

REINSURANCE GROUP OF AMERICA INC  
Form 10-Q  
August 07, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

X

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

OR

..

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-11848

**REINSURANCE GROUP OF AMERICA, INCORPORATED**

(Exact name of Registrant as specified in its charter)

MISSOURI  
(State or other jurisdiction  
of incorporation or organization)

43-1627032  
(IRS employer  
identification number)

1370 Timberlake Manor Parkway

Chesterfield, Missouri 63017

(Address of principal executive offices)

(636) 736-7000

(Registrant's telephone number, including area code)

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange Act).

Yes  No

As of July 31, 2012, 73,713,241 shares of the registrant's common stock were outstanding.

**Table of Contents**

**REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES**

**TABLE OF CONTENTS**

Item	Page
<b><u>PART I FINANCIAL INFORMATION</u></b>	
1	
Financial Statements	
<u>Condensed Consolidated Balance Sheets (Unaudited)</u> <u>June 30, 2012 and December 31, 2011</u>	3
<u>Condensed Consolidated Statements of Income (Unaudited)</u> <u>Three and six months ended June 30, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u> <u>Three and six months ended June 30, 2012 and 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u> <u>Six months ended June 30, 2012 and 2011</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
2	
<u>Management's Discussion and Analysis of</u> <u>Financial Condition and Results of Operations</u>	43
3	
<u>Quantitative and Qualitative Disclosure About Market Risk</u>	74
4	
<u>Controls and Procedures</u>	74
<b><u>PART II OTHER INFORMATION</u></b>	
1	
<u>Legal Proceedings</u>	75
1A	
<u>Risk Factors</u>	75
6	
<u>Exhibits</u>	75
<u>Signatures</u>	76
<u>Index to Exhibits</u>	77

**Table of Contents****REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	June 30, 2012	December 31, 2011
	(Dollars in thousands, except share data)	
<b>Assets</b>		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of \$14,957,165 and \$14,182,880 at June 30, 2012 and December 31, 2011, respectively)	\$ 17,244,192	\$ 16,200,950
Mortgage loans on real estate (net of allowances of \$11,011 and \$11,793 at June 30, 2012 and December 31, 2011, respectively)	1,157,049	991,731
Policy loans	1,250,238	1,260,400
Funds withheld at interest	5,457,888	5,410,424
Short-term investments	49,981	88,566
Investment receivable	5,406,898	-
Other invested assets	940,605	1,012,541
<b>Total investments</b>	<b>31,506,851</b>	<b>24,964,612</b>
Cash and cash equivalents	957,341	962,870
Accrued investment income	182,586	144,334
Premiums receivable and other reinsurance balances	1,104,176	1,059,572
Reinsurance ceded receivables	626,734	626,194
Deferred policy acquisition costs	3,605,008	3,543,925
Other assets	361,627	332,466
<b>Total assets</b>	<b>\$ 38,344,323</b>	<b>\$ 31,633,973</b>
<b>Liabilities and Stockholders' Equity</b>		
Future policy benefits	\$ 10,725,096	\$ 9,903,886
Interest-sensitive contract liabilities	13,352,601	8,394,468
Other policy claims and benefits	3,026,467	2,841,373
Other reinsurance balances	249,336	118,219
Deferred income taxes	1,785,614	1,679,834
Other liabilities	890,687	810,775
Long-term debt	1,414,969	1,414,688
Collateral finance facility	651,936	652,032
<b>Total liabilities</b>	<b>32,096,706</b>	<b>25,815,275</b>
Commitments and contingent liabilities (See Note 8)		
<b>Stockholders' Equity:</b>		
Preferred stock (par value \$.01 per share; 10,000,000 shares authorized; no shares issued or outstanding)	--	--
Common stock (par value \$.01 per share; 140,000,000 shares authorized; shares issued: 79,137,758 at June 30, 2012 and December 31, 2011)	791	791
Additional paid-in-capital	1,740,415	1,727,774
Retained earnings	3,033,505	2,818,429
Treasury stock, at cost; 5,415,403 and 5,770,024 shares at June 30, 2012 and December 31, 2011, respectively	(326,292)	(346,449)
Accumulated other comprehensive income	1,799,198	1,618,153
<b>Total stockholders' equity</b>	<b>6,247,617</b>	<b>5,818,698</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 38,344,323</b>	<b>\$ 31,633,973</b>

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See accompanying notes to condensed consolidated financial statements (unaudited).

**Table of Contents****REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands, except per share data)			
<b>Revenues:</b>				
Net premiums	\$ 1,950,661	\$ 1,788,676	\$ 3,814,143	\$ 3,524,806
Investment income, net of related expenses	328,334	337,436	669,274	708,476
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(1,959)	(5,582)	(9,566)	(7,138)
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	162	292	(7,059)	292
Other investment related gains (losses), net	25,598	32,678	83,946	157,854
Total investment related gains (losses), net	23,801	27,388	67,321	151,008
Other revenues	72,957	50,477	117,990	102,122
Total revenues	2,375,753	2,203,977	4,668,728	4,486,412
<b>Benefits and Expenses:</b>				
Claims and other policy benefits	1,625,446	1,520,013	3,205,595	2,989,462
Interest credited	66,697	96,196	154,739	202,259
Policy acquisition costs and other insurance expenses	335,939	274,519	643,573	620,766
Other operating expenses	105,541	97,161	215,639	203,311
Interest expense	23,360	25,818	46,682	50,387
Collateral finance facility expense	2,878	3,101	5,845	6,303
Total benefits and expenses	2,159,861	2,016,808	4,272,073	4,072,488
<b>Income before income taxes</b>	215,892	187,169	396,655	413,924
Provision for income taxes	74,781	63,225	132,226	141,060
<b>Net income</b>	\$ 141,111	\$ 123,944	\$ 264,429	\$ 272,864
<b>Earnings per share:</b>				
Basic earnings per share	\$ 1.91	\$ 1.68	\$ 3.59	\$ 3.71
Diluted earnings per share	\$ 1.91	\$ 1.66	\$ 3.57	\$ 3.68
<b>Dividends declared per share</b>	\$ 0.18	\$ 0.12	\$ 0.36	\$ 0.24

See accompanying notes to condensed consolidated financial statements (unaudited).

**Table of Contents**

**REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<b>Comprehensive income:</b>				
Net income	\$ 141,111	\$ 123,944	\$ 264,429	\$ 272,864
<b>Other comprehensive income, net of income tax:</b>				
Change in foreign currency translation adjustments	(16,865)	11,487	7,215	35,894
Change in net unrealized gain on investments	203,156	151,582	167,741	115,764
Change in other-than-temporary impairment losses on fixed maturity securities	(106)	(190)	4,588	(190)
Changes in pension and other postretirement plan adjustments	1,211	358	1,501	572
Total other comprehensive income	187,396	163,237	181,045	152,040
<b>Total comprehensive income, net of income tax</b>	<b>\$ 328,507</b>	<b>\$ 287,181</b>	<b>\$ 445,474</b>	<b>\$ 424,904</b>

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Six months ended June 30,	
	2012	2011
	(Dollars in thousands)	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 264,429	\$ 272,864
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Change in operating assets and liabilities:		
Accrued investment income	(38,182)	(31,378)
Premiums receivable and other reinsurance balances	(47,370)	66,922
Deferred policy acquisition costs	(63,690)	61,339
Reinsurance ceded receivable balances	(540)	(11,307)
Future policy benefits, other policy claims and benefits, and other reinsurance balances	755,790	332,611
Deferred income taxes	(5,469)	(42,189)
Other assets and other liabilities, net	62,682	41,262
Amortization of net investment premiums, discounts and other	(69,347)	(67,755)
Investment related gains, net	(67,321)	(151,008)
Excess tax benefits from share-based payment arrangement	24	(2,690)
Other, net	27,251	69,143
Net cash provided by operating activities	818,257	537,814
<b>Cash Flows from Investing Activities:</b>		
Sales of fixed maturity securities available-for-sale	1,759,932	1,791,826
Maturities of fixed maturity securities available-for-sale	104,008	164,043
Purchases of fixed maturity securities available-for-sale	(2,518,580)	(2,341,291)
Cash invested in mortgage loans	(225,005)	(44,679)
Cash invested in policy loans	(1,589)	(8,928)
Cash invested in funds withheld at interest	(60,145)	(10,563)
Principal payments on mortgage loans on real estate	46,313	19,283
Principal payments on policy loans	11,752	7,683
Change in short-term investments and other invested assets	98,530	(74,600)
Net cash used in investing activities	(784,784)	(497,226)
<b>Cash Flows from Financing Activities:</b>		
Dividends to stockholders	(26,524)	(17,703)
Repurchase of collateral finance facility securities	--	(7,586)
Net proceeds from long-term debt issuance	--	394,410
Proceeds from redemption and remarketing of trust preferred securities	--	154,588
Maturity of trust preferred securities	--	(159,455)
Purchases of treasury stock	(6,924)	(340,220)
Excess tax benefits from share-based payment arrangement	(24)	2,690
Exercise of stock options, net	(651)	15,605
Change in cash collateral for derivative positions	(15,096)	8,010
Deposits on universal life and other investment type policies and contracts	79,134	288,424
Withdrawals on universal life and other investment type policies and contracts	(70,753)	(147,774)
Net cash (used in) provided by financing activities	(40,838)	190,989



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Effect of exchange rate changes on cash	1,836	15,735
Change in cash and cash equivalents	(5,529)	247,312
Cash and cash equivalents, beginning of period	962,870	463,661
 Cash and cash equivalents, end of period	 \$ 957,341	 \$ 710,973
 Supplementary information:		
Cash paid for interest	\$ 49,094	\$ 47,054
Cash paid for income taxes, net of refunds	\$ 40,735	\$ 105,107

See accompanying notes to condensed consolidated financial statements (unaudited).

**Table of Contents****REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****1. Organization and Basis of Presentation**

Reinsurance Group of America, Incorporated ( RGA ) is an insurance holding company that was formed on December 31, 1992. The accompanying unaudited condensed consolidated financial statements of RGA and its subsidiaries (collectively, the Company ) have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. There were no subsequent events, other than as disclosed in Note 13 Subsequent Event, that would require disclosure or adjustments to the accompanying condensed consolidated financial statements through the date the financial statements were issued. These unaudited condensed consolidated financial statements include the accounts of RGA and its subsidiaries, all intercompany accounts and transactions have been eliminated. They should be read in conjunction with the Company s 2011 Annual Report on Form 10-K ( 2011 Annual Report ) filed with the Securities and Exchange Commission ( SEC ) on February 29, 2012 and the consolidated financial statements and notes thereto included in the Company s 2012 Current Report on Form 8-K ( DAC Current Report ) filed with the SEC on July 13, 2012.

In October 2010, the Financial Accounting Standards Board ( FASB ) amended the general accounting principles for *Financial Services Insurance* as it relates to accounting for costs associated with acquiring or renewing insurance contracts. This amendment clarified that only those costs that result directly from and are essential to the contract transaction and that would not have been incurred had the contract transaction not occurred can be capitalized. It also defined acquisitions costs as costs that are related directly to the successful acquisitions of new or renewal insurance contracts.

The Company filed the DAC Current Report in response to its adoption of the amendment described above on January 1, 2012 on a retrospective basis. The DAC Current Report reflects the impact of the adoption of this amendment on the Company s previously filed financial statements and other disclosures included in the 2011 Annual Report, including that (i) only cost related directly to the successful acquisition of new or renewal contracts can be capitalized as deferred acquisition costs and (ii) all other acquisition-related costs must be expensed as incurred. In connection therewith, the Company adjusted the presentation of certain prior-period information to conform to the new accounting principles. The Company believes retrospective adoption provides the most comparable and useful financial information for financial statement users. Likewise, the financial statements and notes thereto presented in this Quarterly Report on Form 10-Q have been adjusted to reflect the retrospective adoption of these accounting principles.

The following tables present the effects of the retrospective adoption of the new accounting principles to the Company s previously reported condensed consolidated statement of income and condensed consolidated statement of cash flows for the three and six months ended June 30, 2011 (in thousands, except share amounts):

	As Reported	Three months ended June 30, 2011		As Amended
		Adjustments		
<b>Benefits and Expenses:</b>				
Policy acquisition costs and other insurance expenses	\$ 261,282	\$ 13,237		\$ 274,519
Income before income taxes	200,406	(13,237)		187,169
Provision for income taxes	67,518	(4,293)		63,225
Net income	\$ 132,888	\$ (8,944)		\$ 123,944

**Earnings per share:**

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Basic earnings per share	\$	1.80	\$	(0.12)	\$	1.68
Diluted earnings per share	\$	1.78	\$	(0.12)	\$	1.66

7

**Table of Contents**

	Six months ended June 30, 2011		
	As Reported	Adjustments	As Amended
<b>Benefits and Expenses:</b>			
Policy acquisition costs and other insurance expenses	\$ 592,435	\$ 28,331	\$ 620,766
Income before income taxes	442,255	(28,331)	413,924
Provision for income taxes	148,551	(7,491)	141,060
Net income	\$ 293,704	\$ (20,840)	\$ 272,864

**Earnings per share:**

Basic earnings per share	\$ 3.99	\$ (0.28)	\$ 3.71
Diluted earnings per share	\$ 3.96	\$ (0.28)	\$ 3.68

	Six months ended June 30, 2011		
	As Reported	Adjustments	As Amended
<b>Cash Flows from Operating Activities:</b>			
Net Income	\$ 293,704	\$ (20,840)	\$ 272,864
Change in operating assets and liabilities			
Deferred policy acquisition costs	33,008	28,331	61,339
Deferred income taxes	(34,698)	(7,491)	(42,189)

**2. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share on net income (in thousands, except per share information):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<b>Earnings:</b>				
Net income (numerator for basic and diluted calculations)	\$ 141,111	\$ 123,944	\$ 264,429	\$ 272,864
<b>Shares:</b>				
Weighted average outstanding shares (denominator for basic calculation)	73,718	73,971	73,646	73,593
Equivalent shares from outstanding stock options <sup>(1)</sup>	336	559	402	591
Denominator for diluted calculation	74,054	74,530	74,048	74,184
<b>Earnings per share:</b>				
Basic	\$ 1.91	\$ 1.68	\$ 3.59	\$ 3.71
Diluted	\$ 1.91	\$ 1.66	\$ 3.57	\$ 3.68

(1) Year-to-date amounts are the weighted average of the individual quarterly amounts.

The calculation of common equivalent shares does not include the impact of options having a strike or conversion price that exceeds the average stock price for the earnings period, as the result would be antidilutive. The calculation of common equivalent shares also excludes the impact of outstanding performance contingent shares, as the conditions necessary for their issuance have not been satisfied as of the end of the reporting period. For the three months ended June 30, 2012, approximately 1.8 million stock options and approximately 0.7 million performance contingent shares were excluded from the calculation. For the three months ended June 30, 2011, no stock options and approximately 0.8 million performance contingent shares were excluded from the calculation.

**Table of Contents****3. Accumulated Other Comprehensive Income**

The balance of and changes in each component of accumulated other comprehensive income ( AOCI ) for the six months ended June 30, 2012 and 2011 are as follows (dollars in thousands):

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax				Total
	Accumulated Currency Translation Adjustments	Unrealized Appreciation of Securities	Pension and Postretirement Benefits		
Balance, December 31, 2011	\$ 229,795	\$ 1,419,318	\$ (30,960)	\$	1,618,153
Change in component during the period	7,215	172,329	1,501		181,045
Balance, June 30, 2012	\$ 237,010	\$ 1,591,647	\$ (29,459)	\$	1,799,198

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax				Total
	Accumulated Currency Translation Adjustments	Unrealized Appreciation of Securities	Pension and Postretirement Benefits		
Balance, December 31, 2010	\$ 255,295	\$ 651,449	\$ (14,560)	\$	892,184
Change in component during the period	35,894	115,574	572		152,040
Balance, June 30, 2011	\$ 291,189	\$ 767,023	\$ (13,988)	\$	1,044,224

**4. Investments**

The Company had total cash and invested assets of \$32.5 billion and \$25.9 billion at June 30, 2012 and December 31, 2011, respectively, as illustrated below (dollars in thousands):

	June 30, 2012	December 31, 2011
Fixed maturity securities, available-for-sale	\$ 17,244,192	\$ 16,200,950
Mortgage loans on real estate	1,157,049	991,731
Policy loans	1,250,238	1,260,400
Funds withheld at interest	5,457,888	5,410,424
Short-term investments	49,981	88,566
Investment receivable	5,406,898	--
Other invested assets	940,605	1,012,541
Cash and cash equivalents	957,341	962,870
Total cash and invested assets	\$ 32,464,192	\$ 25,927,482

All investments held by the Company are monitored for conformance to the qualitative and quantitative limits prescribed by the applicable jurisdiction's insurance laws and regulations. In addition, the operating companies' boards of directors periodically review their respective investment portfolios. The Company's investment strategy is to maintain a predominantly investme