AMERUS GROUP CO/IA
Form 10-K
March 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

þ Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002 Commission File Number: 000-30898

AmerUs Group Co.

(Exact name of Registrant as specified in its charter)

699 Walnut Street

Des Moines, Iowa 50309-3948
(Address of principal executive offices, including zip code)

Iowa	**42-1458424**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

Registrant s telephone number, including area code (515) 362-3600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (no par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports 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 x. No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes o No x

Aggregate market value of voting stock held by non-affiliates of the Registrant as of March 3, 2003: $1,032,885,907

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes x. No o

Number of shares outstanding of each of the Registrant s classes of common stock on March 3, 2003 was as follows:

Common Stock	39,027,897 shares

DOCUMENTS INCORPORATED BY REFERENCE

Notice of 2003 Annual Meeting of Shareholders and Proxy Statement

(incorporated into Part III)

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SAFE HARBOR STATEMENT

All statements, trend analyses and other information contained in this report relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as anticipate , believe , plan , estimate , expect , intend , and other simila expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. Factors that may cause our actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (a) general economic conditions and other factors, including prevailing interest rate levels and stock and bond market performance, which may affect our ability to sell our products, the market value of our investments and the lapse rate and profitability of our policies; (b) our ability to achieve anticipated levels of operational efficiencies and cost-saving initiatives and to meet cash requirements based upon projected liquidity sources; (c) customer response to new products, distribution channels and marketing initiatives; (d) mortality, morbidity, and other factors which may affect the profitability of our insurance products; (e) our ability to develop and maintain effective risk management policies and procedures and to maintain adequate reserves for future policy benefits and claims; (f) changes in the federal income tax laws, regulations and interpretations, which may affect the relative tax advantages of some of our products; (g) increasing competition in the sale of insurance and annuities and the recruitment of sales representatives; (h) regulatory changes, actions, interpretations or pronouncements including those relating to the regulation of insurance companies and the regulation and sale of their products, (i) our ratings and those of our subsidiaries by independent rating organizations which we believe are particularly important to the sale of our products; (j) the performance of our investment portfolios; (k) the impact of changes in standards of accounting; (l) our ability to integrate the business and operations of acquired entities; (m) expected protection products and accumulation products margins; (n) the impact of anticipated investment transactions; and (o) unanticipated litigation or regulatory investigations or examinations.

There can be no assurance that other factors not currently anticipated by us will not materially and adversely affect our results of operations. You are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Forward-looking statements speak only as of the date the statement was made. We undertake no obligation to update or revise any forward-looking statement.

PART I

ITEM 1. BUSINESS

Web Access to Reports

We make our periodic and current reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, available, free of charge at our website as soon as practicable after such reports are filed electronically with or furnished to the U.S. Securities and Exchange Commission. Our internet website address to obtain such filings is www.amerus.com.

Definitions

When used in this document, the terms AmerUs, we, our and us refer to AmerUs Group Co. (including American Mutual Holding Compar and AmerUs Life Holdings, Inc. as predecessor entities of AmerUs Group Co.), an Iowa corporation, and our consolidated subsidiaries, unless otherwise specified or indicated by the context.

General

We are a holding company whose subsidiaries are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life insurance and annuity products to individuals and businesses in all 50 states, the District of Columbia and the U.S. Virgin Islands. We have two reportable operating segments: protection products and accumulation products. The protection products segment was formerly known as the life insurance segment and the accumulation products segment was formerly known as the annuity segment. The primary offerings of the protection products segment are interest-sensitive whole life, equity-indexed life, universal life and term life insurance policies. The primary offerings of the accumulation products segment are individual deferred fixed annuities, equity- indexed annuities and funding agreements.

We were founded in 1896 as the mutual insurer Central Life Assurance Company. In 1996, we became the first Mutual Holding Company, or MHC, a structure that allows mutuals to access the public equity markets, which AmerUs did in 1997 with its initial public offering. In 2000, AmerUs reorganized its MHC structure through a full demutualization and became a 100% public stock company.

We have had positive organic growth in our businesses. We have also successfully executed a series of strategic acquisitions that have helped generate sales growth, as well as balance our product and geographic distribution. The following is a summary of these acquisitions and the benefits created:

In 1994, Central Life Assurance Company and American Mutual Life Insurance Co. merged providing us with significant scale in our life insurance operations. The merger resulted in our becoming one of the 25 largest mutual insurers in America at that time.

In October 1997, the acquisition of Delta Life Corporation launched our annuity business. At the time of the acquisition, Delta Life had about $2.0 billion in assets and specialized in single-premium deferred annuity and equity-indexed annuity products.

In December 1997, we acquired AmVestors Financial Corporation, predecessor to AmerUs Annuity Group Co., which specialized in the sale of individual fixed annuity products. The acquisition further strengthened our presence in asset accumulation and retirement and savings markets.

In 2001, we acquired Indianapolis Life Insurance Company, an Indiana life insurance company, and its subsidiaries which had $5.8 billion in consolidated assets at the time of the acquisition. The acquisition allowed us to strengthen our life insurance business and ultimately provided us with a better balance of annuities and life insurance products.

We sold certain lines of business and made the decision to exit certain other businesses in 1998. These businesses are referred to as discontinued operations and include the following activities: banking, residential real estate brokerage, and mortgage banking.

Subsidiaries

We have four main direct subsidiaries: AmerUs Life Insurance Company, or ALIC, an Iowa life insurance company; AmerUs Annuity Group Co., or AAG, a Kansas corporation; AmerUs Capital Management Group, Inc., or ACM, an Iowa corporation; and ILICO Holdings, Inc., an Indiana corporation.

AAG owns, directly or indirectly, two Kansas life insurance companies: American Investors Life Insurance Company, Inc., or American; and Financial Benefit Life Insurance Company, or FBL. Delta Life and Annuity Company, or Delta, was merged into American effective December 31, 2002.

ILICO Holdings, Inc., has one wholly-owned subsidiary, Indianapolis Life Insurance Company, or ILIC, an Indiana life insurance company. ILIC has three wholly-owned subsidiaries: Bankers Life Insurance Company of New York, or Bankers Life, a New York life insurance company; IL Securities, Inc., an Indiana corporation; and IL Annuity and Insurance Company, or IL Annuity, a Kansas life insurance company. When used in this document, the term ILICO refers to ILICO Holdings, Inc. and its consolidated subsidiaries.

Organization as of December 31, 2002

(A) ILICO Holdings, Inc. is owned by AmerUs Group Co. (92.2%) and AmerUs Life Insurance Company (7.8%)

Reorganization

We were formerly known as American Mutual Holding Company, or AMHC and were a mutual insurance holding company, with our principal asset being a 58% interest in AmerUs Life Holdings, Inc., or ALHI. Public stockholders owned the remaining 42% interest in ALHI with their interest referred to as minority interest. ALHI was a holding company which directly or indirectly owned three principal life insurance subsidiaries: ALIC, American and Delta. On September 20, 2000, we converted to stock form, changed our name to AmerUs Group Co. and acquired the minority interest of ALHI by issuing our common stock in exchange for the outstanding shares of ALHI held by the public. The value of the stock exchange was approximately $298 million and ALHI was merged into us simultaneously with the stock exchange.

Prior to our conversion to a stock company, which is referred to as a demutualization, we were owned by individuals and entities who held insurance policies or annuity contracts issued by ALIC. Such individuals and entities were considered members. In connection with our demutualization, we distributed cash, policy credits and our newly issued common stock to those members in exchange for their membership interests. The value of the distribution totaled approximately $792 million.

The acquisition of the minority interest of ALHI by us was accounted for as a purchase and 42% of the book value of the assets and liabilities of ALHI was adjusted to market value as of the acquisition date. Approximately 42% of the ALHI earnings for our fiscal periods prior to the acquisition date are deducted from our results of operations on the line titled minority interest in our consolidated statements of income. From the acquisition date forward, our results of operations include 100% of such earnings.

Closed Block

We have established two closed blocks of policies: (a) the first on June 30, 1996 in connection with the reorganization of ALIC from a mutual company to a stock company, and (b) the second on March 31, 2001 in connection with the reorganization of ILIC from a mutual company to a stock company (collectively, the closed block). Insurance policies which had a dividend scale in effect as of each closed block establishment date were included in the closed block. The closed block was designed to give reasonable assurance to owners of insurance policies that, after the reorganizations of ALIC and ILIC, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization, if the experience underlying such scales and crediting continued. The assets, including revenue therefrom, allocated to the closed block will accrue solely to the benefit of the owners of policies included in the closed block until the closed block no longer exists. We will continue to pay guaranteed benefits under all policies, including policies included in the closed block, in accordance with their terms. In the event that the closed block s assets are insufficient to meet the benefits of the closed block s guaranteed benefits, general assets would be utilized to meet the contractual benefits of the closed block s policyholders.

Acquisition

On May 18, 2001, we completed the acquisition of ILICO for an amount of cash, policy credits and shares of our common stock equal to the value of 9.3 million shares of our common stock. The purchase price totaled a value of approximately $326 million. The acquisition was accounted for as a purchase and the total purchase price was allocated to the assets and liabilities of ILICO based on the relative fair values as of the acquisition date. See further discussion in note 15 to the consolidated financial statements.

Dispositions

ILIC previously owned The Indianapolis Life Group of Companies, Inc., or IL Group. IL Group owned Bankers Life, IL Securities, Inc., IL Annuity, and Western Security Life Insurance Company, or WSLIC, an Arizona life insurance company. Effective on March 5, 2002, IL Group was dissolved and its four wholly-owned subsidiaries became direct subsidiaries of ILIC. In addition, on March 29, 2002, WSLIC was sold with its insurance business transferred to ILIC prior to the sale. The sale of the corporate organization and insurance licenses resulted in a gain of approximately $1.9 million which is included in realized gains and losses on investments.

Financial Information

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. See note 1 to the consolidated financial statements for additional information about GAAP and our significant accounting policies.

We measure our profit or loss and total assets by operating segments. We have two reportable operating segments: protection products and accumulation products. See a further discussion of our operating segments in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Protection Products Segment

Products

Our protection products segment consists of individual fixed life insurance premiums from traditional life insurance products, universal life insurance products and equity-indexed life insurance products as set forth in the following table:

	Sales Activity by Product For The Years Ended December 31,		
	2002	**2001**	**2000**
		($ in thousands)	
Traditional life insurance:			
Whole life	$ 4,236	$ 6,842	$14,161
Interest-sensitive whole life	30,622	12,411	
Term life	16,390	7,763	7,223
Universal life	32,570	21,794	10,992
Equity-indexed life	45,843	25,865	7,137
Direct first year annualized premiums	129,661	74,675	39,513
Private label term life premiums	8,970	6,637	
Total	$138,631	$81,312	$39,513

Traditional Life Insurance Products. Traditional life insurance products include whole life, interest-sensitive whole life and term life insurance products.

Whole life insurance is designed to provide benefits for the life of the insured. This product generally provides for level premiums and a level death benefit and requires payments in excess of the mortality cost in earlier years to offset increasing mortality costs in later years. Sales of whole life insurance decreased in 2002 and 2001, as compared to each prior year, due in part to our increased marketing focus on equity-indexed life products which has resulted in a shift in sales from whole life to equity-indexed. In addition, there has been an overall general industry decline in sales of whole life products. We ceased taking new applications for sales of whole life insurance on December 31, 2002.

Interest-sensitive whole life insurance also provides benefits for the life of the insured. However, this product has flexible premium and benefit patterns not available with traditional whole life plans. Cash value accumulation is interest sensitive and responds to current interest and mortality rates. Sales of interest-sensitive whole life insurance are all attributable to ILICO.

Term life insurance provides life insurance protection for a specific time period (which generally can be renewed at an increased premium). Such policies are mortality-based and offer no cash accumulation feature. Term life insurance is a highly competitive and quickly changing market. Term life insurance sales increased in 2002 and 2001, as compared to each prior year, due to the acquisition of ILICO.

We also distribute term products of ILICO through strategic alliances with private label partners. Under private label arrangements, ILICO designs and issues products that are distributed through other life insurance companies, our private label partners. ILICO reinsures a portion of the risks on those products which we refer to as our private label sales. We have three private label partners that are actively writing new business. During the second quarter of 2002, we ceased recruiting new private label partners.

For the year ended December 31, 2002, sales of whole life, interest-sensitive whole life and term life insurance products represented 3%, 24% and 13%, respectively, of direct first year annualized premiums for individual life insurance products sold.

Universal Life Insurance Products. We offer universal life insurance products, which provide flexible benefits for the insured. Within product limits and state regulations, policyowners may vary the amount and timing of premiums and the amount of the death benefit of their policies and keep the policies in force, as long as there are sufficient policy funds available to cover all policy charges for the next coverage period. Premiums, net of specified expenses, are credited to the policy, as is interest, generally at a rate determined from time to time by us. Specific charges are made against the policy for the cost of insurance and for expenses. We invest the premiums we receive from the sale of universal life insurance products in our investment portfolio. Our gross margin from these products is the yield we earn on our investment portfolio plus the internal product charges less interest credited to policies and less mortality and other expenses.

Sales of universal life increased in 2002 and 2001 primarily as a result of the acquisition of ILICO. Excluding ILICO, universal life sales decreased $1.9 million and $5.0 million in 2002 and 2001, respectively, due to the introduction and growth in sales of equity-indexed life products in 2000. The weighted average crediting rate for universal life insurance liabilities was 5.39% for the year 2002, 5.63% for the year 2001 and 5.62% for the year 2000. The crediting rate has been lowered as a result of reduced investment yields associated with the declining interest rate environment. For the year ended December 31, 2002, sales of universal life insurance products represented 25% of direct first year annualized premiums for individual life insurance products sold.

Equity-Indexed Life Products. We also offer equity-indexed life insurance products which are similar in structure to universal life products but allow the policyowner to elect an interest earnings strategy for a portion of the account value earnings. Earnings are credited based in part on increases in the appropriate indices, primarily the Standard & Poor s 500 Composite Stock Index(R) (S&P 500 Index), excluding dividends. The earnings credit is subject to a participation rate and an annual cap. Our gross margin on our equity-indexed life products is similar to that of our universal life insurance products. However, due to the equity-indexed earnings strategies, we invest a portion of the premiums we receive from the sale of these products in call options. We may affect the cost of the call options by adjusting interest crediting parameters that are provided for in the policy. Our return on the call options is generally expected, in a growing equity market, to correspond to the earnings we are contractually bound to credit on the equity-indexed strategies. The remainder of the premium is invested in our investment portfolio to support the contractual minimum guarantees that may come into effect if the equity index declines. The structure of our product, together with the allocation of our equity-indexed life product premiums between call options and our investment portfolio, are intended to provide for a positive gross margin in both increasing and decreasing equity markets.

Equity-indexed life insurance sales increased in 2002 and 2001 following our focus on product marketing beginning in 2000. We are a leading writer of equity-indexed life products in the United States. Sales of the equity-indexed life product as a percentage of direct first year individual life insurance annualized premiums was approximately 35% in 2002.

The following table sets forth our collected life insurance premiums, including collected premiums associated with the closed block, for the periods indicated:

	Collected Premiums by Product For The Years Ended December 31,		
	2002	2001	2000
	($ in thousands)		
Individual life premiums collected:			
Traditional life:			
First year and single	$ 149,740	$ 113,126	$ 83,849
Renewal	344,715	274,784	185,078
Total	494,455	387,910	268,927
Universal life:			
First year and single	75,761	45,597	27,306
Renewal	128,869	109,485	73,737
Total	204,630	155,082	101,043
Equity-indexed life:			
First year and single	78,797	40,504	5,265
Renewal	14,526	4,212	
Total	93,323	44,716	5,265
Total individual life	792,408	587,708	375,235
Reinsurance assumed	48,664	30,740	1,464
Reinsurance ceded	(220,589)	(74,152)	(40,740)
Total individual life, net of reinsurance	$ 620,483	$ 544,296	$ 335,959

Individual life insurance premiums collected increased in 2002 and 2001 due to the additional premiums from the acquisition of ILICO and increased equity-indexed life sales.

Reinsurance assumed increased in 2002 and 2001. The entire amount of the increase is from the ILICO acquisition. ILICO private labels various term life products and previously private labeled second-to-die products which are no longer being sold but which continue to have renewal premiums. The products are designed by ILICO, issued by ILICO s private label partners and then assumed in whole or in part by ILICO. We have three private label partners that are actively writing new business. During the second quarter of 2002, we ceased recruiting new private label partners.

Beginning January 1, 2000, ALIC entered into a new reinsurance arrangement that reduced its retention to 10% of the net amount of risk on any one policy not to exceed company retention limits for the majority of policies issued since July 1, 1996 and for the majority of new business going forward. ALIC s retention limits on any one life vary by age and rating table and are generally between $150,000 and $500,000. In addition, effective July 1, 2000, ALIC entered into a reinsurance agreement covering its closed block policies. Under this agreement, ALIC has reinsured approximately 90% of the closed block net amount at risk not previously reinsured. ALIC also entered into an indemnity reinsurance agreement effective December 31, 2001 covering universal life policies of the open block issued prior to July 1, 1996, that was subsequently replaced by another indemnity reinsurance agreement effective October 1, 2002 covering 90% of the net amount at risk not previously reinsured of any one policy. As a result of these new agreements, ceded reinsurance premium for ALIC was $127.3 million in 2002, $35.2 million in 2001 and $40.7 million in 2000. The remainder of the ceded premium was from ILICO and amounted to $93.3 million in 2002 and $39.0 million in 2001. ILICO s reinsurance agreements effectively reduce ILICO s retention limit to between $150,000 and $500,000.

We also entered into new reinsurance agreements effective December 31, 2002, which did not impact collected premiums in 2002 but will affect collected premiums beginning January 1, 2003. ALIC entered into an 80% modified coinsurance quota share and coinsurance agreement covering certain individual life policies of the closed block with a related reinsurance premium of $1.5 million accrued as of December 31, 2002. Also, ILIC entered into a reinsurance agreement to cover 100% quota share of retained net amounts at risk for certain open block and closed block policies in force at December 31, 2002, for which a reinsurance premium of $0.9 million was accrued at December 31, 2002.

The following table sets forth information regarding our life insurance in force for each date presented:

	Individual Life Insurance in Force As of December 31,		
	2002	**2001**	**2000**
		($ in thousands)	
Traditional life			
Number of policies	451,933	405,077	245,143
GAAP life reserves	$ 3,236,223	$ 3,101,938	$ 1,744,038
Face amounts	$56,883,000	$49,655,000	$23,466,000
Universal life			
Number of policies	147,469	151,982	110,323
GAAP life reserves	$ 1,425,746	$ 1,380,379	$ 943,569
Face amounts	$19,095,000	$18,792,000	$12,257,000
Equity-indexed life			
Number of policies	23,679	10,591	2,930
GAAP life reserves	$ 126,821	$ 51,004	$ 13,015
Face amounts	$ 4,574,000	$ 2,028,000	$ 478,000
Total life insurance			
Number of policies	623,081	567,650	358,396
GAAP life reserves	$ 4,788,790	$ 4,533,321	$ 2,700,622
Face amounts	$80,552,000	$70,475,000	$36,201,000

The acquisition of ILICO in 2001 increased the number of policies in force by 213,000, GAAP life reserves by $1.7 billion and face amounts by $31.2 billion at December 31, 2001.

Distribution Systems

Our subsidiaries sell life insurance in all 50 states, the District of Columbia and the U.S. Virgin Islands. The states with the highest geographic concentration of sales, based on statutory premiums, are California, Illinois, Iowa, Minnesota, New York and Texas in 2002. These states account for approximately 47% of our statutory premiums.

Our target customers are individuals in the middle and upper income brackets and small businesses. We market our life insurance products on a national basis primarily through a Preferred Producer agency system, a Personal Producing General Agent (PPGA) distribution system and through Independent Marketing Organizations (IMOs). We currently employ 19 regional vice presidents who are responsible for supervising these distribution systems within their assigned geographic regions.

Under the Preferred Producer agency system, a contractual arrangement is entered into with the Preferred Producer general agent for the sale of insurance products by the Preferred Producer agents and brokers assigned to the Preferred Producer general agent s agency. The Preferred Producer general agents are primarily compensated by receiving a percentage of the first year commissions paid to Preferred Producer agents and brokers in the Preferred Producer general agent s agency and by renewal commissions on premiums subsequently collected on that business. In addition, the Preferred Producers receive certain fringe benefits and other allowances.

The Preferred Producer general agents are independent contractors and are generally responsible for the expenses of operating their agencies, including office and overhead expenses and the recruiting, selection, contracting, training and development of Preferred Producer agents and brokers in their agency. As of December 31, 2002, we had 75 Preferred Producer general agents in 27 states, through which approximately

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1,200 Preferred Producer agents sell our products. While Preferred Producer agents in the Preferred Producer agency system are non-exclusive, most agents use our products for a majority of their new business for the type of products offered by us. No single Preferred Producer general agency accounts for more than 2% of the total first year life commissions paid by us.

Preferred Producer agents are also independent contractors and are primarily compensated by commissions on first year and renewal premiums collected on business written by them plus certain fringe benefits and other allowances. In addition, Preferred Producer agents can earn bonus commissions, graded by production and persistency on their business.

Under the PPGA system, we contract primarily with individuals who are experienced individual agents or head a small group of experienced individual agents. These individuals are independent contractors and are responsible for all of their own expenses. These individuals often sell products for other insurance companies, and may offer selected products we offer rather than our full line of insurance products. The PPGA system is comprised of approximately 1,300 PPGAs, with approximately 3,500 agents.

PPGAs are compensated by commissions on first year and renewal premiums collected on business written by themselves and the agents in their units. In addition to a base commission, PPGAs may earn bonus commissions on their business, graded by production and persistency.

We have also developed programs to sell life insurance through select IMOs. The customers targeted and the products sold are similar to those of the Preferred Producer agency system and the PPGA system.

Under the IMO system, a contractual arrangement is entered into with an IMO to promote our insurance products to their network of agents and brokers. The IMO receives a commission and override commission on the business produced. We currently have approximately 90 IMOs under contract.

We also distribute term products of ILICO through strategic alliances with private label partners. Under private label arrangements, ILICO designs and manufactures products that are distributed through the field forces of other life insurance companies, our private label partners. We currently have three private label partners actively writing new business.

Accumulation Products Segment

Products

Our accumulation products segment offerings consist of individual deferred fixed annuities (comprised of traditional deferred fixed annuities and equity-indexed fixed annuities), variable annuities and funding agreements. Annuities provide for the payment of periodic benefits over a specified time period. Benefits may commence immediately or may be deferred to a future date. Fixed annuities generally are backed by a general investment account and credited with a rate of return that is periodically reset. Variable annuities provide for the policyholder to direct all or a portion of his or her account balance into an investment that effectively passes the market risks and rewards of holding that investment to the policyholders. Funding agreements are arrangements for which we receive deposit funds and for which we agree to repay the deposit and a contractual return for the duration of the contract. Our annuity deposits consisted of approximately 61% from deferred fixed annuity products, approximately 38% from equity-indexed annuity products and approximately 1% from variable annuity products in 2002. Funding agreement deposits totaled $875 million in 2002. The following table sets forth deposits for the periods indicated:

	Deposits by Product For The Years Ended December 31,		
	2002	2001	2000
	($ in thousands)		
Annuities			
Fixed annuities:			
Deferred fixed annuities	$1,099,872	$1,322,725	$1,107,147
Equity-indexed annuities	683,819	612,043	374,503
Variable annuities	6,230	27,483	
Total Annuities	1,789,921	1,962,251	1,481,650
Funding agreements	875,000		
Total	2,664,921	1,962,251	1,481,650
Reinsurance assumed		194,317	
Reinsurance ceded	(60,916)	(175,485)	(34,534)
Total deposits, net of reinsurance	$2,604,005	$1,981,083	$1,447,116

Deferred Fixed Annuity Products. We offer a variety of interest rate crediting strategies on our traditional deferred fixed annuity products. These strategies include initial interest crediting rates with guarantees for periods of one to five years. Following the initial guarantee period, we may adjust the credited interest rate annually, subject to the minimum interest rates specified in the contracts. Such minimum guarantee rates currently range from 3% to 4.5%. We also offer an interest rate crediting strategy that credits the policy with a return generally based upon the interest rates it earns on assets supporting the respective policies less management fees. We invest the deposits we receive from deferred fixed annuity product sales in our investment portfolio. We call the difference between the yield we earn on our investment portfolio and the interest we credit on our deferred fixed annuities our investment spread. The investment spread is a major driver of the profitability of our deferred fixed annuity products. Deferred fixed annuity deposits decreased $222.9 million in 2002 compared to 2001 as a result of deploying capital to funding agreements which are intended to provide a higher return on equity. In 2001, deferred fixed annuity deposits increased $215.6 million compared to 2000 which was primarily attributable to product repricing, increased marketing efforts and the acquisition of ILICO.

Effective October 1, 2000, we entered into a reinsurance agreement to cede 35% of certain fixed annuity production on a modified coinsurance basis. Fixed annuity production ceded under this agreement totaled approximately $160.3 million in 2001 and $34.2 million in 2000. In the fourth quarter of 2001, the agreement was cancelled and the previously ceded premiums were recaptured amounting to $194.3 million. ILICO reinsures approximately 75% of its fixed annuities on a modified coinsurance basis which increased reinsurance ceded by approximately $4.7 million in 2002 and $15.2 million in 2001.

Equity-Indexed Annuities. We offer equity-indexed annuity products that provide various interest crediting strategies, including strategies linked to equity and investment grade bond indices. For deposits allocated to indexed crediting strategies, interest is credited to these products based in part on the increases in the applicable indices, less any applicable fees and subject to any applicable caps. Similar to our deferred fixed annuity products, we invest the deposits we receive from equity-indexed annuity product sales in our investment portfolio. In addition, for deposits allocated to equity-indexed crediting strategies, we use a portion of the deposits to purchase call options. We may affect the cost of the call options by adjusting interest crediting parameters that are provided for in the policy. Our return on the call options is generally expected, in a growing equity market, to correspond to the earnings we are contractually bound to credit on the equity-indexed strategies. The remainder of the deposit is invested in our investment portfolio to support the contractual minimum guarantees that may come into effect if the equity index declines. The gross spread on deposits allocated to our equity-indexed strategy is:

The yield we earn on our investment portfolio,

Less the cost of the call options,
Less any interest credited to policyholders due to minimum guarantees in effect.

The gross spread, similar to the investment spread on deferred fixed annuity products, is a major driver of profitability of our equity-indexed annuity products. The structure of our product, together with the allocation of our equity-indexed strategy deposits between call options and our investment portfolio, are intended to provide for a positive gross spread in both increasing and decreasing equity markets.

Equity-indexed annuity sales increased in 2002 and 2001 as compared to the prior year periods due to its popularity with consumers and agents following the introduction of new products in 2000. In the third quarter of 2002, we entered into a new modified coinsurance reinsurance agreement to cede 25% of certain equity-indexed annuity products which amounted to $56.2 million of ceded premium in 2002.

Variable Annuities. Through our acquisition of ILICO, we obtained a variable annuity product line. In the first quarter of 2002, we ceased new sales of these products, except for new policies issued as part of existing employer-sponsored qualified plan contracts. All sales were discontinued effective September 30, 2002. Our agents are encouraged to make new sales of variable annuities through the Ameritas Joint Venture. As these sales are through the joint venture, they do not appear in our direct sales amounts. See Ameritas Joint Venture below. The assets and liabilities related to the direct variable annuities are shown on the consolidated balance sheets as separate account assets and separate account liabilities.

Funding Agreements. We placed primarily fixed rate funding agreements totaling $875 million in 2002. Funding agreements are arrangements for which we receive deposit funds and for which we agree to repay the deposit and a contractual return for the duration of the contract. Total funding agreements as of December 31, 2002, amounted to $1.125 billion compared to $250 million at December 31, 2001.

The following table sets forth information regarding fixed annuities in force for each date presented:

	Annuities in Force As of December 31,		
	2002	**2001**	**2000**
		($ in thousands)	
Deferred fixed and immediate annuities			
Number of policies	181,581	176,857	161,087
GAAP annuity reserves	$7,579,869	$6,909,793	$5,956,929
Equity-indexed annuities			
Number of policies	76,863	73,921	17,426
GAAP annuity reserves	$3,724,598	$3,749,971	$ 792,988
Total fixed annuities			
Number of policies	258,444		