



National Life  
Group®

Experience Life®

to bring  
peace of mind  
to everyone  
we touch

2017 Annual Report



# Financial strength ratings

For National Life Insurance Company and Life Insurance Company of the Southwest as of March 12, 2018.

## A.M. Best

A (Excellent)

Third highest of 16 rankings

Ratings are subject to change

## Standard & Poor's

A+ (Strong)

Fifth highest of 21 rankings

## Moody's

A2 (Good)

Sixth highest of 21 rankings

At National Life Group, we think life is all about the experience.

How it feels when you know you can live the life you want.

When you can focus on your family, your business, or your health.

Some call it having peace of mind.

We call it our vision, one we work towards achieving every day.

Our vision: To bring peace of mind to everyone we touch.

Our mission: Keeping our promises.

Our values: **Do** good. **Be** good. **Make** good.

*Cover photo: National Life employee Sandy Mollett captures her granddaughter picking flowers.*

*Opposite: Employees Che Williams, Troy Goliber, Carey Earle and Chris Zimmerman work together as members of the company's Culture Team.*

*Here they present a prosthetic hand that they built with the help of [Odyssey Teams, Inc.](#) to help others around the world who are missing limbs.*

National Life Group is a trade name representing various affiliates that offer a variety of financial service products. Each company of National Life Group is solely responsible for its own financial condition and contractual obligations. Life insurance and annuity products are issued by National Life Insurance Company and Life Insurance Company of the Southwest. Consolidated results of the National Life Group Companies, which include National Life Insurance Company, Life Insurance Company of the Southwest, Addison, Texas, Equity Services, Inc., Sentinel Asset Management, Inc., and NLV Financial Corporation. Equity Services, Inc., member [FINRA/SIPC](#), is a broker/dealer and registered investment adviser. National Life Insurance Company is licensed to do business in all 50 states and the District of Columbia. Life Insurance Company of the Southwest is licensed to do business in 49 states and the District of Columbia. It is not licensed to do business in the state of NY. It was chartered in 1955. National Life Distribution, LLC also conducts business as National Life or, in some states, National Life Insurance Agency. All companies referenced are affiliated and located in Montpelier, VT unless otherwise indicated. Client testimonials in this report may not be representative of the experience of other clients, and is no guarantee of future performance or success.

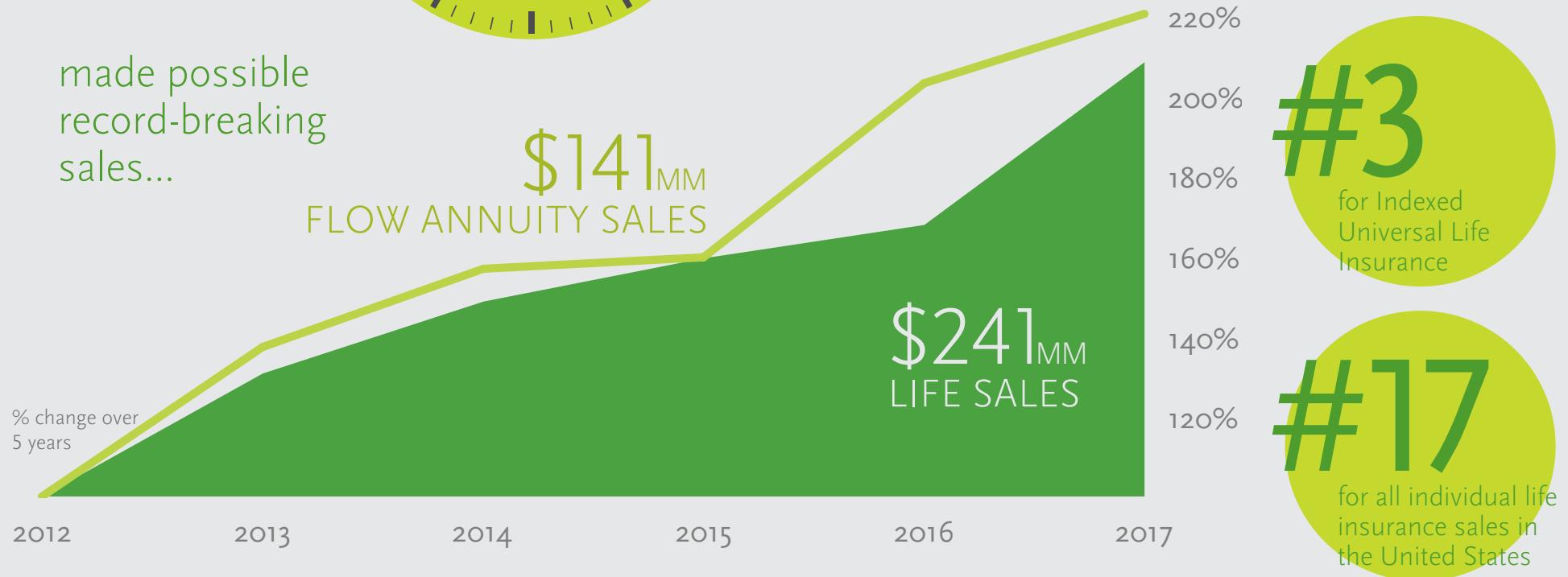


At the center of National Life's 2020 vision is the goal of delighting 1 million customers.  
Reaching that goal comes one customer at a time. Giving them unforgettable experiences.

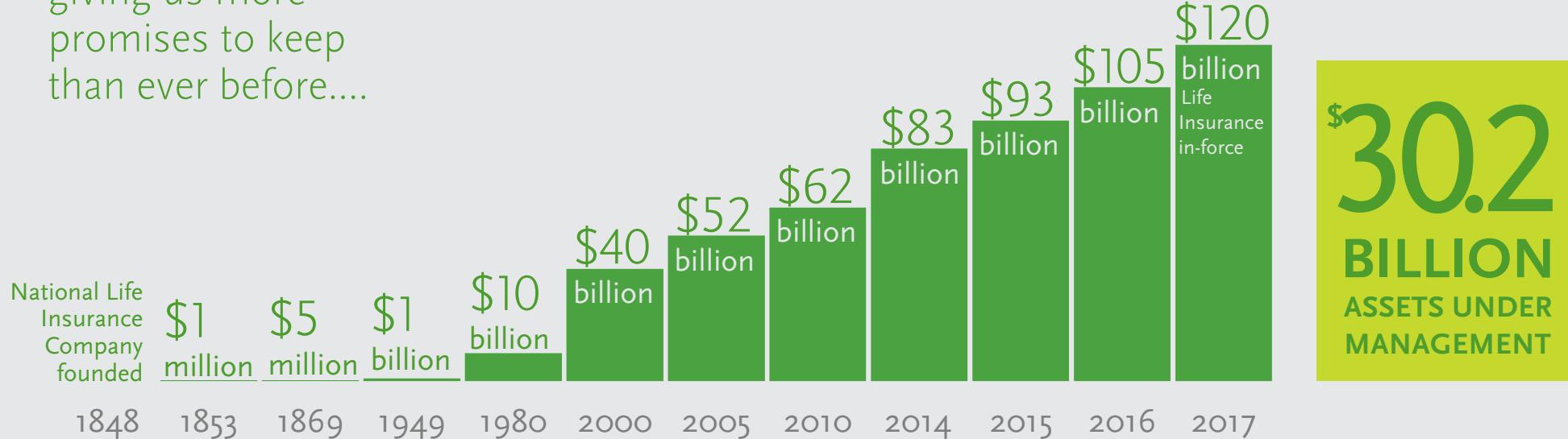
A record-breaking effort...



made possible  
record-breaking  
sales...



giving us more promises to keep than ever before....



allowing us to serve a record...

**783,062** customers.

and to do even more good with the National Life Charitable Foundation budget doubled to \$2 million.

# From Our Chairman

The first-ever Fortune 500 list was published in 1955 by *Fortune* Magazine. Today fewer than 70 of those top 500 companies still exist. Only about 36 percent of businesses make it to their 10th birthday while just 21 percent make it to their 20th anniversary.

At National Life Group we are celebrating our 170th anniversary.

I marvel at that milestone. But I don't take it for granted.

There are many reasons that companies fail. I believe, however, there is just one path to success: Companies must continually transform themselves and change with the times while never losing sight of their *why*.

We have done so.

Our 2017 results provide proof: We once again set records for core earnings, life and annuity sales and policyholders served. Our statutory surplus and total adjusted capital remained strong.

National Life's growth is staggering: In the past decade our life and annuity sales have grown over 90 percent; our core earnings have grown over 80 percent, and the number of policies in force has increased 60 percent. The face value of our insurance in force is more than \$120 billion.

In 2017 one life or annuity policy came through our door each and every minute, 88 per hour and 707 per day. Over the year we received 3.9 million pieces of mail. Every hour 356 telephone calls came into our call centers. Through it all our teammates focused on providing unforgettable experiences for our customers – like Bill Hadden.

Mr. Hadden is 89 years old, blind and a veteran of World War II. Needing replacement dividend checks — because the originals "had been totally and completely mishandled by me" — he used his

voice-operated computer to call National Life. "Everything was done in a very expeditious manner," Bill wrote in a thank you note. "This type of customer service, in today's climate, is certainly to be commended, recognized and rewarded. As an 89-year-old blind person, I am particularly cognizant of outstanding customer service."

At the center of National Life's 2020 Vision is the goal of delighting 1 million customers. Reaching that goal comes one customer at a time. Giving them unforgettable experiences.

We have come so far since the chartering of National Life Insurance Company in 1848. When our company was founded there were just 30 states, construction of the Washington Monument was just beginning, James Polk was president and word of the California gold rush was spreading. Our founder, Dr. Julius Dewey, traveled by horseback to sell policies and visit policyholders.

Dr. Dewey rode from town to town, making those personal visits and developing the relationships that earn the trust that transforms neighbors into policyholders. That's the way we still do it today: We build trust one person at a time.

Living our values is key to who we are. We have built a corporate culture around doing good and centered on the tenets of servant leadership. To me – and to my colleagues – this is not a job. It is a calling.

I consider it an honor and a privilege to lead National Life as we celebrate 170 years of serving Middle America.



*Mehran Assadi*

Mehran Assadi  
Chairman, CEO & President



We have built a corporate culture around doing good and centered on the tenets of servant leadership.



# From Our Chief Investment Officer

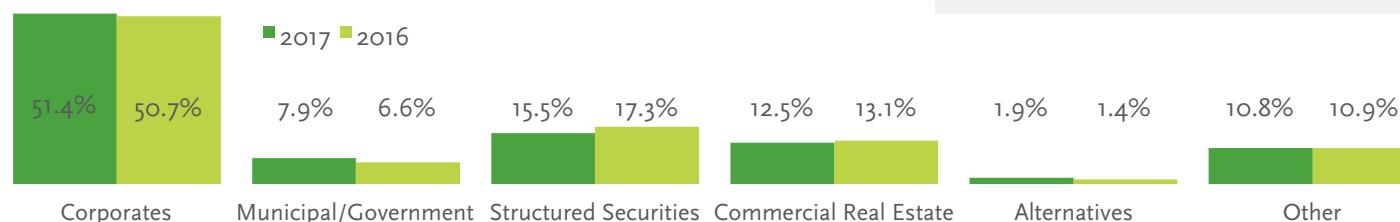
The Investment team at National Life Group manages \$26.8 billion in insurance company assets. While managing the portfolio, the company's mission of keeping our promises guides our decision making on a daily basis. Our portfolio continued to perform well last year, and I am confident in our team's goal to continue to deliver strong results for our policyholders in 2018.

Financial markets in 2017 were marked by the steady flattening of the U.S. Yield curve, strong equity market performance, and protracted low volatility in equities.

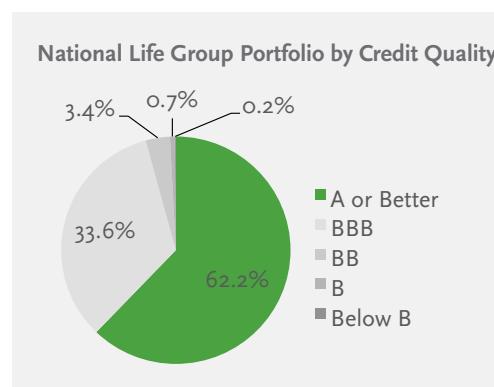
In the bond market, the yield on the 2-year U.S. Treasury increased by 70 basis points, ending 2017 with a yield of 1.89%. This represented the highest yield on the 2-year U.S. Treasury since 2008. At the same time, the yield on the 10-year U.S. Treasury declined by four basis points in 2017, ending the year with a yield of 2.41%. Continued policy tightening by the U.S. Federal Reserve, combined with a lack of a pick-up in inflation expectations, has resulted in the smallest yield difference between the 10-year U.S. Treasury and the 2-year U.S. Treasury since before the 2008 financial crisis. In other parts of the bond market, U.S. Investment Grade Credit generated total returns of 6.42%, while U.S. High Yield credit generated total returns of 7.5%.

Equity markets demonstrated continued strength in 2017, with the S&P 500 delivering total returns of 21.8% for the year, building upon an impressive 11.12% return in 2016. 2017 marked the ninth consecutive year of positive returns for domestic equities. At the same time, equity market implied volatilities, as measured by the Chicago Board Options Exchange Volatility Index (VIX), remained at or near all-time lows throughout 2017.

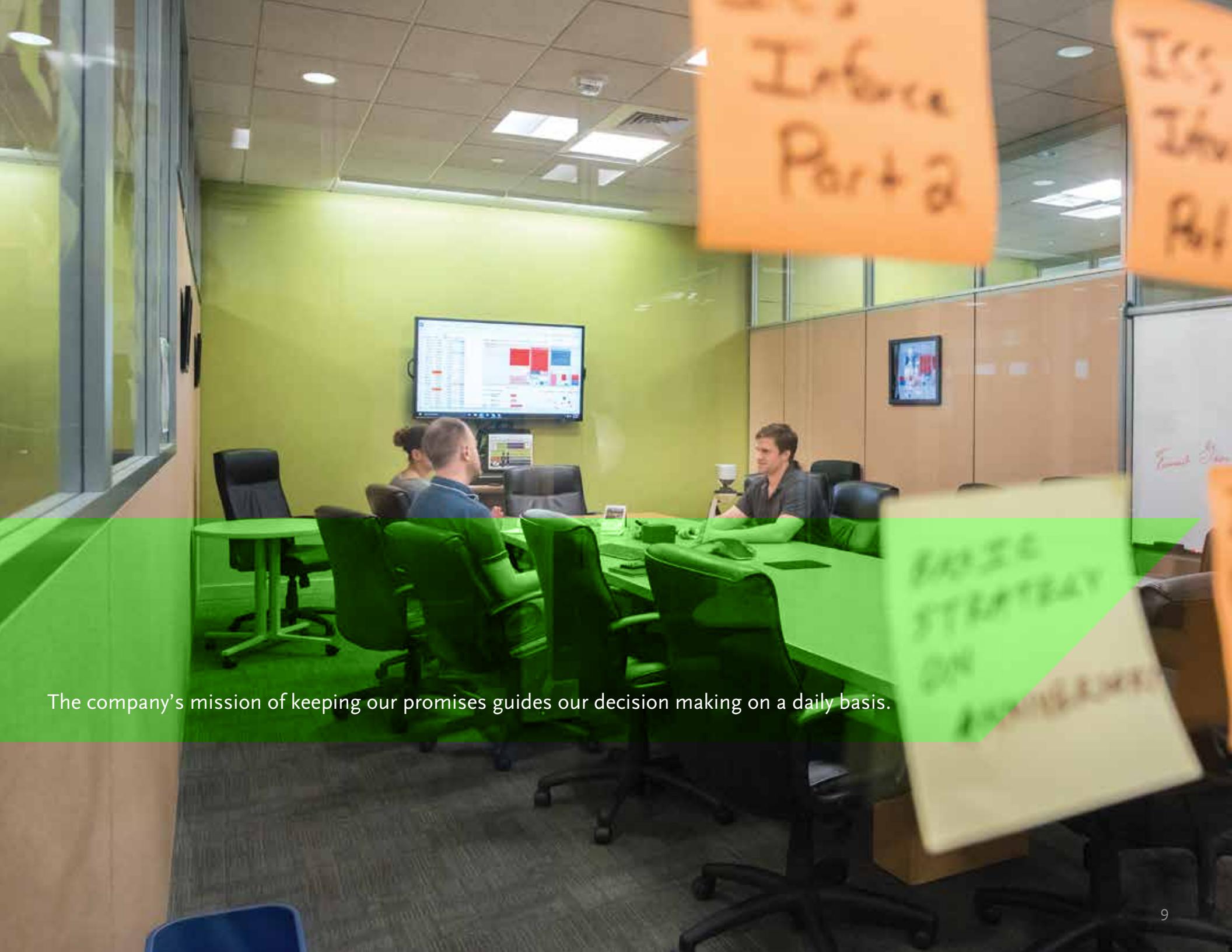
National Life Group Portfolio Allocation



As of 12/31/2017, nearly 90% of the \$26.8 billion portfolio was allocated to fixed income assets, and the unrealized gain on the portfolio was \$1.09 billion, an increase of \$399 million since the beginning of the year. In 2017, our team continued to focus on de-risking the investment portfolio by reducing exposures to riskier asset classes, while improving capital efficiency and minimizing the reduction in the portfolio book yield associated with reinvesting at lower interest rates. In line with these de-risking initiatives, we increased our allocation to taxable municipal bonds, asset backed securities and collateralized loan obligations. Portfolio credit quality in aggregate improved as the allocation to the highest quality investments, rated A or above, increased in 2017. We reduced our allocation to mortgage backed securities, high-yield corporate bonds, and commercial real estate mortgages, and our allocation to high-yield bonds remains well below risk limits. The investment portfolio grew by nearly \$2.4 billion in 2017, helping to support our life and annuity products, and assisting with our vision to bring peace of mind to our customers in 2018 and beyond.



  
Jason Dojron  
Chief Investment Officer



The company's mission of keeping our promises guides our decision making on a daily basis.

# Life Insurance

2017 was a record-breaking year for National Life's life insurance sales and life insurance in force (the total amount of life insurance coverage that exists for our clients). The numbers are a source of pride for us: \$241 million in life insurance sold and \$120 billion of life insurance in force. This is the result of much hard work by our employees and our agents. 3.9 million pieces of mail came through our doors for us to process last year. Our call center answered 356 calls every hour.

In every business, numbers are important. But at National Life Group, it's the positive experience we give to everyone we work with that's just as important to us. That's because hundreds of thousands of our policyholders rely on us to be there when life goes right, such as when they want to retire or build their business, or when life goes wrong, like when they become ill or lose a loved one.

Carmen and her husband Danny were living the proverbial dream. Good jobs, a beautiful new home tucked in the rolling hills of Vermont, and two little girls under the age of two.

Then everything changed.

Just a month and a half after their second daughter was born, Danny was diagnosed with an aggressive form of cancer. He went through treatment; he and Carmen fought together but the disease was too strong. Six months later, he died leaving behind his young family.

Before Danny became ill, he convinced Carmen that they should buy life insurance to protect the dream they were building together. Neither imagined they would need to use it so soon.

"He talked about buying life insurance with me and [I wondered] 'Why would we need it? We're fine.'" shared Carmen. And he said "No. We've got to be smart about it. Now that we have two little girls we need to make sure they're taken care of."

They purchased a National Life policy through local agent Jan Knutsen who helped them protect their family's dreams for the future.

Said Carmen, "I'm able to stay in this beautiful house we bought a year ago, I didn't have to worry about 'what am I going to do? How am I going to make it?'"

While her life has been upended, she soldiers on for the sake of her daughters.

"As tragedy hits us and we're living it moment to moment, there's still happiness to be had."



See a video of Carmen's story at  
[blog.NationalLife.com/theres-happiness-to-be-had](http://blog.NationalLife.com/theres-happiness-to-be-had)



"As tragedy hits us and we're living it moment to moment, there's still happiness to be had."

# Annuities

*"In this industry we have a very important role in educating the public about the value of life insurance and annuity products. We are about protecting Middle America, the most underserved segment of the market. We are about insuring and bringing assurance to retirement for teachers of America."*

— Mehran Assadi, Chairman, Chief Executive Officer & President

At National Life, we're committed to helping provide school employees with annuity products that can help supplement their retirement. We've provided annuities through 403(b) and 457(b) plans for decades so our clients can look forward to starting the next chapters of their lives.

In 2017, our total annuity sales reached \$241 million. Our five-year growth is 41%; our ten-year growth is 96% with a record of \$10.8 billion in annuity account value.

We take our responsibility in providing the right products very seriously. We require that our agents working in the school system attend 403(b) Certified Training along with product and sales training. We also support them as they do good in their own communities. Many of our agents have nominated teachers for the LifeChanger of the Year educator recognition program and support philanthropic causes in their own communities.

What does this goodwill have to do with retirement planning? It is all part of our vision to bring peace of mind to everyone we touch.



Photos: Students celebrate their teachers at an event honoring educator Ana Rubio, winner of the 2016–17 LifeChanger of the Year grand prize.



"We are about insuring and bringing assurance to retirement for teachers of America."

# Purpose Driven

Our vision to bring peace of mind to everyone we touch isn't just reserved for our policyowners.

In 2017, the National Life Group Foundation's budget was \$1,000,000. We were able to do so much good with those dollars, which included funding:

- **LifeChanger of the Year.** This flagship marketing program recognizes and rewards school employees all across the country, from bus drivers to superintendents. We had 720 nominees last year; in May, Ana Rubio became our sixth LifeChanger of the Year grand prize winner. Ana is a PE teacher in an inner city Miami elementary school where she created programs to get kids moving despite the gang violence that regularly occurred right outside the school door. She also founded a nonprofit organization, Streamline Miami, to take inner city kids on field trips to destinations like Washington D.C., exposing them to the world that exists outside their neighborhood.

- **Do Good Fest.** The music festival we hold every July on our Vermont campus' back lawn was bigger and better than ever in 2017. More than 7,500 festival attendees joined us to listen to local and national musicians. Thirty nonprofit organizations shared their stories in the Nonprofit Village, ten food trucks fed hungry concert-goers and we capped the picture perfect day off with a spectacular fireworks display. The concert is free; we request a parking fee, all of which goes to the Cancer Patient Fund through Branches of Hope at our local hospital. To date, we've raised close to \$100,000 for the fund which only five years ago was supported with bake sales.

- **Agent Do Good Awards.** We are inspired by the good our agents do for their policyowners but we also are aware that many do good in their communities by supporting their own philanthropic causes. The Agent Do Good Award was created to recognize the commitment agents have with a donation of \$7,500 to their specific cause.

We donated a check to Meals on Wheels in honor of Carey Yukich for her long-standing dedication to the organization. Mark Serra's nonprofit N.O.P.E. of Pinellas County (Narcotics Overdose Prevention and Education) also received a donation to help support the cause.

- **More than 150 nonprofit organizations** primarily located in central and northern Vermont and Dallas, Texas.

The good news is that our CEO decided that since the company is doing so well, we should do more through the Foundation. The board then agreed to **double** the Foundation's budget to \$2 million effective in 2018.

In addition to helping our neighbors, we also believe in helping our employees live our values. In May, we kicked-off the first meeting of our Culture Team which was assembled to be the eyes and ears throughout the organization, ensuring that all of our employees add value, feel valued and live our values.

To get the momentum started, the team broke out into groups of three to construct a prosthetic hand that was then sent across the world to those in need.

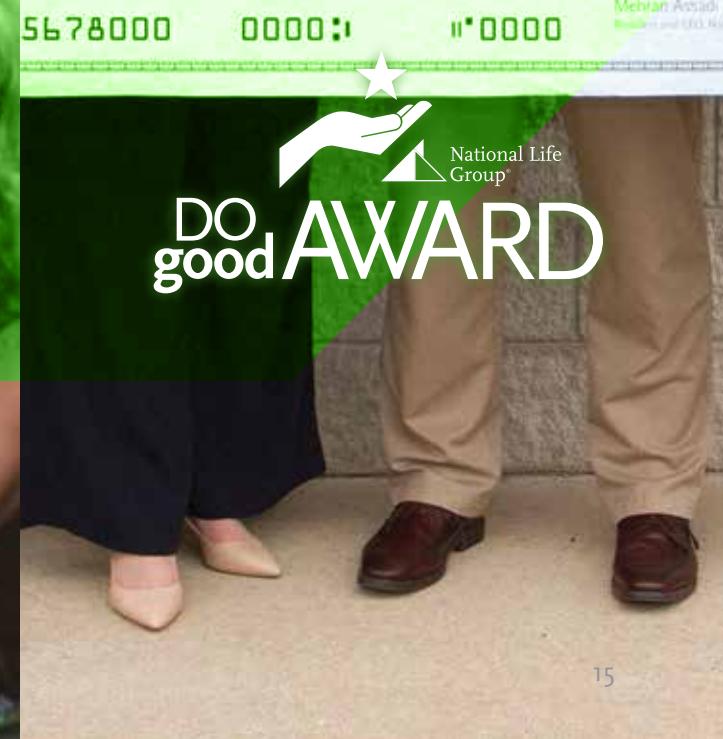
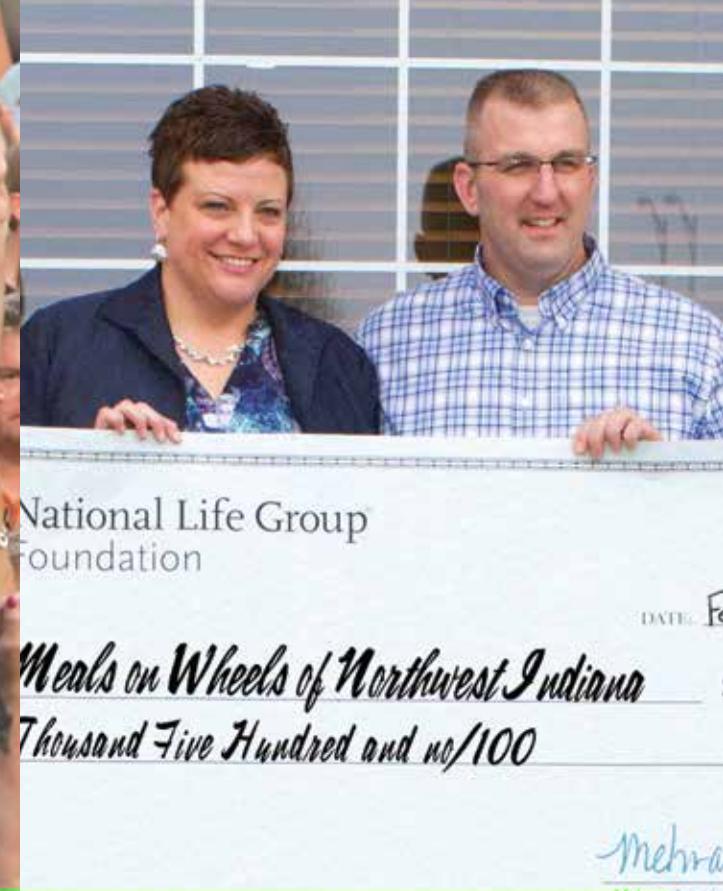
Finally, our employees continued to take advantage of the 40 hours paid volunteer time the company offers, supporting organizations from Habitat for Humanity to Alliance for Children and many others in between.



Two of the 2017–18 LifeChanger of the Year nominees' stories were so compelling, NBC's Today Show broadcast live the teachers' nomination celebrations.

See videos of the segments at [LifeChangeroftheYear.com/connect-lifechangernews](http://LifeChangeroftheYear.com/connect-lifechangernews)

Opposite page, left to right: Ana Rubio learns she's a LifeChanger of the Year finalist. The crowd at Do Good Fest cheers as the national headliner takes the stage. Carey and John Yukich stand with a "big check" made out to the nonprofit they support, Meals on Wheels. Carey is an agent with National Life and was one of two agents to receive the first annual Agent Do Good Award for her commitment to her cause.



**Consolidated Balance Sheet**As of December 31,  
in thousands

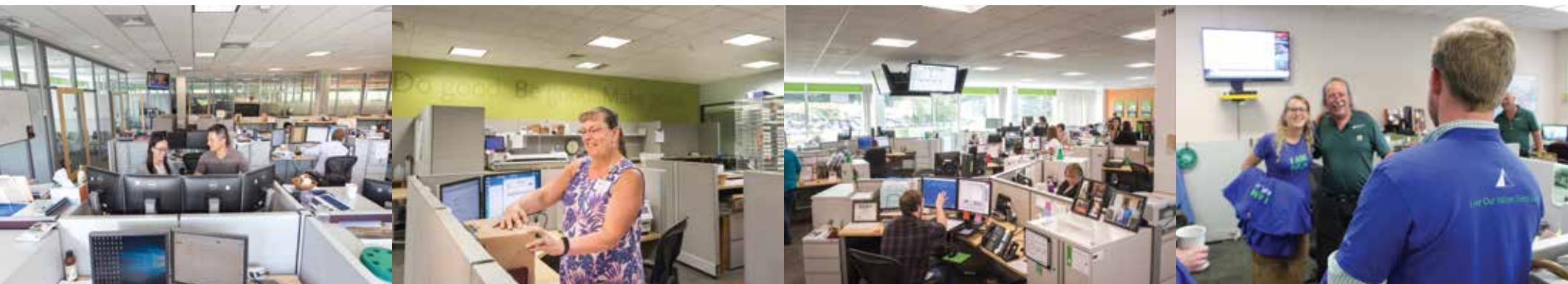
	2017	2016
<b>Assets:</b>		
Cash and investments:		
Available-for-sale debt securities	\$ 20,048,333	\$ 18,165,166
Available-for-sale equity securities	35,839	60,142
Trading equity securities	19,812	14,764
Mortgage loans	3,350,570	3,205,842
Policy loans	877,927	838,541
Real estate investments	24,465	31,354
Derivative assets	993,249	824,214
Other invested assets	960,415	853,171
Short term investments	228,480	202,424
Cash and restricted cash	284,070	244,500
Total cash and investments	26,823,160	24,440,118
Deferred policy acquisition costs	1,539,129	1,512,211
Accrued investment income	217,982	208,048
Premiums and fees receivable	22,577	19,449
Amounts recoverable from reinsurers	122,889	147,489
Present value of future profits of insurance acquired	—	6,642
Property and equipment, net	153,110	186,268
Corporate owned life insurance	420,069	273,706
Other assets	94,611	132,290
Separate account assets	814,928	733,099
<b>Total assets</b>	<b>\$ 30,208,455</b>	<b>\$ 27,659,320</b>
<b>Liabilities:</b>		
Policy liabilities:		
Policy benefit liabilities	\$ 4,408,663	\$ 4,408,994
Policyholder account liabilities	19,485,437	17,679,354
Policyholders' deposits	97,900	89,115
Policy claims payable	68,645	100,487
Policyholders' dividends and dividend obligations	184,931	145,147
Total policy liabilities	24,245,576	22,423,097
Amounts payable to reinsurers	23,457	25,891
Derivative liabilities	566,986	489,398
Other liabilities and accrued expenses	682,703	543,880
Pension and other post-retirement benefit obligations	194,257	202,152
Deferred income taxes	181,517	231,439
Federal income tax payable	66,109	18,201
Debt	452,638	453,610
Separate account liabilities	814,928	733,099
<b>Total liabilities</b>	<b>\$27,228,171</b>	<b>\$25,120,767</b>
<b>Stockholder's equity:</b>		
Class A common stock, 2,000 shares authorized, no shares issued and outstanding	\$ —	\$ —
Class B common stock, par value of \$0.01, 1,001 shares authorized, 100 shares issued and outstanding	—	—
Preferred stock, 500 shares authorized, no shares issued and outstanding	—	—
Retained earnings	2,591,881	2,399,476
Accumulated other comprehensive income	388,403	139,077
<b>Total stockholder's equity</b>	<b>2,980,284</b>	<b>2,538,553</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 30,208,455</b>	<b>\$ 27,659,320</b>



NLV Financial Corporation and Subsidiaries  
**Consolidated Statement of Operations**

For the years ended December 31,  
*in thousands*

	<b>2017</b>	<b>2016</b>
<b>Revenues:</b>		
Insurance premiums	\$ 220,629	\$ 218,435
Policy and contract charges	564,064	503,559
Mutual fund commissions and fee income	85,453	92,351
Net investment income	1,415,211	1,154,842
Net realized capital losses	(37,439)	(7,460)
Change in value of trading equity securities	1,136	425
Other income	25,844	26,678
<b>Total revenues</b>	<b>\$ 2,274,898</b>	<b>\$ 1,988,830</b>
<b>Benefits and expenses:</b>		
Decrease in policy liabilities	\$(21,468)	\$ (72,264)
Policy benefits	474,918	533,071
Policyholders' dividends and dividend obligations	57,144	58,089
Interest credited to policyholder account liabilities	819,837	679,079
Operating expenses	316,377	302,128
Interest expense	39,620	39,305
Policy acquisition expenses and amortization of present value of future profits, net	378,714	232,354
<b>Total benefits and expenses</b>	<b>2,065,142</b>	<b>1,771,762</b>
<b>Income before income taxes</b>	<b>209,756</b>	<b>217,068</b>
Income tax expense (benefit)	(50,182)	61,000
<b>Net income</b>	<b>\$ 259,938</b>	<b>\$ 156,068</b>





## Executive Management

*from left to right*

Vesta Bovair *Executive Vice President & Head of Customer Innovation Group*

Robert Cotton *Executive Vice President & Chief Financial Officer*

Tom Anfuso *Senior Vice President & Chief Information Officer*

Achim Schwetlick *Senior Vice President & Head of Business Innovation Group*

Mehran Assadi *Chairman, Chief Executive Officer & President*

Jason Doiron *Chief Investment Officer*

Chris Graff *Vice President, Corporate Communications & Community Relations*

Dawn Minter *Executive Assistant*

Gregory Woodworth *Senior Vice President & General Counsel*

Thomas Brownell *Chief Executive Officer & President, Sentinel Asset Management, Inc.*



## Board of Directors

*from left to right*

James H. Douglas *Former Governor of Vermont, Middlebury, Vermont*

Carol Carlson *Retired Partner, Ernst & Young, LLP, Needham, Massachusetts*

Harris H. Simmons *Chairman, Chief Executive Officer & President, Zions Bancorporation & Chairman, Zions First National Bank, Salt Lake City, Utah*

Bruce M. Lisman *Retired, JP Morgan Chase, New York, New York*

Mehran Assadi *Chairman, Chief Executive Officer & President, National Life Group, Montpelier, Vermont*

Thomas H. MacLeay *Former Chief Executive Officer, National Life Group, Montpelier, Vermont*

David R. Coates *Retired Partner, KPMG, Colchester, Vermont*

V. Louise McCarren *Former Chief Executive Officer, Western Electricity Coordinating Council, Salt Lake City, Utah*

Roger B. Porter *IBM Professor of Business & Government, Harvard University, Cambridge, Massachusetts*

Yvette D. Bright *Chief Operating Officer, Independence Blue Cross, Philadelphia, Pennsylvania*

**Do** good.  
**Be** good.  
**Make** good.



Photos from our 2017 Do Good Fest held each July on the back lawn of our Montpelier, Vermont campus.

No bank or credit union guarantee	Not a deposit
Not FDIC/NCUA insured	May lose value
Not insured by any federal or state government agency	

Guarantees are dependent on the claims-paying ability of the issuing company.

This annual report summary of National Life Group includes the consolidated results of NLV Financial Corporation and Subsidiaries, including Life Insurance Company of the Southwest, National Life Insurance Company, Sentinel Asset Management, Inc., and Equity Services, Inc. To obtain a full version of the audited financial statements of NLV Financial Corporation and Subsidiaries, please send an e-mail to [lifecustomerservice@nationallife.com](mailto:lifecustomerservice@nationallife.com) or call our toll free number at (800) 732-8939. You can also visit our website and download a pdf version online at [nationallife.com](http://nationallife.com).



National Life  
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Experience Life®

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1-800-732-8939 Customer Service