.

Factors Affecting Our Results

Term Life Insurance Segment. Our Term Life Insurance segment results are primarily driven by sales volumes, how closely actual experience matches our pricing assumptions, terms and use of reinsurance, and expenses.

<u>Sales and policies in force.</u> 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 in a period will have a more immediate impact on our cash flows than on revenue and expense recognition in that period.

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 sales representatives generally remains within a range (i.e., an average monthly rate of new policies issued per life-licensed sales representative between 0.18 and 0.22). The volume of our term life insurance products sales will fluctuate in the short term, but over the longer term, our sales volume generally correlates to the size of the independent 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 that are locked-in at time of issue.

- *Mortality.* Our profitability will fluctuate to the extent actual mortality rates differ from the assumptions that are locked-in at time of issue. 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. We use reinsurance extensively, which has a significant effect on our results of operations. We have generally reinsured between 80% and 90% of the mortality risk on our term life insurance (excluding coverage under certain riders) on a quota share yearly renewable term ("YRT") basis. 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") with entities then affiliated with Citigroup, Inc. (collectively, the "IPO coinsurers") 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 administer all such policies subject to these coinsurance agreements. Beginning in 2017, policies reaching the end of their initial level term period are no longer ceded under the IPO coinsurance transactions.

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 with the IPO coinsurers. 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 transfer agent recordkeeping positions and non-bank custodial fee-generating accounts we administer.

Sales. We earn commissions and fees, such as dealer re-allowances and marketing and distribution 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 the independent 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 the independent 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 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 and administrative fees on assets in managed investments. 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.

Positions. We earn transfer agent recordkeeping fees for administrative functions we perform on behalf of several of our mutual fund providers. An individual client account may include multiple fund positions for which we earn transfer agent 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 spread the revenues generated over time because we earn higher revenues based on assets under management for these accounts each period as opposed to earning upfront revenues based on product sales; and
- sales of a higher proportion of mutual fund products sold will impact the timing and amount of revenue we earn given the distinct transfer agent recordkeeping and non-bank custodial services we provide for certain mutual fund products we distribute.

Corporate and Other Distributed Products Segment. We earn revenues and pay commissions and referral fees within our Corporate and Other Distributed Products segment for various other insurance products, prepaid legal services and other financial products, all of which are originated by third parties. Our Corporate and Other Distributed Products segment also includes in-force policies from several discontinued lines of insurance underwritten by National Benefit Life Insurance Company ("NBLIC").

Corporate and Other Distributed Products segment net investment income reflects actual net investment income recognized 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 also includes 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, redundant reserve financing transactions and our revolving credit facility, 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 unsecured notes (the "Senior Notes"), redundant reserve financing transactions, our revolving credit facility, and our common stock. See

Note 10 (Debt), Note 12 (Stockholders' Equity) and Note 16 (Commitments and Contingent Liabilities) to our consolidated financial statements included elsewhere in this report for more information on changes in our capital structure.

Foreign Currency. The Canadian dollar is the functional currency for our Canadian subsidiaries and our consolidated 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, respectively.

The year-end exchange rates used by the Company to translate our Canadian dollar functional currency assets and liabilities into U.S. dollars decreased by 8% in 2018 from 2017 and it increased by 7% in 2017 from 2016. The average exchange rates used by the Company in 2018 to translate our Canadian dollar functional currency revenues and expenses into U.S. dollars remained consistent with 2017 and it decreased by 2% in 2017 from 2016.

See "Results of Operations" and "Financial Condition" and "Quantitative and Qualitative Disclosures About Market Risk – Canadian Currency Risk" and Note 3 (Segment and Geographical Information) to our 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.

Income Taxes. The profitability of the Company and its subsidiaries is affected by income taxes assessed by federal, state, and U.S. territorial jurisdictions in the U.S. and federal and provincial jurisdictions in Canada. Changes in tax legislation, such as the Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act"), impact the measurement of our deferred tax assets and liabilities and the amount of income tax expense we incur.

The Tax Reform Act reduced the U.S. federal statutory tax rate from 35% to 21% effective January 1, 2018 and included other tax reforms affecting business, such as allowable business deductions and international tax provisions. The decrease in the federal corporate tax rate reduced the Company's overall effective tax rate in 2018 and thereafter even after factoring in certain increases from other provisions introduced by the Tax Reform Act. The Company used a portion of income tax savings resulting from the Tax Reform Act to increase spending by approximately $9 million over 2017 levels on investments in our communities, people, and businesses.

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. 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 elsewhere in this report. The most significant items on our 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.

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 recoverable 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.

Deferred Policy Acquisition Costs. We defer incremental direct costs of successful contract acquisitions that result directly from and are essential to the contract transaction(s) and that would not have been incurred had the contract transaction(s) not occurred. These costs include commissions and policy issue expenses. Deferrable term life insurance policy acquisition costs are amortized over the initial premium-paying period of the related policies in proportion to premium income and include assumptions made by us regarding persistency, expenses, interest rates and claims, which are updated on new business to reflect recent experience. These assumptions may not be modified, or unlocked on in-force term life insurance business, unless recoverability testing deems estimated future cash flows to be inadequate. DAC is subject to recoverability testing annually and when circumstances indicate that recoverability is uncertain.

In particular, the balance of DAC in our Term Life Insurance segment is susceptible to differences between estimated persistency assumptions and actual persistency experienced. If actual lapses are different from pricing assumptions for a particular period, the amount of DAC amortized for that period will be affected. For example, if actual annual lapses at each policy duration are 10% higher, the additional DAC balance as of December 31, 2018 that would be amortized is approximately $22 million. To further illustrate, if we expect 1,000 policies in the first policy duration to lapse, this sensitivity demonstration assumes that an additional 10%, or 1,100 in total, first duration policies actually lapse. We believe that a 10% higher annual lapse rate is a reasonably possible variation. Higher lapses in the early durations would have a greater effect on DAC amortization since the DAC balances are higher at the earlier durations. Due to the inherent uncertainties in making assumptions about future events, materially different experience from expected results in persistency could result in a material increase or decrease of DAC amortization in a particular period. Differences between actual and expected persistency also impact the balance of future policy benefit reserves and reinsurance recoverables as discussed below.

For additional information on DAC, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) and Note 7 (Deferred Policy Acquisition Costs) to our consolidated financial statements included elsewhere in this report.

Future Policy Benefit Reserves and Reinsurance. Liabilities for future policy benefits on our term life insurance products are reserves established for death claims and waiver of premium benefits and have been computed using a net level method and include assumptions as to mortality, persistency, interest rates, disability rates, and other assumptions based on our historical experience, modified as necessary for new business to reflect anticipated trends and to include provisions for possible adverse deviation. Reserves related to reinsured policies are accounted for using assumptions consistent with those used to determine the future policy benefit reserves and are included in Reinsurance recoverables in our consolidated balance sheets. Similar to the term life insurance DAC discussion above, we do not modify the assumptions used to establish future policy benefit reserves during the policy term unless recoverability testing deems them to be inadequate and there is no remaining DAC associated with the underlying policies. Our results depend significantly upon the extent to which our actual experience is consistent with the assumptions we used in determining our future policy benefit reserves. Our future policy benefit reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. We cannot determine with precision the ultimate amounts that we will pay for actual claims or the timing of those payments.

The net impact of differences between actual and expected persistency on future policy benefit reserves and reinsurance recoverables will partially offset the earnings impact recognized from DAC amortization noted above. In our Term Life Insurance segment, if actual annual lapses at each policy duration are 10% higher, the additional future policy benefit reserves that would be released is approximately $24 million, partially offset by the release of the corresponding recoverable from reinsurers asset of approximately $11 million using balances as of December 31, 2018. Higher lapses in later policy durations would have a greater effect on the release of future policy benefit reserves since the future policy benefit reserves are higher at the later durations.

For additional information on future policy benefits and reinsurance, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) and Note 6 (Reinsurance) to our consolidated financial statements included elsewhere in this report.

Income Taxes. We account for income taxes using the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to (i) temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and (ii) operating loss and tax credit carryforwards. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not applicable to the periods in which we expect the temporary difference will reverse. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. For example, as of December 31, 2017, we measured our deferred tax assets and liabilities for temporary differences subject to U.S. federal income tax using the 21% statutory rate that became effective on January 1, 2018 as a result of the Tax Reform Act enacted on December 22, 2017. We recognized the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date and, therefore, we have recognized the impact from the previous 35% statutory rate to the updated 21% statutory rate through income during the year ended December 31, 2017.

In light of the multiple tax jurisdictions in which we operate, our tax returns are subject to routine audit by the Internal Revenue Service and other taxation authorities. These audits at times may produce alternative views regarding particular tax positions taken in the year(s) of review. As a result, the Company records uncertain tax positions, which require recognition at the time when it is deemed more likely than not that the position in question will be upheld. Although management believes that the judgment and estimates involved are reasonable and that the necessary provisions have been recorded, changes in circumstances or unexpected events could adversely affect our financial position, results of operations, and cash flows.

For additional information on income taxes, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) and Note 11 (Income Taxes) to our consolidated financial statements included elsewhere in this report.

Invested Assets. We hold primarily fixed-maturity securities, including bonds and redeemable preferred stocks. We have classified these invested assets as available-for-sale, except for the securities of our U.S. broker-dealer subsidiary, which we have classified as trading securities. We also hold a credit-enhanced note, which we classified as a held-to-maturity security that was issued in exchange for a surplus note (the "Surplus Note") with an equal principal amount as part of a redundant reserve financing transaction. All of these securities are carried at fair value, except for the held-to-maturity security, which is carried at amortized cost. Unrealized gains and losses on available-for-sale securities, except for other-than-temporary impairments ("OTTI") discussed below, are included as a separate component of other comprehensive income in our statements of comprehensive income.

We also hold equity securities, including common and non-redeemable preferred stock. Effective January 1, 2018, the Company adopted Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). As a result, these equity securities are measured at fair value and changes in unrealized gains and losses are recognized in net income. Prior to adoption, equity securities were designated as available-for-sale and reported at fair value (except for other-than-temporary impairment) with unrealized gains (losses) recorded in other comprehensive income (loss). Changes in fair value of trading securities are included in net income in the accompanying consolidated statements of income in the period in which the change occurred.

Fair value. 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 three fair value measurement categories prescribed by U.S. GAAP.

As of each reporting period, we classify all invested assets in their entirety based on the lowest level of input 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.

OTTI. The determination of whether a decline in fair value of available-for-sale securities below amortized cost is other-than-temporary is subjective. Furthermore, this determination can involve a variety of assumptions and estimates, particularly for invested assets that are not actively traded in established markets. We evaluate a number of quantitative and qualitative factors when determining the impairment status of individual securities, including issuer-specific risks as well as relevant macroeconomic risks.

For available-for-sale securities in an unrealized loss position that we intend to sell or would more-likely-than-not be required to sell before the expected recovery of the amortized cost basis, we recognize an impairment charge for the difference between amortized cost and fair value as a realized investment loss in our statements of income. For available-for-sale securities in an unrealized loss position for which we have no intent to sell and believe that it is not more-likely-than-not that we will be required to sell before the expected recovery of the amortized cost basis, only the amount related to the principal cash flows not expected to be received over the remaining term of the security, or the credit loss component, of the difference between cost and fair value is recognized as a realized investment loss in our statements of income, while the remainder is recognized in other comprehensive income in our statements of comprehensive income.

OTTI analyses that we perform involve the use of estimates, assumptions, and subjectivity. If these factors or future events change, we could experience material OTTI in future periods, which could adversely affect our financial condition, results of operations and the size and quality of our invested assets portfolio.

For additional information on our invested assets, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies), Note 4 (Investments) and Note 5 (Fair Value of Financial Instruments) to our consolidated financial statements included elsewhere in this report.

Results of Operations

Revenues. Our revenues consist of the following:

- *Net premiums.* Reflects direct premiums payable by our policyholders on our in-force insurance policies, primarily term life insurance, net of reinsurance premiums that we pay to reinsurers.
- *Commissions and fees.* Consists primarily of dealer re-allowances earned on the sales of investment and savings products, trail commissions and management fees based on the asset values of client accounts, marketing and support fees from product originators, custodial fees for services rendered in our capacity as nominee on client retirement accounts funded by mutual funds on our servicing platform, recordkeeping fees for mutual funds on our servicing platform, and fees associated with the sale of other distributed products.
- *Net investment income.* Represents income, net of investment-related expenses, generated by our invested asset portfolio, which consists primarily of interest income earned on fixed-maturity investments. Investment income recorded on our held-to-maturity invested asset and the offsetting interest expense recorded for our Surplus Note are included in net investment income.
- *Realized investment gains (losses), including OTTI.* Primarily reflects the difference between amortized cost and amounts realized on the sale of invested assets, as well as OTTI charges.
- *Other, net.* Reflects revenues generated primarily from the fees charged for access to Primerica Online (“POL”), our primary sales force support tool, as well as revenues from the sale of other miscellaneous items.

Benefits and Expenses. Our operating expenses consist of the following:

- *Benefits and claims.* Reflects the benefits and claims payable on insurance policies, as well as changes in our reserves for future policy claims and reserves for other benefits payable, net of reinsurance.
- *Amortization of DAC.* Represents the amortization of capitalized costs directly associated with the sale of an insurance policy or segregated fund, including sales commissions, medical examination and other underwriting costs, and other eligible policy issuance costs.
- *Sales commissions.* Represents commissions to the sales representatives in connection with the sale of investment and savings products, and products other than insurance products.
- *Insurance expenses.* Reflects non-capitalized insurance expenses, including staff compensation, technology and communications, insurance sales force-related costs, printing, postage and distribution of insurance sales materials, outsourcing and professional fees, premium taxes, and other corporate and administrative fees and expenses related

to our insurance operations. Insurance expenses also include both indirect policy issuance costs and costs associated with unsuccessful efforts to acquire new policies.

• *Insurance commissions.* Reflects sales commissions with respect to insurance products that are not eligible for deferral.

• *Interest expense.* Reflects interest on our notes payable, any interest and the commitment fee on our revolving credit facility, the financing charges related to the letter of credit issued under the credit facility agreement with Deutsche Bank (the “Peach Re Credit Facility Agreement”), fees paid for the credit enhancement feature on our held-to-maturity invested asset, and a finance charge incurred pursuant to one of our coinsurance agreements with an IPO coinsurer.

• *Other operating expenses.* Consists primarily of expenses that are unrelated to the distribution of insurance products, including staff compensation, technology and communications, various sales force-related costs, non-bank custodial and recordkeeping administrative costs, outsourcing and professional fees, and other corporate and administrative fees and expenses.

Insurance expenses and other operating expenses directly attributable to the Term Life Insurance and the Investment and Savings Products segments are recorded directly to the applicable segment. We allocate certain other revenue and operating expenses that are not directly attributable to a specific operating segment based on the relative sizes of the life-licensed and securities-licensed sales forces. These allocated items include fees charged for access to POL and costs incurred for field technology, supervision, training and certain other costs. We also allocate certain technology and occupancy costs to our operating segments based on estimated usage. Costs that are not directly charged or allocated to our two primary operating segments are included in our Corporate and Other Distributed Products segment.

Primerica, Inc. and Subsidiaries Results. Our results of operations for the years ended December 31, 2018, 2017, and 2016 were as follows:

	Year ended December 31,			2018 vs. 2017 change		2017 vs. 2016 change	
	2018	2017	2016	$	%	$	%
	(Dollars in thousands)						
Revenues:							
Direct premiums	$2,667,104	$2,562,109	$2,444,268	$104,995	4 %	$117,841	5 %
Ceded premiums	(1,581,164)	(1,600,771)	(1,600,559)	(19,607)	(1)%	212	*
Net premiums	1,085,940	961,338	843,709	124,602	13 %	117,629	14 %
Commissions and fees	677,607	591,317	541,686	86,290	15 %	49,631	9 %
Investment income net of investment expenses	118,915	105,882	97,905	13,033	12 %	7,977	8 %
Interest expense on surplus note	(37,485)	(26,865)	(18,880)	10,620	40 %	7,985	42 %
Net investment income	81,430	79,017	79,025	2,413	3 %	(8)	*
Realized investment gains (losses), including other-than-temporary impairment losses	(2,121)	1,339	4,088	(3,460)	(258)%	(2,749)	(67)%
Other, net	56,987	56,091	50,576	896	2 %	5,515	11 %
Total revenues	1,899,843	1,689,102	1,519,084	210,741	12 %	170,018	11 %
Benefits and expenses:							
Benefits and claims	457,583	416,019	367,655	41,564	10 %	48,364	13 %
Amortization of DAC	239,730	209,399	180,582	30,331	14 %	28,817	16 %
Sales commissions	335,384	297,988	272,815	37,396	13 %	25,173	9 %
Insurance expenses	168,156	147,280	132,348	20,876	14 %	14,932	11 %
Insurance commissions	24,490	21,108	17,783	3,382	16 %	3,325	19 %
Interest expense	28,809	28,488	28,691	321	1 %	(203)	(1)%
Other operating expenses	229,607	189,300	181,615	40,307	21 %	7,685	4 %
Total benefits and expenses	1,483,759	1,309,582	1,181,489	174,177	13 %	128,093	11 %
Income before income taxes	416,084	379,520	337,595	36,564	10 %	41,925	12 %
Income taxes	91,990	29,265	118,181	62,725	214 %	(88,916)	(75)%
Net income	$324,094	$350,255	$219,414	$(26,161)	(7)%	$130,841	60 %

* Less than 1%

Total revenues. Total revenues increased in 2018 from 2017 primarily due to the incremental premiums on term life insurance policies that are not subject to the IPO coinsurance transactions. The run-off of business subject to these transactions is reflected in the decline in ceded premiums. Additionally, the higher level of term life insurance policy sales in recent periods contributed to the increase in both direct and net premiums. Commissions and fees from our Investment and Savings Products segment increased largely due to growth in client asset values and higher investment and savings product sales. Also contributing to the increase in commissions and fees was $26.8 million of higher account-based revenue primarily from revised contracts with a mutual fund provider and a service provider that expanded the scope of the Company's transfer agent recordkeeping platform.

Net investment income increased in 2018 over 2017 by $8.2 million from growth in the size of our invested asset portfolio. Lower portfolio yields in 2018 offset this growth by $6.2 million. Investment income net of investment expenses includes interest earned on our held-to-maturity invested asset, which is completely offset by interest expense on the Surplus Note, thereby eliminating any impact on net investment income. Amounts recognized for each line item will remain offsetting and will fluctuate from period to period along with the principal amounts of the held-to-maturity asset and the Surplus Note based on the balance of reserves being contractually supported under a redundant reserve financing transaction used by Vidalia Re, Inc. ("Vidalia Re"), a special purpose financial captive insurance company and wholly owned subsidiary of Primerica Life Insurance Company ("Primerica Life"). For more information on the Surplus Note, see Note 10 (Debt) and for additional information on the redundant reserve financing transaction used by Vidalia Re, see Note 4 (Investments) to our consolidated financial statements included elsewhere in this report.

The change in realized investment gains (losses), including OTTI losses from 2017 to 2018 was largely due to the adoption of ASU 2016-01 in 2018 that resulted in the recognition of $2.5 million of net losses for the change in fair value of equity securities that would have been recorded as other comprehensive income (loss) prior to the adoption of ASU 2016-01. This net loss was partially offset by $0.3 million in net gains recognized from the sale of certain securities.

In 2017, total revenues increased from 2016 primarily due to the cumulative effect of incremental premiums on term life insurance policies that are not subject to the IPO coinsurance transactions, as well as higher direct premiums reflecting strong term life insurance policy sales. Commissions and fees from our Investment and Savings Products segment increased in 2017 from 2016 largely as a result of growth in client asset values, reflecting strong market performance and positive net flows. Net investment income in 2017 remained consistent with 2016. The positive impact from a larger invested asset portfolio of $5.6 million was mostly offset by the portfolio's lower yield from continued low reinvestment rates of $2.9 million as well as the impact of $2.2 million attributable to lower total return on the deposit asset backing the 10% coinsurance agreement that is subject to deposit method accounting.

Realized investment gains (losses), including OTTI losses were lower in 2017 compared to 2016 primarily due to gains recognized in the second quarter of 2016 from the sale of certain securities executed to reduce the Company's exposure to specific issuers.

Other, net revenues increased in 2017 from 2016 mostly due to the increase in fees collected for POL as a result of subscriber growth that coincided with growth in the size of the sales force. Similarly, the increase in these fees was accompanied by higher technology spending incurred primarily to support and enhance POL as noted below in the "Total benefits and expenses" section.

Total benefits and expenses. Total benefits and expenses increased in 2018 from 2017 primarily due to growth in premium-related costs, which include benefits and claims and amortization of DAC. Although benefits and claims increased in 2018 versus 2017, the rate of growth was slower than the rate of net premium growth as claims experience for 2018 was favorable relative to 2017 by approximately $4 million. This is believed to be normal claims volatility/fluctuation. Insurance expenses and other operating expenses increased reflecting higher costs of $25.2 million in performing transfer agent recordkeeping services largely from the revised contracts discussed above as well as $9.1 million of increased spending on initiatives as a result of savings from the Tax Reform Act. Also contributing to the increase in insurance expenses and other operating expenses was incremental spending of $7.5 million on digital development and other technology initiatives, and $7.2 million of higher employee-related costs and other expenses incurred to support growth in the business.

Total benefits and expenses increased in 2017 from 2016 largely due to growth in premium-related costs, which include benefits and claims and amortization of DAC. The increase in sales commissions was in line with the growth in commissions and fees revenue. Insurance expenses and other operating expenses increased largely due higher spending of $8.7 million in technology-related costs primarily associated with POL, higher employee-related expenses of $6.1 million, and higher growth-related expenses of $5.4 million associated with our Investment and Savings Products and Term Life Insurance products.

Income taxes. Our effective income tax rate of 22.1% in 2018 reflects the new lower tax rate as well as $2.7 million of lower income tax expenses resulting from adjustments to the provisional amounts recognized due to the enactment of the Tax Reform Act in 2017. For more information on adjustments to the provisional amounts recognized due to the enactment of the Tax Reform Act, see Note 11 (Income Taxes) to our consolidated financial statements included elsewhere in this report.

Our effective income tax rate declined to 7.7% in 2017 from 35.0% in 2016. The largest factor driving the decline in the effective income tax rate was the recognition of the transition impact of the Tax Reform Act. In 2017, we recognized the impact from the reduction in the U.S. federal tax rate from 35% to 21% that is expected to be in effect when our net U.S. deferred tax liabilities reverse, which resulted in an income tax benefit of $98.5 million of our 2017 income before income taxes. Partially offsetting the income tax benefit recognized for the transition impact of the Tax Reform Act is approximately $3.0 million of one-time income tax expense due to the inclusion of mandatory deemed repatriation of earnings attributable to our Canadian subsidiaries.

For additional information, see the discussions of results of operations by segment below.

Term Life Insurance Segment. Our results for the Term Life Insurance segment for the years ended December 31, 2018, 2017, and 2016 were as follows:

	Year ended December 31,			2018 vs. 2017 change		2017 vs. 2016 change	
	2018	2017	2016	$	%	$	%
	(Dollars in thousands)						
Revenues:							
Direct premiums	$2,640,830	$2,534,068	$2,413,340	$106,762	4 %	$120,728	5 %
Ceded premiums	(1,573,751)	(1,593,011)	(1,591,133)	(19,260)	(1)%	1,878	*
Net Premiums	1,067,079	941,057	822,207	126,022	13%	118,850	14%
Allocated net investment income	13,747	9,931	7,634	3,816	38%	2,297	30%
Other, net	42,374	41,236	36,541	1,138	3 %	4,695	13%
Total revenues	1,123,200	992,224	866,382	130,976	13%	125,842	15%
Benefits and expenses:							
Benefits and claims	441,775	398,212	350,640	43,563	11%	47,572	14%
Amortization of DAC	228,613	201,751	172,812	26,862	13%	28,939	17%
Insurance expenses	160,645	139,876	125,268	20,769	15%	14,608	12%
Insurance commissions	10,263	6,728	4,301	3,535	53%	2,427	56%
Total benefits and expenses	841,296	746,567	653,021	94,729	13%	93,546	14%
Income before income taxes	$281,904	$245,657	$213,361	36,247	15%	32,296	15%

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*Less than 1%

Net premiums. Direct premiums increased in 2018 from 2017 largely due to the higher level of new policies issued in recent years. The decline in ceded premiums includes $63.5 million in lower coinsurance ceded premiums due to the run-off of business subject to the IPO coinsurance transactions, which declined more than the prior year due to policies reaching the end of their initial level term period no longer being ceded under the IPO coinsurance transactions. Partially offsetting the run-off of business subject to IPO transactions was $44.3 million in higher non-level YRT reinsurance ceded premiums as business not subject to the IPO coinsurance transactions ages. The continued impact from the increase in direct premiums combined with the decrease in ceded premiums caused net premiums to grow at a higher rate than direct premiums.

Direct premiums grew in 2017 from 2016 primarily due to the increase in the number of new policies issued and growth in the in-force book of business. The change in ceded premiums includes $46.8 million in higher non-level YRT reinsurance ceded premiums as business not subject to the IPO coinsurance transactions ages, largely offset by $44.9 million in lower coinsurance ceded premiums due to the run-off of business subject to the IPO coinsurance transactions. The continued impact from the increase in direct premiums combined with the minimal change in ceded premiums caused net premiums to grow at a higher rate than direct premiums. Additionally, beginning in 2017, policies reaching the end of their initial level term period are no longer ceded under the IPO coinsurance transactions, which further contributed to the increase in net premiums.

Benefits and claims. Benefits and claims increased in 2018 from 2017, although at a slower rate than the increase in net premiums, primarily due to claims experience as discussed earlier in “Total benefits and expenses” under the consolidated “Primerica, Inc. and Subsidiaries Results” section. YRT rate reductions negotiated for 2014 and later issue years continues to dampen the growth in benefits and claims relative to the growth in net premiums.

Benefits and claims increased in 2017 from 2016 primarily due to the growth in net premiums. Actual life claims experience in the first half of 2017 negatively impacted benefits and claims by $6 million. However, this impact from claims experience was mostly offset by YRT rate reductions negotiated for 2014 and later issue years, which continues to dampen the growth in benefits and claims relative to the growth in net premiums.

Amortization of DAC. The amortization of DAC increased in 2018 from 2017 largely due to growth in net premiums. Persistency was generally consistent with prior year.

Amortization of DAC increased in 2017 from 2016 primarily due to growth in net premiums. The increase in DAC amortization was higher than the increase in net premiums due to comparatively weaker early-duration persistency primarily during the first half of 2017.

Insurance expenses. Insurance expenses increased in 2018 from 2017 largely due to higher employee-related costs and other expenses of $7.2 million incurred to support growth in the business as well as increased spending of $5.1 million on initiatives entered into as a result of savings from the Tax Reform Act. Also contributing to the year-over-year increase in insurance expenses was incremental spending of $5.3 million on growth-related expenses and $3.2 million of higher costs on digital development and other technology initiatives.

Insurance expenses increased in 2017 from 2016 primarily due to higher spending of $5.9 million in technology-related costs primarily associated with POL, higher employee-related expenses of $3.7 million, and net higher growth-related expenses of $2.8 million. These higher growth-related expenses from increased premiums is net of $3.3 million of benefits reflecting lower retaliatory premium taxes and representative licensing fees we incurred due to changing the state of domicile of Primerica Life to Tennessee in December 2017.

Insurance commissions. Insurance commissions increased in 2018 from 2017 and in 2017 from 2016 primarily due to higher non-deferred commissions on new business reflecting revisions in the sales force equity program, which changed the timing of expense recognition, but not the economics of the program.

Investment and Savings Products Segment. Our results of operations for the Investment and Savings Products segment for the years ended December 31, 2018, 2017, and 2016 were as follows:

	Year ended December 31,			2018 vs. 2017 change		2017 vs. 2016 change	
	2018	2017	2016	$	%	$	%
	(Dollars in thousands)						
Revenues:							
Commissions and fees:							
Sales-based revenues	$259,991	$233,005	$227,320	$26,986	12%	$5,685	3 %
Asset-based revenues	303,652	275,157	237,604	28,495	10%	37,553	16%
Account-based revenues	81,802	55,030	50,861	26,772	49%	4,169	8 %
Other, net	9,631	9,555	8,836	76	1 %	719	8 %
Total revenues	655,076	572,747	524,621	82,329	14%	48,126	9 %
Expenses:							
Amortization of DAC	9,766	6,168	6,148	3,598	58%	20	*
Insurance commissions	12,567	12,505	11,456	62	*	1,049	9 %
Sales commissions:							
Sales-based	185,221	166,061	160,674	19,160	12%	5,387	3 %
Asset-based	133,943	118,513	99,639	15,430	13%	18,874	19%
Other operating expenses	139,667	106,664	102,348	33,003	31%	4,316	4 %
Total expenses	481,164	409,911	380,265	71,253	17%	29,646	8 %
Income before income taxes	$173,912	$162,836	$144,356	$11,076	7 %	$18,480	13%

*Less than 1%

Commissions and fees. Commissions and fees increased in 2018 from 2017 largely due to growth in asset-based revenues reflecting higher average client asset values driven by favorable market performance and growth in managed account sales. Sales-based revenues increased driven by strong investment and savings product sales fueled by investors demand for variable annuity and mutual fund products. Account-based revenues increased by $26.8 million primarily due to revised contracts with a mutual fund provider and a service provider that expanded the scope of the Company's transfer agent recordkeeping platform beginning in 2018. The increase in account-based revenues from this contract, while mostly offset by higher other operating expenses incurred to service this contract, contributed $2.5 million to income before income taxes in 2018.

Commissions and fees increased in 2017 from 2016 primarily due to growth in asset-based revenues, reflecting higher average client asset values as a result of market appreciation and net positive inflows. Sales-based revenues also contributed to the increase in commissions and fees due to higher product sales during the first half of 2017 while being partially offset by the change in sales mix towards product offerings with lower sales-based commission rates. Account-based revenues increased due to a change in our account-based fee structure on U.S. qualified accounts since the prior year and a shift in mix among fund families on our recordkeeping platform, as well as an increase in the average number of positions and accounts for which we earn recordkeeping fees and custodial fees, respectively.

Amortization of DAC. Amortization of DAC increased in 2018 from 2017 largely due to unfavorable market performance of the funds underlying our Canadian segregated funds in the first and fourth quarters of 2018.

In 2017, amortization of DAC on our Canadian segregated funds product remained consistent with 2016 while each year experienced favorable market performance of the underlying funds and redemptions experience that was better than the original assumptions. The redemption assumption was reduced in both years based on emerging product experience.

Sales commissions. The increase in sales-and asset-based commissions in 2018 from 2017 and in 2017 from 2016 was relatively consistent with the growth in sales- and asset-based revenues, respectively. When considering that asset-based expenses for our Canadian segregated funds were reflected within insurance commissions and amortization of DAC, the increase in asset-based commissions was relatively consistent with the increase in asset-based revenues excluding Canadian segregated funds.

Other operating expenses. Other operating expenses increased in 2018 from 2017 primarily due to $25.2 million of higher costs in performing transfer agent recordkeeping services largely from the revised contracts discussed above, increased spending of $5.5 million to support growth in the business, and $2.4 million of incremental spending on initiatives entered into as a result of savings from the Tax Reform Act and digital development and other technology initiatives.

Other operating expenses increased in 2017 from 2016 largely due to growth in expenses of $2.4 million based on client assets, higher costs of $1.8 million related to the launch of the new Primerica Advisors Lifetime Investment Platform during the second quarter of 2017, and technology spending of $1.7 million for a new sales tool to support the agents' distribution of products. These increases in other operating expenses were partially offset by $1.4 million of lower costs related to preparation for implementation of the fiduciary rule that was proposed by the Department of Labor in 2016 but ultimately was vacated in federal court.

Corporate and Other Distributed Products Segment. Our results of operations for the Corporate and Other Distributed Products segment for the years ended December 31, 2018, 2017, and 2016 were as follows:

	Year ended December 31,			2018 vs. 2017 change		2017 vs. 2016 change	
	2018	2017	2016	$	%	$	%
	(Dollars in thousands)						
Revenues:							
Direct premiums	$26,274	$28,041	$30,928	$(1,767)	(6)%	$(2,887)	(9)%
Ceded premiums	(7,413)	(7,760)	(9,426)	(347)	(4)%	(1,666)	(18)%
Net Premiums	18,861	20,281	21,502	(1,420)	(7)%	(1,221)	(6)%
Commissions and fees	32,162	28,125	25,901	4,037	14%	2,224	9%
Allocated investment income net of investment expenses	105,168	95,951	90,271	9,217	10%	5,680	6%
Interest expense on surplus note	(37,485)	(26,865)	(18,880)	10,620	40%	7,985	42%
Allocated net investment income	67,683	69,086	71,391	(1,403)	(2)%	(2,305)	(3)%
Realized investment gains (losses), including other-than-temporary impairment losses	(2,121)	1,339	4,088	(3,460)	(258)%	(2,749)	(67)%
Other, net	4,982	5,300	5,199	(318)	(6)%	101	2%
Total revenues	121,567	124,131	128,081	(2,564)	(2)%	(3,950)	(3)%
Benefits and expenses:							
Benefits and claims	15,808	17,807	17,015	(1,999)	(11)%	792	5%
Amortization of DAC	1,351	1,480	1,622	(129)	(9)%	(142)	(9)%
Insurance expenses	7,511	7,404	7,080	107	1%	324	5%
Insurance commissions	1,660	1,875	2,026	(215)	(11)%	(151)	(7)%
Sales commissions	16,220	13,414	12,502	2,806	21%	912	7%
Interest expense	28,809	28,488	28,691	321	1%	(203)	(1)%
Other operating expenses	89,940	82,636	79,267	7,304	9%	3,369	4%
Total benefits and expenses	161,299	153,104	148,203	8,195	5%	4,901	3%
Loss before income taxes	$(39,732)	$(28,973)	$(20,122)	$10,759	37%	$8,851	44%

Total revenues. Total revenues decreased in 2018 from 2017 driven by the change in realized investment gains (losses), including OTTI losses as discussed earlier in “Total revenues” under the consolidated “Primerica, Inc. and Subsidiaries Results” section. Also contributing to the decrease in total revenues was lower allocated net investment income, which is a function of allocating more consolidated net investment income to the Term Life segment given the rise in its U.S. GAAP-measured future policy benefit reserves. For information regarding the change in consolidated net investment income, refer to “Total revenues” under the consolidated “Primerica, Inc. and Subsidiaries Results” section. In addition, net premiums decreased due to the run-off of NBLIC’s discontinued lines of insurance. The decrease in total revenues were partially offset by the increase in commissions and fees. Commissions and fees increased by $2.2 million due to the increase in sales of an ancillary product added to our other distributed product offerings during 2017. In addition, $1.6 million of the increase is attributable to the application of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASC 606”) on January 1, 2018. The difference in revenue recognized under ASC 606 was mostly attributable to the recognition of variable consideration from the sale of prepaid legal subscriptions and auto and homeowners’ insurance referrals that had been previously constrained. We recognized this variable consideration as the uncertainty associated with the revenue, namely the collection of ongoing commissions for renewed subscriptions and policies sold prior to 2018, was resolved. Prior to the adoption of ASC 606 in 2017, commissions and fees revenue for these product lines was recognized upon receipt of commissions from the product providers, which is the point in time when the amount became fixed and determinable, and did not incorporate an estimate of variable consideration for future renewal commissions.

Total revenues decreased in 2017 from 2016 due to lower realized investment gains as discussed earlier in “Total revenues” under the consolidated “Primerica, Inc. and Subsidiaries Results” section. Lower allocated net investment income, which is a function of allocating more consolidated net investment income to the Term Life segment given the rise in its U.S. GAAP-measured future policy benefit reserves also contributed to the decrease in total revenues from 2016 to 2017. For information regarding the change in consolidated net investment income, refer to “Total revenues” under the consolidated “Primerica, Inc. and Subsidiaries Results” section. Total revenues also declined in 2017 from 2016 as a result of the decline in net premiums due to the ongoing run-off of NBLIC’s discontinued lines of insurance. These decreases in total revenues were partially offset by the increase in commissions and fees due to the stronger sales of other fee-based distributed products, which led to the higher collection of initial sales and renewal commissions.

Total Benefits and Expenses. Total benefits and expenses increased in 2018 from 2017 largely due to higher aggregate spending of $6.0 million on initiatives entered into as a result of savings from the Tax Reform Act and digital development and other technology initiatives. Sales commission increased $2.8 million reflecting higher commission and fees revenues. The increase in total benefits and expenses was partially offset by a decline in benefits and claims of $2.0 million due to the run-off of the closed blocks of business issued by NBLIC.

Total benefits and expenses increased in 2017 from 2016 primarily due to higher employee-related equity award expense and agent-related support costs from hurricane-affected areas in Puerto Rico and Texas.

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. In addition, as of December 31, 2018, 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 or any industry concentrations of corporate bonds that represented more than 10% of the fair value of our available-for-sale invested asset portfolio.

We invest a portion of our portfolio in assets denominated in Canadian dollars to support our Canadian operations. 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 also 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, 2030, was obtained in exchange for the Surplus Note of equal principal amount issued by Vidalia Re. For more information on the LLC Note, see Note 4 (Investments) to our 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.

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

	December 31, 2018		December 31, 2017	
	Fair value	Cost or amortized cost	Fair value	Cost or amortized cost
U.S. government and agencies	1%	1%	1%	1%
Foreign government	6%	6%	6%	6%
States and political subdivisions	2%	2%	3%	3%
Corporates	60%	60%	61%	61%
Mortgage- and asset-backed securities	17%	17%	15%	15%
Short-term investments	*	*	n/a	n/a
Equity securities	2%	2%	2%	1%
Trading securities	1%	1%	*	*
Cash and cash equivalents	11%	11%	12%	13%
Total	100%	100%	100%	100%

*Less than 1%.

The composition and duration of our portfolio will vary depending on several factors, including the yield curve and our opinion of the relative value among various asset classes. The year-end average rating, duration and book yield of our fixed-maturity portfolio (excluding our held-to-maturity security) were as follows:

	December 31, 2018	December 31, 2017
Average rating of our fixed-maturity portfolio	A	A
Average duration of our fixed-maturity portfolio	3.5 years	3.8 years
Average book yield of our fixed-maturity portfolio	3.89%	3.97%

Ratings for our investments in fixed-maturity securities are determined using Nationally Recognized Statistical Rating Organizations designations and/or equivalent ratings. The distribution of our investments in fixed-maturity securities (excluding our held-to-maturity security) by rating, including those classified as trading securities, were as follows:

	December 31, 2018		December 31, 2017	
	Amortized cost [(1)]	%	Amortized cost [(1)]	%
	(Dollars in thousands)			
AAA	$444,466	21 %	$360,622	19 %
AA	217,541	10 %	158,574	8 %
A	469,044	22 %	417,047	22 %
BBB	898,694	43 %	875,846	47 %
Below investment grade	59,368	3 %	66,136	4 %
Not rated	3,319	*	3,901	*
Total	$2,092,432	100%	$1,882,126	100%

(1) Includes trading securities at carrying value and available-for-sale securities at amortized cost.
*Less than 1%.

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

	December 31, 2018			
Issuer	Fair value	Amortized cost [(1)]	Unrealized gain (loss)	Credit rating
	(Dollars in thousands)			
Government of Canada	$23,228	$23,027	$ 201	AAA
Comcast Corp	13,205	13,248	(43)	A-
Wells Fargo & Co	12,974	13,207	(233)	A-
Province of Quebec Canada	12,957	12,299	658	AA-
Morgan Stanley	11,973	12,049	(76)	A+
Bank of America Corp	11,741	11,837	(96)	A-
Province of British Columbia Canada	11,540	11,497	43	AAA
Office Properties Income Trust	11,405	11,456	(51)	BBB-
Province of Alberta Canada	10,897	10,877	20	A+
Province of Ontario Canada	10,799	10,566	233	A+
Total – ten largest holdings	$130,719	$130,063	$ 656	
Total – fixed-maturity securities	$2,083,245	$2,092,432		
Percent of total fixed-maturity securities	6 %	6 %		

(1) Includes trading securities at carrying value and available-for-sale securities at amortized cost.

For additional information on our invested asset portfolio, see Note 4 (Investments) and Note 5 (Fair Value of Financial Instruments) to our consolidated financial statements included elsewhere in this report.

Other Significant Assets and Liabilities. The balances of and changes in other significant assets and liabilities were as follows:

	December 31,		Change	
	2018	2017	$	%
	(Dollars in thousands)			
Assets:				
Reinsurance recoverables	$4,141,569	$4,205,173	$(63,604)	(2)%
Deferred policy acquisition costs, net	2,133,920	1,951,892	182,028	9 %
Liabilities:				
Future policy benefits	$6,168,157	$5,954,524	$213,633	4 %

Reinsurance recoverables. Reinsurance recoverables reflects future policy benefit reserves and claim reserves due from third-party reinsurers, including the IPO coinsurers. Reinsurance recoverables as of December 31, 2018 decreased compared with December 31, 2017 primarily due to the continued run-off of business that is ceded to the IPO coinsurers. In addition, the impact that the lower Canadian spot rate had on the U.S. dollar translated balance of Canadian reinsurance recoverables contributed to the decrease from December, 31 2017 to December 31, 2018.

Deferred policy acquisition costs, net. The increase in DAC was primarily a result of the cumulative impact of incremental commissions and expenses deferred as a result of new business in 2018 not subject to the IPO coinsurance agreements.

Future policy benefits. The increase in future policy benefits was primarily a result of the growth in our in-force book of business.

For additional information, see the notes to our 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 of our common stock outstanding. During 2018, our life insurance underwriting companies declared and paid ordinary dividends of $222.8 million to the Parent Company. See Note 15 (Statutory Accounting and Dividend Restrictions) to our consolidated financial statements included elsewhere in this report for more information on insurance subsidiary dividends and statutory restrictions. In addition, in 2018 our non-life insurance subsidiaries declared and paid dividends of $80.1 million to the Parent Company. At December 31, 2018, the Parent Company had cash and invested assets of $151.8 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 the 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 changes in cash and cash equivalents were as follows:

	Year ended December 31,		
	2018	2017	2016

	(In thousands)		
Net cash provided by (used in) operating activities	$478,067	$391,544	$294,427
Net cash provided by (used in) investing activities	(232,801)	(131,301)	(47,923)
Net cash provided by (used in) financing activities	(260,997)	(193,461)	(187,394)
Effect of foreign exchange rate changes on cash	(2,093)	1,204	572
Change in cash and cash equivalents	$(17,824)	$67,986	$59,682

Operating activities. Cash provided by operating activities increased in 2018 from 2017 driven by growth in cash receipts from the collection of premium revenues in excess of benefits and claims paid in our Term Life Insurance segment. The impact of direct premium growth and the additional layering of net premiums from term life insurance policies not subject to the IPO coinsurance transactions has continued to generate positive incremental cash.

The increase in cash flows from operating activities during 2017 versus 2016 was also driven by higher cash receipts from the collection of premium revenues in excess of benefits and claims paid in our Term Life Insurance segment. Growth in direct premiums as well as the additional layering of net premiums from term life insurance policies not subject to the IPO coinsurance transactions also generated positive incremental cash flows in 2017 compared with 2016. In addition, the timing of receipts for reinsured claims net of reinsurance premiums owed to the IPO coinsurers as of year-end contributed to the increase in cash provided by operating activities in 2017 as compared with 2016. The increase in operating cash flows was partially offset by higher year-over-year payments for policy acquisition costs associated with the increase in issued term life insurance policies in 2017 as well as the timing impact of Canadian income tax remittances attributable to the 2016 tax year.

Investing activities. Cash used in investing activities increased in 2018 from 2017 largely due to higher use of cash to purchase investments in fixed-maturity securities as the size of our investment portfolio continued to grow along with the growth of our in-force term life business. These purchases were partially offset by an increase in fixed-maturity investments that matured in 2018 compared to 2017.

The largest item affecting the 2017 versus 2016 increase in cash used in investing activities was the higher use of cash in 2017 to purchase investments in fixed-maturity securities compared with 2016 as the size of our investment portfolio continued to grow along with the growth of our in-force term life business. Additionally, in 2017 the Company had a lower level of fixed-maturity securities that matured and it sold fewer fixed-maturity securities versus the comparable period in 2016.

Financing activities. The increase in cash used in financing activities in 2018 compared to 2017 was primarily due to higher repurchases of common stock on a year-over-year basis under the larger share repurchase program in place during 2018 versus 2017. Also contributing to the increase in cash used in financing activities in 2018 versus 2017 was higher per share dividends that were declared and paid to shareholders.

Cash used in financing activities during 2017 increased modestly compared to the same period in 2016 primarily due to higher tax withholdings on the vesting of employee equity awards as a result of the increased market share price of our common stock. In addition, the per share increase in stockholder dividends declared by the Company in 2017 versus 2016 also contributed to the increase in cash used in financing activities.

Risk-Based Capital (“RBC”). The National Association of Insurance Commissioners (“NAIC”) 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 December 31, 2018, our U.S. life insurance subsidiaries maintained statutory capital and surplus substantially in excess of the applicable regulatory requirements and remain 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 December 31, 2018, Primerica Life Insurance Company of Canada was in compliance with Canada’s minimum capital requirements as determined by OSFI.

For more information regarding statutory capital requirements and dividend capacities of our insurance subsidiaries, see Note 15 (Statutory Accounting and Dividend Restrictions) to our consolidated financial statements included elsewhere in this report for more information.

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 through 2017 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.

The NAIC has adopted a model regulation for determining reserves using a principle-based approach ("principle-based reserves" or "PBR"), which is designed to reflect each insurer's own experience in calculating reserves and move away from a standardized reserving formula. Primerica Life adopted PBR during the first quarter of 2018. The adoption of PBR facilitated extending the premium guarantees for Primerica Life for the entire initial term period for new sales. The new principle-based reserve regulation will significantly reduce the statutory policy benefit reserve requirements, but will only apply for business issued after the effective date. As a result, we expect that the adoption of PBR will significantly reduce the need to engage in future redundant reserve financing transactions for business issued after the effective date. See Note 4 (Investments), Note 10 (Debt) and Note 16 (Commitments and Contingent Liabilities) to our 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 issued at a price of 99.843% 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 December 31, 2018. No events of default occurred on the Senior Notes during the year ended December 31, 2018.

Financial Ratings. As of December 31, 2018, the investment grade credit ratings for our Senior Notes were as follows:

Agency	Senior Notes rating
Moody's [1]	Baa1, stable outlook
Standard & Poor's	A-, stable outlook
A.M. Best Company	a-, stable outlook

[1] On July 30, 2018, Moody's Investors Service upgraded its credit rating for Primerica, Inc.'s Senior Notes to Baa1, stable outlook from Baa2, positive outlook.

As of December 31, 2018, Primerica Life's financial strength ratings were as follows:

Agency	Financial strength rating
Moody's [1]	A1, stable outlook
Standard & Poor's	AA-, stable outlook
A.M. Best Company	A+, stable outlook

[1] On July 30, 2018, Moody's Investors Service upgraded its financial strength rating for Primerica Life to A1,stable outlook from A2, positive outlook.

Securities Lending. We participate in securities lending transactions with brokers to increase investment income with minimal risk. See Note 4 (Investments) to our consolidated financial statements included elsewhere in this report for additional information.

Short-Term Borrowings. We had no short-term borrowings as of or during the year ended December 31, 2018.

Surplus Note. Vidalia Re issued a Surplus Note in exchange for 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, 2030. For more information on the Surplus Note, see Note 10 (Debt) to our consolidated financial statements included elsewhere in this report.

Off-Balance Sheet Arrangements. We have no transactions, agreements or other contractual arrangements to which an entity unconsolidated with the Company is a party, under which the Company maintains any off-balance sheet obligations or guarantees as of December 31, 2018.

Credit Facility Agreement. We maintain an unsecured $200.0 million revolving credit facility ("Revolving Credit Facility") with a syndicate of commercial banks that has a scheduled termination date of December 19, 2022. Amounts outstanding under the Revolving Credit Facility bear interest at a periodic rate equal to LIBOR or the base rate, plus in either case an applicable margin. The Revolving Credit Facility also permits the issuance of letters of credit. The applicable margins are based on our debt rating with such margins for LIBOR rate loans and letters of credit ranging from 1.125% to 1.625% per annum and for base rate loans ranging from 0.125% to 0.625% per annum. Under the Revolving Credit Facility, we incur a commitment fee that is payable quarterly in arrears and is determined by our debt rating. This commitment fee ranges from 0.125% to 0.225% per annum of the aggregate $200.0 million commitment of the lenders under the Revolving Credit Facility. As of December 31, 2018, no amounts have been drawn under the Revolving Credit Facility and we were in compliance with its covenants. Furthermore, no events of default have occurred under the Revolving Credit Facility in 2018.

Contractual Obligations. Our contractual obligations, including payments due by period, were as follows:

	December 31, 2018					
	Total	Total	Less than	1-3	3-5	More than

	Liability	Payments	1 year	years	years	5 years
	(In millions)					
Future policy benefits	$6,168	$24,557	$1,590	$3,026	$2,848	$17,093
Policy claims and other benefits payable	314	314	314	-	-	-
Other policyholder funds	371	371	371	-	-	-
Long-term debt principal	375	375	-	-	375	-
Interest obligations	8	146	28	56	35	27
Commissions	30	30	29	1	-	-
Purchase obligations	5	42	30	11	1	-
Lease obligations	4	72	8	15	14	35
Income tax payable	23	23	23	-	-	-
Other liabilities	439	414	373	38	1	2
Total contractual obligations	$7,737	$26,344	$2,766	$3,147	$3,274	$17,157

Our liability for future policy benefits represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net benefit premiums to be collected. Net benefit premiums represent the portion of gross premiums required to provide for all benefits and associated expenses. These benefit payments are contingent on policyholders continuing to renew their policies and make their premium payments. Our contractual obligations table discloses the impact of benefit payments that will be due assuming the underlying policy renewals and premium payments continue as expected in our actuarial models. The future policy benefit payments represented in the table are presented on an undiscounted basis, gross of any amounts recoverable through reinsurance agreements and gross of any premiums to be collected. We expect to fully fund the obligations for future policy benefits from cash flows from general account invested assets, claims reimbursed by reinsurers, and from future premiums. These estimations are based on mortality and lapse assumptions comparable with our historical experience. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results.

Policy claims and other benefits payable represents claims and benefits currently owed to policyholders.

Other policyholders' funds primarily represent claim payments left on deposit with us.

Long-term debt principal relates to our Senior Notes.

Interest obligations (reported within other liabilities in our consolidated balance sheets) reflect expected interest on our Senior Notes, the commitment fee on our Revolving Credit Facility, the financing charges related to an issued letter of credit, fees paid for the credit enhancement feature on the LLC Note, and a finance charge incurred pursuant to one of our coinsurance agreements as of December 31, 2018. We did not include the principal or interest on the Surplus Note in the table above as the payments due for these items are contractually offset by the principal and interest on the LLC Note as long as we hold the LLC Note. The Company asserts its positive intent and ability to hold the LLC Note until maturity.

Commissions represent commissions that have been earned by the sales force but have not been paid as of December 31, 2018. We are only obligated to pay commissions as earned from sales of our products. The total liability amount is reported within other liabilities in our consolidated balance sheets.

Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms. These obligations consist primarily of accounts payable and certain accrued liabilities, including committed funds related to meetings and conventions for the sales force, plus a variety of vendor commitments funding our ongoing business operations. The total liability amount is reported within other liabilities in our consolidated balance sheets.

Our lease obligations primarily relate to office, warehouse, printing, and distribution properties. For additional information on leased properties, see "Item 2. Properties" included elsewhere in this report.

Income tax payable represents income taxes owed at year-end.

Other liabilities are obligations reported within the consolidated balance sheets and consist primarily of amounts due under reinsurance agreements and general accruals and payables. The total payments within the table differ from the amounts presented in our consolidated balance sheets due to the exclusion of amounts where a reasonable estimate of the period of settlement cannot be determined.

For additional information concerning our commitments and contingencies, see Note 16 (Commitments and Contingent Liabilities) to our consolidated financial statements included elsewhere in this report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. Sensitivity analysis measures the impact of hypothetical changes in interest rates, foreign exchange rates and other market rates or prices on the profitability of market-sensitive financial instruments.

The following discussion about the potential effects of changes in interest rates and Canadian currency exchange rates is based on shock-tests, which model the effects of interest rate and Canadian exchange rate shifts on our financial condition and results of operations. Although we believe shock tests provide the most meaningful analysis permitted by the rules and regulations of the SEC, they are constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by their inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. Although the following results of shock tests for changes in interest rates and Canadian currency exchange rates may have some limited use as benchmarks, they should not be viewed as forecasts. These disclosures also are selective in nature and address, in the case of interest rates, only the potential direct impact on our financial instruments and, in the case of Canadian currency exchange rates, the potential translation impact on net income from our Canadian subsidiaries. They do not include a variety of other potential factors that could affect our business as a result of these changes in interest rates and Canadian currency exchange rates.

Interest Rate Risk. The fair value of the fixed-maturity securities (excluding the held-to-maturity security) in our invested asset portfolio as of December 31, 2018 and 2017 was $2.1 billion and $1.9 billion, respectively. One of the primary market risks for this portion of our invested asset portfolio is interest rate risk. One means of assessing the exposure of our fixed-maturity securities portfolios to interest rate changes is a duration-based analysis that measures the potential changes in market value resulting from a hypothetical change in interest rates of 100 basis points across all maturities. This model is sometimes referred to as a parallel shift in the yield curve. Under this model, with all other factors constant and assuming no offsetting change in the value of our liabilities, we estimated that such an increase in interest rates would cause the fair value of our fixed-maturity securities portfolios to decline by $64.0 million, or 3%, based on our actual securities positions as of December 31, 2018. For comparative purposes, the same increase in rates would have caused the fair value of our fixed-maturity securities portfolios to decline by $67.0 million, or 3%, based on our actual securities positions as of December 31, 2017.

Canadian Currency Risk. We also have exposure to foreign currency exchange risk to the extent we conduct business in Canada. A strong Canadian dollar relative to the U.S. dollar results in higher levels of reported revenues, expenses, net income, assets, liabilities, and accumulated comprehensive income (loss) in our U.S. dollar financial statements, and a weaker Canadian dollar would have the opposite effect. Generally, our Canadian dollar-denominated assets are held in support of our Canadian dollar-denominated liabilities. For the year ended December 31, 2018, 15% of our revenues from operations, excluding realized investment gains, and 19% of income before income taxes were generated by our Canadian operations. For the year ended December 31, 2017, 16% of our revenues from operations, excluding realized investment gains, and 21% of income before income taxes were generated by our Canadian operations.

One means of assessing exposure to changes in Canadian currency exchange rates is to model the effects on reported income using a sensitivity analysis. We analyzed our Canadian currency exposure for the year ended December 31, 2018. Net exposure was measured assuming a 10% decrease in the value of the Canadian dollar relative to the U.S. dollar. We estimated that such a decrease would decrease our income before income taxes for the year ended December 31, 2018 by $7.8 million.

Our investment in the net assets of our Canadian operations is also subject to Canadian currency risk. If we were to assume a 10% decrease in Canadian currency exchange rates compared to the U.S. dollar, the translated value of our net investment in our Canadian subsidiaries in U.S. dollars would decrease by $27.8 million based on net assets as of December 31, 2018. For comparative purposes, a similar decrease in Canadian currency exchange rates compared to the U.S. dollar would have caused the translated value of our net investment in our Canadian subsidiaries in U.S. dollars to decline by $28.4 million based on net assets as of December 31, 2017. Historically, we have not hedged this exposure, although we may elect to do so in future periods. The impact of translating the balance of net assets of our Canadian operations is recorded in our consolidated balance sheets within the accumulated other comprehensive income component of stockholders' equity.

Credit Risk. We extensively use reinsurance in the United States to diversify our insurance and underwriting risk and to manage our loss exposure to mortality risk. Reinsurance does not relieve us of our direct liability to our policyholders. Due to factors such as insolvency, adverse underwriting results or inadequate investment returns, our reinsurers may not be able to pay the amounts they owe us on a timely basis or at all. Further, reinsurers might refuse or fail to pay losses that we cede to them or might delay payment. To limit our exposure with any one reinsurer, we monitor the concentration of credit risk we have with our reinsurance counterparties, as well as their financial condition. We manage this reinsurer credit risk through analysis and monitoring of the credit-worthiness of each of our reinsurance partners to minimize collection issues. Also, for reinsurance contracts with unauthorized reinsurers, we require collateral such as letters of credit. For information on our reinsurance exposure and reinsurers, see Note 6 (Reinsurance) to our consolidated financial statements included elsewhere in this report.

In connection with the Peach Re Credit Facility Agreement, the Company assumes credit risk associated with Deutsche Bank's ability to make payment to us in fulfillment of its obligations under the letter of credit. Such a draw on the letter of credit would only be requested in the event that the assets held in support of the liabilities assumed by Peach Re were insufficient, which, based on actuarial analysis, is unlikely.

Concurrent with the execution of the Regulation XXX redundant reserve financing transaction between Vidalia Re and Primerica Life, 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 the Surplus Note to the LLC in exchange for the LLC Note of equal principal amount. The Company assumes credit risk associated with a credit enhancement feature provided by

Hannover Re, which bears the obligation to absorb the LLC's losses in the event of a Surplus Note default in exchange for a fee.

For information on the Peach Re Credit Facility Agreement, see Note 16 (Commitments and Contingent Liabilities) and for information on the Surplus Note Purchase Agreement, see Note 4 (Investments) and Note 10 (Debt) to our consolidated financial statements included elsewhere in this report.

We also bear credit risk on our investment portfolio related to the uncertainty associated with the continued ability of an obligor to make timely payments of principal and interest. In an effort to meet business needs and mitigate credit and other portfolio risks, we established investment guidelines that 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition" for details on our investment portfolio, including investment strategy, asset mix, and credit ratings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Primerica, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Primerica, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes and financial statement schedules I, II, III, and IV (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2007.

Atlanta, Georgia

February 26, 2019

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PRIMERICA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2018 (In thousands)	December 31, 2017
Assets:		
Investments:		
Fixed-maturity securities available-for-sale, at fair value (amortized cost: $2,078,822 in 2018 and $1,877,326 in 2017)	$2,069,635	$1,927,842
Fixed-maturity security held-to-maturity, at amortized cost (fair value: $945,331 in 2018 and $779,472 in 2017)	970,390	737,150
Short-term investments available-for-sale, at fair value (amortized cost: $8,171 in 2018 and $0 in 2017)	8,171	-
Equity securities available-for-sale, at fair value (amortized cost: $0 in 2018 and $31,331 in 2017)	-	41,107
Equity securities, at fair value (cost: $34,997 in 2018 and $0 in 2017)	37,679	-
Trading securities, at fair value (cost: $13,597 in 2018 and $6,172 in 2017)	13,610	6,228
Policy loans	31,501	32,816
Total investments	3,130,986	2,745,143
Cash and cash equivalents	262,138	279,962
Accrued investment income	17,057	16,665
Reinsurance recoverables	4,141,569	4,205,173
Deferred policy acquisition costs, net	2,133,920	1,951,892
Agent balances, due premiums and other receivables	265,258	229,522
Intangible assets, net	48,111	51,513
Deferred income taxes	59,336	48,614
Other assets	341,172	359,347
Separate account assets	2,195,501	2,572,872
Total assets	$12,595,048	$12,460,703
Liabilities and Stockholders' Equity:		
Liabilities:		
Future policy benefits	$6,168,157	$5,954,524
Unearned and advance premiums	15,587	15,423
Policy claims and other benefits payable	313,862	307,401
Other policyholders' funds	370,644	363,061
Notes payable	373,661	373,288
Surplus note	969,685	736,381
Income tax payable	22,699	24,896
Deferred income taxes	164,405	152,572
Other liabilities	486,772	451,398
Payable under securities lending	52,562	89,786
Separate account liabilities	2,195,501	2,572,872

Commitments and contingent liabilities *(see Commitments and Contingent Liabilities note)*		
Total liabilities	11,133,535	11,041,602
Stockholders' equity:		
Common stock ($0.01 par value; authorized 500,000 in 2018 and 2017; issued and outstanding 42,694 shares in 2018 and 44,251 shares in 2017)	427	443
Paid-in capital	-	-
Retained earnings	1,489,520	1,375,090
Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	(21,064)	3,995
Net unrealized investment gains (losses) on available-for-sale securities:		
Net unrealized investment gains not other-than-temporarily impaired	(7,253)	39,686
Net unrealized investment losses other-than-temporarily impaired	(117)	(113)
Total stockholders' equity	1,461,513	1,419,101
Total liabilities and stockholders' equity	$12,595,048	$12,460,703

See accompanying notes to consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Consolidated Statements of Income

	Year ended December 31,		
	2018	2017	2016
	(In thousands, except per-share amounts)		
Revenues:			
Direct premiums	$2,667,104	$2,562,109	$2,444,268
Ceded premiums	(1,581,164)	(1,600,771)	(1,600,559)
Net premiums	1,085,940	961,338	843,709
Commissions and fees	677,607	591,317	541,686
Investment income net of investment expenses	118,915	105,882	97,905
Interest expense on surplus note	(37,485)	(26,865)	(18,880)
Net investment income	81,430	79,017	79,025
Realized investment gains (losses), including other-than-temporary impairment losses	(2,121)	1,339	4,088
Other, net	56,987	56,091	50,576
Total revenues	1,899,843	1,689,102	1,519,084
Benefits and expenses:			
Benefits and claims	457,583	416,019	367,655
Amortization of deferred policy acquisition costs	239,730	209,399	180,582
Sales commissions	335,384	297,988	272,815
Insurance expenses	168,156	147,280	132,348
Insurance commissions	24,490	21,108	17,783
Interest expense	28,809	28,488	28,691
Other operating expenses	229,607	189,300	181,615
Total benefits and expenses	1,483,759	1,309,582	1,181,489
Income before income taxes	416,084	379,520	337,595
Income taxes	91,990	29,265	118,181
Net income	$324,094	$350,255	$219,414
Earnings per share:			
Basic earnings per share	$7.35	$7.63	$4.59
Diluted earnings per share	$7.33	$7.61	$4.59
Weighted-average shares used in computing earnings per share:			
Basic	43,854	45,598	47,411
Diluted	43,985	45,689	47,453
Supplemental disclosures:			
Total impairment losses	$(152)	$(1,700)	$(3,420)
Impairment losses recognized in other comprehensive income before income taxes	-	147	-
Net impairment losses recognized in earnings	(152)	(1,553)	(3,420)
Other net realized investment gains (losses)	487	2,892	7,508

Net gains (losses) recognized on equity securities	(2,456)	-	-
Net realized investment gains (losses), including other-than-temporary impairment losses	$(2,121)	$1,339	$4,088

See accompanying notes to consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

	Year ended December 31,		
	2018	2017	2016
	(In thousands)		
Net income	$324,094	$350,255	$219,414
Other comprehensive income (loss) before income taxes:			
Unrealized investment gains (losses) on available-for-sale securities:			
Change in unrealized holding gains (losses) on investment securities	(59,661)	(3,950)	20,500
Reclassification adjustment for realized investment (gains) losses included in net income	(45)	(1,589)	(3,955)
Foreign currency translation adjustments:			
Change in unrealized foreign currency translation gains (losses)	(25,059)	17,383	6,689
Total other comprehensive income (loss) before income taxes	(84,765)	11,844	23,234
Income tax expense (benefit) related to items of other comprehensive income (loss)	(12,690)	(2,126)	5,871
Other comprehensive income (loss), net of income taxes	(72,075)	13,970	17,363
Total comprehensive income	$252,019	$364,225	$236,777

See accompanying notes to consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Year ended December 31,		
	2018	2017	2016
	(In thousands)		
Common stock:			
Balance, beginning of period	$443	$457	$483
Repurchases of common stock	(21)	(19)	(33)
Net issuance of common stock	5	5	7
Balance, end of period	427	443	457
Paid-in capital:			
Balance, beginning of period	-	52,468	180,250
Share-based compensation	26,707	26,095	26,219
Net issuance of common stock	(5)	(5)	(7)
Repurchases of common stock	(26,702)	(78,558)	(153,994)
Balance, end of period	-	-	52,468
Retained earnings:			
Balance, beginning of period	1,375,090	1,138,851	952,804
Cumulative effect from the adoption of new accounting standards, net	24,610	-	-
Net income	324,094	350,255	219,414
Dividends	(44,140)	(35,821)	(33,367)
Repurchases of common stock	(190,134)	(78,195)	-
Balance, end of period	1,489,520	1,375,090	1,138,851
Accumulated other comprehensive income (loss):			
Balance, beginning of period	43,568	29,598	12,235
Cumulative effect from the adoption of new accounting standards, net	73	-	-
Change in foreign currency translation adjustment, net of income tax expense (benefit)	(25,059)	17,188	6,608
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	(47,012)	(3,166)	10,745
Change in net unrealized investment gains (losses) other-than-temporarily impaired	(		