

HORACE MANN EDUCATORS CORP /DE/
Form 10-Q
November 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended **September 30, 2016**

OR

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

For the transition period from _____ to _____

Commission file number 1-10890

HORACE MANN EDUCATORS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 37-0911756
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1 Horace Mann Plaza, Springfield, Illinois 62715-0001

(Address of principal executive offices, including Zip Code)

Registrant's Telephone Number, Including Area Code: 217-789-2500

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark the registrant's filer status, as such terms are defined in Rule 12b-2 of the Act.

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

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

As of October 31, 2016, 40,207,673 shares of Common Stock, par value \$0.001 per share, were outstanding, net of 24,672,932 shares of treasury stock.

HORACE MANN EDUCATORS CORPORATION
 FORM 10-Q
 FOR THE QUARTER ENDED SEPTEMBER 30, 2016
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Horace Mann Educators Corporation:

We have reviewed the consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries (the Company) as of September 30, 2016, the related consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2016 and 2015, and the related consolidated statements of changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries as of December 31, 2015, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 29, 2016, we expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP

Chicago, Illinois

November 8, 2016

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HORACE MANN EDUCATORS CORPORATION**CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except per share data)**

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost 2016, \$6,907,575; 2015, \$6,785,626)	\$7,494,053	\$7,091,340
Equity securities, available for sale, at fair value (cost 2016, \$124,806; 2015, \$95,722)	137,640	99,797
Short-term and other investments	537,459	456,893
Total investments	8,169,152	7,648,030
Cash	53,616	15,509
Deferred policy acquisition costs	225,792	253,176
Goodwill	47,396	47,396
Other assets	321,475	292,139
Separate Account (variable annuity) assets	1,873,646	1,800,722
Total assets	\$10,691,077	\$10,056,972
LIABILITIES AND SHAREHOLDERS' EQUITY		
Policy liabilities		
Investment contract and life policy reserves	\$5,385,907	\$5,126,842
Unpaid claims and claim expenses	332,787	323,720
Unearned premiums	247,229	232,841
Total policy liabilities	5,965,923	5,683,403
Other policyholder funds	706,384	692,652
Other liabilities	453,894	368,559
Long-term debt	247,146	246,975
Separate Account (variable annuity) liabilities	1,873,646	1,800,722
Total liabilities	9,246,993	8,792,311
Preferred stock, \$0.001 par value, authorized 1,000,000 shares; none issued	-	-
Common stock, \$0.001 par value, authorized 75,000,000 shares; issued, 2016, 64,855,897; 2015, 64,537,554	65	65
Additional paid-in capital	450,759	442,648
Retained earnings	1,146,978	1,116,277
Accumulated other comprehensive income (loss), net of taxes: Net unrealized gains on fixed maturities and equity securities	337,291	175,167

Net funded status of pension obligations	(11,794)	(11,794)
Treasury stock, at cost, 2016, 24,672,932 shares;		
2015, 23,971,522 shares	(479,215)	(457,702)
Total shareholders' equity	1,444,084	1,264,661
Total liabilities and shareholders' equity	\$ 10,691,077	\$ 10,056,972

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****(Dollars in thousands, except per share data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Insurance premiums and contract charges earned	\$ 191,050	\$ 182,812	\$ 564,860	\$ 544,927
Net investment income	94,847	81,016	270,685	248,324
Net realized investment gains	3,985	1,308	6,911	8,789
Other income	1,294	617	3,581	2,302
Total revenues	291,176	265,753	846,037	804,342
Benefits, losses and expenses				
Benefits, claims and settlement expenses	135,710	121,181	403,631	368,139
Interest credited	48,658	46,216	142,924	136,103
Policy acquisition expenses amortized	24,474	25,709	73,113	73,400
Operating expenses	44,337	39,647	130,478	115,611
Interest expense	2,975	2,652	8,858	9,610
Total benefits, losses and expenses	256,154	235,405	759,004	702,863
Income before income taxes	35,022	30,348	87,033	101,479
Income tax expense	8,099	8,364	23,091	29,037
Net income	\$ 26,923	\$ 21,984	\$ 63,942	\$ 72,442
Net income per share				
Basic	\$ 0.66	\$ 0.53	\$ 1.55	\$ 1.73
Diluted	\$ 0.65	\$ 0.52	\$ 1.55	\$ 1.71
Weighted average number of shares and equivalent shares (in thousands)				
Basic	41,092	41,852	41,155	41,965
Diluted	41,347	42,305	41,386	42,362
Net realized investment gains (losses)				
Total other-than-temporary impairment losses on securities	\$ (160)	\$ (3,602)	\$ (7,686)	\$ (20,860)

Portion of losses recognized in other comprehensive income	-	-	(290)	(4,300)
Net other-than-temporary impairment losses on securities recognized in earnings	(160)	(3,602)	(7,396)	(16,560)
Realized gains, net	4,145	4,910	14,307	25,349
Total	\$ 3,985	\$ 1,308	\$ 6,911	\$ 8,789

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)****(Dollars in thousands)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Comprehensive income				
Net income	\$ 26,923	\$ 21,984	\$ 63,942	\$ 72,442
Other comprehensive income (loss), net of taxes:				
Change in net unrealized gains and losses on fixed maturities and equity securities	7,638	2,832	162,124	(70,936)
Change in net funded status of pension obligations	-	-	-	-
Other comprehensive income (loss)	7,638	2,832	162,124	(70,936)
Total	\$ 34,561	\$ 24,816	\$ 226,066	\$ 1,506

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)****(Dollars in thousands, except per share data)**

	Nine Months Ended September 30,	
	2016	2015
Common stock, \$0.001 par value		
Beginning balance	\$65	\$64
Options exercised, 2016, 114,507 shares; 2015, 80,660 shares	-	-
Conversion of common stock units, 2016, 15,629 shares; 2015, 8,293 shares	-	-
Conversion of restricted stock units, 2016, 188,207 shares; 2015, 191,998 shares	-	1
Ending balance	65	65
Additional paid-in capital		
Beginning balance	442,648	422,232
Options exercised and conversion of common stock units and restricted stock units	2,045	11,926
Share-based compensation expense	6,066	5,032
Ending balance	450,759	439,190
Retained earnings		
Beginning balance	1,116,277	1,065,318
Net income	63,942	72,442
Cash dividends, 2016, \$0.795 per share; 2015, \$0.750 per share	(33,241)	(31,975)
Ending balance	1,146,978	1,105,785
Accumulated other comprehensive income (loss), net of taxes		
Beginning balance	163,373	284,601
Change in net unrealized gains and losses on fixed maturities and equity securities	162,124	(70,936)
Change in net funded status of pension obligations	-	-
Ending balance	325,497	213,665
Treasury stock, at cost		
Beginning balance, 2016, 23,971,522 shares; 2015, 23,308,430 shares	(457,702)	(435,752)
Acquisition of shares, 2016, 701,410 shares; 2015, 476,498 shares	(21,513)	(15,775)

Ending balance, 2016, 24,672,932 shares;		
2015, 23,784,928 shares	(479,215)	(451,527)
Shareholders' equity at end of period	\$1,444,084	\$1,307,178

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****(Dollars in thousands)**

	Nine Months Ended	
	September 30,	
	2016	2015
Cash flows - operating activities		
Premiums collected	\$ 557,816	\$ 538,633
Policyholder benefits paid	(422,184)	(399,465)
Policy acquisition and other operating expenses paid	(207,825)	(196,209)
Federal income taxes paid	(18,156)	(20,327)
Investment income collected	259,373	246,042
Interest expense paid	(6,072)	(7,316)
Other	(1,437)	(1,881)
Net cash provided by operating activities	161,515	159,477
Cash flows - investing activities		
Fixed maturities		
Purchases	(1,097,880)	(1,111,958)
Sales	351,739	327,641
Maturities, paydowns, calls and redemptions	634,686	502,554
Purchase of other invested assets	(42,578)	(19,037)
Net cash provided by (used in) short-term and other investments	(75,665)	56,831
Net cash used in investing activities	(229,698)	(243,969)
Cash flows - financing activities		
Dividends paid to shareholders	(33,241)	(31,975)
Principal borrowings on Bank Credit Facility	-	75,000
Maturity of Senior Notes due 2015	-	(75,000)
Acquisition of treasury stock	(21,513)	(15,775)
Exercise of stock options	2,361	1,518
Annuity contracts: variable, fixed and FHLB funding agreements		
Deposits	391,944	422,195
Benefits, withdrawals and net transfers to Separate Account (variable annuity) assets	(240,489)	(258,076)
Life policy accounts		
Deposits	2,957	742
Withdrawals and surrenders	(3,151)	(3,050)
Change in bank overdrafts	7,422	7,153

Net cash provided by financing activities	106,290	122,732
Net increase in cash	38,107	38,240
Cash at beginning of period	15,509	11,675
Cash at end of period	\$ 53,616	\$ 49,915

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2016 and 2015

(Dollars in thousands, except per share data)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements of Horace Mann Educators Corporation (“HMEC”; and together with its subsidiaries, the “Company” or “Horace Mann”) have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) and with the rules and regulations of the Securities and Exchange Commission (“SEC”), specifically Regulation S-X and the instructions to Form 10-Q. Certain information and note disclosures which are normally included in annual financial statements prepared in accordance with GAAP but are not required for interim reporting purposes have been omitted. The Company believes that these consolidated financial statements contain all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to present fairly the Company’s consolidated financial position as of September 30, 2016, the consolidated results of operations and comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015, and the consolidated changes in shareholders’ equity and cash flows for the nine months ended September 30, 2016 and 2015. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities, (2) disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and (3) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The subsidiaries of HMEC market and underwrite personal lines of property and casualty (primarily personal lines automobile and homeowners) insurance, retirement annuities (primarily tax-qualified products) and life insurance, primarily to K-12 teachers, administrators and other employees of public schools and their families. HMEC’s principal operating subsidiaries are Horace Mann Life Insurance Company, Horace Mann Insurance Company, Teachers Insurance Company, Horace Mann Property & Casualty Insurance Company and Horace Mann Lloyds.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes to consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year.

The Company has reclassified the presentation of certain prior period information to conform with the 2016 presentation. See “Adopted Accounting Standards”.

Note 1 - Basis of Presentation-(Continued)*Investment Contract and Life Policy Reserves*

This table summarizes the Company's investment contract and life policy reserves.

	September 30, 2016	December 31, 2015
Investment contract reserves	\$ 4,308,100	\$ 4,072,102
Life policy reserves	1,077,807	1,054,740
Total	\$ 5,385,907	\$ 5,126,842

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) represents the accumulated change in shareholders' equity from transactions and other events and circumstances from non-shareholder sources. For the Company, accumulated other comprehensive income (loss) includes the after tax change in net unrealized gains and losses on fixed maturities and equity securities and the after tax change in net funded status of pension obligations for the period as shown in the Consolidated Statement of Changes in Shareholders' Equity. The following tables reconcile these components.

	Unrealized Gains and Losses on Fixed Maturities and Equity Securities (1)(2)	Defined Benefit Plans (1)	Total (1)
Beginning balance, July 1, 2016	\$ 329,653	\$ (11,794)	\$ 317,859
Other comprehensive income (loss) before reclassifications	9,912	-	9,912
Amounts reclassified from accumulated other comprehensive income (loss)	(2,274)	-	(2,274)
Net current period other comprehensive income (loss)	7,638	-	7,638
Ending balance, September 30, 2016	\$ 337,291	\$ (11,794)	\$ 325,497

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Beginning balance, January 1, 2016	\$ 175,167	\$ (11,794)	\$ 163,373
Other comprehensive income (loss) before reclassifications	167,692	-	167,692
Amounts reclassified from accumulated other comprehensive income (loss)	(5,568)	-	(5,568)
Net current period other comprehensive income (loss)	162,124	-	162,124
Ending balance, September 30, 2016	\$ 337,291	\$ (11,794)	\$ 325,497

(1) All amounts are net of tax.

The pretax amounts reclassified from accumulated other comprehensive income (loss), \$3,499 and \$8,566, are included in net realized investment gains and losses and the related tax expenses, \$1,225 and \$2,998, are included in income tax expense in the Consolidated Statements of Operations for the three and nine months ended September 30, 2016, respectively.

Note 1 - Basis of Presentation-(Continued)

	Unrealized Gains and Losses on Fixed Maturities and Equity Securities (1)(2)	Defined Benefit Plans (1)	Total (1)
Beginning balance, July 1, 2015	\$ 223,786	\$ (12,953)	\$ 210,833
Other comprehensive income (loss) before reclassifications	3,836	-	3,836
Amounts reclassified from accumulated other comprehensive income (loss)	(1,004)	-	(1,004)
Net current period other comprehensive income (loss)	2,832	-	2,832
Ending balance, September 30, 2015	\$ 226,618	\$ (12,953)	\$ 213,665
Beginning balance, January 1, 2015	\$ 297,554	\$ (12,953)	\$ 284,601
Other comprehensive income (loss) before reclassifications	(64,979)	-	(64,979)
Amounts reclassified from accumulated other comprehensive income (loss)	(5,957)	-	(5,957)
Net current period other comprehensive income (loss)	(70,936)	-	(70,936)
Ending balance, September 30, 2015	\$ 226,618	\$ (12,953)	\$ 213,665

(1) All amounts are net of tax.

The pretax amounts reclassified from accumulated other comprehensive income (loss), \$1,545 and \$9,165, are included in net realized investment gains and losses and the related tax expenses, \$541 and \$3,208, are included in income tax expense in the Consolidated Statements of Operations for the three and nine months ended September 30, 2015, respectively.

Comparative information for elements that are not required to be reclassified in their entirety to net income in the same reporting period is located in "Note 2 -- Investments -- Unrealized Gains and Losses on Fixed Maturities and Equity Securities".

Adopted Accounting Standards

Presentation of Debt Issuance Costs

Effective January 1, 2016, the Company adopted accounting guidance which was issued to simplify the presentation of costs incurred to issue debt securities. The guidance requires debt issuance costs associated with specific debt securities to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Costs incurred related to line of credit arrangements continue to be presented as an asset in the consolidated balance sheet. Also, the guidance does not affect the recognition and measurement of debt issuance costs. The guidance required retrospective application. As a result of this adoption, the following items in the Company's December 31, 2015 Consolidated Balance Sheet were each reduced by \$2,371: Other Assets, Total Assets, Long-term Debt, Total Liabilities and Total Liabilities and Shareholders' Equity. Net income per share (basic and diluted) did not change as a result of the adopted accounting change.

Note 2 - Investments

The Company's investment portfolio includes free-standing derivative financial instruments (currently over the counter ("OTC") index call option contracts) to economically hedge risk associated with its fixed indexed annuity and indexed universal life products' contingent liabilities. The Company's fixed indexed annuity and indexed universal life products include embedded derivative features that are discussed in "Note 1 -- Summary of Significant Accounting Policies -- Investment Contract and Life Policy Reserves -- Reserves for Fixed Indexed Annuities and Indexed Universal Life Policies" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The Company's investment portfolio included no other free-standing derivative financial instruments (futures, forwards, swaps, option contracts or other financial instruments with similar characteristics), and there were no other embedded derivative features related to the Company's insurance products during the nine months ended September 30, 2016 and 2015.

Note 2 - Investments-(Continued)*Fixed Maturities and Equity Securities*

The Company's investment portfolio is comprised primarily of fixed maturity securities ("fixed maturities") and also includes equity securities. The amortized cost or cost, unrealized investment gains and losses, fair values and other-than-temporary impairments ("OTTI") included in accumulated other comprehensive income (loss) ("AOCI") of all fixed maturities and equity securities in the portfolio were as follows:

	Amortized Cost/Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI (1)
September 30, 2016					
Fixed maturity securities					
U.S. Government and federally sponsored agency obligations (2):					
Mortgage-backed securities	\$419,651	\$52,772	\$267	\$472,156	\$-
Other, including					
U.S. Treasury securities	449,016	39,383	272	488,127	-
Municipal bonds	1,555,326	228,185	4,770	1,778,741	(1,899)
Foreign government bonds	71,402	8,437	-	79,839	-
Corporate bonds	2,720,987	239,109	6,758	2,953,338	(340)
Other mortgage-backed securities	1,691,193	40,302	9,643	1,721,852	1,700
Totals	\$6,907,575	\$608,188	\$21,710	\$7,494,053	\$(539)
Equity securities (3)	\$124,806	\$14,355	\$1,521	\$137,640	\$-
December 31, 2015					
Fixed maturity securities					
U.S. Government and federally sponsored agency obligations (2):					
Mortgage-backed securities	\$461,862	\$44,413	\$1,861	\$504,414	\$-
Other, including					
U.S. Treasury securities	532,373	21,153	7,415	546,111	-
Municipal bonds	1,553,603	165,680	10,340	1,708,943	(4,140)
Foreign government bonds	67,441	6,288	112	73,617	-
Corporate bonds	2,687,376	140,873	48,834	2,779,415	-
Other mortgage-backed securities	1,482,971	16,830	20,961	1,478,840	1,382
Totals	\$6,785,626	\$395,237	\$89,523	\$7,091,340	\$(2,758)
Equity securities (3)	\$95,722	\$8,405	\$4,330	\$99,797	\$-

- Related to securities for which an unrealized loss was bifurcated to distinguish the credit-related portion and the portion driven by other market factors. Represents the amount of other-than-temporary impairment losses in AOCI
- (1) which was not included in earnings; amounts also include unrealized gains/(losses) on such impaired securities relating to changes in the fair value of those securities subsequent to the impairment measurement date.
Fair value includes securities issued by Federal National Mortgage Association (“FNMA”) of \$203,381 and \$231,294; Federal Home Loan Mortgage Corporation (“FHLMC”) of \$302,472 and \$363,957; and Government
 - (2) National Mortgage Association (“GNMA”) of \$122,311 and \$130,940 as of September 30, 2016 and December 31, 2015, respectively.
 - (3) Includes nonredeemable (perpetual) preferred stocks, common stocks and closed-end funds.

Note 2 - Investments-(Continued)

The following table presents the fair value and gross unrealized losses of fixed maturities and equity securities in an unrealized loss position at September 30, 2016 and December 31, 2015, respectively. The Company views the decrease in value of all of the securities with unrealized losses at September 30, 2016 -- which was driven largely by changes in interest rates, spread widening, financial market illiquidity and/or market volatility from the date of acquisition -- as temporary. For fixed maturity securities, management does not have the intent to sell the securities and it is not more likely than not the Company will be required to sell the securities before the anticipated recovery of the amortized cost bases, and management expects to recover the entire amortized cost bases of the fixed maturity securities. For equity securities, the Company has the ability and intent to hold the securities for the recovery of cost and recovery of cost is expected within a reasonable period of time.

	12 Months or Less		More than 12 Months		Total	Gross
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016						
Fixed maturity securities						
U.S. Government and federally sponsored agency obligations:						
Mortgage-backed securities	\$9,701	\$ 60	\$3,564	\$ 207	\$13,265	\$ 267
Other	27,728	272	-	-	27,728	272
Municipal bonds	53,583	879	16,768	3,891	70,351	4,770
Foreign government bonds	-	-	-	-	-	-
Corporate bonds	114,009	1,514	63,800	5,244	177,809	6,758
Other mortgage-backed securities	266,884	5,447	207,444	4,196	474,328	9,643
Total fixed maturity securities	471,905	8,172	291,576	13,538	763,481	21,710
Equity securities (1)	15,494	885	8,603	636	24,097	1,521
Combined totals	\$487,399	\$ 9,057	\$300,179	\$ 14,174	\$787,578	\$ 23,231
Number of positions with a gross unrealized loss						
	201		107		308	
Fair value as a percentage of total fixed maturities and equity securities fair value						
	6.4	%	3.9	%	10.3	%
December 31, 2015						
Fixed maturity securities						
U.S. Government and federally sponsored agency obligations:						
Mortgage-backed securities	\$48,097	\$ 1,748	\$1,595	\$ 113	\$49,692	\$ 1,861

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Other	248,478	7,338	1,921	77	250,399	7,415
Municipal bonds	168,939	5,382	21,717	4,958	190,656	10,340
Foreign government bonds	11,867	112	-	-	11,867	112
Corporate bonds	858,647	37,244	50,340	11,590	908,987	48,834
Other mortgage-backed securities	929,268	19,165	140,561	1,796	1,069,829	20,961
Total fixed maturity securities	2,265,296	70,989	216,134	18,534	2,481,430	89,523
Equity securities (1)	38,764	3,022	8,379	1,308	47,143	4,330
Combined totals	\$2,304,060	\$ 74,011	\$224,513	\$ 19,842	\$2,528,573	\$ 93,853
Number of positions with a gross unrealized loss	684		78		762	
Fair value as a percentage of total fixed maturities and equity securities fair value	32.0	%	3.1	%	35.1	%

(1) Includes nonredeemable (perpetual) preferred stocks, common stocks and closed-end funds.

Note 2 - Investments-(Continued)

Fixed maturities and equity securities with an investment grade rating represented 64% of the gross unrealized loss as of September 30, 2016. With respect to fixed maturity securities involving securitized financial assets, the underlying collateral cash flows were stress tested to determine there was no adverse change in the present value of cash flows below the amortized cost basis.

Credit Losses

The following table summarizes the cumulative amounts related to the Company's credit loss component of the other-than-temporary impairment losses on fixed maturity securities held as of September 30, 2016 and 2015 that the Company did not intend to sell as of those dates, and it was not more likely than not that the Company would be required to sell the securities before the anticipated recovery of the amortized cost bases, for which the non-credit portions of the other-than-temporary impairment losses were recognized in other comprehensive income (loss):

	Nine Months Ended September 30,	
	2016	2015
Cumulative credit loss (1)		
Beginning of period	\$ 7,844	\$ 2,877
New credit losses	300	5,162
Increases to previously recognized credit losses	2,480	-
Losses related to securities sold or paid down during the period	-	-
End of period	\$ 10,624	\$ 8,039

The cumulative credit loss amounts exclude other-than-temporary impairment losses on securities held as of the (1) periods indicated that the Company intended to sell or it was more likely than not that the Company would be required to sell the security before the recovery of the amortized cost basis.

Note 2 - Investments-(Continued)*Maturities/Sales of Fixed Maturities and Equity Securities*

The following table presents the distribution of the Company's fixed maturity securities portfolio by estimated expected maturity. Estimated expected maturities differ from contractual maturities, reflecting assumptions regarding borrowers' utilization of the right to call or prepay obligations with or without call or prepayment penalties. For structured securities, including mortgage-backed securities and other asset-backed securities, estimated expected maturities consider broker-dealer survey prepayment assumptions and are verified for consistency with the interest rate and economic environments.

	Percent of Total Fair Value		September 30, 2016		Amortized Cost	
	September 30, 2016		December 31, 2015	Fair Value		
Estimated expected maturity:						
Due in 1 year or less	3.8	%	3.1	%	\$287,079	\$264,641
Due after 1 year through 5 years	27.6		24.2		2,065,099	1,903,694
Due after 5 years through 10 years	37.1		39.6		2,780,699	2,563,365
Due after 10 years through 20 years	19.7		20.9		1,473,916	1,358,717
Due after 20 years	11.8		12.2		887,260	817,158
Total	100.0	%	100.0	%	\$7,494,053	\$6,907,575
Average option-adjusted duration, in years	5.8		5.8			

Proceeds received from sales of fixed maturities and equity securities, each determined using the specific identification method, and gross gains and gross losses realized as a result of those sales for each period were:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Fixed maturity securities				
Proceeds received	\$94,706	\$81,120	\$351,739	\$327,641
Gross gains realized	2,966	6,400	13,824	18,631
Gross losses realized	(102)	(3,267)	(1,542)	(5,012)

Equity securities

Proceeds received	\$4,479	\$5,633	\$17,101	\$26,442
Gross gains realized	790	680	1,960	5,878
Gross losses realized	(21)	(397)	(862)	(514)

Note 2 - Investments-(Continued)

Unrealized Gains and Losses on Fixed Maturities and Equity Securities

Net unrealized investment gains and losses are computed as the difference between fair value and amortized cost for fixed maturities or cost for equity securities. The following table reconciles the net unrealized investment gains and losses, net of tax, inc