

**SECURIAN FINANCIAL GROUP, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2019



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors and Stockholder
Securian Financial Group, Inc.:

We have audited the accompanying consolidated financial statements of Securian Financial Group, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Securian Financial Group, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

U.S. generally accepted accounting principles require that the incurred and paid claims development information for the years ended December 31, 2018 and prior, and the historical claims duration information as of December 31, 2019, be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Minneapolis, Minnesota
March 3, 2020

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2019 and 2018
(in thousands)

	2019	2018
<u>Assets</u>		
Fixed maturity securities:		
Available-for-sale, at fair value (amortized cost \$20,657,267 and \$17,955,485)	\$ 21,957,854	\$ 17,724,705
Equity securities, at fair value	600,878	497,773
Mortgage loans, net	4,322,318	3,749,228
Alternative investments	727,111	680,315
Derivative instruments	792,403	147,896
Other invested assets	673,942	642,897
Total investments	29,074,506	23,442,814
Cash and cash equivalents	517,760	337,825
Deferred policy acquisition costs	1,416,878	1,996,101
Reinsurance recoverables	1,395,086	1,221,332
Other assets	1,578,361	1,308,759
Separate account assets	29,155,683	23,580,924
Total assets	<u>\$ 63,138,274</u>	<u>\$ 51,887,755</u>
<u>Liabilities and Equity</u>		
Liabilities:		
Policy and contract account balances	\$ 16,080,879	\$ 13,287,298
Future policy and contract benefits	6,394,237	5,188,579
Pending policy and contract claims	690,548	637,684
Other policyholder funds	1,615,340	1,534,766
Unearned premiums and fees	578,605	961,344
Other liabilities	1,706,261	1,083,960
Debt	705,625	755,504
Separate account liabilities	29,155,683	23,580,924
Total liabilities	56,927,178	47,030,059
Equity:		
Common stock, \$.01 par value, 850,000 shares authorized with 100,000 shares issued and outstanding	1	1
Additional paid in capital	89,394	89,394
Accumulated other comprehensive income (loss)	649,627	(272,269)
Retained earnings	5,442,756	5,016,192
Total Securian Financial Group, Inc. and subsidiaries equity	6,181,778	4,833,318
Noncontrolling interests	29,318	24,378
Total equity	6,211,096	4,857,696
Total liabilities and equity	<u>\$ 63,138,274</u>	<u>\$ 51,887,755</u>

See accompanying notes to consolidated financial statements.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income (Loss)
Years ended December 31, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
Revenues:		
Premiums	\$ 3,959,195	\$ 3,213,350
Policy and contract fees	871,411	816,177
Net investment income	1,023,026	913,113
Net realized investment gains (losses)		
Other-than-temporary impairments on fixed maturity securities	(3,983)	(2,677)
Other net realized investment gains (losses)	<u>135,182</u>	<u>(15,075)</u>
Total net realized investment gains (losses)	131,199	(17,752)
Other income	<u>615,740</u>	<u>570,941</u>
Total revenues	<u>6,600,571</u>	<u>5,495,829</u>
Benefits and expenses:		
Policyholder benefits	3,513,814	2,957,201
Interest credited to policies and contracts	671,390	539,841
General operating and other expenses	1,235,611	1,094,488
Commissions	783,994	691,941
Amortization of deferred policy acquisition costs	308,752	274,677
Capitalization of policy acquisition costs	<u>(427,526)</u>	<u>(419,574)</u>
Total benefits and expenses	<u>6,086,035</u>	<u>5,138,574</u>
Income from operations before taxes	514,536	357,255
Income tax expense	<u>77,409</u>	<u>31,118</u>
Net income	437,127	326,137
Less: Net income attributable to noncontrolling interests	<u>2,327</u>	<u>3,722</u>
Net income attributable to Securian Financial Group, Inc. and subsidiaries	<u>\$ 434,800</u>	<u>\$ 322,415</u>
Other comprehensive income (loss), before tax:		
Unrealized holding gains (losses) on securities arising during the period	\$ 1,531,564	\$ (902,092)
Unrealized gains (losses) on securities - other than temporary impairments	(197)	(1,656)
Foreign currency translation adjustment	6,977	(12,062)
Adjustment to deferred policy acquisition costs	(700,711)	405,652
Adjustment to reserves	(155,714)	37,982
Adjustment to unearned premiums and fees	495,494	(316,630)
Adjustment to pension and other retirement plans	<u>(12,221)</u>	<u>58,007</u>
Other comprehensive income (loss), before tax	1,165,192	(730,799)
Income tax benefit (expense) related to items of other comprehensive income	<u>(243,296)</u>	<u>164,245</u>
Other comprehensive income (loss), net of tax	<u>921,896</u>	<u>(566,554)</u>
Comprehensive income (loss)	1,359,023	(240,417)
Less: Comprehensive income attributable to noncontrolling interests	<u>2,327</u>	<u>3,722</u>
Comprehensive income (loss) attributable to Securian Financial Group, Inc. and subsidiaries	<u>\$ 1,356,696</u>	<u>\$ (244,139)</u>

See accompanying notes to consolidated financial statements.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
Years ended December 31, 2019 and 2018
(in thousands)

	<u>Common stock</u>	<u>Additional paid in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings</u>	<u>Securian Financial Group, Inc. and subsidiaries equity</u>	<u>Noncontrolling interests</u>	<u>Total equity</u>
2018							
Balance, beginning of year	\$ 1	\$ 89,394	\$ 314,732	\$ 4,682,977	\$ 5,087,104	\$ 25,711	\$ 5,112,815
Comprehensive income (loss):							
Net income	—	—	—	322,415	322,415	3,722	326,137
Other comprehensive income (loss)	—	—	(566,554)	—	(566,554)	—	(566,554)
Total comprehensive income (loss)					(244,139)	3,722	(240,417)
Changes in accounting principles	—	—	(20,447)	20,447	—	—	—
Contributions, dividends and other	—	—	—	(9,647)	(9,647)	—	(9,647)
Change in equity of noncontrolling interests	—	—	—	—	—	(5,055)	(5,055)
Balance, end of year	<u>\$ 1</u>	<u>\$ 89,394</u>	<u>\$ (272,269)</u>	<u>\$ 5,016,192</u>	<u>\$ 4,833,318</u>	<u>\$ 24,378</u>	<u>\$ 4,857,696</u>
2019							
Balance, beginning of year	\$ 1	\$ 89,394	\$ (272,269)	\$ 5,016,192	\$ 4,833,318	\$ 24,378	\$ 4,857,696
Comprehensive income:							
Net income	—	—	—	434,800	434,800	2,327	437,127
Other comprehensive income	—	—	921,896	—	921,896	—	921,896
Total comprehensive income					1,356,696	2,327	1,359,023
Changes in accounting principle	—	—	—	(8,236)	(8,236)	—	(8,236)
Change in equity of noncontrolling interests	—	—	—	—	—	2,613	2,613
Balance, end of year	<u>\$ 1</u>	<u>\$ 89,394</u>	<u>\$ 649,627</u>	<u>\$ 5,442,756</u>	<u>\$ 6,181,778</u>	<u>\$ 29,318</u>	<u>\$ 6,211,096</u>

See accompanying notes to consolidated financial statements.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Year ended December 31, 2019 and 2018
(in thousands)

<u>Cash Flows from Operating Activities</u>	<u>2019</u>	<u>2018</u>
Net income	\$ 437,127	\$ 326,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest credited to annuity and insurance contracts	350,488	273,716
Fees deducted from policy and contract balances	(606,713)	(584,022)
Change in future policy benefits	1,047,921	519,673
Change in other policyholder liabilities, net	580,863	(130,001)
Amortization of deferred policy acquisition costs	308,752	274,677
Capitalization of policy acquisition costs	(427,526)	(419,574)
Net realized investment losses (gains)	(131,199)	17,752
Change in reinsurance recoverables	(173,754)	1,011
Other, net	216,815	(39,694)
Net cash provided by operating activities	<u>1,602,774</u>	<u>239,675</u>
<u>Cash Flows from Investing Activities</u>		
Proceeds from sales of:		
Fixed maturity securities	2,652,265	4,112,214
Equity securities	155,342	241,693
Alternative investments	54,547	88,099
Derivative instruments	332,039	471,461
Other invested assets	48,089	15,187
Proceeds from maturities and repayments of:		
Fixed maturity securities	1,306,044	924,445
Mortgage loans	253,715	193,355
Purchases and originations of:		
Fixed maturity securities	(6,614,435)	(7,088,023)
Equity securities	(159,281)	(201,419)
Mortgage loans	(826,776)	(899,627)
Alternative investments	(130,391)	(111,403)
Derivative instruments	(299,476)	(406,024)
Other invested assets	(13,666)	(11,079)
Other, net	(851,820)	101,267
Net cash used for investing activities	<u>(4,093,804)</u>	<u>(2,569,854)</u>
<u>Cash Flows from Financing Activities</u>		
Deposits credited to annuity and insurance contracts	6,200,316	5,483,134
Withdrawals from annuity and insurance contracts	(3,506,171)	(3,562,261)
Proceeds from issuance of debt	140,100	618,415
Payments on debt	(190,100)	(345,000)
Other, net	26,820	(1,135)
Net cash provided by financing activities	<u>2,670,965</u>	<u>2,193,153</u>
Net increase (decrease) in cash and cash equivalents	179,935	(137,026)
Cash and cash equivalents, beginning of year	337,825	474,851
Cash and cash equivalents, end of year	<u>\$ 517,760</u>	<u>\$ 337,825</u>

See accompanying notes to consolidated financial statements.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2019 and 2018 (in thousands)

(1) Nature of Operations

Organization and Description of Business

The accompanying consolidated financial statements include the accounts of Securian Financial Group, Inc. (SFG) (a wholly-owned subsidiary of Securian Holding Company (SHC)) and its subsidiaries. SFG, through its subsidiaries (collectively, the Company), provides a diversified array of insurance, retirement and investment products and services designed principally to protect and enhance the long-term financial security of individuals and families.

The Company, which primarily operates in the United States, generally offers the following types of products through its various subsidiaries:

- Fixed, indexed and variable universal life, term life and whole life insurance products to individuals through affiliated and independent channel partners.
- Immediate and deferred annuities, with fixed, indexed, and variable investment options through affiliated and independent channel partners.
- Financial advice, investment advisory, and wealth management services.
- Group life insurance and voluntary products to public and private employers.
- Customized retirement options to employers and investment firms through affiliated and independent channel partners as well as direct relationships.
- Life and specialty property and casualty insurance protection through banks, credit unions, and finance companies along with distribution of financial institution products and services.
- Investment and asset management services.

The Company serves over 21 million people through more than 5,000 home office associates and field representatives located at its St. Paul, Minnesota headquarters and in sales offices nationwide.

During December 2019, the Company closed a share purchase transaction to acquire the majority interest of Empyrean Benefit Solutions, Inc. and its affiliates. The acquired business primarily provides employee benefit enrollment and human resources administration services.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of SFG and its subsidiaries. All material intercompany transactions and balances have been eliminated. Certain prior year balances have been reclassified to conform to current year presentation.

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect reported assets and liabilities, including reporting or disclosure of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Future events, including but not limited to, changes in policyholder mortality, policyholder morbidity, interest rates and asset valuations, could cause actual results to differ from the estimates used in the consolidated financial statements, and such changes in estimates are generally recorded on the consolidated statements of operations and comprehensive income (loss) in the period in which they are made.

The most significant estimates include those used in determining the balance of deferred policy acquisition costs, unearned premiums and fees and reinsurance recoverables for traditional and nontraditional insurance products, policyholder liabilities, valuation of and impairment losses on fixed maturity securities and investments for mortgage loans on real estate, income taxes, goodwill, and pension and other postretirement employee benefits obligation. Although some variability is inherent in these estimates, the recorded amounts reflect management's best estimates based on facts and circumstances as of the balance sheet date. Management believes the amounts provided are appropriate.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(2) Summary of Significant Accounting Policies (Continued)

Insurance Revenues and Expenses

Premiums on traditional life insurance products, which include individual whole life and term insurance and immediate and supplemental annuities paid for life, are recognized as revenue when due. Premiums for accident and health and group life insurance products are recognized as revenue over the contract period when earned. To the extent that this revenue is unearned, it is reported as part of unearned premiums and fees on the consolidated balance sheets. Benefits and expenses, including amortization of deferred policy acquisition costs, are recognized in relation to premiums over the contract period via a liability for future policyholder benefits.

Nontraditional life insurance products include individual fixed, indexed and variable universal life insurance and adjustable life insurance and group universal and variable universal life insurance. Revenue from nontraditional life insurance products is comprised of policy and contract fees charged for the cost of insurance, sales loads, policy administration, benefit riders, surrenders and mortality and expense risk charges. Policy and contract fees are assessed on a daily or monthly basis and recognized as revenue when assessed and earned. Expenses include benefits, policy acquisition costs, and interest credited to policy account balances. Deferred policy acquisition costs are amortized relative to the emergence of gross profits.

Revenue from deferred annuities are comprised of policy and contract fees charged for mortality and expense risk, guaranteed benefit riders, and policy administration which are assessed on a daily or monthly basis and recognized when assessed and earned. Expenses include benefits, policy acquisition costs, and interest credited to policy account balances. Deferred policy acquisition costs are amortized relative to the emergence of gross profits.

Any premiums on both traditional and nontraditional products due as of the date of the consolidated financial statements that have not yet been received and posted are included in other assets on the consolidated balance sheets.

Certain nontraditional life insurance products, specifically individual fixed, indexed and variable universal life insurance, require payment of fees in advance for services that will be rendered over the estimated lives of the policies. These payments are established as unearned revenue reserves (URR) when assessed and are included in unearned premiums and fees on the consolidated balance sheets. These URRs are amortized over the estimated lives of these policies in relation to the emergence of gross profits and changes in estimates are included on the consolidated statements of operations and comprehensive income (loss). Changes in assumptions can have a significant impact on the amount of URR reported for certain nontraditional life insurance products and the related amortization patterns. In the event actual experience differs from expected experience or future assumptions are revised to reflect management's new best estimate, the Company records an increase or decrease in URR amortization, which could be significant. Unearned revenue reserves are adjusted to reflect the impact of unrealized gains and losses on fixed maturity securities available-for-sale. The adjustment represents the changes in amortization that would have been recorded had such unrealized amounts been realized. This adjustment is recorded through other comprehensive income (loss) on the consolidated statements of operations and comprehensive income (loss).

Revenue from Contracts with Customers

The Company earns commission income on the distribution of insurance and investment related products. Commission income on insurance and investment related products is recognized as earned, and it is probable that a significant reversal in the amount of the commission will not occur. The performance obligation is either satisfied at time of sale for placing the product, or it is satisfied over the time the client owns the investment or holds the contract (trailing distribution income). Commission income is calculated as a fixed rate applied, as a percentage, to the net asset value of the fund or value of the insurance product distributed. Trailing distribution income is not recognized at the time of sale because it is variable constrained due to factors outside of the Company's control including market volatility and client behavior. Commission income recognized at a point in time for the years ended December 31, 2019 and 2018 was \$213,469 and \$191,268, respectively. Trailing distribution income recognized over time for the years ended December 31, 2019 and 2018 was \$48,913 and \$46,339, respectively. Commission income is received and recognized weekly, monthly, or quarterly, and is recognized in other income on the consolidated statements of operations and comprehensive income (loss). Refer to note 4 New Accounting Pronouncements for the further discussion of the cumulative effect adjustment of retrospectively applying Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606).

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(2) Summary of Significant Accounting Policies (Continued)

Revenue from Contracts with Customers (Continued)

Investment advisory fee income is earned for asset management services and for investment advisory services provided to brokerage customer accounts. Investment advisory income is recognized when the contractual terms of the fee arrangement have been satisfied and it is probable that a significant reversal in the amount of the fee will not occur. The investment advisory performance obligation is considered a series of distinct services that are substantially the same that are satisfied each day over the contract term. Investment advisory fee income is considered to be variably constrained due to factors outside the Company's control including market volatility and client behavior. Investment advisory fee income recognized for the years ended December 31, 2019 and 2018 was \$217,686 and \$205,874, respectively. Investment advisory fee income is primarily invoiced or charged on a monthly or quarterly basis and is recognized in other income on the consolidated statements of operations and comprehensive income (loss).

Valuation of Investments and Net Investment Income

Fixed maturity securities, which may be sold prior to maturity, are classified as available-for-sale and are carried at fair value. Premiums and discounts are amortized or accreted using the interest yield method. The Company recognizes the excess of all cash flows over the initial investment attributable to its beneficial interest in asset-backed securities estimated at the acquisition/transaction date as interest income over the life of the Company's beneficial interest using the effective interest yield method. The Company does not accrete the discount for fixed maturity securities that are in default.

For non-structured fixed maturity securities, the Company recognizes interest income using the interest method without anticipating the impact of prepayments.

For structured fixed maturity securities, excluding interest-only securities, the Company recognizes income using a constant effective yield method based on prepayment assumptions obtained from outside service providers or upon analyst review of the underlying collateral and the estimated economic life of the securities. When estimated prepayments differ from the anticipated prepayments, the effective yield is recalculated to reflect actual prepayments to date and anticipated future payments. Any resulting adjustment is included in net investment income.

Equity securities include common stock of publicly traded companies, mutual funds and exchange-traded fund investments. Equity securities are stated at fair value, with changes in fair value recorded as net realized investment gains (losses) on the consolidated statements of operations and comprehensive income (loss). Mutual funds and exchange-traded fund are carried at fair value, which generally are quoted market prices of the funds' net asset value. The Company recognizes dividend income on equity securities upon the declaration of the dividend.

Available-for-sale securities are stated at fair value, with the unrealized holding gains and losses, net of adjustments to deferred policy acquisition costs, unearned premiums and fees, reserves and deferred income tax, reported as a separate component of accumulated other comprehensive income (loss) in equity.

Mortgage loans and mortgage loans held for investment are carried at amortized cost less any valuation allowances. Premiums and discounts are amortized or accreted over the terms of the mortgage loans based on the effective interest yield method. Mortgage loans for which the Company has recorded a specific valuation allowance are held at the present value of the expected future cash flows discounted at the loan's original effective interest rate, or the estimated fair value of the loan's underlying collateral.

Alternative investments include limited partnership investments in private equity, mezzanine debt and hedge funds. These investments are carried on the consolidated balance sheets using the equity method of accounting. The Company's income from these alternative investments is included in net investment income or net realized investment gains (losses) on the consolidated statements of operations and comprehensive income (loss) based on information provided by the investee. The valuation of alternative investments is recorded based on the partnership financial statements from the previous quarter plus contributions and distributions during the fourth quarter. Changes in any undistributed amounts held by the investee are recorded, based on the Company's ownership share, as realized gains or losses on the consolidated statements of operations and comprehensive income (loss). The Company evaluates partnership financial statements received subsequent to December 31 up to the financial statement issue date for material fluctuations in order to determine if an adjustment should be recorded as of December 31.

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SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(2) Summary of Significant Accounting Policies (Continued)

Valuation of Investments and Net Investment Income (Continued)

Investments in partnerships, which generally represent minority interests owned in certain general agencies, are carried in other invested assets on the consolidated balance sheets at the amount invested, adjusted to recognize the Company's ownership share of the earnings or losses of the investee after acquisition adjusted for any distributions received (equity method accounting). The valuation of these investments is based on each general agency financial statement from the previous quarter. The Company believes this valuation represents the best available estimate. Any known material changes to the valuation are recorded at year-end.

Real estate, included in other invested assets on the consolidated balance sheets, represents commercial real estate acquired in satisfaction of mortgage loan debt and other properties held for sale. Real estate is considered held for sale for accounting purposes and is carried at the lower of cost or fair value less estimated cost to sell.

Policy loans are carried at the unpaid principal balance and are reported in other invested assets on the consolidated balance sheets.

Cash is carried at cost, which approximates fair value. Cash equivalents of sufficient credit quality are carried at fair value. The Company considers commercial paper with original maturity dates of less than three months and all money market funds to be cash equivalents. The Company places its cash and cash equivalents with high quality financial institutions and, at times, these balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

A portion of the funds collected by the Company from its financial institution customers is restricted in its use because the Company is acting as an agent on behalf of certain insurance underwriters. As an agent, the Company has a fiduciary responsibility to remit the appropriate percentage of monies collected to the corresponding insurance underwriters. This sum of money is defined as unremitted premiums payable and is recorded in other liabilities on the consolidated balance sheets as discussed in detail in note 15. The use of restricted funds is limited to the satisfaction of the unremitted premiums and claims payable owed to the underwriter. The Company also holds funds on behalf of clients under benefit outsourcing agreements that are typically remitted on the client's behalf in a short period of time.

The amount of restricted cash reported in cash and cash equivalents on the consolidated balance sheets is \$62,282 and \$38,674 at December 31, 2019 and 2018, respectively.

Derivative Financial Instruments

The Company uses a variety of derivatives, including swaps, swaptions, futures, caps, floors, forwards and option contracts, to manage the risks associated with cash flows, interest crediting or changes in estimated fair values related to the Company's financial instruments. The Company currently enters into derivative transactions that do not qualify for hedge accounting or in certain cases, elects not to utilize hedge accounting.

Derivative instruments are carried at fair value, with changes in fair value of derivative instruments recorded in net realized investment gains (losses) the consolidated statements of operations and comprehensive income (loss). Interest income generated by derivative instruments is reported in net realized investment gains (losses) on the consolidated statements of operations and comprehensive income (loss). The Company does not offset the fair value amounts recognized for derivatives executed with the same counterparty under the same master netting agreement.

Several non-traditional life insurance and annuity products in the Company's liability portfolio contain investment guarantees which are deemed to be embedded derivatives. These guarantees take the form of guaranteed withdrawal benefits on variable annuities, a guaranteed payout floor on a variable payout annuity, and indexed interest credits on both fixed indexed annuity and fixed indexed universal life products. The embedded derivative is bifurcated from the host insurance contract and accounted for as a freestanding derivative. Embedded derivatives are carried on the consolidated balance sheets at estimated fair value and are included within policy and contract account balances and future policy and contract benefits on the consolidated balance sheets. Changes in estimated fair value are reported in net realized investment gains (losses) or in policyholder benefits, or in interest credited to policies and contracts on the consolidated statements of operations and comprehensive income (loss).

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SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(2) Summary of Significant Accounting Policies (Continued)

Derivative Financial Instruments (Continued)

The Company holds “To-Be-Announced” (TBA) Government National Mortgage Association forward contracts that require the Company to take delivery of a mortgage-backed security at a settlement date in the future. A majority of the TBAs are settled at the first available period allowed under the contract. However, the deliveries of some of the Company’s TBA securities happen at a later date, thus extending the forward contract date. These derivative instruments are reported at fair value with the changes in fair value reported in net realized investment gains (losses) on the consolidated statements of operations and comprehensive income (loss).

Realized and Unrealized Gains and Losses

Realized and unrealized gains and losses are determined using the specific security identification method. The Company regularly reviews investments in its various asset classes to evaluate the necessity of recording impairment losses for other-than-temporary declines in fair value. During these reviews, the Company evaluates many factors, including, but not limited to, the length of time and the extent to which the current fair value has been below the cost of the security, specific credit issues such as collateral, financial prospects related to the issuer, the Company’s intent to sell the security, and current economic conditions.

An other-than-temporary impairment (OTTI) is recognized in earnings for a fixed maturity security in an unrealized loss position when it is anticipated that the amortized cost will not be recovered. In such situations, the OTTI recognized in earnings is the entire difference between the fixed maturity security’s amortized cost and its fair value only when either the Company has the intent to sell the fixed maturity security or it is more likely than not that the Company will be required to sell the fixed maturity security before recovery of the decline in the fair value below amortized cost. If neither of these two conditions exists, the difference between the amortized cost basis of the fixed maturity security and the present value of the projected future cash flows expected to be collected using the original purchase yield as the discount rate is recognized as an OTTI in earnings (credit loss). If the fair value is less than the present value of projected future cash flows expected to be collected, this portion of the OTTI related to other-than credit factors (noncredit loss) is recorded in other comprehensive loss. When an unrealized loss on a fixed maturity security is considered temporary, the Company continues to record the unrealized loss in accumulated other comprehensive income (loss) and not in earnings.

For non-structured fixed maturity securities, an OTTI is recorded when the Company does not expect to recover the entire amortized cost basis of the security. The Company estimates the credit component of the loss based on a number of various liquidation scenarios that it uses to assess the revised expected cash flows from the security.

For structured fixed maturity securities, an OTTI is recorded when the Company believes that based on expected discounted cash flows, it does not expect to recover the entire unamortized cost basis of the security. The credit loss component considers inputs from outside sources, including but not limited to, default rates, delinquency rates, loan to collateral ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, credit ratings and other information that management deems relevant in forming its assessment.

The Company utilizes an accretable yield which is the equivalent of book yield at purchase date as the discount rate in the present value of estimated future cash flows. The book yield is also analyzed to see if it warrants any changes due to prepayment assumptions.

Changes in fair value of equity securities are recorded as realized investment gains (losses) on the consolidated statements of operations and comprehensive income (loss).

All other material unrealized losses are reviewed for any criteria that may trigger an OTTI. Determination of the status of each analyzed investment as other-than-temporarily impaired or not is made based on these evaluations with documentation of the rationale for the decision.

The Company may, from time to time, sell invested assets subsequent to the balance sheet date that were considered temporarily impaired at the balance sheet date for several reasons. The rationale for the change in the Company’s intent to sell generally focuses on unforeseen changes in the economic facts and circumstances related to the invested asset subsequent to the balance sheet date, significant unforeseen changes in the Company’s liquidity needs, or changes in tax laws or the regulatory environment. The Company had no material sales of invested assets, previously considered OTTI or in an unrealized loss position, subsequent to the balance sheet dates for either December 31, 2019 or 2018.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(2) Summary of Significant Accounting Policies (Continued)

Realized and Unrealized Gains and Losses (Continued)

The mortgage loan valuation allowance is estimated based on an evaluation of known and inherent risks within the loan portfolio and consists of an evaluation of a specific loan loss allowance and a general loan loss allowance. A specific loan loss allowance is recognized when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. A nonperforming loan is defined as a loan that is not performing to the contractual terms of the loan agreement. Examples of nonperforming loans may include delinquent loans, requests for forbearance and loans in the process of foreclosure. The specific valuation allowance is equal to the excess carrying value of the loan over the present value of expected future cash flows discounted at the loan's original effective interest rate, or, if the loan is in the process of foreclosure or otherwise collateral dependent, the estimated fair value of the loan's underlying collateral, less estimated selling costs. Mortgage loans that are deemed uncollectible are generally written-off against the valuation allowance, and recoveries, if any, are credited to the valuation allowance. The Company may recognize a general loan loss valuation allowance when it is probable that a credit event has occurred and the amount of the loss can be reasonably estimated. Changes in the valuation allowance are recorded in net realized investment gains (losses) on the consolidated statements of operations and comprehensive income (loss).

For a small portion of the portfolio, classified as troubled debt restructurings (TDRs), the Company grants concessions related to the borrowers' financial difficulties. The types of concessions may include: a permanent or temporary modification of the interest rate, extension of the maturity date at a lower interest rate and/or a reduction of accrued interest. If a loan is considered a TDR, the Company impairs the loan and records a specific valuation allowance, if applicable. There were no material TDR's during the year.

Under equity method accounting, investments in partnerships, consisting of both equity value of the investment and related goodwill, are evaluated annually regarding the necessity of recording impairment losses for an other-than-temporary impairment decline in the fair value of the asset.

Separate Accounts

Separate account assets and liabilities represent segregated funds administered by an unaffiliated asset management firm. These segregated funds are invested by both an unaffiliated asset management firm and the Company for the exclusive benefit of the Company's pension, variable annuity and variable life insurance policyholders and contractholders. Assets consist principally of marketable securities and are reported at the fair value of the investments held in the segregated funds. Investment income and gains and losses accrue directly to the policyholders and contractholders. The activity of the separate accounts is not reflected on the consolidated statements of operations and comprehensive income (loss) except for the fees the Company received, which are assessed on a daily or monthly basis and recognized as revenue when assessed and earned, and the activity related to guaranteed minimum death and withdrawal benefits.

The Company periodically invests money in its separate accounts. At December 31, 2019 and 2018, the fair value of these investments included within equity securities, at fair value and equity securities, available-for-sale, at fair value on the consolidated balance sheets was \$37,571 and \$34,246, respectively.

Deferred Policy Acquisition Costs

The costs after the effects of reinsurance, which relate directly to the successful acquisition of new or renewal contracts, are generally deferred to the extent recoverable from future premiums or expected gross profits. Deferrable costs that can be capitalized in the successful acquisition of new or renewal contracts include incremental direct costs of acquisitions, as well as certain costs related directly to acquisition activities such as underwriting, policy issuance and processing, medical and inspection and sales force contract selling. Deferred policy acquisition costs (DAC) are subject to loss recognition and recoverability testing at least annually.

For traditional life insurance, accident and health and group life insurance products, DAC are amortized with interest over the premium paying period in proportion to the ratio of annual premium revenues to ultimate premium revenues. The ultimate premium revenues are estimated based upon the same assumptions used to calculate the future policy benefits and the assumptions are locked.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(2) Summary of Significant Accounting Policies (Continued)

Deferred Policy Acquisition Costs (Continued)

For nontraditional life insurance products and deferred annuities, DAC are amortized with interest over the expected life of the contracts in relation to the present value of actual and estimated future gross profits from investment, mortality, expense, and lapse margins. The Company reviews actuarial assumptions used to project estimated gross profits, such as mortality, persistency, expenses, future crediting rates, investment returns and separate account returns, periodically throughout the year. These assumptions reflect the Company's best estimate of future experience.

For future separate account return assumptions, the Company utilizes a mean reversion process. The Company determines an initial starting date (anchor date) to which a long-term separate account return assumption is applied in order to project an estimated mean return. The Company's future long-term separate account return assumptions ranged from 3.50% to 7.00% at December 31, 2019 and 2018 depending on the block of business, reflecting differences in contract holder fund allocations between fixed income and equity investments. Factors regarding economic outlook and management's current view of the capital markets along with a historical analysis of long-term investment returns are considered in developing the Company's long-term separate account return assumption. If the actual separate account return varies from the long-term assumption, a modified yield assumption is projected over the next five years such that the mean return equals the long-term assumption. The modified yield assumption is not permitted to be negative or in excess of 15% during the five-year reversion period.

Changes in assumptions can have a significant impact on the amount of DAC reported for nontraditional life insurance products and deferred annuities, and the related amortization patterns. In the event actual experience differs from expected experience or future assumptions are revised to reflect management's new best estimate, the Company records an increase or decrease in DAC amortization expense, which could be significant. Any resulting impact to financial results from a change in an assumption is included in amortization of DAC on the consolidated statements of operations and comprehensive income (loss).

DAC are adjusted to reflect the impact of unrealized gains and losses on fixed maturity securities available-for-sale. The adjustment represents the changes in amortization that would have been recorded had such unrealized amounts been realized. This adjustment is recorded through other comprehensive income (loss) on the consolidated statements of operations and comprehensive income (loss).

The Company assesses internal replacements on insurance contracts to determine whether such modifications significantly change the contract terms. An internal replacement represents a modification in product benefits, features, rights or coverages that occurs by the exchange of an insurance contract for a new insurance contract, or by amendment, endorsement or rider to a contract, or by the election of a feature or coverage within a contract. If the modification substantially changes the contract, the remaining DAC on the original contract are immediately expensed and any new DAC on the replacement contract are deferred. If the contract modification does not substantially change the contract, DAC amortization on the original contract continues and any new acquisition costs associated with the modification are immediately expensed.

The estimated fair value of in-force contracts in a business combination is an intangible asset that represents the portion of the purchase price allocated to the value of the right to receive future cash flows from the business in force at the acquisition date. The Company amortizes the intangible asset over the anticipated life of the acquired contracts using similar actuarial methodology used to amortize DAC and the intangible asset is also subject to recoverability testing. The intangible asset is included as part of DAC on the consolidated balance sheets with related amortization included as part of DAC amortization on the consolidated statements of operations and comprehensive income (loss).

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(2) Summary of Significant Accounting Policies (Continued)

Sales Inducements

The Company defers sales inducements and amortizes them over the life of the policy utilizing the same methodology and assumptions used to amortize DAC. Deferred sales inducements are included in other assets on the consolidated balance sheets. The Company offers sales inducements for individual annuity products that credits the policyholder with a higher interest rate than the normal general account interest rate for the first year of the deposit and another sales inducement that offers an upfront bonus on variable annuities. Changes in deferred sales inducements for the periods ended December 31 were as follows:

	2019	2018
Balance at beginning of year	\$ 27,888	\$ 29,042
Capitalization	3,043	3,867
Amortization and interest	(3,003)	(6,564)
Adjustment for unrealized (gains) losses	(1,297)	1,543
Balance at end of year	<u>\$ 26,631</u>	<u>\$ 27,888</u>

Goodwill and Other Intangible Assets

In connection with acquisitions of operating entities, the Company recognizes the excess of the purchase price over the fair value of net assets acquired as goodwill. Goodwill is recorded in other assets on the consolidated balance sheets and is not amortized. The Company may choose to perform a qualitative assessment in which the Company determines if the fair value of the reporting unit is, more likely than not, greater than the carrying value of the reporting unit. If the fair value of the reporting unit is, more likely than not, greater than the carrying value of the reporting unit, then no further review or testing is required. If the fair value of the reporting entity is not, more likely than not, greater than the carrying value of the reporting unit, or if the Company chooses not to perform a qualitative assessment, the goodwill is tested for impairment at the reporting unit level.

The assessment or testing of goodwill is performed at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. When the Company chooses to perform or determines that testing is required, the fair value of the reporting unit is estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies' data, when available. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value.

Other intangible assets acquired in connection with acquisitions of operating entities are recorded in other assets on the consolidated balance sheets. The Company evaluates the recoverability of other intangible assets with finite useful lives whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. Such circumstances could include, but are not limited to: (1) a significant decrease in the fair value of an asset, (2) a significant adverse change in the extent or manner in which an asset is used, or (3) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset. The Company measures the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected undiscounted future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be determined as the amount by which the carrying value of the asset exceeds its fair value. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Company to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(2) Summary of Significant Accounting Policies (Continued)

Software

Computer software costs incurred for internal use are capitalized and amortized over a three to five-year period. Computer software costs include application software, purchased software packages and significant upgrades to software and are included in other assets on the consolidated balance sheets. The Company had unamortized software costs of \$50,801 and \$47,506 as of December 31, 2019 and 2018, respectively, and amortized software expense of \$18,878 and \$21,063 for the years ended December 31, 2019 and 2018, respectively.

Property and Equipment

Property and equipment are carried at cost, net of accumulated depreciation of \$157,874 and \$143,682 at December 31, 2019 and 2018, respectively. Property and equipment is included in other assets on the consolidated balance sheets. Buildings are depreciated over 40 years and equipment is generally depreciated over 5 to 10 years. Depreciation expense for the years ended December 31, 2019 and 2018, was \$32,072 and \$24,372, respectively.

Reinsurance

Insurance liabilities are reported before the effects of ceded reinsurance. Reinsurance recoverables represent amounts due from reinsurers for paid and unpaid benefits, expense reimbursements, prepaid premiums and policyholder liabilities. Policyholder liabilities recoverable from reinsurers are estimated in a manner consistent with the policyholder liability associated with the reinsured business. Reinsurance premiums ceded and recoveries on benefits and claims incurred are deducted from the respective income and expense accounts. Reinsurance profit share income is classified in other income on the consolidated statements of operations and comprehensive income (loss).

Policyholder Liabilities

Policy and contract account balances represent the net accumulation of funds associated with nontraditional life insurance products and deferred annuities. Additions to account balances include premiums, deposits, sales inducements and interest credited by the Company. Deductions to account balances include surrenders, withdrawals, benefit payments and policy and contract fees.

Future policy and contract benefits are comprised of reserves for traditional life insurance, group life insurance, accident and health products, and immediate annuities. The reserves are calculated using the net level premium method based upon assumptions regarding investment yield, mortality, morbidity and withdrawal rates determined at the date of issue, commensurate with the Company's experience. Provision has been made in certain cases for adverse deviations from these assumptions. When estimating the expected gross margins for traditional life insurance products as of December 31, 2019, the Company has assumed an average rate of investment yields ranging from 2.97% to 6.21%.

Future policy and contract benefits also include reserves for guarantees on certain universal life and deferred annuity contracts that provide for potential benefits in addition to the account balance. The additional liabilities are determined by estimating the expected value of death benefits in excess of projected account balances and recognizing the excess ratably over the accumulation period based on total expected assessments.

Certain future policy and contract benefits are adjusted to reflect the impact of unrealized gains and losses on fixed maturity securities available for sale. The adjustment to future policy benefits and claims represents the increase in policy reserves that would have been recorded had such unrealized amounts been realized. This adjustment is recorded through other comprehensive income (loss) on the consolidated statements of operations and comprehensive income (loss).

Pending policy and contract claims primarily represent amounts estimated for claims incurred but not reported and claims that have been reported but not settled. Such liabilities are estimated based upon the Company's historical experience and other actuarial assumptions that consider current developments and anticipated trends.

Other policyholder funds are comprised of dividend accumulations, premium deposit funds and supplementary contracts without life contingencies.

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SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(2) Summary of Significant Accounting Policies (Continued)

Foreign Currency

Assets, liabilities and operations of foreign subsidiaries located in Canada are recorded based on the functional currency of the subsidiary. The determination of the functional currency is made based on the appropriate economic facts and management indicators and generally represents the local currency of the subsidiary. Assets and liabilities of foreign subsidiaries are translated from the functional currency to U.S. dollars at the exchange rates in effect at each year-end and revenues and expenses are translated at the average exchange rates during the year. The resulting translation adjustments are charged or credited directly to other comprehensive income (loss), net of applicable taxes. Gains and losses from foreign currency transactions are included in net income.

Participating Business

Dividends on participating policies and other discretionary payments are declared by the Board of Directors based upon actuarial determinations, which take into consideration current mortality, interest earnings, expense factors and federal income taxes. Dividends, which are recognized as expenses consistent with the recognition of premiums, were \$3,719 and \$3,319 for the years ended December 31, 2019 and 2018, respectively, and are included in general operating and other expenses on the consolidated statements of operations and comprehensive income (loss). Policyholder dividends payable were \$17,764 and \$19,905 at December 31, 2019 and 2018, respectively, and are included in other liabilities on the consolidated balance sheets. At December 31, 2019 and 2018, the total participating business in force was \$2,075,495 and \$2,227,427, respectively. As a percentage of total life insurance in force, participating business in force represents 0.2% at December 31, 2019 and 2018.

Income Taxes

The Company files a life/non-life consolidated federal income tax return with Minnesota Mutual Companies, Inc., the Company's ultimate parent. The Company utilizes a consolidated approach to the allocation of current taxes, whereby, the tax benefits resulting from any losses by the Company, which would be realized by Minnesota Mutual Companies, Inc. on a consolidated return, go to the benefit of the Company. Intercompany tax balances are settled annually when the tax return is filed with the Internal Revenue Service (IRS).

Inherent in the provision for federal income taxes are estimates regarding the deductibility of certain items and the realization of certain tax credits. In the event the ultimate deductibility of certain items or the realization of certain tax credits differs from estimates, the Company may be required to significantly change the provision for federal income taxes recorded on the consolidated financial statements. Any such change could significantly affect the amounts reported on the consolidated statements of operations and comprehensive income (loss). Management has used best estimates to establish reserves based on current facts and circumstances regarding tax exposure items where the ultimate deductibility is open to interpretation. Management evaluates the appropriateness of such reserves based on any new developments specific to their fact patterns. Information considered includes results of completed tax examinations, Technical Advice Memorandums and other rulings issued by the IRS or the tax courts.

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. 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. Under this method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when it is determined that it is more likely than not that the deferred tax asset will not be fully realized. Current income taxes are charged to operations based upon amounts estimated to be payable as a result of taxable operations for the current year.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(3) Risks

The Company's consolidated financial statements are based on estimates and assumptions that are subject to significant business, economic and competitive risks and uncertainties, many of which are beyond the Company's control or are subject to change. As such, actual results could differ from the estimates used in the consolidated financial statements and the value of the Company's investments, and its financial condition and its liquidity could be adversely affected. The following risks and uncertainties, among others, may have such an effect:

- Economic environment and capital markets-related risks such as those related to interest rates, equity markets, credit spreads, real estate, derivatives and foreign currency.
- Investment-related risks such as those related to valuation, impairment, and concentration.
- Business and operational-related risks such as those related to mortality/longevity, morbidity and claims experience, reinsurers and counterparties, liquidity, ratings, competition, cyber or other information security, fraud, and overall risk management.
- Acquisition, disposition, or other structural change related risks.
- Regulatory and legal risks such as those related to changes in fiscal, tax and other legislation, insurance and other regulation, and accounting standards.

The Company actively monitors and manages risks and uncertainties through a variety of policies and procedures in an effort to mitigate or minimize the adverse impact of any exposures impacting the consolidated financial statements.

(4) New Accounting Pronouncements

Adoption of New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (SubTopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans, which modifies, removes, and clarifies certain disclosure requirements related to the Company's pension and other postretirement plans. ASU 2018-14 is effective for the annual reporting period beginning January 1, 2022 and is required to be applied on a retrospective basis to all periods presented with early adoption permitted. The Company elected to early adopt ASU 2018-14 which resulted in modification and removal of certain disclosures within note 11 Employee Benefit Plans.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements of assets and liabilities reported at fair value on the consolidated balance sheets by removing some requirements and modifying others. ASU 2018-13 is effective for the annual reporting period beginning January 1, 2020 and provides transition methods by topic with early adoption permitted. The Company elected to early adopt ASU 2018-13 for the year ended December 31, 2019 which resulted in modification and removal of certain disclosures within note 5 Fair Value of Financial Instruments.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, requiring an employer that offers to its employees defined benefit pension or other postretirement benefit plans to disaggregate the service cost component from the other components of net periodic benefit cost. ASU 2017-07 is effective for annual periods beginning on January 1, 2019 and shall be applied retrospectively. The adoption of this new guidance is reflected in the disclosures in note 11 Employee Benefit Plans.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for the annual reporting period beginning January 1, 2019, and is required to be applied on a prospective basis. The adoption of this new guidance did not have an impact on the Company's consolidated financial statements.

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SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(4) New Accounting Pronouncements (Continued)

Adoption of New Accounting Pronouncements (Continued)

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires additional disclosures and modification to the statement of cash flows to provide additional information on the changes in cash, cash equivalents and restricted cash. ASU 2016-18 is effective for the annual reporting period beginning January 1, 2019 and is required to be applied on a retrospective basis with early adoption permitted. The adoption of this new guidance did not have an impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies how certain transactions are to be presented on the statement of cash flows. ASU 2016-15 is effective for the annual reporting period beginning January 1, 2019 and is required to be applied on a retrospective basis with early adoption permitted. The retrospective adoption of this guidance, which resulted in an increase in operating activities and a corresponding decrease in investment activities, did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance; however, it did not impact the accounting for insurance contracts or financial instruments. The guidance requires an entity to recognize revenue reflecting the transfer of a promised good or service to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for that good or service. The guidance also requires additional disclosures. An entity may apply the new guidance using one of the following two methods: (1) retrospectively to each prior period presented, or (2) retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. ASU 2014-09 is effective for annual reporting periods beginning on January 1, 2019. The cumulative effect adjustment of retrospectively applying this standard as of January 1, 2019 resulted in an \$8,236 decrease to retained earnings.

(5) Fair Value of Financial Instruments

Financial Assets and Financial Liabilities Reported at Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company primarily uses the market approach which utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. To a lesser extent, the Company also uses the income approach which uses discounted cash flows to determine fair value. When applying either approach, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect the assumptions market participants would use in valuing a financial instrument based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's estimates about the assumptions market participants would use in valuing financial assets and financial liabilities based on the best information available in the circumstances. Considerable judgment is required to interpret market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Company is required to categorize its financial assets and financial liabilities recorded on the consolidated balance sheets according to a three-level hierarchy. Inputs used to measure fair value of an asset or liability may fall into different levels of the fair value hierarchy. A level is assigned to each financial asset and financial liability based on the lowest level input that is significant to the fair value measurement in its entirety. The levels of fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable in active markets for identical or similar assets and liabilities.

Level 3 – Fair value is based on at least one or more significant unobservable inputs. These inputs reflect the Company's assumptions about the inputs market participants would use in pricing the assets or liabilities.

The Company uses prices and inputs that are current as of the measurement date. In periods of market disruption, the ability to observe prices and inputs may be reduced, which could cause an asset or liability to be reclassified to a lower level.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(5) Fair Value of Financial Instruments (Continued)

Financial Assets and Financial Liabilities Reported at Fair Value (Continued)

The following tables summarize the Company's financial assets and financial liabilities measured at fair value on a recurring basis:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale:				
U.S. government securities	\$ 770,265	\$ —	\$ —	\$ 770,265
Agencies not backed by the full faith and credit of the U.S. government	—	1,041,724	—	1,041,724
Foreign government securities	—	44,223	—	44,223
Corporate securities	—	12,817,573	2,395,079	15,212,652
Asset-backed securities	—	806,705	38,072	844,777
Commercial mortgage-backed securities (CMBS)	—	1,947,002	—	1,947,002
Residential mortgage-backed securities (RMBS)	—	2,097,211	—	2,097,211
Total fixed maturity securities, available-for-sale	770,265	18,754,438	2,433,151	21,957,854
Equity securities, at fair value	569,238	31,077	563	600,878
Derivative instruments:				
Other derivative instruments	19	792,384	—	792,403
Total derivative instruments	19	792,384	—	792,403
Total investments	1,339,522	19,577,899	2,433,714	23,351,135
Cash equivalents	284,159	751	—	284,910
Separate account assets	5,896,776	23,252,987	5,920	29,155,683
Total financial assets	<u>\$ 7,520,457</u>	<u>\$ 42,831,637</u>	<u>\$ 2,439,634</u>	<u>\$ 52,791,728</u>
Policy and contract account balances (1)	\$ —	\$ —	\$ 650,444	\$ 650,444
Future policy and contract benefits (1)	—	—	18,576	18,576
Derivative instruments (2)	19	286,177	—	286,196
Total financial liabilities	<u>\$ 19</u>	<u>\$ 286,177</u>	<u>\$ 669,020</u>	<u>\$ 955,216</u>

(1) Policy and contract account balances and future policy and contract benefits balances reported in this table relate to embedded derivatives associated with living benefit guarantees and indexed features on certain annuity and life insurance products. The Company's guaranteed minimum withdrawal benefits, guaranteed payout annuity floor, and fixed indexed annuity and fixed indexed universal life products contain embedded derivatives, resulting in the embedded derivatives being separated from the host contract and recognized at fair value.

(2) Included in other liabilities on the consolidated balance sheets.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(5) Fair Value of Financial Instruments (Continued)

Financial Assets and Financial Liabilities Reported at Fair Value (Continued)

The following tables summarize the Company's financial assets and financial liabilities measured at fair value on a recurring basis (Continued):

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale:				
U.S. government securities	\$ 791,858	\$ —	\$ —	\$ 791,858
Agencies not backed by the full faith and credit of the U.S. government	—	1,008,153	—	1,008,153
Foreign government securities	—	72,601	—	72,601
Corporate securities	—	9,938,200	1,693,935	11,632,135
Asset-backed securities	—	678,489	39,510	717,999
CMBS	—	1,625,827	—	1,625,827
RMBS	—	1,876,128	4	1,876,132
Total fixed maturity securities, available-for-sale	791,858	15,199,398	1,733,449	17,724,705
Equity securities, available-for-sale	465,642	32,089	42	497,773
Derivative instruments:				
TBA derivative instruments	—	36,901	—	36,901
Other derivative instruments	10	110,985	—	110,995
Total derivative instruments	10	147,886	—	147,896
Total investments	1,257,510	15,379,373	1,733,491	18,370,374
Cash equivalents	188,111	566	—	188,677
Separate account assets	4,656,252	18,919,627	5,045	23,580,924
Total financial assets	\$ 6,101,873	\$ 34,299,566	\$ 1,738,536	\$ 42,139,975
Policy and contract account balances (1)	\$ —	\$ —	\$ 171,198	\$ 171,198
Future policy and contract benefits (1)	—	—	15,256	15,256
Derivative instruments (2)	13	28,564	—	28,577
Total financial liabilities	\$ 13	\$ 28,564	\$ 186,454	\$ 215,031

(1) Policy and contract account balances and future policy and contract benefits balances reported in this table relate to embedded derivatives associated with living benefit guarantees and indexed features on certain annuity and life insurance products. The Company's guaranteed minimum withdrawal benefits, guaranteed payout annuity floor, and fixed indexed annuity and fixed indexed universal life products contain embedded derivatives, resulting in the embedded derivatives being separated from the host contract and recognized at fair value.

(2) Included in other liabilities on the consolidated balance sheets.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(5) Fair Value of Financial Instruments (Continued)

Financial Assets and Financial Liabilities Reported at Fair Value (Continued)

The methods and assumptions used to estimate the fair value of financial assets and liabilities are summarized as follows:

Fixed maturity securities, available-for-sale

When available, fair values of fixed maturity securities are based on quoted market prices of identical assets in active markets and are reflected in Level 1.

The market inputs utilized for Level 2 assets in the pricing evaluation depend on asset class and market conditions but typically include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, reference data, and industry and economic events.

Fixed maturity securities valued using pricing models with unobservable inputs or broker quotes are reflected in Level 3. The pricing models are developed by obtaining spreads versus the U.S. Treasury yield for similar corporate securities with varying weighted average lives and bond ratings. The estimated market yield, liquidity premium, and any adjustments for known credit risk, and other relevant factors are then used to estimate the fair value of the particular fixed maturity security. Certain other valuations are based on independent non-binding broker quotes.

Equity securities

The Company's equity securities consist primarily of investments in common stock of publicly traded companies. The fair values of equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1. The Company carries certain equity securities that are not priced on an exchange classified within Level 2. The Company receives these prices from third party pricing services using observable inputs for identical or similar assets in active markets. The Company carries a small amount of non-exchange traded equity securities classified within Level 3. The fair value of these securities is based on at least one or more significant unobservable inputs.

Derivative instruments

Derivative instrument fair values are based on quoted market prices when available. If a quoted market price is not available, fair value is estimated using current market assumptions and modeling techniques.

The majority of the Company's derivative positions are traded in the over-the-counter (OTC) derivative market and are classified as Level 2. The fair values of most OTC derivatives are determined using discounted cash flow or third party pricing models. The significant inputs to the pricing models are observable in the market or can be derived principally from or corroborated by observable market data. Significant observable inputs generally include: interest rates, foreign currency exchange rates, interest rate curves, credit curves and volatility. However, certain OTC derivatives may rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from or corroborated by observable market data. Significant unobservable inputs generally include: independent broker quotes and inputs that are outside the observable portion of the interest rate curve, credit curve, volatility or other relevant market measure. OTC derivatives valued using significant unobservable inputs would be classified as Level 3.

The credit risk of both the counterparty and the Company are considered in determining the estimated fair value for all OTC derivatives after taking into account the effects of netting agreements and collateral arrangements.

Cash equivalents

Cash equivalents include money market funds and highly rated commercial paper. Money market funds are generally valued using unadjusted quoted prices in active markets and are reflected in Level 1.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(5) Fair Value of Financial Instruments (Continued)

Financial Assets and Financial Liabilities Reported at Fair Value (Continued)

Separate account assets

Separate account assets are reported as a summarized total and are carried at estimated fair value based on the underlying assets in which the separate accounts are invested. Valuations for fixed maturity securities, equity securities and cash equivalents are determined consistent with similar instruments as previously described. Valuations for certain mutual funds and pooled separate accounts are classified as Level 2 as the values are based upon quoted prices or reported net asset values provided by the fund managers with little readily determinable public pricing information.

Policy and contract account balances and future policy and contract benefits

Policy and contract balances and future policy and contract benefits include liabilities for living benefit guarantees and indexed features on certain annuity contracts and life insurance policies accounted for as embedded derivatives. These guarantees take the form of guaranteed withdrawal and income benefits on variable annuities, a guaranteed payout floor on a variable payout annuity, and indexed interest credits on both fixed annuity and fixed universal life products.

The fair value for embedded derivatives related to fixed indexed annuity and indexed universal life products is based on the present value of future index returns to the policyholder using actuarial and present value assumptions including expectations concerning policyholder behavior. The calculation is based on in-force business and uses standard capital market techniques, such as the Black-Scholes model, with certain unobservable inputs such as owned credit, mortality and lapse.

The fair value for living benefit guarantee embedded derivatives is estimated using the present value of future benefits less the present value of future attributable fees over the expected lives of the contracts using various capital market and policyholder and contractholder behavior assumptions. The cash flows are projected under multiple capital market scenarios using observable risk free rates. The valuation of these embedded derivatives includes an adjustment for the Company's own credit risk and other non-capital market inputs. The Company's own credit adjustment is determined taking into consideration publicly available information relating to peer companies' debt ratings and the Company's own claims paying ability.

Other significant inputs to the valuation models for the embedded derivatives associated with the optional living benefit features of the Company's variable annuity products include capital market assumptions, such as interest rate and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates and withdrawal rates.

These assumptions are updated based upon historical experience. Since many of the assumptions utilized in the valuation of embedded derivatives are unobservable and are considered to be significant inputs to the valuations, the embedded derivatives have been reflected within Level 3.

The following table provides a summary of purchases, sales, settlements and transfers in to and out of Level 3 financial assets held at fair value on a recurring basis during the year ended December 31, 2019:

	Purchases	Sales	Settlements	Transfers in to Level 3 (1)	Transfers out of Level 3 (1)
Fixed maturity securities, available-for-sale					
Corporate securities	\$ 583,320	\$ —	\$ (47,136)	\$ —	\$ —
Asset-backed securities	1,000	—	(4,878)	—	—
RMBS	—	—	(9)	—	—
Total fixed maturity securities, available-for-sale	584,320	—	(52,023)	—	—
Equity securities, at fair value	540	—	—	—	—
Separate account assets	905	(473)	—	—	—
Total financial assets	<u>\$ 585,765</u>	<u>\$ (473)</u>	<u>\$ (52,023)</u>	<u>\$ —</u>	<u>\$ —</u>

(1) Transfers in to/out of Level 3 are primarily due to the availability of observable market prices.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(5) Fair Value of Financial Instruments (Continued)

Financial Assets and Financial Liabilities Reported at Fair Value (Continued)

The following table provides a summary of purchases, sales, settlements and transfers in to and out of Level 3 financial assets held at fair value on a recurring basis during the year ended December 31, 2018:

	Purchases	Sales	Settlements	Transfers in to Level 3 (1)	Transfers out of Level 3 (1)
Fixed maturity securities, available-for-sale					
Corporate securities	\$ 554,560	\$ —	\$ (91,317)	\$ —	\$ —
Asset-backed securities	—	—	(11,983)	—	—
RMBS	—	—	(3)	—	—
Total fixed maturity securities, available-for-sale	554,560	—	(103,303)	—	—
Separate account assets	2,780	(399)	—	1,413	—
Total financial assets	<u>\$ 557,340</u>	<u>\$ (399)</u>	<u>\$ (103,303)</u>	<u>\$ 1,413</u>	<u>\$ —</u>

(1) Transfers in to/out of Level 3 are primarily due to the availability of observable market prices.

The following table provides a summary of issuances and settlements of Level 3 financial liabilities held at fair value on a recurring basis during the year ended December 31, 2019:

	Issuances	Settlements
Policy and contract account balances	\$ 257,100	\$ (310,644)
Total financial liabilities	<u>\$ 257,100</u>	<u>\$ (310,644)</u>

The following table provides a summary of issuances and settlements of Level 3 financial liabilities held at fair value on a recurring basis during the year ended December 31, 2018:

	Issuances	Settlements
Policy and contract account balances	\$ 333,686	\$ (372,658)
Future policy and contract benefits	—	(1)
Total financial liabilities	<u>\$ 333,686</u>	<u>\$ (372,659)</u>

There were no transfers in to or out of Level 3 financial liabilities for the years ended December 31, 2019 and 2018.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(5) Fair Value of Financial Instruments (Continued)

Quantitative Information Regarding Level 3 Assets and Liabilities

The following table provides a summary of the significant unobservable inputs used in the fair value measurements developed by the Company or reasonably available to the Company of Level 3 assets and liabilities at December 31:

Level 3 instrument	2019 Fair value	2018 Fair value	Valuation technique	Unobservable input
Fixed maturity securities, available-for-sale:				
Corporate securities	\$ 2,395,079	\$ 1,693,935	Discounted cash flow	Yield/spread to U.S. Treasuries (1)
Asset-backed securities	38,072	39,510	Discounted cash flow	Yield/spread to U.S. Treasuries (1)
Liabilities:				
Policy and contract account balances	\$ 650,444	\$ 171,198	Discounted cash flow/ Option pricing techniques	Mortality rates (2) Lapse rates (3) Market volatility (6)
Future policy and contract benefits	18,576	15,256	Discounted cash flow/ Option pricing techniques	Mortality rates (2) Lapse rates (3) Utilization rates (4) Withdrawal rates (5) Market volatility (6) Nonperformance risk spread (7)

(1) The yield/spread to U.S. Treasuries input represents an estimated market participant composite adjustment attributable to liquidity premiums, expected durations, structures and credit quality that would be applied to the market observable information of an investment.

(2) The mortality rate input represents the estimate probability of when an individual belonging to a particular group categorized according to age or some other factor such as occupation, will die.

(3) The lapse rate input represents the estimated probability of a contract surrendering during a year, and thereby forgoing any future benefits.

(4) The utilization rate input represents the estimated percentage of contract holders that utilize the guaranteed withdrawal feature.

(5) The withdrawal rate input represents the estimated magnitude of annual contract holder withdrawals relative to the contracts' benefit base.

(6) The market volatility input represents overall volatilities assumed for underlying equity indexed and variable annuity funds, which include a mixture of equity and fixed income assets.

(7) The nonperformance risk spread input represents the estimated additional own credit spread that market participants would apply to the market observable discount rate when pricing a contract.

Level 3 measurements not included in the tables above are obtained from non-binding broker quotes where observable inputs are not reasonably available to the Company.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(5) Fair Value of Financial Instruments (Continued)

Non-recurring Fair Value Measurements

The Company did not have any financial instruments measured at fair value on a non-recurring basis at December 31, 2019 and 2018.

Financial Assets and Financial Liabilities Reported at Other Than Fair Value

The Company uses various methods and assumptions to estimate the fair value of financial assets and financial liabilities that are not carried at fair value on the consolidated balance sheets.

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. However, in some cases, as described below, the carrying amount equals or approximates fair value.

		December 31, 2019				
		Carrying value		Fair value		
		Total	Level 1	Level 2	Level 3	Total
Assets:						
Mortgage loans, net	\$	4,322,318	\$	—	\$	4,431,062
Policy loans		597,218		—		718,186
Liabilities:						
Deferred annuities	\$	3,143,045	\$	—	\$	3,046,264
Other fund deposits		2,365,339		—		2,363,878
Supplementary contracts without life contingencies		173,348		—		173,348
Annuity certain contracts		111,581		—		117,267
Debt		705,625		—		799,877
Separate account liabilities		20,475,110	5,896,776	14,572,414	5,920	20,475,110
		December 31, 2018				
		Carrying value		Fair value		
		Total	Level 1	Level 2	Level 3	Total
Assets:						
Mortgage loans, net	\$	3,749,228	\$	—	\$	3,688,135
Policy loans		526,765		—		635,605
Liabilities:						
Deferred annuities	\$	2,650,305	\$	—	\$	2,667,907
Other fund deposits		2,283,239		—		2,264,506
Supplementary contracts without life contingencies		135,730		—		135,730
Annuity certain contracts		108,040		—		108,095
Debt		755,504		—		762,283
Separate account liabilities		16,126,782	4,656,252	11,465,485	5,045	16,126,782

(Continued)

Notes to Consolidated Financial Statements (Continued)
(in thousands)**(5) Fair Value of Financial Instruments (Continued)**Financial Assets and Financial Liabilities Reported at Other Than Fair Value (Continued)*Mortgage loans and policy loans*

Fair values of mortgage loans are based upon matrix pricing and discounted cash flows. Fair values of policy loans are estimated by discounting expected cash flows. The expected cash flows reflect an estimate for the timing of repayment of the loans and weighted average loan interest rates.

Deferred annuities and other fund deposits

The fair values of deferred annuities and other fund deposits, which have guaranteed interest rates and surrender charges, are estimated to be the amount payable on demand as of December 31, 2019 and 2018 as those investment contracts have no defined maturity, are similar to a deposit liability and are based on the current interest rate environment relative to the guaranteed interest rates. The amount payable on demand equates to the account balance less applicable surrender charges. Contracts without guaranteed interest rates and surrender charges have fair values equal to their accumulation values plus applicable market value adjustments.

Supplementary contracts without life contingencies and annuity certain contracts

The fair values of supplementary contracts without life contingencies and annuity certain contracts are calculated using discounted cash flows, based on interest rates currently offered for similar products with maturities consistent with those remaining for the contracts being valued.

Debt

Debt consists of short-term and long-term debt. The carrying amount of short-term debt approximates the fair value. The fair value of long-term debt is estimated based primarily on borrowing rates currently available to the Company for debt and financial instruments with similar terms and remaining maturities, or determined by prices obtained from independent pricing services.

Separate account liabilities

Certain separate account liabilities represent balances due to policyholders under contracts that are classified as investment contracts. Since these separate account liabilities are fully funded by the cash flows from the separate account assets which are recognized at estimated fair value, the value of those assets approximates the carrying and fair value of the related separate account liabilities. The valuation techniques and inputs for separate account liabilities are similar to those described for separate account assets.

(6) InvestmentsFixed Maturity and Equity Securities

The Company invests in private placement fixed maturity securities to enhance the overall value of its portfolio, increase diversification and obtain higher yields than are possible with comparable publicly traded securities. Generally, private placement fixed maturity securities provide broader access to management information, strengthened negotiated protective covenants, call protection features and, frequently, improved seniority of collateral protection. Private placement securities generally are only tradable subject to restrictions by federal and state securities laws and are, therefore, less liquid than publicly traded fixed maturity securities.

The Company holds CMBS that may be originated by single or multiple issuers, which are collateralized by mortgage loans secured by income producing commercial properties such as office buildings, multi-family dwellings, industrial, retail, hotels and other property types.

The Company's RMBS portfolio consists of pass-through securities, which are pools of mortgage loans collateralized by single-family residences and primarily issued by government sponsored entities (e.g., GNMA, FNMA and FHLMC), and structured pass-through securities, such as collateralized mortgage obligations, that may have specific prepayment and maturity profiles and are primarily issued by government sponsored entities. The Company's RMBS portfolio primarily contains loans made to borrowers with strong credit histories.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(6) Investments (Continued)

Fixed Maturity and Equity Securities (Continued)

The Company's asset-backed securities investment portfolio consists of securities collateralized by the cash flows of receivables relating to credit cards, automobiles, manufactured housing and other asset class loans.

The equity securities portfolio is managed with the objective of capturing long-term capital gains with a moderate level of current income. The carrying value of the Company's equity security portfolio totaled \$600,878 and \$497,773 as of December 31, 2019 and 2018, respectively.

The amortized cost, gross unrealized gains and losses, OTTI recognized in accumulated other comprehensive loss (AOCL) and fair value of fixed maturity securities by type of investment were as follows:

December 31, 2019	Amortized cost	Gross unrealized gains	Gross unrealized losses	OTTI in AOCL (1)	Fair value
U.S. government securities	\$ 755,927	\$ 14,513	\$ 136	\$ 39	\$ 770,265
Agencies not backed by the full faith and credit of the U.S. government	983,417	58,602	295	—	1,041,724
Foreign government securities	42,395	1,890	62	—	44,223
Corporate securities	14,175,354	1,048,458	12,443	(1,283)	15,212,652
Asset-backed securities	823,740	21,397	476	(116)	844,777
CMBS	1,880,295	66,996	853	(564)	1,947,002
RMBS	1,996,139	101,316	837	(593)	2,097,211
Total fixed maturity securities, available-for-sale	<u>\$ 20,657,267</u>	<u>\$ 1,313,172</u>	<u>\$ 15,102</u>	<u>\$ (2,517)</u>	<u>\$ 21,957,854</u>

(1) Amounts include net unrealized (gains) losses on OTTI fixed maturity securities subsequent to the impairment measurement date.

December 31, 2018	Amortized cost	Gross unrealized gains	Gross unrealized losses	OTTI in AOCL (1)	Fair value
U.S. government securities	\$ 779,597	\$ 14,044	\$ 1,797	\$ (14)	\$ 791,858
Agencies not backed by the full faith and credit of the U.S. government	1,002,104	16,716	10,667	—	1,008,153
Foreign government securities	72,066	1,958	1,423	—	72,601
Corporate securities	11,892,264	106,324	366,878	(425)	11,632,135
Asset-backed securities	722,115	5,484	9,669	(69)	717,999
CMBS	1,640,606	8,015	23,345	(551)	1,625,827
RMBS	1,846,733	41,043	13,299	(1,655)	1,876,132
Total fixed maturity securities, available-for-sale	<u>\$ 17,955,485</u>	<u>\$ 193,584</u>	<u>\$ 427,078</u>	<u>\$ (2,714)</u>	<u>\$ 17,724,705</u>

(1) Amounts include net unrealized (gains) losses on OTTI fixed maturity securities subsequent to the impairment measurement date.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(6) Investments (Continued)

Fixed Maturity and Equity Securities (Continued)

The amortized cost and fair value of fixed maturity securities at December 31, 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale	
	Amortized cost	Fair value
Due in one year or less	\$ 627,892	\$ 633,545
Due after one year through five years	4,950,255	5,159,034
Due after five years through ten years	4,346,379	4,608,828
Due after ten years	6,032,567	6,667,457
	15,957,093	17,068,864
Asset-backed and mortgage-backed securities	4,700,174	4,888,990
Total	\$ 20,657,267	\$ 21,957,854

The Company had certain investments with a reported fair value lower than the cost of the investments as follows:

	December 31, 2019			
	Less than 12 months			
	Fair value	Amortized cost	Unrealized losses and OTTI in AOCL	Security count
U.S. government securities	\$ 70,024	\$ 70,219	\$ 195	13
Agencies not backed by the full faith and credit of the U.S. government	30,857	31,134	277	16
Foreign securities	7,704	7,742	38	8
Corporate securities	493,902	499,951	6,049	113
Asset-backed securities	94,884	95,337	453	38
CMBS	135,973	136,801	828	16
RMBS	143,496	144,016	520	35

	December 31, 2019			
	12 months or greater			
	Fair value	Amortized cost	Unrealized losses and OTTI in AOCL	Security count
U.S. government securities	\$ 6,981	\$ 7,007	\$ 26	5
Agencies not backed by the full faith and credit of the U.S. government	1,861	1,879	18	2
Foreign securities	1,146	1,170	24	2
Corporate securities	109,545	115,982	6,437	32
Asset-backed securities	16,527	16,550	23	7
CMBS	4,939	4,964	25	9
RMBS	29,110	29,427	317	25

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(6) Investments (Continued)

Fixed Maturity and Equity Securities (Continued)

The Company had certain investments with a reported fair value lower than the cost of the investments as follows (Continued):

	December 31, 2018			
	Less than 12 months			
	Fair value	Amortized cost	Unrealized losses and OTTI in AOCL	Security count
U.S. government securities	\$ 363,378	\$ 363,746	\$ 368	26
Agencies not backed by the full faith and credit of the U.S. government	276,528	282,085	5,557	69
Foreign securities	332	339	7	2
Corporate securities	6,240,509	6,535,036	294,527	1,262
Asset-backed securities	316,269	320,710	4,441	73
CMBS	765,132	776,731	11,599	56
RMBS	470,214	476,822	6,608	115

	December 31, 2018			
	12 months or greater			
	Fair value	Amortized cost	Unrealized losses and OTTI in AOCL	Security count
U.S. government securities	\$ 49,325	\$ 50,754	\$ 1,429	41
Agencies not backed by the full faith and credit of the U.S. government	102,328	107,438	5,110	50
Foreign securities	25,000	26,416	1,416	7
Corporate securities	911,389	983,767	72,378	223
Asset-backed securities	166,967	172,195	5,228	59
CMBS	362,409	374,155	11,746	58
RMBS	214,145	220,868	6,723	97

For fixed maturity securities in an unrealized loss position, the Company expects to collect all principal and interest payments. In determining whether an impairment is other than temporary, the Company evaluates its intent and need to sell a security prior to its anticipated recovery in fair value. The Company performs ongoing analysis of liquidity needs, which includes cash flow testing. Cash flow testing includes duration matching of the investment portfolio and policyholder liabilities. As of December 31, 2019, the Company does not intend to sell and does not believe that it will be required to sell investments with an unrealized loss prior to recovery.

The following paragraphs summarize the Company's evaluation of investment categories with unrealized losses as of December 31, 2019.

U.S. government securities are temporarily impaired due to current interest rates and not credit-related reasons. The Company expects to collect all principal and interest on these securities.

Agencies not backed by the full faith and credit of the U.S. government securities are temporarily impaired due to interest rates and not credit-related reasons. Although not backed by the full faith and credit of the U.S. government, these securities generally trade as if they are.

Foreign government securities are temporarily impaired due to current interest rates and not credit-related reasons. The Company expects to collect all principal and interest on these securities.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(6) Investments (Continued)

Fixed Maturity and Equity Securities (Continued)

Unrealized losses related to corporate securities are due to interest rates that are higher, and current market spreads that are wider than at the securities' respective purchase dates. The Company performed an analysis of the financial performance of the underlying issuers and determined that the entire amortized cost for each temporarily-impaired security is expected to be recovered.

Asset-backed securities, CMBS and RMBS are impacted by both interest rates and the value of the underlying collateral. The Company utilizes discounted cash flow models using outside assumptions to determine if an OTTI is warranted.

The Company's CMBS portfolio had initial ratings of AA or higher and are diversified by property type and geographic location. The Company's CMBS portfolio is primarily super senior and senior securities as opposed to mezzanine or below. Commercial real estate fundamentals have impacted most of the asset class and the Company has recognized OTTI when warranted. All CMBS securities that were in an unrealized loss position for twelve months or longer as of December 31, 2019 were investment grade securities (BBB or better).

The Company's RMBS portfolio primarily consists of residential mortgages to prime borrowers. Fluctuations in the U.S. housing market continues to impact the valuations across the entire asset class. As of December 31, 2019, 97.1% of the RMBS portfolio was invested in agency pass-through securities. Of the RMBS securities that were in an unrealized loss position for twelve months or longer, 99.9% were investment grade securities. Credit support for the RMBS holdings remains high.

At December 31, 2019 and 2018, fixed maturity securities and cash equivalents with a carrying value of \$23,163 and \$30,570, respectively, were on deposit with various regulatory authorities as required by law.

Mortgage Loans

The Company underwrites commercial mortgages on general purpose income producing properties and the Company has defined its portfolio segment as the commercial mortgage loan portfolio in total with the class segments defined as office buildings, retail facilities, apartment, industrial and other properties. Geographic and property type diversification is also considered in analyzing investment opportunities, as well as property valuation and cash flow. The mortgage loan portfolio totaled \$4,322,318 and \$3,749,228 at December 31, 2019 and 2018, respectively.

The Company's commercial mortgage loan investments are owned by Minnesota Life Insurance Company and Securian Life Insurance Company and are managed and serviced directly by Securian Asset Management, Inc. (Securian AM), a wholly owned registered investment advisor.

The Company participates in programs to sell a percentage of ownership of certain newly originated mortgage loans to third parties in order to diversify and mitigate risk. These transactions are accounted for as sales and the portion of each asset sold is legally isolated from the Company with no exposure of loss. Securian AM services the assets for the third party. Certain portions of mortgage loans totaling \$227,697 and \$156,574 were sold during 2019 and 2018, respectively.

The following table shows the composition of the Company's commercial mortgage loan portfolio, net of valuation allowances, by class as of December 31:

	2019	2018
Industrial	\$ 1,271,450	\$ 1,145,183
Office buildings	610,693	579,021
Retail facilities	1,122,280	993,550
Apartment	977,795	707,233
Other	340,100	324,241
Total	<u>\$ 4,322,318</u>	<u>\$ 3,749,228</u>

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(6) Investments (Continued)

Mortgage Loans (Continued)

If information is obtained on commercial mortgage loans that indicate a potential problem (likelihood of the borrower not being able to comply with the present loan repayment terms), the loan is placed on an internal surveillance list, which is routinely monitored by the Company. Among the criteria that would indicate a potential problem are: borrower bankruptcies, major tenant bankruptcies, loan relief/restructuring requests, delinquent tax payments, late payments, and vacancy rates.

A valuation allowance is established when it is probable that the Company will not be able to collect all amounts due under the contractual terms of the loan. The valuation allowance includes a specific allowance for loans that are determined to be nonperforming and a general allowance for loans that are on the surveillance list where a probable loss exists but cannot be specifically identified to a specific loan.

The following table provides a summary of the valuation allowance for the mortgage loan portfolio for the years ended December 31:

	2019	2018
Balance at beginning of year	\$ 896	\$ 1,621
Release of allowance	(28)	(725)
Balance at end of year	<u>\$ 868</u>	<u>\$ 896</u>
End of year valuation allowance basis:		
Specific allowance	\$ 194	\$ 200
General allowance	674	696
Total valuation allowance	<u>\$ 868</u>	<u>\$ 896</u>

As of December 31, 2019, the Company had two loans with a total carrying value of \$1,356, net of a \$194 specific valuation allowance. The two loans were held in the office building class. For those two loans, the interest income recognized for the year ended December 31, 2019 was \$71.

As of December 31, 2018, the Company had two loans with a total carrying value of \$1,391, net of a \$200 specific valuation allowance. The two loans were held in the office building class. For those two loans, the interest income recognized for the year ended December 31, 2018 was \$73.

As of December 31, 2019 and 2018, the Company had no delinquent mortgage loans.

The Company assesses the credit quality of its mortgage loan portfolio by reviewing the performance of its portfolio which includes evaluating its performing and nonperforming mortgage loans. Nonperforming mortgage loans include loans that are not performing to the contractual terms of the loan agreement. Nonperforming mortgage loans do not include restructured loans that are current with payments and thus are considered performing.

As of December 31, 2019 and 2018, there were no nonperforming loans.

Periodically the Company may acquire real estate in satisfaction of debt. The acquired real estate is recognized at the lower of the loan's amortized cost balance or the acquired property's fair value less expected selling costs.

There was no real estate acquired in satisfaction of mortgage loan debt for the years ended December 31, 2019 and 2018.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(6) Investments (Continued)

Alternative Investments

Alternative investments primarily consist of private equity funds, mezzanine debt funds and hedge funds. Alternative investments are diversified by type, general partner, vintage year, and geographic location – both domestic and international.

The Company's composition of alternative investments by type were as follows:

	December 31, 2019		December 31, 2018	
	Carrying value	Percent of total	Carrying value	Percent of total
Alternative investments				
Private equity funds	\$ 473,428	65.1%	\$ 437,101	64.2%
Mezzanine debt funds	253,554	34.9%	243,080	35.7%
Hedge funds	129	0.0%	134	0.1%
Total alternative investments	<u>\$ 727,111</u>	<u>100.0%</u>	<u>\$ 680,315</u>	<u>100.0%</u>

Net Investment Income

Net investment income for the years ended December 31 was as follows:

	2019	2018
Fixed maturity securities, available-for-sale	\$ 774,050	\$ 693,323
Equity securities	21,634	18,871
Mortgage loans	176,270	145,242
Policy loans	31,842	28,322
Cash equivalents	5,569	4,563
Alternative investments	13,107	18,053
Derivative instruments	(205)	(199)
Other invested assets	7,263	10,644
Gross investment income	<u>1,029,530</u>	<u>918,819</u>
Investment expenses	<u>(6,504)</u>	<u>(5,706)</u>
Total	<u>\$ 1,023,026</u>	<u>\$ 913,113</u>

Net Realized Investment Gains (Losses)

Net realized investment gains (losses) for the years ended December 31 were as follows:

	2019	2018
Fixed maturity securities, available-for-sale	\$ 29,045	\$ (58,929)
Equity securities	89,779	(44,406)
Mortgage loans	28	725
Alternative investments	32,795	75,092
Derivative instruments	(56,291)	6,459
Other invested assets	35,843	3,307
Total	<u>\$ 131,199</u>	<u>\$ (17,752)</u>

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(6) Investments (Continued)

Net Realized Investment Gains (Losses) (Continued)

Gross realized gains (losses) on the sales of fixed maturity securities, equity securities and alternative investments for the years ended December 31 were as follows:

	2019	2018
Fixed maturity securities, available-for-sale:		
Gross realized gains	\$ 41,086	\$ 16,365
Gross realized losses	(8,058)	(72,617)
Equity securities:		
Gross realized gains	18,862	23,390
Gross realized losses	(8,179)	(13,107)
Alternative investments:		
Gross realized gains	36,187	59,441
Gross realized losses	(10,755)	(281)

The net unrealized investment gains recognized for equity securities held as of December 31 for the year ended December 31 was as follows:

	2019	2018
Net realized investment gains (losses)	\$ 89,779	\$ (44,406)
Less: Net realized gains on sales	10,683	10,283
Net unrealized investment gains (losses) recognized on held equity securities	<u>\$ 79,096</u>	<u>\$ (54,689)</u>

Other-than-temporary impairments by asset type recognized in net realized investment gains (losses) for the years ended December 31 were as follows:

	2019	2018
Fixed maturity securities, available-for-sale		
US government securities	\$ 402	\$ 523
Corporate securities	3,581	2,154
Total other-than-temporary impairments	<u>\$ 3,983</u>	<u>\$ 2,677</u>

The cumulative credit loss component of other-than-temporary impairments on fixed maturity securities still held by the Company at December 31, for which a portion of the other-than-temporary impairment loss was recognized in other comprehensive income (loss), was as follows:

	2019	2018
Balance at beginning of year	\$ 9,672	\$ 11,119
Additions:		
Initial impairments – credit loss OTTI recognized on securities not previously impaired	3,983	2,661
Additional impairments – credit loss OTTI recognized on securities previously impaired	—	16
Reductions:		
Due to sales (or maturities, pay downs, or prepayments) during the period of securities previously credit loss OTTI impaired	(1,629)	(4,124)
Balance at end of year	<u>\$ 12,026</u>	<u>\$ 9,672</u>

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(7) Derivative Instruments

Derivatives are financial instruments whose values are derived from interest rates, foreign currency exchange rates, or other financial indices. Derivatives may be exchange-traded or contracted in the OTC market. The Company currently enters into derivative transactions that do not qualify for hedge accounting, or in certain cases, elects not to utilize hedge accounting. The Company does not enter into speculative positions. Although certain transactions do not qualify for hedge accounting or the Company chooses not to utilize hedge accounting, they provide the Company with an assumed economic hedge, which is used as part of its strategy for certain identifiable and anticipated transactions. The Company uses a variety of derivatives including swaps, swaptions, futures, caps, floors, forwards and option contracts to manage the risk associated with changes in estimated fair values related to the Company's financial assets and liabilities, to generate income and manage other risks due to the variable nature of the Company's cash flows. The Company also issues certain insurance policies and annuity contracts that have embedded derivatives.

Freestanding derivatives are carried on the Company's consolidated balance sheets either as assets within derivative instruments or as liabilities within other liabilities at estimated fair value as determined through the use of quoted market prices for exchange-traded derivatives and interest rate forwards or through the use of pricing models for OTC derivatives. Derivative valuations can be affected by changes in interest rates, foreign currency exchange rates, financial indices, credit spreads, default risk (including the counterparties to the contract), volatility, liquidity and changes in estimates and assumptions used in the pricing models.

The Company is exposed to various risks relating to its ongoing business operations, including interest rate risk, foreign currency risk and equity market risk. The Company uses a variety of strategies to attempt to manage these risks. The following table presents the notional amount, estimated fair value, and primary underlying risk exposure of the Company's derivative financial instruments, excluding embedded derivatives held:

Preliminary underlying risk exposure	Instrument type	December 31, 2019			December 31, 2018		
		Notional amount	Fair value		Notional amount	Fair value	
			Assets	Liabilities (1)		Assets	Liabilities (1)
Interest rate	Interest rate						
	swaps	\$ 888,500	\$ 23,850	\$ —	\$ 293,500	\$ 8,470	\$ 2,356
	Interest rate						
	swaptions	1,810,000	10	—	3,624,000	610	—
	Interest rate						
	futures	1,001,600	13	13	354,000	5	5
	TBAs	—	—	—	36,840	36,901	—
Equity market	Equity futures	598,097	6	6	479,052	5	5
	Equity options	14,213,975	768,524	286,177	12,089,625	101,905	26,211
Total derivatives		<u>\$ 18,512,172</u>	<u>\$ 792,403</u>	<u>\$ 286,196</u>	<u>\$ 16,877,017</u>	<u>\$ 147,896</u>	<u>\$ 28,577</u>

(1) The estimated fair value of all derivatives in a liability position is reported within other liabilities on the consolidated balance sheets.

The majority of the freestanding derivatives utilized by the Company, other than TBAs, are for specific economic hedging programs related to various annuity and life insurance product liabilities that have market risk. Management considers the sales growth of products and the volatility in the interest and equity markets in assessing the trading activity for these programs.

Interest rate swaps are used by the Company primarily to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and liabilities (duration mismatches). In an interest rate swap, the Company agrees with another party to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts as calculated by reference to an agreed notional principal amount. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by the counterparty at each due date.

Notes to Consolidated Financial Statements (Continued)
(in thousands)**(7) Derivative Instruments (Continued)**

Interest rate swaptions are purchased by the Company to manage the impact of interest rate declines and sharply rising interest rates. An interest rate swaption allows the Company the option, but not the obligation, to enter into an interest rate swap at a future date with the terms established at the time of the purchase. There are two types of interest rate swaptions, payer swaptions and receiver swaptions. A payer swaption allows the holder to enter into a swap to pay the fixed rate and receive the floating rate. A receiver swaption allows the holder to enter into a swap to receive the fixed rate and pay the floating rate. The Company is trading in both types of swaptions. Swaptions require the payment of a premium when purchased. Swaptions are based on a specific underlying swap and have an exercise rate and an expiration date. A payer swaption would be exercised if the market swap rate is greater than the exercise rate at the expiration date and the value would be the present value of the difference between the market swap rate and exercise rate valued as an annuity over the remaining life of the underlying swap multiplied by the notional principal. A receiver swaption would be exercised if the market swap rate is less than the exercise rate at the expiration date and the value would be the present value of the difference between the exercise rate and market swap rate valued as an annuity over the remaining life of the underlying swap multiplied by the notional principal. In either case if market swap rates were unfavorable the swaption would be allowed to expire.

Interest rate futures are used by the Company to manage duration in certain portfolios within the general account of the Company. In exchange traded interest rate futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which is determined by the different classes of interest rate securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily fair market values of those contracts. The Company enters into exchange-traded futures with regulated futures commission merchants that are members of the exchange. Exchange-traded interest rate futures are used primarily to economically hedge mismatches between the duration of the assets in a portfolio and the duration of liabilities supported by those assets, to economically hedge against changes in value of securities the Company owns or anticipates acquiring, and to economically hedge against changes in interest rates on anticipated liability issuances. The value of interest rate futures is substantially impacted by changes in interest rates and they can be used to modify or economically hedge existing interest rate risk.

Interest rate caps are purchased by the Company to manage the impact of sharply rising interest rates on overall investment performance. An interest rate cap is a series of call options on a specified interest rate. The Company enters into contracts to purchase interest rate caps and receives cash payments from the cap writer when the market rate is above the specified rate on the maturity date. The difference between the market rate and specified rate is then multiplied by the notional principal amount to determine the payment. If the market rate is less than the specified rate on the maturity date, the Company does not receive a payment.

The Company holds TBA forward contracts that require the Company to take delivery of a mortgage-backed security at a settlement date in the future. A majority of the TBAs are settled at the first available period allowed under the contract. However, the deliveries of some of the Company's TBA securities happen at a later date, thus extending the forward contract date.

Foreign currency swaps are used by the Company to offset foreign currency exposure on interest and principal payments of fixed maturity securities denominated in a foreign currency. In a foreign currency swap transaction, the Company agrees with another party to exchange, at specified intervals, the difference between one currency and another at a fixed exchange rate, generally set at inception, calculated by reference to an agreed upon principal amount. The principal amount of each currency is exchanged at the inception and termination of the currency swap by each party.

Foreign currency forwards are used by the Company to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and liabilities denominated in foreign currencies. In a foreign currency forward transaction, the Company agrees with another party to deliver a specified amount of an identified currency at a specified future date. The price is agreed upon at the time of the contract and payment for such a contract is made in a different currency in the specified future date.

Equity futures include exchange-traded equity futures as well as VIX futures. VIX futures are used by the Company to reduce the variance of its portfolio of equity assets. The VIX is the index of the implied volatility of the index options and represents the expected stock market volatility over the next 30 day period. In exchange-traded equity futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which is determined by the different classes of equity securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily fair market values of those contracts. The Company enters into exchange-traded futures with regulated futures commission merchants that are members of the exchange. Exchange-traded equity futures are used primarily to hedge liabilities embedded in certain variable annuity, indexed annuity, and indexed universal life products offered by the Company.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(7) Derivative Instruments (Continued)

Equity options are used by the Company to economically hedge certain risks associated with fixed indexed annuity and indexed universal life products, that allow the holder to elect an interest rate return or a market component, where interest credited to the contracts is linked to the performance of an index. Certain contract holders may elect to rebalance index options at renewal dates. As of each renewal date, the Company has the opportunity to re-price the indexed component by establishing participation rates, caps, spreads and specified rates, subject to contractual guarantees. The Company purchases equity options that are intended to be highly correlated to the portfolio allocation decisions of the contract holders with respect to returns for the current reset period.

Equity options are also used by the Company to economically hedge minimum guarantees embedded in certain variable annuity products offered by the Company. To economically hedge against adverse changes in equity indices, the Company enters into contracts to sell the equity index within a limited time at a contracted price. The contracts will be net settled in cash based on differentials in the indices at the time of exercise and the strike price. In certain instances, the Company may enter into a combination of transactions to economically hedge adverse changes in equity indices within a pre-determined range through the purchase and sale of options.

The following tables present the amount and location of gains (losses) recognized in income from derivative financial instruments, excluding embedded derivatives:

	December 31, 2019		
	Net realized investment gains (losses)	Net investment income	Policyholder benefits
Interest rate swaps	\$ 78,239	\$ (51)	\$ —
Interest rate swaptions	(600)	—	—
Interest rate futures	(15,924)	—	(349)
TBAs	(29)	—	—
Foreign currency forwards	84	(154)	—
Equity futures	(111,164)	—	40,069
Equity options	(3,578)	—	426,054
Total gains (losses) recognized in income from derivative financial instruments	\$ (52,972)	\$ (205)	\$ 465,774

	December 31, 2018		
	Net realized investment gains (losses)	Net investment income	Policyholder benefits
Interest rate swaps	\$ (9,658)	\$ (34)	\$ —
Interest rate swaptions	(3,055)	—	—
Interest rate futures	(1,973)	—	186
Interest rate caps	159	(159)	—
TBAs	388	—	—
Foreign currency forwards	(73)	(6)	—
Equity futures	19,221	—	(14,303)
Equity options	(791)	—	(162,273)
Total gains (losses) recognized in income from derivative financial instruments	\$ 4,218	\$ (199)	\$ (176,390)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(7) Derivative Instruments (Continued)

The Company may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. Generally, the current credit exposure of the Company's derivative contracts is limited to the positive estimated fair value of derivative contracts at the reporting date after taking into consideration the existence of netting agreements and any collateral received pursuant to credit support annexes.

The Company manages its credit risk related to OTC derivatives by entering into transactions with highly rated counterparties, maintaining collateral arrangements and through the use of master agreements that provide for a single net payment to be made by one counterparty to another at each due date and upon termination. Because exchange traded futures are purchased through regulated exchanges, and positions are settled on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivative instruments.

The Company enters into various collateral arrangements, which require both the pledging and accepting of collateral in connection with its derivative instruments. The Company's collateral arrangements for its OTC derivatives generally require the counterparty in a net liability position, after considering the effect of netting arrangements, to pledge collateral when the fair value of that counterparty's derivatives reaches a pre-determined threshold. The Company received collateral from OTC counterparties in the form of securities amounting to \$513,424 and \$79,943 at December 31, 2019 and 2018, respectively. Securities collateral received by the Company is held in separate custodial accounts and is not recorded on the balance sheet. Credit agreements with counterparties permit the Company to sell or re-pledge this collateral; at December 31, 2019, none of the collateral had been sold or re-pledged. The Company delivered collateral in the amount of \$120,539 and \$35,590 at December 31, 2019 and 2018, respectively. The Company maintained ownership of any collateral delivered. Securities collateral pledged by the Company is reported in fixed maturity securities on the balance sheet.

Embedded Derivatives

The Company has certain embedded derivatives that are required to be separated from their host contracts and accounted for as derivatives. These embedded derivatives take the form of guaranteed withdrawal benefits on variable annuities, a guaranteed payout floor on a variable payout annuity, and indexed credits on both fixed indexed annuity and indexed universal life products.

The following table presents the fair value of the Company's embedded derivative assets (liabilities) at December 31:

	2019	2018
Embedded derivatives within annuity products:		
Minimum guaranteed withdrawal benefits	\$ (16,903)	\$ (12,941)
Minimum guaranteed accumulation benefits	226	428
Guaranteed payout floors	(1,898)	(2,743)
Fixed indexed annuity	(132,078)	(83,064)
Embedded derivatives within life insurance products:		
Fixed indexed universal life	\$ (518,366)	\$ (88,134)

The following table presents the changes in fair value recorded as increases (decreases) in net income related to embedded derivatives for the years ended December 31:

	2019	2018
Embedded derivatives within annuity products:		
Net realized investment gains (losses)	\$ (3,319)	\$ 2,241
Policyholder benefits	(49,015)	(49,731)
Embedded derivatives within life insurance products:		
Policyholder benefits	\$ (430,232)	\$ (281,000)

At December 31, 2019 and 2018, fixed maturity and equity securities with a carrying value of \$120,539 and \$35,590, respectively, were pledged as collateral to a regulatory authority as part of the Company's derivative program.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(8) Variable Interest Entities

The Company is involved with various special purpose entities and other entities that are deemed to be variable interest entities (VIE). A VIE is an entity that either has investors that lack certain characteristics of a controlling financial interest or lacks sufficient equity to finance its own activities without financial support provided by other entities.

The Company performs ongoing qualitative assessments of its VIEs to determine whether the Company has a controlling financial interest in the VIE and is therefore the primary beneficiary. The Company is deemed to have controlling financial interest when it has both the ability to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE.

Consolidated VIEs

As of December 31, 2019 and 2018, the Company was the primary beneficiary for relationships with certain entities and development stage companies related to the Company's business that were considered VIEs and consolidated.

The following table summarizes the impact of consolidation to the consolidated balance sheets as of December 31:

	2019	2018
Other invested assets	\$ (6,360)	\$ (7,165)
Cash and cash equivalents	2,975	4,206
Other assets	5,791	4,629
Other liabilities	3,152	2,351
Noncontrolling interests	(746)	(681)

The following table summarizes the impact of consolidation to the consolidated statements of operations and comprehensive income (loss) for the year ended December 31:

	2019	2018
Net investment income	\$ (204)	\$ (307)
Other income	909	937
General operating and other expenses	16,446	13,084
Commissions	(16,432)	(15,008)
Net income attributable to noncontrolling interests	691	2,554

Non-Consolidated VIEs

The Company, through normal investment activities, makes passive investments in structured securities issued by VIEs. These structured securities typically invest in fixed income investments and include asset-backed securities, CMBS and RMBS. The Company has not provided financial or other support with respect to these investments other than its original investment. The Company has determined it is not the primary beneficiary of these investments due to the relative size of the Company's investment in comparison to the principal amount of the structured securities issued by the VIEs, the level of credit subordination, which reduces the Company's obligation to absorb losses or right to receive benefits, and the Company's inability to direct the activities that most significantly impact the economic performance of the VIEs. The Company's maximum exposure to loss on these structured investments is limited to the amount of the investment. See note 6 Investments for details regarding the carrying amount and classification of these assets.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(8) Variable Interest Entities (Continued)

Non-Consolidated VIEs (Continued)

In addition, the Company invests in alternative investments that may or may not be VIEs. The Company has determined that it is not required to consolidate these entities because it does not have the ability to direct the activities of the entities and it does not have the obligation to absorb losses or the right to receive benefits from the entities that could be potentially significant. The maximum exposure to loss associated with the entities is equal to the carrying amounts of the investment in the VIE plus any unfunded commitments. The carrying amount was \$727,111 and \$680,315 and the maximum exposure was \$1,198,248 and \$1,080,877 at December 31, 2019 and 2018, respectively.

(9) Notes Receivable

As of December 31, 2019 and 2018, the Company had one note receivable with the Housing and Redevelopment Authority (HRA) of the City of St. Paul, Minnesota that was issued in connection with the Company's construction of an additional home office facility. The note is a tax-exempt note which had a balance at December 31, 2019 and 2018 of \$7,058 and \$8,166, respectively. For the years ended December 31, 2019 and 2018, the Company received principal payments of \$1,107 and \$636, respectively, and interest payments of \$730 and \$783, respectively, on the note. At December 31, 2019 and 2018, the accrued interest on the remaining note was \$284 and \$311, respectively. The loan balance is included in other invested assets and accrued interest is included in accrued interest income on the consolidated balance sheets, and interest income is included in net investment income on the consolidated statement of operations and comprehensive income (loss).

(10) Income Taxes

Income tax expense (benefit) varies from the amount computed by applying the federal income tax rates of 21% to income from operations before taxes. The significant components of this difference were as follows:

	2019	2018
Computed income tax expense	\$ 108,053	\$ 75,023
Difference between computed and actual tax expense:		
Dividends received deduction	(25,146)	(24,814)
Tax credits	(10,940)	(6,445)
Benefit plan contribution	—	(11,200)
Other, net	5,442	(1,446)
Total income tax expense	<u>\$ 77,409</u>	<u>\$ 31,118</u>

The current and deferred portions of income tax expense (benefit) for the years ending December 31 were as follows:

	2019	2018
Income tax expense (benefit):		
Current	\$ 103,097	\$ 8,467
Deferred	(25,688)	22,651
Total income tax expense	<u>\$ 77,409</u>	<u>\$ 31,118</u>

As of December 31, 2019 and 2018, the gross deferred tax assets were \$454,815 and \$371,066 respectively, and the gross deferred tax liabilities were \$706,569 and \$411,637, respectively. The primary temporary differences that give rise to the Company's net deferred tax liability of \$253,754 and \$40,571 as of December 31, 2019 and 2018, respectively relates to deferred policy acquisition costs, realized investment gains (losses), and unrealized holding gains (losses) on securities. As of December 31, 2019 and 2018, net current income tax recoverables are reported in other assets and net deferred tax liabilities are reported in other liabilities on the consolidated balance sheets.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(10) Income Taxes (Continued)

As of December 31, 2019 and 2018, the Company recorded a valuation allowance of \$2,000 and \$0, respectively, related to tax benefits of certain state operating loss carryforwards. The valuation allowance reflects management's assessment, based on available information, that it is more likely than not that the deferred income tax asset for certain state operating loss carryforwards will not be realized. Management has determined that a valuation allowance was not required for other deferred tax items based on management's assessment that it is more likely than not that these deferred tax assets will be realized through future reversals of existing taxable temporary differences and future taxable income.

The increase (decrease) in deferred tax asset valuation allowance for the years ended December 31, 2019 and 2018, was \$2,000 and \$(259), respectively.

At December 31, 2019, net state operating loss carryforwards were \$46,374 with the majority expiring beginning in 2026.

At December 31, 2019, net federal operating loss carryforwards were \$50,000 with the majority expiring beginning in 2026.

Income taxes paid for the years ended December 31, 2019 and 2018, were \$94,404 and \$42,336, respectively.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	2019	2018
Balance at beginning of year	\$ 3,882	\$ 4,457
Additions based on tax positions related to current year	315	270
Additions (reductions) for tax positions of prior years	(1,061)	(845)
Balance at end of year	<u>\$ 3,136</u>	<u>\$ 3,882</u>

Included in the balance of unrecognized tax benefits at December 31, 2019 are potential benefits of \$3,136 that, if recognized, would affect the effective tax rate on income from operations.

As of December 31, 2019, accrued interest and penalties of \$206 are recorded in other assets on the consolidated balance sheets and \$22 is recorded in federal income tax expense on the consolidated statements of operations and comprehensive income (loss).

At December 31, 2019, the Company does not expect a significant increase in tax contingencies within the 12 month period following the balance sheet date.

All tax years through 2014 are closed. An amended 2015 tax return was filed late in 2018. 2016 and 2017 tax return adjustments were submitted to the IRS in late 2019 in connection with a limited scope audit of the 2015 amended tax return. The Company believes that any additional taxes assessed or refunded as a result of a potential examination of the amended return will not have a material impact on its financial position. The IRS has not stated its intention to audit MMC's 2016, 2017 or 2018 consolidated tax returns beyond the return adjustment submitted.

(11) Employee Benefit Plans

Pension and Other Postretirement Plans

The Company has non-contributory defined benefit retirement plans covering substantially all employees and certain agents. Benefits are based upon years of participation and the employee's average monthly compensation or the agent's adjusted annual compensation. In 2020, the Company expects to contribute the amounts necessary to meet the minimum funding requirements to its non-contributory defined benefit plans. In addition, it may contribute additional tax deductible amounts.

The Company also has an unfunded non-contributory defined benefit retirement plan, which provides certain employees with benefits in excess of limits for qualified retirement plans.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(11) Employee Benefit Plans (Continued)

Pension and Other Postretirement Plans (Continued)

The Company also has postretirement plans that provide certain health care and life insurance benefits to substantially all retired employees and agents. Eligibility is determined by age at retirement and years of service. Health care premiums are shared with retirees, and other cost-sharing features include deductibles and co-payments. The Company has a 401(h) account through its non-contributory defined benefit plan to partially fund retiree medical costs for non-key employees. The Company does not expect to contribute to the 401(h) account in 2020, but may contribute additional tax deductible amounts. In 2019, the Company amended the benefits for a limited number of retirees for one of its postretirement plans. In 2018, the Company made certain provider and other changes to one of its postretirement plans, which was accounted for as an amendment.

The funded status of the Company's plans as of December 31 was as follows:

	Pension benefits		Other benefits	
	2019	2018	2019	2018
Benefit obligation	\$ 1,124,595	\$ 937,523	\$ 76,358	\$ 68,069
Fair value of plan assets	1,225,154	1,036,928	18,942	18,869
Funded status	<u>\$ 100,559</u>	<u>\$ 99,405</u>	<u>\$ (57,416)</u>	<u>\$ (49,200)</u>

The amounts recognized in the consolidated balance sheets for the Company's plans as of December 31 were as follows:

	Pension benefits		Other benefits	
	2019	2018	2019	2018
Prepaid benefit cost	\$ 179,099	\$ 172,881	\$ —	\$ —
Accrued benefit cost	(78,540)	(73,476)	(57,416)	(49,200)
Net amount recognized	<u>\$ 100,559</u>	<u>\$ 99,405</u>	<u>\$ (57,416)</u>	<u>\$ (49,200)</u>

Prepaid benefit costs are included in other assets and accrued benefit costs are included in other liabilities on the consolidated balances sheets.

The amounts recognized in accumulated other comprehensive income (loss) for the Company's plans as of December 31 were as follows:

	Pension benefits		Other benefits	
	2019	2018	2019	2018
Net actuarial loss	\$ (173,206)	\$ (169,181)	\$ (46,426)	\$ (45,421)
Prior service benefit	10,760	12,912	62,242	67,281
Accumulated other comprehensive income (loss)	<u>\$ (162,446)</u>	<u>\$ (156,269)</u>	<u>\$ 15,816</u>	<u>\$ 21,860</u>

Net periodic benefit costs for pension and other benefits for the years ended December 31, 2019 and 2018 were \$4,457 and \$20,611, respectively, and are included in general operating and other expenses on the consolidated statements of operations and comprehensive income (loss).

For the years ended December 31, 2019 and 2018, net periodic costs for pension and other benefit costs consist of service costs of \$28,228 and \$32,463, respectively and other components of \$(23,771) and \$(11,852), respectively.

The accumulated benefit obligation as of December 31 was as follows:

	Pension benefits		Other benefits	
	2019	2018	2019	2018
Accumulated benefit obligation	\$ 935,509	\$ 793,425	\$ 76,358	\$ 68,069

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(11) Employee Benefit Plans (Continued)

Pension and Other Postretirement Plans (Continued)

Plans with accumulated benefit obligation in excess of plan assets as of December 31 were as follows:

	Pension benefits	
	2019	2018
Plans with accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	\$ 78,540	\$ 73,476
Accumulated benefit obligation	61,985	60,659
Fair value of plan assets	—	—

The amounts of employer contributions and benefits paid for the years ending December 31 were as follows:

	Pension benefits		Other benefits	
	2019	2018	2019	2018
Employer contributions	\$ 10,706	\$ 109,755	\$ (1,091)	\$ 6,922
Benefits paid	(33,800)	(31,278)	(2,382)	(4,488)

The Company updated its assumptions as of December 31, 2019 and 2018 with respect to its pension and postretirement benefit obligations after a review of plan experience. The assumption changes are a component of the net actuarial gain (loss).

The weighted average assumptions used to determine benefit obligations at December 31 were as follows:

	Pension benefits		Other benefits	
	2019	2018	2019	2018
Discount rate (1)	3.51%	4.48%	3.49%	4.46%
Rate of compensation increase	4.00%	4.00%	—	—
Health care cost trend rate (2)			8.49%	8.16%

(1) The present value of expected future benefit payments used to determine the benefit obligation for each plan is calculated based on a theoretical yield curve consisting of AA rated corporate fixed maturity securities and Treasury spot curve data. The discount rate for each plan is the single rate which results in the same present value of obligations as that obtained using the yield curve.

(2) For 2019 year-end obligation measurement purposes, the 8.49% rate was assumed to decrease gradually to 4.00% for 2075 and remain at that level thereafter. For 2018 year-end obligation measurement purposes, the 8.16% rate was assumed to decrease gradually to 4.40% for 2074 and remain at that level thereafter. The health care cost trend rates reflected in the table above represent blended rates for prior to age 65 and after age 65.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(11) Employee Benefit Plans (Continued)

Pension and Other Postretirement Plans (Continued)

The weighted average assumptions used to determine net periodic benefit costs for the years ending December 31 were as follows:

	Pension benefits		Other benefits	
	2019	2018	2019	2018
Expected long-term return on plan assets (1)	6.14%	6.37%	6.25%	6.50%
Discount rate (2)	4.48%	3.80%	4.46%	3.80%
Rate of compensation increase	4.00%	4.00%	—	—

(1) Historical rates of return for individual asset classes and future estimated returns are used to develop expected rates of return. These rates of return are applied to the plan's investment policy to determine a range of expected returns. The expected long-term rate of return on plan assets is selected from this range.

(2) The present value of expected future benefit payments used to determine the benefit obligation for each plan is calculated based on a theoretical yield curve consisting of AA rated corporate fixed maturity securities and Treasury spot curve data. The discount rate for each plan is the single rate which results in the same present value of obligations as that obtained using the yield curve.

The assumptions presented herein are based on pertinent information available to management as of December 31, 2019 and 2018. Actual results could differ from those estimates and assumptions.

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) as of December 31 were as follows:

	Pension benefits		Other benefits	
	2019	2018	2019	2018
Prior service cost	\$ —	\$ —	\$ 782	\$ 57,551
Net gain (loss)	(6,862)	16,353	(3,423)	(24,433)
Amortization of net gain (loss)	2,837	11,629	2,418	1,043
Amortization of prior service benefit	(2,152)	(2,152)	(5,821)	(1,984)
Total recognized in other comprehensive income (loss)	<u>\$ (6,177)</u>	<u>\$ 25,830</u>	<u>\$ (6,044)</u>	<u>\$ 32,177</u>

Estimated future benefit payments for pension and other postretirement plans:

	Pension benefits	Other benefits
2020	\$ 30,590	\$ 2,597
2021	31,905	2,678
2022	34,282	2,751
2023	37,342	3,017
2024	40,177	3,161
2025 - 2029	248,294	18,719

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(11) Employee Benefit Plans (Continued)

Pension and Other Postretirement Plans (Continued)

Investment policies and asset allocation

Generally, the investment objective of the non-contributory defined benefit plans is to balance the elements of risk, return and volatility. This objective recognizes that assets should be sufficiently liquid to enable the plans to pay all benefits and expenses when due, that higher investment returns increase the plans' assets and therefore may enhance the ability to provide benefits to participants, and that the pursuit of higher returns over the long term may result in increased volatility of returns and the potential for increased investment losses over the short term. This objective is achieved by strategically allocating assets among equity securities, fixed maturity securities and other investments. The higher levels of risk entailed in equity securities are balanced by investing a significant portion of the plans' assets in high quality fixed maturity securities matching the characteristics of the plans' obligations, and the insurance company general account. The target allocation of the Company's non-contributory defined benefit plans is generally based on the proportion of the retiree obligations to the overall obligations of the plans.

The target asset allocation as of December 31, 2019, for each of the broad investment categories, weighted for all plans combined is as follows:

Equity securities	43% to 50%
Fixed maturity securities	46% to 53%
Insurance company general account	4%

The target asset allocation varies based on the distribution of the underlying obligation.

The Company's non-contributory defined benefit plans weighted average asset allocations by asset category at December 31 are as follows:

	2019	2018
Equity securities	47%	44%
Fixed maturity securities	49%	51%
Insurance company general account	4%	5%

Equity securities, as classified in the above table, include direct investments in common stocks, mutual funds and pooled separate accounts. Fixed maturity securities include investments in pooled separate accounts. Pooled separate accounts are under either an immediate participation guaranteed contract or a group annuity contract with Minnesota Life Insurance Company and represent segregated funds administered by an unaffiliated asset management firm and consist principally of marketable fixed maturity and equity securities.

The insurance company general account, as classified in the above table, represents assets held within the general account of Minnesota Life Insurance Company. The assets of the insurance company, backing the insurance company general account, principally consist of fixed maturity securities, commercial mortgage loans and equity securities.

At times, investments may be made in nontraditional asset classes with the approval of the Company's non-contributory defined benefit plan trustees. Current investments include private equity limited partnerships which are classified as equity securities for asset allocation purposes.

The Company's investment policy includes various guidelines and procedures designed to ensure that the plans' assets can reasonably be expected to achieve the objective of the policy. The investment policy is periodically reviewed by the plans' respective trustees.

The primary investment objective of the postretirement plans is to balance capital appreciation and preservation. These plan assets are currently allocated to 49% equity securities and 51% fixed maturity securities. The target asset allocation as of December 31, 2019 is 50% equity securities and 50% fixed maturity securities.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(11) Employee Benefit Plans (Continued)

Pension and Other Postretirement Plans (Continued)

In accordance with authoritative accounting guidance, the Company groups plan assets into a three-level hierarchy for valuation techniques used to measure their fair value based on whether the valuation inputs are observable or unobservable. Refer to note 5 Fair Value of Financial Instruments for further discussion on these levels.

The following tables summarize the Company's pension benefit plans' financial assets measured at fair value on a recurring basis:

December 31, 2019	Level 1	Level 2	Level 3	Total
Equity securities				
Domestic real estate	\$ 46,041	\$ —	\$ —	\$ 46,041
Total equity securities	46,041	—	—	46,041
Investments in pooled separate accounts	—	1,035,197	—	1,035,197
Insurance company general account	—	—	48,750	48,750
Private equity funds	—	—	91,127	91,127
Cash and cash equivalents	3,765	—	—	3,765
Total investments	49,806	1,035,197	139,877	1,224,880
Total financial assets	<u>\$ 49,806</u>	<u>\$ 1,035,197</u>	<u>\$ 139,877</u>	<u>\$ 1,224,880</u>

December 31, 2018	Level 1	Level 2	Level 3	Total
Equity securities				
Domestic real estate	\$ 42,487	\$ —	\$ —	\$ 42,487
Total equity securities	42,487	—	—	42,487
Investments in pooled separate accounts	—	861,013	—	861,013
Insurance company general account	—	—	47,134	47,134
Private equity funds	—	—	81,191	81,191
Cash and cash equivalents	4,849	—	—	4,849
Total investments	47,336	861,013	128,325	1,036,674
Total financial assets	<u>\$ 47,336</u>	<u>\$ 861,013</u>	<u>\$ 128,325</u>	<u>\$ 1,036,674</u>

Refer to note 5 Fair Value of Financial Instruments for valuation methods and assumptions related to equity securities and cash and cash equivalents.

Investments in pooled separate accounts

Investments in pooled separate accounts are stated at the corresponding unit value of the pooled separate account, which represents fair value. Investments in pooled separate accounts are classified as Level 2 as the values are based upon quoted prices or reported net asset values provided by asset management firms with little readily determinable public pricing information.

Insurance company general account

Deposits in the insurance company general account are stated at cost plus accrued interest, which represents fair value. The assets of the insurance company, backing the insurance company general account, principally consist of fixed maturity securities, commercial mortgage loans and equity securities. The deposits in the insurance company general account are classified as Level 3, as fair value is based on unobservable inputs.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(11) Employee Benefit Plans (Continued)

Pension and Other Postretirement Plans (Continued)

Private equity funds

Investment in private equity funds primarily include limited partnership investments. The fair value of these investments are determined using assumptions that are generally unobservable and the investments typically have significant liquidity restrictions and are therefore classified as Level 3.

The following table provides a summary of purchased, sales and settlements of Level 3 financial assets held at fair value on a recurring basis during the year ended December 31, 2019:

	Purchases	Sales	Settlements
Private equity funds	\$ 13,237	\$ (5,835)	\$ —
Total financial assets	\$ 13,237	\$ (5,835)	\$ —

The following table provides a summary of purchased, sales and settlements of Level 3 financial assets held at fair value on a recurring basis during the year ended December 31, 2018:

	Purchases	Sales	Settlements
Private equity funds	\$ 14,721	\$ (7,989)	\$ —
Total financial assets	\$ 14,721	\$ (7,989)	\$ —

Transfers of securities among the levels occur at the beginning of the reporting period. There were no transfers in to or out of level 3 for the years ending December 31, 2019 and 2018.

The following table summarizes the Company's other postretirement benefit plan's financial assets measured at fair value on a recurring basis:

December 31, 2019	Level 1	Level 2	Level 3	Total
Investments in pooled separate accounts	\$ —	\$ 18,942	\$ —	\$ 18,942
Total financial assets	\$ —	\$ 18,942	\$ —	\$ 18,942

December 31, 2018	Level 1	Level 2	Level 3	Total
Investments in pooled separate accounts	\$ —	\$ 18,869	\$ —	\$ 18,869
Total financial assets	\$ —	\$ 18,869	\$ —	\$ 18,869

The Plans did not have any assets or liabilities reported at fair value on a nonrecurring basis.

Profit Sharing Plans

The Company also has profit sharing plans covering substantially all employees and agents. The Company's contribution rate to the employee plan is determined annually by the directors of the Company and is applied to each participant's prior year earnings. The Company's contribution to the agent plan is made as a certain percentage based on voluntary contribution rates and applied to each eligible agent's annual contribution. The Company recognized contributions to the plans during 2019 and 2018 of \$17,887 and \$15,556, respectively. Participants may elect to receive a portion of their contributions in cash.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(12) Liability for Pending Policy and Contract Claims

Liability for Unpaid Claims and Claim Loss Adjustment Expenses

The following table provides activity in the liability for unpaid claims and loss adjustment expenses related to short and long duration insurance contracts:

	2019	2018
Balance at January 1	\$ 1,083,412	\$ 1,040,483
Less: reinsurance recoverable	527,576	533,539
Net balance at January 1	555,836	506,944
Incurred related to:		
Current year	2,533,711	2,312,350
Prior years	(7,692)	36,633
Total incurred	2,526,019	2,348,983
Paid related to:		
Current year	1,988,792	1,837,275
Prior years	456,877	462,816
Total paid	2,445,669	2,300,091
Net balance at December 31	636,186	555,836
Plus: reinsurance recoverable	703,876	527,576
Balance at December 31	<u>\$ 1,340,062</u>	<u>\$ 1,083,412</u>

As a result of changes in estimates of claims incurred in prior years, the unpaid claims and claim and loss adjustment expenses incurred increased (decreased) by \$(7,692) and \$36,633 in 2019 and 2018, respectively. The amounts are the result of normal reserve development inherent in the uncertainty of establishing the liability for unpaid claims and claim and loss adjustment expenses, a portion of which are recaptured by the Company through profit sharing arrangements with certain business partners which is included in other income on the consolidated statements of operations and comprehensive income (loss).

Short-Duration Contracts

Certain short-duration contracts are offered within the Company's financial institution and group insurance products.

Claim and claim adjustment expense liabilities are set using a combination of actuarial methods. The liabilities are computed using assumptions for mortality, morbidity, and other performance. These assumptions are based on the Company's experience, industry results, emerging trends and future expectations. Claim frequency is primarily based on reported claims assigned to individual claimants. Claim counts may initially include claims that do not ultimately result in a liability. These claims are omitted from claim counts once it is determined that there is no liability. The information about incurred and paid loss development for all periods preceding year ended December 31, 2019 and the related historical claims payout percentage disclosure is unaudited and is presented as supplementary information.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(12) Liability for Pending Policy and Contract Claims (Continued)

Short-Duration Contracts (Continued)

Incurral and paid claims, net of reinsurance, including allocated claim adjustment expenses, by product and by incurral year are summarized below along with the liability for incurred but not reported claims plus expected development on reported claims (IBNR) and the cumulative number of individual claims reported (reported claims) by incurral year as of December 31, 2019:

Financial Institution Products

Incurral year	Net cumulative incurred claims ⁽¹⁾			IBNR	Reported claims
	2017	2018	2019		
2017	\$ 183,471	\$ 177,927	\$ 177,479	\$ 1,160	77
2018	—	194,110	183,774	2,464	84
2019	—	—	205,835	33,542	74
Total			<u>\$ 567,088</u>		

(1) 2017 and 2018 unaudited.

Incurral year	Net cumulative paid claims ⁽¹⁾		
	2017	2018	2019
2017	\$ 128,008	\$ 168,557	\$ 172,652
2018	—	133,619	175,363
2019	—	—	145,449
Total			<u>\$ 493,464</u>
Outstanding liabilities prior to 2017			\$ 4,340
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance			\$ 77,964

(1) 2017 and 2018 unaudited.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(12) Liability for Pending Policy and Contract Claims (Continued)

Short-Duration Contracts (Continued)

Incurred and paid claims, net of reinsurance, including allocated claim adjustment expenses, by product and by incurral year are summarized below along with the liability for incurred but not reported claims plus expected development on reported claims (IBNR) and the cumulative number of individual claims reported (reported claims) by incurral year as of December 31, 2019 (Continued):

Group Insurance Products

Incurral year	Net cumulative incurred claims ⁽¹⁾			IBNR	Reported claims
	2017	2018	2019		
2017	\$ 1,545,168	\$ 1,538,941	\$ 1,538,931	\$ —	55
2018	—	1,498,747	1,486,558	—	51
2019	—	—	1,667,552	72,881	49
Total			<u>\$ 4,693,041</u>		

(1) 2017 and 2018 unaudited.

Incurral year	Net cumulative paid claims ⁽¹⁾		
	2017	2018	2019
2017	\$ 1,257,210	\$ 1,509,884	\$ 1,529,506
2018	—	1,188,345	1,464,261
2019	—	—	1,328,569
Total			<u>\$ 4,322,336</u>

Outstanding liabilities prior to 2017	\$ 11,255
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	\$ 381,960

(1) 2017 and 2018 unaudited.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(12) Liability for Pending Policy and Contract Claims (Continued)

Short-Duration Contracts (Continued)

The reconciliation by product of the liability for pending policy and contract claims relating to short-duration contracts to the total liability for pending policy and contract claims on the consolidated balance sheets as of December 31, 2019 is as follows:

	Financial institution products	Group insurance products	Total
Liability for short duration pending policy and contract claims, net of reinsurance	\$ 77,964	\$ 381,960	\$ 459,924
Reinsurance recoverable on pending policy and contract claims	9,965	89,335	99,300
Less: other liabilities (1)	33,825	25,974	59,799
Short-duration claims recorded within pending policy and contract claims on the consolidated balance sheet	<u>\$ 54,104</u>	<u>\$ 445,321</u>	499,425
Other short-duration pending policy and contract claims			43,717
Long-duration pending policy and contract claims			147,406
Pending policy and contract claims			<u>\$ 690,548</u>

(1) Includes contracts that are recorded in line items other than pending policy and contract claims on the consolidated balance sheet.

Supplementary information on the historical average annual percentage payoff of incurred claims, net of reinsurance, by product and accident year as of December 31, 2019 is as follows (1):

Incurral year	Financial institution products	Group insurance products
1	71.8%	80.4%
2	22.8%	17.5%
3	2.3%	1.3%

(1) Unaudited.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(13) Reinsurance

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance companies. To the extent that a reinsurer is unable to meet its obligation under the reinsurance agreement, the Company remains liable. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. Allowances are established for amounts deemed to be uncollectible.

Reinsurance is accounted for over the lives of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies.

The effect of reinsurance on premiums for the years ended December 31 was as follows:

	2019	2018
Direct premiums	\$ 4,755,934	\$ 4,106,904
Reinsurance assumed	8,457	10,501
Reinsurance ceded	(805,196)	(904,055)
Net premiums	<u>\$ 3,959,195</u>	<u>\$ 3,213,350</u>

Reinsurance recoveries on ceded reinsurance contracts included in policyholder benefits on the consolidated statements of operations and comprehensive income (loss) were \$616,883 and \$744,284 during 2019 and 2018, respectively.

(14) Certain Nontraditional Long-Duration Contracts and Separate Accounts

The Company issues certain nontraditional long-duration contracts including universal life, variable life and deferred annuities, and fixed deferred and indexed annuities that contain either certain guarantees or sales inducements.

The Company issues variable contracts through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contractholder. The Company also issues variable annuity contracts through separate accounts where the Company contractually guarantees to the contractholder either (a) return of no less than total deposits made to the contract adjusted for partial withdrawals, (b) total deposits made to the contract adjusted for partial withdrawals plus a minimum return, (c) the highest contract value on a specified anniversary date adjusted for withdrawals following the contract anniversary, or (d) a minimum payment on a variable immediate annuity. These guarantees include benefits that are payable in the event of death, withdrawal or annuitization based upon the specific contract selected. The Company also issues fixed indexed annuities through its general account where the Company guarantees to the contractholder either (a) return of no less than total deposits made to the contract adjusted for partial withdrawals, (b) total deposits made to the contract adjusted for partial withdrawals plus a minimum return, or (c) the highest contract value on a specified anniversary date adjusted for withdrawals following the contract anniversary. The Company also issues universal life and variable life contracts where the Company provides to the contractholder a no-lapse guarantee.

The assets supporting the variable portion of the traditional variable annuities, variable contracts with guarantees, universal life and variable life contracts are carried at fair value and reported as summary total separate account assets with an equivalent summary total reported for liabilities. For variable annuity contracts, amounts assessed against the contractholders for mortality, administrative, and other services are included in policy and contract fees, changes in liabilities for minimum guarantees on deferred annuities are included in policyholder benefits, and changes in liabilities for the minimum guaranteed payments on variable immediate annuities and the minimum withdrawal benefits on variable deferrable annuities are included in net realized investment gains (losses) on the consolidated statements of operations and comprehensive income (loss). For universal life and variable life contracts, the amounts assessed against the contractholders for mortality, administrative, and other services are included in policy and contract fees and changes in liabilities for guaranteed benefits are included in policyholder benefits on the consolidated statements of operations and comprehensive income (loss). For variable annuity, universal life and variable life contracts, separate account net investment income, net investment gains and losses and the related liability changes are offset within the same line item on the consolidated statements of operations and comprehensive income (loss). There were no investment gains or losses on transfers of assets from the general account to the separate account during 2019 and 2018.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(14) Certain Nontraditional Long-Duration Contracts and Separate Accounts (Continued)

The Company's variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive. For guarantees of amounts in the event of death, the net amount at risk is defined as the current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date. For guaranteed withdrawal amounts, the net amount at risk is defined as the present value of future withdrawal benefits in excess of the current account balance. For guarantees of amounts at annuitization, the net amount at risk is defined as the present value of the minimum guaranteed annuity payments in excess of the current account balance. For the guaranteed payout annuity floor, the net amount at risk is defined as the guaranteed benefit in excess of the current benefit payable, assuming the guaranteed and current benefit amounts remain constant. For universal life and variable life contracts the net amount at risk is defined as the current death benefit in excess of the current balance, excluding reinsurance.

At December 31, the Company had the following variable annuity contracts with guarantees:

	2019	2018
Return of net deposits:		
In the event of death		
Account value	\$ 5,180,862	\$ 4,515,556
Net amount at risk	\$ 3,781	\$ 40,760
Average attained age of contract holders	65.0	64.3
As withdrawals are taken		
Account value	\$ 286,730	\$ 275,036
Net amount at risk	\$ 105	\$ 98
Average attained age of contract holders	70.5	70.3
Return of net deposits plus a minimum return:		
In the event of death		
Account value	\$ 368,740	\$ 304,322
Net amount at risk	\$ 22,751	\$ 51,303
Average attained age of contract holders	71.1	70.5
At annuitization		
Account value	\$ 341,329	\$ 347,590
Net amount at risk	\$ 1,310	\$ 2,064
Weighted average period remaining until expected annuitization (in years)	0.0	1.0
As withdrawals are taken		
Account value	\$ 3,687,327	\$ 3,156,859
Net amount at risk	\$ 13,179	\$ 4,513
Average attained age of contract holders	65.8	65.2

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(14) Certain Nontraditional Long-Duration Contracts and Separate Accounts (Continued)

At December 31, the Company had the following variable annuity contracts with guarantees (Continued):

	2019	2018
Highest specified anniversary account value:		
In the event of death		
Account value	\$ 660,177	\$ 607,535
Net amount at risk	\$ 2,892	\$ 50,547
Average attained age of contract holders	66.0	65.3
Account value adjustment on 10 th contract anniversary		
Account value	\$ 83,676	\$ 72,355
Net amount at risk	\$ —	\$ 710
Weighted average period remaining until expected annuitization (in years)	61.3	60.5
Guaranteed payout annuity floor:		
Account value	\$ 48,679	\$ 42,335
Net amount at risk	\$ —	\$ —
Average attained age of contract holders	76.6	76.0

At December 31, the Company had the following fixed index annuity contracts with guarantees:

	2019	2018
As withdrawals are taken		
Account value	\$ 336,329	\$ 268,195
Net amount at risk	\$ 23,170	\$ 9,853
Average attained age of contract holders	63.7	63.0

At December 31, the Company had the following universal life and variable life contracts with guarantees:

	2019	2018
Account value (general and separate accounts)	\$ 9,173,266	\$ 8,173,261
Net amount at risk	\$ 52,908,714	\$ 54,132,293
Average attained age of policyholders	52.0	51.0

Liabilities for guarantees on variable annuity, indexed annuity, universal life and variable life contracts reflected in the general account as of December 31, 2019 were as follows:

	Minimum guaranteed death and income benefits	Guaranteed payout annuity floor	Minimum guaranteed withdrawal and accumulation benefit	No lapse guarantee universal life and variable life
Balance at beginning of year	\$ 10,619	\$ 2,743	\$ 12,513	\$ 153,428
Incurred guarantee benefits	1,319	(845)	4,164	49,281
Paid guaranteed benefits	(1,205)	—	—	(14,807)
Balance at end of year	\$ 10,733	\$ 1,898	\$ 16,677	\$ 187,902

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(14) Certain Nontraditional Long-Duration Contracts and Separate Accounts (Continued)

Liabilities for guarantees on variable annuity, indexed annuity, universal life and variable life contracts reflected in the general account as of December 31, 2018 were as follows:

	Minimum guaranteed death and income benefits	Guaranteed payout annuity floor	Minimum guaranteed withdrawal and accumulation benefit	No lapse guarantee universal life and variable life
Balance at beginning of year	\$ 5,615	\$ 2,811	\$ 14,687	\$ 137,362
Incurred guarantee benefits	6,108	(67)	(2,174)	30,441
Paid guaranteed benefits	(1,104)	(1)	—	(14,375)
Balance at end of year	<u>\$ 10,619</u>	<u>\$ 2,743</u>	<u>\$ 12,513</u>	<u>\$ 153,428</u>

The minimum guaranteed death benefit liability and the guaranteed minimum income liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. The guaranteed payout annuity floor and minimum guaranteed withdrawal benefits are considered to be derivatives and are recognized at fair value through earnings. The universal life and variable life no lapse guarantee liabilities are determined by estimating the expected value of death benefits in excess of projected account balances and recognizing the excess ratably over the accumulation period based on total expected assessments. For variable annuity, fixed indexed annuity, universal life and variable life contracts with guarantees, the Company regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised.

The following assumptions and methodology were used to determine the minimum guaranteed death and income benefit liability on variable annuities and fixed indexed annuities at December 31, 2019 and 2018 (except where noted otherwise):

- A sample selection tool was used to select 200 scenarios from a set of 10,000 stochastically generated investment performance scenarios.
- Mean investment performance was 5.50% and 5.47% for 2019 and 2018, respectively, and is consistent with DAC projections over a 10 year period.
- Annualized monthly standard deviation was 12.00%.
- Mortality assumption was at 100% of the 2012 Individual Annuity Mortality Basis table.
- Lapse rates varied by contract type and policy duration, ranging from 1.00% to 10.00% with an average of 8.00%.
- Discount rates varied by contract type and policy duration and were consistent with discount rates used in DAC models.

The following assumptions and methodology, which are consistent with those used for DAC models, were used to determine the universal life and variable life liability at December 31, 2019 and 2018 (except where noted otherwise):

- Separate account investment performance assumption was 7.00%
- Mortality assumption was at 100% of pricing levels
- Lapse rates varied by policy duration, ranging from 2.00% to 9.00%
- Long-term general account discount rate grades from the current yield curve up to 5.25% linearly over ten years

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(14) Certain Nontraditional Long-Duration Contracts and Separate Accounts (Continued)

Account balances for contracts with guarantees were invested in variable separate accounts by mutual fund grouping as follows at December 31:

	Variable annuity contracts		Variable life contracts	
	2019	2018	2019	2018
Equity	\$ 2,287,886	\$ 1,982,996	\$ 1,782,549	\$ 1,767,753
Bond	905,780	900,436	222,696	225,312
Balanced	2,904,855	2,431,593	420,643	357,618
Money market	35,902	42,442	17,408	18,918
Mortgage	—	—	335,734	—
Real Estate	75,356	69,946	125,911	55,330
Total	<u>\$ 6,209,779</u>	<u>\$ 5,427,413</u>	<u>\$ 2,904,941</u>	<u>\$ 2,424,931</u>

(15) Unremitted Premiums and Claims Payable

The Company acts as an agent of certain insurance underwriters and has a fiduciary responsibility to remit the appropriate percentage of monies collected from each financial institution customer to the corresponding insurance underwriters. The remittance is equal to the premiums collected from the financial institution customer, less any commissions earned by the Company. The Company recognizes a liability equal to the amount of the premiums that have not yet been remitted to the insurance underwriters. At December 31, 2019 and 2018, the liability associated with unremitted premiums, claims payable was \$52,282 and \$38,674, respectively and is reported as part of other liabilities on the consolidated balance sheets. As described in note 2, as of December 31, 2019 and 2018, the Company had restricted the use of \$52,282 and \$38,674, respectively, of its cash and cash equivalents to satisfy these payables.

(16) Debt

Liabilities for short-term and long-term debt are carried at an amount equal to unpaid principal balance. Short-term debt is debt coming due in the next 12 months.

The following table provides a summary of debt, net of unamortized issuance costs and discounts, and related collateral for that debt as of December 31, 2019:

	Liability			Collateral
	Short-term	Long-term	Total	
Surplus notes	\$ —	\$ 118,000	\$ 118,000	\$ —
Federal Home Loan Bank (FHLB)				
borrowings	—	95,000	95,000	900,538
Senior notes	—	492,625	492,625	—
Total	<u>\$ —</u>	<u>\$ 705,625</u>	<u>\$ 705,625</u>	<u>\$ 900,538</u>

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(16) Debt (Continued)

The following table provides a summary of debt and related collateral for that debt as of December 31, 2018:

	Liability			Collateral
	Short-term	Long-term	Total	
Surplus notes	\$ —	\$ 118,000	\$ 118,000	\$ —
Federal Home Loan Bank (FHLB)				
borrowings	120,000	25,000	145,000	916,901
Senior notes	—	492,504	492,504	—
Total	<u>\$ 120,000</u>	<u>\$ 635,504</u>	<u>\$ 755,504</u>	<u>\$ 916,901</u>

In September 1995, the Company issued surplus notes with a face value of \$125,000, at 8.25%, due in 2025. The surplus notes are subordinate to all current and future policyholders interests, including claims, and indebtedness of the Company. All payments of interest and principal on the notes are subject to the approval of the Minnesota Department of Commerce (Department of Commerce). As of December 31, 2019 and 2018, the accrued interest was \$2,832. Interest paid on the surplus notes for the years ended December 31, 2019 and 2018 was \$9,735.

The Company has entered into a membership agreement with the FHLB, providing an efficient way to set up a borrowing facility with access to low cost funding. The total borrowing capacity is dependent on the amount and type of Company assets. The outstanding borrowings at December 31, 2019 have a maturity of two and three years with principal due at those times. The Company pledged \$900,538 of fixed maturity securities as collateral as of December 31, 2019. At that time, the Company had the capacity for either long-term or short-term borrowings of approximately \$715,766 without pledging additional collateral. If the fair value of the pledged collateral falls below the required collateral for the outstanding borrowed amount, the Company is required to pledge additional collateral. The Company also currently holds FHLB common stock of \$13,800, as required. The FHLB common stock is carried at cost, which approximates fair value, and is recorded in other invested assets in the consolidated balance sheets.

In April 2018, the Company issued senior notes with a face value of \$500,000, at 4.80%, due in 2048. The Company may redeem some or all of the senior notes at any time at the redemption price defined under the terms of the senior notes. As of December 31, 2019, the accrued interest was \$5,000. Interest paid on the senior note for the years ended December 31, 2019 and 2018 was \$24,000 and \$12,667, respectively.

At December 31, 2019, the aggregate minimum annual long-term debt maturities for the next five years and thereafter are as follows: 2020, \$0; 2021, \$25,000; 2022, \$70,000; 2023, \$0; 2024, \$0; thereafter, \$618,000.

Total interest paid by the Company for the years ended December 31, 2019 and 2018 was \$36,983 and \$28,354, respectively. Interest expense is recognized in general operating and other expenses on the consolidated statements of operations and comprehensive income (loss).

(17) Business Combinations

During 2019, the Company made acquisitions of certain companies that provide employee benefits enrollment and human resources administration services and the account rights of an insurance agency. The aggregate purchase price of \$195,911 was allocated to various assets and liabilities including \$65,350 of finite-lived intangible assets and \$138,436 of goodwill recorded in other assets on the consolidated balance sheets.

The amount of acquisition-related additional cash consideration the Company may have to pay in 2020 and future years if certain thresholds are attained is \$8,700 of which \$1,139 was accrued at December 31, 2019.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(18) Goodwill and Intangible Assets

The amount of goodwill included on the consolidated balance sheets in other assets as of December 31, was as follows:

	2019	2018
Balance at beginning of year	\$ 168,239	\$ 173,294
Additions	138,436	—
Foreign currency translation	2,922	(5,055)
Balance at end of year	<u>\$ 309,597</u>	<u>\$ 168,239</u>

The amount of acquired finite-lived intangible assets, excluding the value of acquired inforce contracts within DAC, included on the consolidated balance sheets in other assets was as follows:

December 31, 2019	Customer relationships	Other	Total finite-lived intangible assets
Gross carrying amount	\$ 94,592	\$ 58,986	\$ 153,578
Accumulated amortization	(49,608)	(12,422)	(62,030)
Foreign currency translation	190	149	339
Net carrying amount	<u>\$ 45,174</u>	<u>\$ 46,713</u>	<u>\$ 91,887</u>

December 31, 2018	Customer relationships	Other	Total finite-lived intangible assets
Gross carrying amount	\$ 71,692	\$ 16,536	\$ 88,228
Accumulated amortization	(44,916)	(11,036)	(55,952)
Foreign currency translation	(111)	(38)	(149)
Net carrying amount	<u>\$ 26,665</u>	<u>\$ 5,462</u>	<u>\$ 32,127</u>

Finite-lived intangible assets acquired during the year ended December 31, 2019 was \$65,350 with a weighted average amortization period of 8 years. There were no finite-lived intangible assets acquired during the year ended December 31, 2018.

The appropriate estimated useful life for each intangible asset class is reviewed annually. A change in expected useful life could potentially indicate impairment of these assets. The Company completes annual impairment testing of all intangible assets. The annual review did not result in any changes to the expected useful lives and no intangible impairments were recorded in 2019 or 2018.

Intangible asset amortization expense for 2019 and 2018 in the amount of \$6,078 and \$6,714, respectively, is included in general operating expenses on the consolidated statements of operations and comprehensive income (loss). Projected amortization expense for the next five years is as follows: 2020, \$14,177; 2021, \$13,869; 2022, \$12,060; 2023, \$11,993; 2024, \$11,954.

(19) Related Party Transactions

The Company has agreements with its affiliates for expenses including allocations for occupancy costs, data processing, compensation, advertising and promotion, and other administrative expenses, which the Company incurs on behalf of its affiliates and is reimbursed. At December 31, 2019 and 2018, the amount payable to the Company was \$1,044 and \$1,035, respectively. The amount of expenses incurred by and reimbursed to the Company for the years ended December 31, 2019 and 2018 were \$2,342 and \$2,693, respectively.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
(in thousands)

(20) Other Comprehensive Income (Loss)

Comprehensive income (loss) is defined as any change in equity originating from non-owner transactions. The Company has identified those changes as being comprised of net income, adjustments to pension and other postretirement plans, foreign currency translation, unrealized gains (losses) on securities and related adjustments.

The components of other comprehensive income (loss) and related tax effects, other than net income are illustrated below:

December 31, 2019			
	Before tax	Tax benefit (expense)	Net of tax
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities arising during the period	\$ 1,570,785	\$ (329,934)	\$ 1,240,851
Less: Reclassification adjustment for gains (losses) included in net income	(39,221)	8,236	(30,985)
Unrealized gains (losses) on securities – OTTI	(197)	41	(156)
Foreign currency translation adjustment	6,977	—	6,977
Adjustment to deferred policy acquisition costs	(700,711)	147,149	(553,562)
Adjustment to reserves	(155,714)	32,700	(123,014)
Adjustment to unearned premiums and fees	495,494	(104,054)	391,440
Adjustment to pension and other postretirement plans	(9,503)	1,995	(7,508)
Less: Reclassification adjustment for pension and other postretirement plans expenses included in net income	(2,718)	571	(2,147)
Other comprehensive income	<u>\$ 1,165,192</u>	<u>\$ (243,296)</u>	<u>\$ 921,896</u>
December 31, 2018			
	Before tax	Tax benefit (expense)	Net of tax
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities arising during the period	\$ (950,646)	\$ 212,946	\$ (737,700)
Less: Reclassification adjustment for gains (losses) included in net income	48,554	(10,197)	38,357
Unrealized gains (losses) on securities – OTTI	(1,656)	348	(1,308)
Foreign currency translation adjustment	(12,062)	—	(12,062)
Adjustment to deferred policy acquisition costs	405,652	(85,187)	320,465
Adjustment to reserves	37,982	(7,976)	30,006
Adjustment to unearned premiums and fees	(316,630)	66,493	(250,137)
Adjustment to pension and other postretirement plans	49,472	(10,389)	39,083
Less: Reclassification adjustment for pension and other postretirement plans expenses included in net income	8,535	(1,793)	6,742
Other comprehensive income (loss)	<u>\$ (730,799)</u>	<u>\$ 164,245</u>	<u>\$ (566,554)</u>

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(20) Other Comprehensive Income (Loss) (Continued)

The components of other comprehensive income (loss) and related tax effects, other than net income are illustrated below: Information regarding amounts reclassified out of each component of accumulated other comprehensive income (loss) and related tax effects at December 31, 2019 were as follows:

	Amount reclassified from accumulated other comprehensive income (loss)	Consolidated statement of operations and comprehensive income (loss) location
Net unrealized investment gains (losses):		
Unrealized gains (losses)	\$ 43,204	Other net realized investment gains
Unrealized OTTI losses – OTTI on fixed maturity securities	(3,983)	OTTI on fixed maturity securities
Unrealized investment gains (losses), before income tax	39,221	
Deferred income tax benefit (expense)	(8,236)	
Unrealized investment gains (losses), net of income tax	<u>\$ 30,985</u>	
Pension and other postretirement plans (1):		
Amortization of prior service benefit	\$ (7,973)	General operating expenses
Amortization of net actuarial losses	5,255	General operating expenses
Amortization of pension and other postretirement plan items, before income tax	(2,718)	
Deferred income tax benefit (expense)	571	
Amortization of pension and other postretirement plan items, net of income tax	<u>\$ (2,147)</u>	

- (1) These accumulated other comprehensive income (loss) items are included in the computation of net periodic benefit costs. See note 11 for further details.

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(20) Other Comprehensive Income (Loss) (Continued)

Information regarding amounts reclassified out of each component of accumulated other comprehensive income and related tax effects at December 31, 2018 were as follows:

	Amount reclassified from accumulated other comprehensive income (loss)	Consolidated statement of operations and comprehensive income (loss) location
Net unrealized investment gains (losses):		
Unrealized gains (losses)	\$ (45,876)	Other net realized investment gains
Unrealized OTTI losses – OTTI on fixed maturity securities	(2,678)	OTTI on fixed maturity securities
Unrealized investment gains (losses), before income tax	(48,554)	
Deferred income tax benefit (expense)	10,197	
Unrealized investment gains (losses), net of income tax	<u>\$ (38,357)</u>	
Pension and other postretirement plans (1):		
Amortization of prior service benefit	\$ (4,136)	General operating expenses
Amortization of net actuarial losses	12,671	General operating expenses
Amortization of pension and other postretirement plan items, before income tax	8,535	
Deferred income tax benefit (expense)	(1,793)	
Amortization of pension and other postretirement plan items, net of income tax	<u>\$ 6,742</u>	

(1) These accumulated other comprehensive income (loss) items are included in the computation of net periodic benefit costs. See note 11 for further details.

The components of accumulated other comprehensive income (loss) and related tax effects at December 31 were as follows:

	2019	2018
Gross unrealized gains	\$ 1,313,172	\$ 193,584
Gross unrealized losses	(15,102)	(427,078)
Gross unrealized losses – OTTI	2,517	2,714
Foreign currency translation	3,491	(3,486)
Adjustment to deferred policy acquisition costs	(608,580)	92,131
Adjustment to reserves	(156,032)	(318)
Adjustment to unearned premiums and fees	421,405	(74,089)
Adjustment to pension and other postretirement plans	(146,630)	(134,409)
	<u>814,241</u>	<u>(350,951)</u>
Deferred federal income tax expenses (benefits)	(164,614)	78,682
Net accumulated other comprehensive income (loss)	<u>\$ 649,627</u>	<u>\$ (272,269)</u>

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(in thousands)

(21) Stock Dividends and Capital Contributions

The Company declared and paid dividends to SHC consisting of equity securities in the amount \$9,647 during the year ended December 31, 2018.

Dividend payments received by SFG from its subsidiary, Minnesota Life Insurance Company, cannot exceed the greater of 10% of Minnesota Life Insurance Company's statutory capital and surplus or the statutory net gain from operations as of the preceding year-end, as well as the timing and amount of dividends paid in the preceding 12 months, without prior approval from the Department of Commerce. Based on these limitations and 2019 statutory results, the maximum amount available for the payment of dividends during 2020 by Minnesota Life Insurance Company without prior regulatory approval is \$314,887.

(22) Commitments and Contingencies

The Company is involved in various pending or threatened legal proceedings arising out of the normal course of business. In the opinion of management, the ultimate resolution of such litigation will likely not have a material adverse effect on consolidated operations or the financial position of the Company.

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance companies (reinsurers). To the extent that a reinsurer is unable to meet its obligations under the reinsurance agreement, the Company remains liable. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. Allowances are established for amounts deemed uncollectible.

The Company holds TBA securities with extended forward contract dates which represent a future commitment. As of December 31, 2019 and 2018, these securities were reported at fair value of \$0 and \$36,901, respectively.

The Company has long-term commitments to fund alternative investments and real estate investments totaling \$503,962 as of December 31, 2019. The Company estimates that \$202,000 of these commitments will be invested in 2020, with the remaining \$301,962 invested over the next four years.

As of December 31, 2019, the Company had committed to originate mortgage loans totaling \$349,355 but had not completed the originations.

As of December 31, 2019, the Company had committed to purchase fixed maturity securities totaling \$63,636 but had not completed the purchase transactions.

The Company leases space in downtown St. Paul to unaffiliated companies. Commitments to the Company from these agreements are as follows: 2020, \$1,493; 2021, \$1,164; 2022, \$834; 2023, \$630; 2024, \$441. Income from these leases was \$3,200 and \$3,754 for the years ended December 31, 2019 and 2018, respectively and is reported in net investment income on the statements of operations and comprehensive income (loss).

The Company owns a building in Macon, Georgia, which it partially leases to unaffiliated companies. Income from these leases was \$408 and \$415 for the years ended December 31, 2019 and 2018, respectively and is reported in net investment income on the statements of operations and comprehensive income (loss). Commitments to the Company from these agreements are as follows: 2020, \$126; 2021, \$127; 2022, \$128; 2023, \$129; 2024, \$0.

The Company also has long-term lease agreements with unaffiliated companies for office facilities and equipment. Minimum gross rental commitments under these leases are as follows: 2020, \$4,768; 2021, \$4,676; 2022, \$4,089; 2023, \$3,729; 2024, \$3,192.

(Continued)

SECURIAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued) (in thousands)

(22) Commitments and Contingencies (Continued)

The Company has a 100% coinsurance agreement for its individual disability line within its corporate business unit. Under the terms of this agreement, assets supporting the reserves transferred to the reinsurer are held under a trust agreement for the benefit of the Company in the event that the reinsurer is unable to perform its obligations. At December 31, 2019 and 2018, the assets held in trust were \$536,034 and \$567,327, respectively. These assets are not reflected on the accompanying consolidated balance sheets.

Occasionally, the Company will enter into arrangements whereby certain lease obligations related to general agents' office space are guaranteed. Additionally, the Company will occasionally enter into loan guarantees for general agents. The accrual related to these guarantees is immaterial at December 31, 2019.

In connection with the dissolution of MIMLIC Life Insurance Company, the Company has agreed to guarantee all obligations and liabilities of MIMLIC Life Insurance Company that arise in the normal course of business. Management does not consider an accrual necessary relating to this guarantee.

The Company has minimum compensation agreements with certain sales and employee groups, the terms of which expire at various times through 2020. Such agreements, which have been revised from time to time, provide for minimum compensation for these groups. The aggregate future minimum commitment under these agreements at December 31, 2019 and 2018 was approximately \$2,994 and \$4,191, respectively.

The Company has guaranteed the payment of benefits under certain of its affiliates' non-qualified pension plans in the event that the affiliate is unable to make such payment. This guarantee is unfunded, unsecured and may be amended, modified or waived with written consent by the parties to the agreement. Management does not consider an accrual necessary relating to these guarantees.

The Company is contingently liable under state regulatory requirements for possible assessments pertaining to future insolvencies and impairments of unaffiliated insurance companies. The Company records a liability for future guaranty fund assessments based upon known insolvencies, according to data received from the National Organization of Life and Health Insurance Guaranty Association. At December 31, 2019 and 2018, this liability was \$973 and \$1,422, respectively. An asset is recorded for the amount of guaranty fund assessments paid, which can be recovered through future premium tax credits. This asset was \$3,937 and \$4,145 as of December 31, 2019 and 2018, respectively. These assets are being amortized over a five-year period.

(23) Subsequent Events

On February 10, 2020, the Company declared a dividend to SHC consisting of equity securities in the amount of \$1,967. The dividend was paid on February 21, 2020.

The Company evaluated subsequent events through March 3, 2020, the date these financial statements were issued. There were no material subsequent events that required recognition or further disclosure in the Company's financial statements.