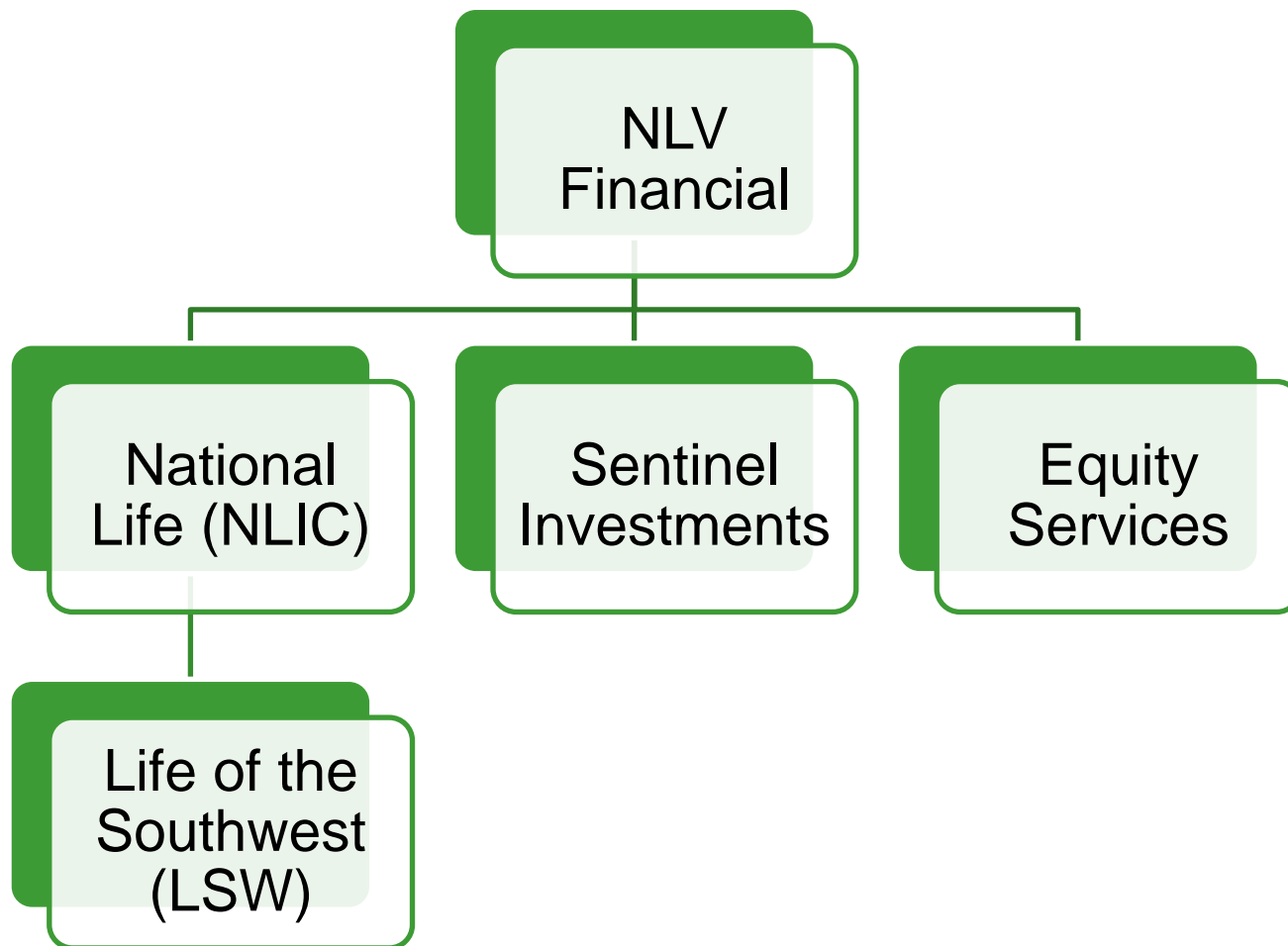# State of Vermont Proposed Dividend Legislation

Who is National Life Group?

- Flagship is National Life Insurance Company (NLIC), founded in 1848 in Montpelier, regulated by Vermont Department of Financial Regulation

- $22+ billion in assets, primarily high quality corporate bonds, residential mortgage backed securities and commercial mortgages

- $1.6 billion in surplus – 4X the required regulatory minimum

- $80 billion of life insurance protection in force, $1+ billion annual net cash inflows, policyholders in all 50 states

- Operated for the benefit of NLIC policyholders

- Strong, responsible growth over last five years due to focus on Main Street customer needs for protection and retirement savings

- NLIC is sole owner of Texas-domiciled Life Insurance Company of the Southwest (LSW)

- 1,000 employees, vast majority of which are in Vermont

Tradition of giving back to our communities

- National Life Group Foundation provides $750,000 a year in grants and donations to charitable causes

- All employees receive 40 paid hours each year for volunteer service – benefiting the Vermont Food Bank, Vermont Youth Conservation Corps, educational programs and other community outreach. Over 4,000 hours of service were donated in 2015

- Sponsor of the _LifeChanger of the Year_ award, an annual program that recognizes and rewards K-12 education professionals. Nominees must be full-time educators, teachers, administrators or any member of a school's staff who makes a positive difference in the lives of students

- Host and co-sponsor of the Do Good Fest, a celebration of music which honors many of our local non-profit organizations. We raised $15,000 in 2015 for Branches of Hope, the cancer patient fund at Central Vermont Medical Center

Our organizational structure

NLV Financial
- National Life (NLIC)
  - Life of the Southwest (LSW)
- Sentinel Investments
- Equity Services

Requested change in regulation

- NLIC can currently send dividends to its parent, NLV Financial, up to "… the lesser of NLIC earnings from operations OR 10% of surplus" without receiving pre-approval from the Vermont Department of Financial Regulation for an "extraordinary dividend"

- The current lesser of pre-approval threshold for an extraordinary dividend limits NLIC's financial flexibility. Most other states have a greater of threshold before requiring pre-approval for an extraordinary dividend

- The perceived lack of flexibility has been noted by rating agencies (Moody's and S&P) when they evaluate NLIC

Requested change in regulation (cont'd)

- Much of our recent business growth has been in products issued by LSW, which has slowed NLIC's earnings growth

- The slower NLIC earnings growth and the current <u>lessor of</u> standard severely limit NLIC's ability to send dividends to its parent without obtaining extraordinary dividend pre-approval from the Vermont Department of Financial Regulation

- As LSW's sole parent, NLIC's <u>surplus</u> includes the full value of LSW's accumulated earnings. However, due to the accounting rules, NLIC's <u>earnings</u> do not include LSW's earnings

- Changing the pre-approval threshold for an extraordinary dividend to be "…. <u>the greater of</u> NLIC annual earnings from operations OR 10% of NLIC surplus" will provide dividend flexibility equal to most other states

What <u>lesser of</u> limit has meant to us

- More cash and invested assets have to be held in NLV Financial to assure rating agencies/debt holders that we can pay debt service

- Holding a higher cushion of cash and invested assets at NLV Financial reduces NLIC's assets and surplus – which is not in the policyholders' best interest

- Rating agencies have noted the <u>lesser of</u> limit in our ratings profile

- Changing the extraordinary dividend threshold will remove this factor, which may help increase ratings and lower borrowing costs over time - both of which will add to financial stability and benefit policyholders

Proposed legislation change

Title 8 , Chapter 101, Subchapter 13

§ 3685(d) Limitation on dividends.

(1) For purposes of this section, an extraordinary dividend or distribution includes any dividend or distribution of cash or other property whose fair market value together with that of other dividends or distributions made within the preceding 12 months exceeds the lesser of:

(A) 10 percent of such insurer's surplus as regards policyholders as of the 31st day of December next preceding; or

(B) the net gains from operations of such insurer, if such insurer is a life insurer, or the net income, if such insurer is not a life insurer, not including realized capital gains, for the 12-month period ending the 31st day of December next preceding, but shall not include pro rata distributions of any class of the insurer's own securities.

(2) In determining whether a dividend or distribution is extraordinary, an insurer other than a life insurer may carry forward net income from the previous two calendar years that has not already been paid out as dividends. This carry-forward shall be computed by taking the net income from the second and third preceding calendar years, not including realized capital gains, less dividends paid in the second and immediate preceding calendar years. In determining whether a dividend or distribution is extraordinary, a life insurer may exclude dividends paid only from unassigned surplus that do not exceed the greater of (1)(A) or (B) of this section; provided that a life insurer relying on this provision shall notify the Commissioner of such dividend or distribution within five business days following declaration and at least 10 days, commencing from the date of receipt by the Commissioner, prior to the payment thereof.