

NATIONAL WESTERN LIFE INSURANCE CO  
Form 10-K  
March 16, 2009

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2008

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: 2-17039

NATIONAL WESTERN LIFE INSURANCE COMPANY  
(Exact name of Registrant as specified in its charter)

COLORADO  
(State of Incorporation)

84-0467208  
(I.R.S. Employer Identification Number)

850 EAST ANDERSON LANE, AUSTIN, TEXAS 78752-1602  
(Address of Principal Executive Offices)

(512) 836-1010  
(Telephone Number)

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated file" 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

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The aggregate market value of the common stock (based upon the closing price) held by non-affiliates of the Registrant on June 30, 2008 was \$748,573,529.

As of March 12, 2009, the number of shares of Registrant's common stock outstanding was: Class A – 3,425,966 and Class B - 200,000.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. BUSINESS

General

National Western Life Insurance Company (hereinafter referred to as "National Western", "Company", or "Registrant") is a stock life insurance company, chartered in the State of Colorado in 1956, and doing business in forty-nine states, the District of Columbia, and four U.S. territories or possessions. National Western is also licensed in Haiti, and although not otherwise licensed, accepts applications from and issues policies to residents of various countries in Central and South America, the Caribbean, the Pacific Rim, Eastern Europe and Asia. Such policies are underwritten, accepted, and issued in the United States upon applications submitted by independent contractors. The Company provides life insurance products for the savings and protection needs of approximately 148,000 policyholders and for the asset accumulation and retirement needs of 117,000 annuity contractholders.

In 2008, the Company's total assets remained at \$6.8 billion at December 31, 2008, the same level as December 31, 2007. The Company generated revenues of \$411.1 million, \$474.5 million, and \$521.9 million in 2008, 2007, and 2006, respectively. In addition, National Western generated net income of \$33.6 million, \$85.4 million, and \$76.3 million in 2008, 2007, and 2006, respectively.

The Company's financial information, including information in this report filed on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to the above reports, are accessible free of charge through the Company's Internet site at [www.nationalwesternlife.com](http://www.nationalwesternlife.com) or may be viewed at the United States Securities and Exchange Commission ("SEC") Public Reference Room in Washington, D.C. or at the SEC's Internet site at [www.sec.gov](http://www.sec.gov).

Products

National Western offers a broad portfolio of individual whole life, universal life and term insurance plans, and annuities, including supplementary riders.

**Life Products.** The Company's life products provide protection for the life of the insured and, in some cases, allow for cash value accumulation on a tax-deferred basis. These product offerings include universal life insurance ("UL"), interest-sensitive whole life, and traditional products such as term insurance coverage. Interest sensitive products such as UL accept premiums that are applied to an account value. Deducted from the account value are cost of insurance charges which vary by age, gender, plan, and class of insurance, as well as various expense charges. Interest is credited to account values at a fixed interest rate generally determined in advance and guaranteed for a policy year at a time, subject to minimum guaranteed rates specified in the policy contract. A slight variation to this general interest crediting practice involves equity-indexed universal life ("EIUL") policies whose credited interest may be linked in part to an outside index such as the S&P 500® Composite Stock Price Index ("S&P 500 Index®") at the election of the policyholder. These products offer both flexible and fixed premium modes and provide policyholders with flexibility in the available coverage, the timing and amount of premium payments and the amount of the death benefit, provided there are sufficient policy funds to cover all policy charges for the coming year. Traditional products generally provide for a fixed death benefit payable in exchange for regular premium payments.

**Annuity Products.** Annuity products sold include flexible premium and single premium deferred annuities, fixed indexed annuities, and single premium immediate annuities. These products can be tax qualified or nonqualified annuities. A fixed single premium deferred annuity ("SPDA") provides for a single premium payment at the time of issue, an accumulation period, and an annuity payout period commencing at some future date. A flexible premium

deferred annuity ("FPDA") provides the same features but allows, generally with some conditions, additional payments into the contract. Interest is credited to the account value of the annuity initially at a current rate of interest which is guaranteed for a period of time, typically the first year. After this period, the interest credited is subject to change based upon market rates and product profitability subject to a minimum guaranteed rate specified in the contract. Interest accrues during the accumulation period generally on a tax-deferred basis to the contract holder. After a number of years specified in the annuity contract, the owner may elect to have the proceeds paid as a single payment or as a series of payments over a period of time. The owner is permitted at any time during the accumulation period to withdraw all or part of the annuity account balance subject to contract provisions such as surrender charges and market value adjustments. A fixed indexed deferred annuity performs essentially in the same manner as SPDAs and FPDAs with the exception that, in addition to a fixed interest crediting option, the contract holder has the ability to elect an interest crediting mechanism that is linked, in part, to an outside index such as the S&P 500 Index®. A single premium immediate annuity ("SPIA") foregoes the accumulation period and immediately commences an annuity payout period.

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Distributions of the Company's direct premium revenues and deposits by product type are provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Annuities:			
Single premium deferred	\$ 4,417	3,808	8,216
Flexible premium deferred	116,902	112,472	163,415
Fixed indexed deferred	281,649	316,848	303,613
Single premium immediate	7,165	4,637	10,750
<b>Total annuities</b>	<b>410,133</b>	<b>437,765</b>	<b>485,994</b>
Universal life insurance	170,933	168,279	146,742
Traditional life and other	20,698	22,310	18,046
<b>Total direct premiums and deposits collected</b>	<b>\$ 601,764</b>	<b>628,354</b>	<b>650,782</b>

## Operating Segments

The Company manages its business between Domestic Insurance Operations and International Insurance Operations. For segment reporting purposes, the Company's annuity business, which is predominantly domestic, is separately identified.

**Domestic Insurance Operations.** The Company is currently licensed to do business in all states and the District of Columbia, except for New York. Products marketed are annuities, universal life insurance, and traditional life insurance, which include both term and whole life products. The majority of domestic sales are the Company's annuities. National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMO"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company's agents are independent contractors who are compensated on a commission basis. At December 31, 2008, the Company's NMO relationships had contracted approximately 4,300 independent agents with the Company. Over 31% of these contracted agents submitted policy applications to the Company in the past twelve months.

**International Insurance Operations.** National Western's international operations generally focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, the Pacific Rim, Eastern Europe, and Asia. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain annuity and investment contracts are also available. At December 31, 2008, the Company had 74,860 international life insurance policies in force representing nearly \$15.9 billion in face amount of coverage.

International applications are submitted by independent contractors, consultants and broker-agents, many of whom have been submitting policy applications to National Western for 20 or more years. The Company had relationships with approximately 4,800 independent international individuals at December 31, 2008, nearly 45% of which submitted policy applications to the Company in the past twelve months.

There are some inherent risks of accepting international applications which are not present within the domestic market that are reduced substantially by the Company in several ways. As previously described, the Company accepts applications from foreign nationals in upper socioeconomic classes who have substantial financial resources. This targeted customer base coupled with National Western's conservative underwriting practices have historically resulted in claims experience, due to natural causes, similar to that in the United States. The Company minimizes exposure to foreign currency risks by requiring payment of premiums and claims in United States dollars. Finally, over forty years of experience with the international products and the Company's longstanding business relationships further serve to minimize risks.



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Geographical Distribution of Business. The following table depicts the distribution of the Company's premium revenues and deposits.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
United States domestic products:			
Annuities	\$ 398,312	421,497	475,867
Life insurance	59,412	57,770	35,780
Total domestic products	457,724	479,267	511,647
International products:			
Annuities	11,821	16,268	10,127
Life insurance	132,219	132,819	129,008
Total international products	144,040	149,087	139,135
Total direct premiums and deposits collected	\$ 601,764	628,354	650,782

Although many agents sell National Western's products, the Company's annuity sales in any year typically reflect one or two NMOs whose agents sold 10% or more of the Company's total annuity sales. In 2008, there was just one NMO who accounted for more than 10% of the Company's annuity sales with 23.3% of the total annuity sales. Similarly, domestic life insurance sales in any year may include one or two NMOs who accounted for 10% or more of total domestic life insurance sales. In 2008, there were three NMOs who generated 27.6%, 21.2% and 15.2%, respectively, of total domestic life insurance sales. The NMO accounting for 21.2% of domestic life sales was also the same NMO who produced 23.3% of total annuity sales. With the independent distribution model the Company employs, the concentration of sales within a particular NMO is not as an acute concern as with other distribution channels given the underlying agents are free to contract with the Company through any NMO the Company has a relationship with. International life insurance sales are much more diversified by independent consultants and contractors and in 2008 were geographically attributed to Latin America (73%), the Pacific Rim (16%), and Eastern Europe (11%).

Segment Financial Information. A summary of financial information for the Company's segments is as follows:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
	(In thousands)				
Revenues, excluding realized gains (losses):					
2008	\$ 48,193	115,073	252,511	21,530	437,307
2007	44,783	113,598	292,402	20,227	471,010
2006	43,222	106,613	350,665	18,697	519,197
Segment earnings: (A)					
2008	\$ 717	15,350	27,842	6,781	50,690
2007	342	20,179	56,299	6,278	83,098
2006	297	12,191	56,559	5,566	74,613

## Segment assets: (B)

2008	\$	397,413	842,119	5,369,920	127,189	6,736,641
2007		399,097	796,012	5,500,226	106,039	6,801,374
2006		381,490	715,064	5,467,733	103,087	6,667,374

## Notes to Table:

(A) Amounts exclude realized gains and losses on investments, net of taxes.

(B) Amounts exclude other unallocated assets.

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Additional information concerning these industry segments is included in Note 13, Segment and Other Operating Information, of the accompanying consolidated financial statements.

Competition and Ratings

National Western competes with hundreds of life and health insurance company groups in the United States as well as other financial intermediaries such as banks and securities firms who market insurance products. Competitors in our international markets include Pan-American Life Insurance, American Fidelity Life Insurance, Manhattan Life Insurance Company and Best Meridian Insurance while domestic market competitors include, among others, American Equity Investment Life, Sammons Financial Group (Midland, NACOLAH), AVIVA, Allstate (Lincoln Benefit), Lincoln National Life, Equitrust Life Insurance Company and Old Mutual Financial Network (F&G). Competitive factors are primarily the breadth and quality of products offered, established positions in niche markets, pricing, relationships with distribution, commission structures, perceived stability of the insurer, quality of underwriting and customer service, scale and cost efficiency. Operating results of life insurers are subject to fluctuations not only from this competitive environment but also due to economic conditions, interest rate levels and changes, performance of investments, and the maintenance of strong insurance ratings from independent rating agencies.

In order to compete successfully, life insurers have turned their attention toward distribution, technology, defined end market targets, speed to the market in terms of product development, and customer relationship management as ways of gaining a competitive edge. The Company's management believes that it competes primarily on the basis of its longstanding reputation for commitment in serving international markets, its financial strength and stability, and its ability to attract and retain distribution based upon product and compensation.

Ratings with respect to financial strength are an important factor in establishing the competitive position of insurance companies. Financial strength ratings are generally defined as a rating agency's opinion as to a company's financial strength and ability to meet ongoing obligations to policyholders. Accordingly, ratings are important to maintaining public confidence and impact the ability to market products. The following summarizes the Company's financial strength ratings.

Rating Agency	Rating	Outlook
Standard & Poor's	A (Strong)	Stable
A.M. Best	A (Excellent)	- Positive

A.M. Best and Standard & Poor's ratings are a consideration of the Company's claims paying ability and are not a rating of the Company's investment worthiness. The rating agencies formally review the Company's rating on an annual basis with interim analysis performed as necessary. The above ratings and outlooks were assigned during 2008 maintaining the stable outlook from Standard & Poor's and positive outlook from A.M. Best assigned to the Company in 2007. This is particularly noteworthy given the financial crisis backdrop that framed the 2008 calendar year and the number of companies who were negatively impacted, often significantly, in this environment. The positive outlook from A.M. Best signifies the rating agency's bias toward a rating upgrade sometime in the future. However, there is no assurance that the Company's ratings will continue for a certain period of time. In the event the Company's ratings are downgraded, the Company's business may be negatively impacted.

## Risk Management

Similar to other insurers, the Company is exposed to a wide spectrum of financial, operational, and other risks as described in Item 1A “Risk Factors”. Effective enterprise risk management is a key concern for identifying, monitoring, measuring, communicating, and managing risks within limits and risk tolerances. The Company’s Board of Directors and senior management are knowledgeable of and accountable for key risks. The Board meets at least every other month and regularly hears reports from the President and Chief Operating Officer, the Chief Financial and Administrative Officer, the Chief Actuary, the Chief Investment Officer, and the Chief Compliance Officer. In addition, the Board has several committees which include the Audit Committee, the Investment Committee, and the Compensation and Stock Option Committee that regularly convene to address various aspects of risk.

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The Company also has several management groups and committees that meet regularly to discuss a variety of issues and risks associated with the business. These groups and committees include numerous areas such as regulatory compliance, fraud unit investigations, product spread management, and business strategy. Many key members of senior management are involved with these groups and committees providing direction and oversight.

The Company maintains a system of disclosure controls and procedures, including internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, executed and recorded. The Company recognizes the importance of full and open presentation of its financial position and operating results and to this end maintains a Disclosure Controls and Procedures Committee comprised of senior executives who possess comprehensive knowledge of the Company's business and operations. This Committee is responsible for evaluating disclosure controls and procedures and for the gathering, analyzing, and disclosing of information as required to be disclosed under the securities laws. It assists the Chief Executive Officer and Chief Financial Officer in their responsibilities of making the certifications required under the securities laws regarding the Company's disclosure controls and procedures. It ensures that material financial information is properly communicated up the Company's hierarchy to the appropriate person or persons and that all disclosures are made in a timely fashion. This Committee reports directly to the Audit Committee of the Company.

The Company's product designs, underwriting standards and risk management techniques are utilized to protect against disintermediation risk and greater than expected mortality and morbidity risk. Disintermediation risk is limited through the use of surrender charges, certain provisions not allowing discretionary withdrawals, and market value adjustment features. Investment guidelines including duration targets, asset allocation tolerances and return objectives help to ensure that disintermediation risk is managed within the constraints of profitability criteria. Prudent underwriting is applied to select and price insurance risks and the Company regularly monitors mortality experience relative to its product pricing assumptions. Enforcement of disciplined claims management serves to further protect against greater than expected mortality.

A significant aspect of the Company's business is managing the linkage of its asset characteristics with the anticipated behavior of its policy obligations and liabilities, a process commonly referred to as asset-liability matching. The Company maintains an Asset-Liability Committee ("ALCO") consisting of senior level members of the Company who assist and advise the Company's Board of Directors in monitoring the level of risk the Company is exposed to in managing its assets and liabilities in order to attain the risk-return profile desired. Certain members of the ALCO meet as frequently as necessary, to review and recommend for board of director ratification, current period interest crediting rates to policyholders based upon existing and anticipated investment opportunities. These rates apply to new sales and to products after an initial guaranteed period, if applicable. Rates are established after the initial guaranteed period based upon asset portfolio yields and each product's required interest spread, taking into consideration current competitive market conditions.

Substantially all international products contain a currency clause stating that premium and claim "dollars" refer to lawful currency of the United States. Policy applications submitted by international insurance brokers are generally associated with individuals in upper socioeconomic classes who desire the stability and inflationary hedge of dollar denominated insurance products issued by the Company. The favorable demographics of this group typically results in a higher average policy size, and persistency and claims experience (from natural causes) similar to that in the United States. By accepting applications submitted on residents outside the United States, the Company is able to further diversify its revenue, earnings, and insurance risk.

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## Reinsurance

The Company follows the industry practice of reinsuring (ceding) portions of its insurance risks with a variety of reinsurance companies. We do not use financial or surplus relief reinsurance. The use of reinsurance allows the Company to underwrite policies larger than the risk it is willing to retain on any single life and to continue writing a larger volume of new business. The maximum amount of life insurance the Company normally retains is \$250,000 on any one life subject to a minimum reinsurance session of \$50,000. However, the use of reinsurance does not relieve the Company of its primary liability to pay the full amount of the insurance benefit in the event of the failure of a reinsurer to honor its contractual obligation. Consequently, the Company avoids concentrating reinsurance risk with any one reinsurer and only participates in reinsurance treaties with reputable carriers. No reinsurer of business ceded by the Company has failed to pay policy claims (individually or in the aggregate) with respect to our ceded business. The Company continuously monitors the financial strength of our reinsurers and has been able to obtain replacement coverages from financially responsible reinsurers when making changes. The Company's primary reinsurers as of December 31, 2008 were as follows.

Reinsurer	A.M. Best Rating	Amount of In Force Ceded (\$000's)
Hannover Life Reassurance Company	A	\$ 1,572,315
SCOR Rueckversicherung (Cologne)	A-	1,266,975
Transamerica Life Insurance Company	A+	1,191,601
SCOR Global Life (Paris)	A-	897,274
Mapfre Re (Madrid)	A+	440,512
All others		492,954
		\$ 5,861,631

## Regulatory and Other Issues

**Regulation.** The Company's insurance business is subject to comprehensive state regulation in each of the states it is licensed to conduct business. The laws enforced by the various state insurance departments provide broad administrative powers with respect to licensing to transact business, licensing and appointing agents, approving policy forms, regulating unfair trade and claims practices, establishing solvency standards, fixing minimum interest rates for the accumulation of surrender values, and regulating the type, amounts, and valuations of permitted investments, among other things. The Company is required to file detailed annual statements with each of the state insurance supervisory departments in which it does business. Annually, our board-appointed qualified actuary must submit an opinion to state insurance regulators where the Company is licensed to do business on whether the statutory assets held backing the statutory reserves are sufficient to meet contractual obligations and related expenses of the insurer. The Company's operations and financial records are subject to examination by these departments at regular intervals. Statutory financial statements are prepared in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance, the Company's principal insurance regulator. Prescribed statutory accounting practices are largely dictated by the Statutory Accounting Principles adopted by the National Association of Insurance

Commissioners ("NAIC").

The NAIC, as well as state regulators, continually evaluates existing laws and regulations pertaining to the operations of life insurers. To the extent that initiatives result as a part of this process, they may be adopted in the various states in which the Company is licensed to do business. It is not possible to predict the ultimate content and timing of new statutes and regulations adopted by state insurance departments and the related impact upon the Company's operations although it is conceivable that they may be more restrictive.

Although the federal government does not directly regulate the life insurance industry, federal measures previously considered or enacted by Congress, if revisited, could affect the insurance industry and the Company's business. These measures include the tax treatment of life insurance companies and life insurance products, as well as changes in individual income tax structures and rates. Even though the ultimate impact of any of these changes, if implemented, is uncertain, the persistency of the Company's existing products and the ability to sell products could be materially affected.

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**Risk-Based Capital Requirements.** In order to enhance the regulation of insurer solvency, the NAIC established risk-based capital ("RBC") requirements to help state regulators monitor the financial strength and stability of life insurers by identifying those companies that may be inadequately capitalized. Under the NAIC's requirements, each insurer must maintain its total capital above a calculated threshold or take corrective measures to achieve the threshold. The threshold of adequate capital is based on a formula that takes into account the amount of risk each company faces on its products and investments. The RBC formula takes into consideration four major areas of risk which are: (i) asset risk which primarily focuses on the quality of investments; (ii) insurance risk which encompasses mortality and morbidity risk; (iii) interest rate risk which involves asset-liability matching issues; and (iv) other business risks. For each category, the RBC requirements are determined by applying specified factors to various assets, premiums, reserves, and other items, with the factor being higher for items with greater underlying risk and lower for items with less risk. The standards require life insurers to submit a report to state regulators on an annual basis regarding their risk-based capital. The Company's statutory capital and surplus at December 31, 2008, was significantly in excess of the threshold RBC requirements.

**Effects of Inflation.** The rate of inflation as measured by the change in the average consumer price index has not had a material effect on the revenues or operating results of the Company during the three most recent fiscal years.

**Employees.** The Company had 296 employees as of December 31, 2008 substantially all of which worked in the Company's home office in Austin, Texas. None of the employees are subject to collective bargaining agreements governing their employment with the Company.

#### ITEM 1A. RISK FACTORS

Company performance is subject to varying risk factors. This section provides an overview of possible risk exposures at this point in time that could impact Company performance in the future. While these scenarios do not represent expectations of future experience, they are intended to illustrate the potential impacts if any of the following risks were to manifest into actual occurrences.

Current difficult conditions globally and in the U.S. economy may materially adversely affect our business and results of operations.

The Company's results of operations are materially affected by economic conditions both in the U.S. and elsewhere around the world. The stress experienced by financial markets that began in the second half of 2007 continued and substantially increased throughout 2008. Volatility and disruption in the financial markets reached unfamiliar levels such that the availability and cost of credit has been materially impacted. When combined with a declining real estate market, volatile oil prices, sinking business and consumer confidence, rising unemployment, and falling equity market values it has precipitated a severe recession. The market for fixed income securities has experienced decreased liquidity, increased price volatility, credit downgrades, and an increasing probability of default. Consequently, these securities are less liquid, more difficult to value, and may be harder to dispose of if situations dictate. These events have had an adverse effect on the value of our investment portfolio and may continue to do so in the event of a prolonged economic downturn.

Demand for our products and ultimately the profitability of our business may be adversely affected by such factors as lower consumer spending, negative investor sentiment, higher unemployment, lower corporate earnings, falling consumer confidence, and ongoing volatility in capital markets. We may also experience a higher incidence of claims, lapses or surrenders of policies. Our policyholders may opt to defer or stop paying insurance premiums. Adverse changes as detailed above could negatively affect our net income and have a material effect on our business, results of operations and financial condition.



The recent actions taken by the U.S. government, Federal Reserve and other governmental and regulatory bodies to stabilize the financial markets may not have the intended effect.

The federal government, Federal Reserve and other governmental and regulatory bodies, in light of the ongoing financial and economic crisis, have taken and are considering taking actions to address the current plight. There can be no assurances as to the near-term and ultimate impact these actions will have on the economy and financial markets, especially the extreme volatility levels currently being experienced. Continued volatility could materially and adversely affect our business, financial condition and results of operations, or the trading price of our Class A common shares.

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Our investment portfolio is subject to several risks which may lessen the value of invested assets and the amounts credited to policyholders.

The Company substantially invests monies received in investment grade, fixed income investment securities in order to meet its obligations to policyholders and provide a return on its deployed capital. Consequently, we are subject to the risk that issuers of these securities may default on principal and interest payments, particularly in the event of an ongoing downturn in the economic and/or business climate. At December 31, 2008, approximately 1% of the Company's \$5.6 billion fixed income securities portfolio was comprised of issuers who were investment grade at the time the Company acquired them but were subsequently downgraded for various reasons. A substantial increase in defaults from these or other issuers could negatively impact the Company's financial position and results.

For the Company's fixed-indexed products, over the counter derivative instruments are purchased from a number of highly rated counterparties to fund the index credit to policyholders. In the event that any of these counterparties fails to meet their contractual obligations under these derivative instruments, the Company would be financially at risk for providing the credits due that the counterparty reneged on. The failure of the counterparty to perform could negatively impact the Company's financial position and results.

The determination of valuation and impairments of fixed income securities include estimations and assumptions that are subjective and prone to differing interpretations and could materially impact our results of operations or financial condition.

The determination of whether to impair an investment is based upon our evaluation of known and inherent risks which we revise as conditions change and new information becomes available. During periods of market disruption and volatility, it becomes more difficult to evaluate securities particularly if trading becomes less frequent or market data becomes less observable. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. We also consider a wide range of factors about security issuers in evaluating the cause of a decline in the estimated fair value of a security and in assessing the prospects for recovery. The decision on whether to record an other-than-temporary impairment is determined by our assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability as well as our ability and intent to hold the securities to recovery or maturity. There can be no assurance that we have accurately assessed the level of impairments in our financial statements or that additional impairments may not need to be taken in the future.

We are subject to changing interest rates, market volatility, and general economic conditions which may affect the risk and returns on both our investment portfolio and our products.

We are exposed to significant capital market risk related to changes in interest rates. Substantial and sustained changes, up or down, in market interest rate levels can materially affect the profitability of our products, the market value of our investments, and ultimately the reported amount of stockholders' equity.

A rise in interest rates will increase the net unrealized loss position of our investment portfolio and may subject the Company to disintermediation risk. Disintermediation risk is the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring the Company to liquidate investments in an unrealized loss position (i.e. the market value less than the carrying value of the investments). With respect to fixed income security investments the Company maintains in an "Available for Sale" category, rising interest rates will cause declines in the market value of these securities. These declines are reported in our financial statements as an unrealized investment loss and a reduction of stockholders' equity.

There may be occasions, especially in the current climate, where the Company could encounter difficulty selling some of its investments due to a lack of liquidity in the marketplace. If the Company required significant amounts of cash on short notice during such a period, it may have difficulty selling investments at attractive prices, in a timely manner or both.

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A decline in interest rates could expose the Company to reduced profitability due to minimum interest rate guarantees that are required in our products by regulation. A key component of profitability is investment spread, or the difference between the yield on our investments and the rates we credit to policyholders on our products. A narrowing of investment spreads could negatively affect operating results. Although the Company has the ability to adjust the rates credited on products in order to maintain our required investment spread, a significant decline in interest rate levels could affect investment yields to the point where the investment spread is compromised due to minimum interest rate guarantees. In addition, the potential for increased policy surrenders and cash withdrawals, competitor activities, and other factors could further limit the Company's ability to maintain crediting rates on its products at levels necessary to avoid sacrificing investment spread.

The profitability of the Company's fixed-indexed products linked in part to market indices is significantly affected by the cost of underlying call options purchased to fund the credits owed to contract holders selecting this form of interest crediting. If there are little or no gains on the call options purchased over the expected life of these fixed-indexed products, the Company would incur expenses for credited interest over and above the option costs. In addition, if the Company does not successfully match the terms of the underlying call options purchased with the terms of the fixed-indexed products, the index credits could exceed call option proceeds. This would serve to reduce the Company's spread on the products and decrease profits.

We are subject to incurring difficulties in marketing and distributing our products through our current and future distribution channels.

The Company distributes its life and annuity products through independent broker-agents. There is substantial competition, particularly in the Company's domestic market, for independent broker-agents with the demonstrated ability to market and sell insurance products. Competition for these individuals or organizations typically centers on products, compensation, home office support and the insurer's financial strength ratings. The Company's future sales and financial condition are dependent upon avoiding significant interruptions in attracting and retaining independent broker-agents.

We are subject to a downgrade in our financial strength ratings which may negatively affect our ability to attract and retain independent distributors, make our products less attractive to consumers, and may have an adverse effect on our operations.

Financial strength ratings are an important criteria in establishing the competitive position of insurers. Ratings generally reflect the rating agencies' view of a particular company's financial strength, operating performance, and ability to meet its obligations to policyholders. However, some of the rating factors often relate to the particular views of the rating agency, their independent economic modeling, the general economic climate, and other circumstances outside of the insurer's control. Accordingly, we cannot predict with any certainty what actions rating agencies may take. A downgrade in our financial strength rating, or an announced potential downgrade, could affect our competitive position and make it more difficult to market our products vis-à-vis competitors with higher financial strength ratings. In extreme situations, a significant downgrade action by one or more rating agency could induce existing policyholders to cancel their policies and withdraw funds from the Company. These events could have a material adverse effect on our financial position and liquidity.

We are subject to competition from new sources as well as companies having substantially greater financial resources which could have an adverse impact upon our business levels and profitability.

In recent years, there has been considerable consolidation among companies in the insurance and financial sectors resulting in large, well-capitalized entities that offer products comparable to the Company. Frequently, these larger organizations are not domiciled in the United States or are financial services entities attempting to establish a position

in the insurance industry. These larger competitors often enjoy economies of scale which produce lower operating costs and the wherewithal to absorb greater risk allowing them to price products more competitively and, in turn, attract independent distributors. Consequently, the Company may encounter additional product pricing pressures and be challenged to maintain profit margin targets and profitability criteria. Because of these competitive presences, the Company may not be able to effectively compete without negative affects on our financial position and results.

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We are subject to regulation and changes to existing laws that may affect our profitability or means of operations.

The Company is subject to extensive laws and regulations which are complex and subject to change. In addition, these laws and regulations are enforced by a number of different authorities including, but not limited to, state insurance regulators, the Securities and Exchange Commission, state attorney generals, and the U.S. Department of Justice. Compliance with these laws and regulations is time consuming and any changes may materially increase our compliance costs and other expenses of doing business. The regulatory framework at the state and, increasingly, federal level pertaining to insurance products and practices is advancing and could affect not only the design of our products but our ability to continue to sell certain products.

Life insurer products generally offer tax advantages to policyholders via the deferral of income tax on policy earnings during the accumulation phase of the product, be it an annuity or a life insurance product. Taxes, if any, are payable on income attributable to a distribution under a policy/contract for the year in which the distribution is made. Periodically, Congress has considered legislation that would reduce or eliminate this tax deferral advantage inherent to the life insurance industry and subject the industry's products to treatment more equivalent with other investments. In the event that the tax-deferred status of life insurance products is revised or reduced by Congress all life insurers would be adversely impacted.

In January 2009, the SEC published its newly adopted rule 151A, Indexed Annuities and Certain Other Insurance Contracts. This rule defines "indexed annuities to be securities and thus subject to regulation by the SEC and under federal securities laws". Currently indexed annuities sold by life insurance companies are regulated by the States as Insurance products and Section 3(a)(8) of the Securities Act of 1933 provides an exemption for certain "annuity contracts," "optional annuity contracts," and other insurance contracts. The new rule is not effective until January 12, 2011. The Company and others have filed suit in the U. S. Court of Appeals for the District of Columbia to overturn this rule. In the event rule 151A is not overturned, it could have a material effect on our business, results of operations and financial condition.

We may be subject to unfavorable judicial developments, including the time and expense of litigation, which potentially could affect our financial position and results.

In the ordinary course of business, we are involved in various legal actions common to the life insurance industry, some of which may occasionally assert claims for large amounts. These actions, for example, could include allegations of improper sales practices in connection with the sale of life insurance or bad faith in the handling of insurance claims. While at this time we are not a party to any lawsuit that we believe will have a material adverse effect on our financial position or operations, given the inherent unpredictability of litigation, there can be no assurance that such litigation, current or in the future, will not have such a material adverse effect on the Company's results of operation or cash flows in any particular reporting period.

We could be liable with respect to liabilities ceded to reinsurers if the reinsurers fail to meet the obligations assumed by them.

The Company cedes material amounts of insurance to other unaffiliated insurance companies through reinsurance. However, these reinsurance arrangements do not fully discharge the Company's obligation to pay benefits on the reinsured business. If a reinsurer fails to meet its obligations, the Company would be forced to cover these claims. In addition, if a reinsurer becomes insolvent, it may cause the Company to lose its reserve credits on the ceded business which require the establishment of additional reserves. To mitigate the risks associated with the use of reinsurance, the Company carefully monitors the ratings and financial condition of its reinsurers on a regular basis and attempts to avoid concentration of credit risks in order to diversify its risk exposure.



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We are subject to policy claims experience which can fluctuate from period to period and vary from past results or expectations.

The Company's earnings are significantly influenced by policy claims received and will vary from period to period depending upon the amount of claims incurred. In any given quarter or year, there is very limited predictability of claims experience. The liability established for future policy benefits is based upon a number of different factors. In the event our future claim experience does not match our past results or pricing assumptions, our operating results could be materially and adversely affected.

We are subject to assumption inaccuracies regarding future mortality, persistency, and interest rates used in determining deferred policy acquisition costs which may require us to accelerate our amortization.

Deferred policy acquisition costs (and deferred sales inducement amounts) are calculated using a number of assumptions related to policy persistency, mortality and interest rates. They represent costs that vary with and are primarily related to the acquisition of new insurance and annuity contracts. Amortization of deferred policy acquisition expenses is dependent upon actual and expected profits generated by the lines of business that incurred the related expenses and they are amortized over the expected lives of the corresponding contracts. The deferred policy acquisition costs recorded on the balance sheet are tested to determine if they are recoverable under current assumptions. The estimates and assumptions used to amortize deferred policy acquisition costs proportional to expected gross profits are also regularly reviewed. Due to the uncertainty associated with establishing these assumptions, the Company cannot, with precision, determine the exact pattern of profit emergence. Increases in actual or future withdrawals or surrenders or investment losses, often associated with severe economic recessions, could result in an acceleration of amortization. Accordingly, actual results could differ from the related assumptions which could have a material and adverse impact on the Company's operating results.

We are dependent upon effective information technology systems and on development and implementation of new technologies.

The Company's business operations are technology dependent for maintaining accurate records, administering complex contract provisions, and complying with increasingly demanding regulation. While systems developments can streamline many processes and in the long term reduce the cost of doing business, these initiatives can present short-term cost and implementation risks. Projections of expenses, implementation time frames and the ultimate enhancement values may be different from expectations and escalate over time. The Company also faces rising costs and time constraints in meeting data security compliance requirements of new and proposed regulations. These increased risks and expanding requirements expose the Company to potential data loss and damages and significant increases in compliance and litigation costs.

The Company relies on its computer systems to conduct business and produce financial statements. While policies, procedures and back-up plans designed to prevent or minimize the effect of incapacity or failure are maintained, the Company's computer systems may be vulnerable to disruptions or breaches as a result of natural disasters, man-made disasters, criminal activity or other events beyond the Company's control. The failure or incapacity of any of the Company's computer systems could disrupt operations and adversely impact our profitability.

The Company retains confidential information on its systems, including customer information and proprietary business information. The increasing volume and sophistication of computer viruses, hackers and other external threats may increase the vulnerability of the Company's systems to data breaches. Any compromise of the security of the Company's technology systems that results in the disclosure of personally identifiable customer information could damage the Company's reputation, expose it to litigation, and result in significant technical, legal and other expenses.



Some of the Company's information technology systems are older legacy-type systems and require an ongoing commitment of resources to maintain current standards. These legacy systems are written in older programming languages with which fewer and fewer individuals are knowledgeable of and trained in. The Company's success is in large part dependent on maintaining and enhancing the effectiveness of existing legacy systems and failure of these systems for any reason could disrupt our operations, result in the loss of business and adversely impact our profitability.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Westcap Corporation, a wholly owned subsidiary, owns the Company's principal office location in Austin, Texas and two buildings adjacent to it, totaling approximately 93,000 square feet that are leased and utilized by the Company. The Company's affiliate, Regent Care Building, Limited Partnership, owns a 65,000 square foot building in Reno, Nevada, which is leased and utilized by another of the Company's affiliates, Regent Care Operations, Limited Partnership, for use in its nursing home operations. The Company's subsidiary Regent Care San Marcos Holdings, LLC completed construction of a 74,000 square foot building in San Marcos, Texas that will be utilized in nursing home operations beginning in 2009. Lease costs and related operating expenses for facilities of the Company's subsidiaries are currently not significant in relation to the Company's consolidated financial statements. The intercompany lease costs related to The Westcap Corporation and the nursing home have been eliminated for consolidated reporting purposes.

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in two class action lawsuits. In one case, the Court has certified a class consisting of certain California policyholders age 65 and older alleging violations under California Business and Professions Code section 17200. The Court has additionally certified a subclass of 36 policyholders alleging fraud against their agent, and vicariously, against the Company but it is expected that a motion for class certification will be filed in early 2009. A second class action lawsuit is in discovery with no class certification motion pending. Management believes that the Company has good and meritorious defenses and intends to continue to vigorously defend itself against these claims.

The Company is involved or may become involved in various other legal actions, in the normal course of business, in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from potential, pending, or threatened legal actions, will have a material adverse effect on the financial condition or operating results of the Company.

In January 2009, the SEC published its newly adopted rule 151A, Indexed Annuities and Certain Other Insurance Contracts. This rule defines "indexed annuities to be securities and thus subject to regulation by the SEC and under federal securities laws". Currently indexed annuities sold by life insurance companies are regulated by the States as Insurance products and Section 3(a)(8) of the Securities Act of 1933 provides an exemption for certain "annuity contracts," "optional annuity contracts," and other insurance contracts. The new rule is not effective until January 12, 2011. The Company and others have filed suit in the U. S. Court of Appeals for the District of Columbia to overturn this rule. In the event rule 151A is not overturned, it could have a material effect on our business, results of operations and financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE  
OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 2008.



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## PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY,  
RELATED STOCKHOLDER MATTERS AND ISSUER  
PURCHASES OF EQUITY SECURITIES

## Market Information

The principal market on which the Class A common stock of the Company trades is The NASDAQ Stock Market® under the symbol "NWL". The high and low sales prices for the Class A common stock for each quarter during the last two years are shown in the following table.

	High	Low
2008:First Quarter	\$ 221.67	173.55
Second Quarter	259.97	199.00
Third Quarter	258.46	193.20
Fourth Quarter	275.00	111.06
2007:First Quarter	\$ 235.25	223.05
Second Quarter	271.60	249.05
Third Quarter	268.00	228.56
Fourth Quarter	246.95	199.53

## Equity Security Holders

The number of stockholders of record on March 12, 2009 was as follows:

Class A Common Stock	4,390
Class B Common Stock	2

## Dividends

During 2008, the Company paid cash dividends on its Class A and Class B common stock in the amounts of \$1,233,348 and \$36,000, respectively. During 2007, the Company paid cash dividends on its Class A and Class B common stock in the amounts of \$1,232,037 and \$36,000, respectively. Payment of dividends is within the discretion of the Company's Board of Directors. The Company's general policy is to reinvest earnings internally to finance the development of new business.

## Securities Authorized For Issuance Under Equity Compensation Plans

The Company has two equity compensation plans that were approved by security holders. Under the two plans, a total of 105,812 shares of the Company's Class A common stock may be issued upon exercise of the outstanding options at December 31, 2008. The weighted average exercise price of the outstanding options is \$174.33 per option. Excluding

the outstanding options, 291,400 shares of the common stock remain available for future issuance under the plan at December 31, 2008. The Company's equity compensation plans have all been approved by security holders.

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Performance Graph

The following graph compares the change in the Company's cumulative total stockholder return on its common stock with the NASDAQ - U.S. Companies Index and the NASDAQ Insurance Stock Index. The graph assumes that the value of the Company's common stock and each index was \$100 at December 31, 2003, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

Effective March 10, 2006, the Company adopted and implemented a limited stock buy-back program associated with the Company's 1995 Stock Option and Incentive Plan ("Plan") which provides Option Holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. Option Holders may elect to sell such acquired shares back to the Company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election.

Effective August 22, 2008 the Company adopted and implemented another limited stock buy-back program substantially similar to the 2006 program for shares issued under the 2008 Incentive Plan.

There were no purchases of shares from option holders during the fourth quarter of 2008. Purchased shares are reported in the Company's condensed consolidated financial statements as authorized and unissued.

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## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following five-year financial summary includes comparative amounts derived from the audited consolidated financial statements.

	Years Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands except per share amounts)				
<b>Earnings Information:</b>					
<b>Revenues:</b>					
Life and annuity premiums	\$ 17,752	19,513	15,805	14,602	14,025
Universal life and annuity contract revenues	133,424	119,677	106,320	96,765	89,513
Net investment income	273,362	318,137	379,768	310,213	315,843
Other income	12,769	13,683	17,304	9,579	11,259
Realized gains (losses) on investments	(26,228)	3,497	2,662	9,884	3,506
Total revenues	411,079	474,507	521,859	441,043	434,146
<b>Benefits and expenses:</b>					
Life and other policy benefits	39,759	41,326	35,241	39,162	34,613
Amortization of deferred policy acquisition costs	127,161	88,413	90,358	87,955	88,733
Universal life and investment annuity contract interest	138,960	164,391	213,736	150,692	173,315
Other operating expenses	55,630	55,130	65,709	46,349	35,441
Total expenses	361,510	349,260	405,044	324,158	332,102
Earnings before Federal income taxes and cumulative effect of change in accounting principle	49,569	125,247	116,815	116,885	102,044
Federal income taxes	15,927	39,876	40,472	39,618	34,572
Earnings before cumulative effect of change in accounting principle	33,642	85,371	76,343	77,267	67,472
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	54,697
Net earnings	\$ 33,642	85,371	76,343	77,267	122,169
<b>Diluted Earnings Per Share:</b>					
<b>Earnings from operations:</b>					
Class A	\$ 9.48	23.95	21.46	21.83	19.26
Class B	\$ 4.77	12.12	10.84	11.00	9.68
<b>Cumulative effect of change in accounting principle:</b>					
Class A	\$ -	-	-	-	15.61
Class B	\$ -	-	-	-	7.85
<b>Net earnings:</b>					
Class A	\$ 9.48	23.95	21.46	21.83	34.87
Class B	\$ 4.77	12.12	10.84	11.00	17.53

**Balance Sheet Information:**

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Total assets	\$ 6,786,480	6,835,326	6,693,443	6,369,008	5,991,685
Total liabilities	\$ 5,800,267	5,823,641	5,760,459	5,495,000	5,183,013
Stockholders' equity	\$ 986,213	1,011,685	932,984	874,008	808,672
Book value per common share	\$ 271.99	279.29	257.67	241.89	225.62

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information contained herein or in other written or oral statements made by or on behalf of National Western Life Insurance Company or its subsidiaries are or may be viewed as forward-looking. Although the Company has taken appropriate care in developing any such information, forward-looking information involves risks and uncertainties that could significantly impact actual results. These risks and uncertainties include, but are not limited to, matters described in the Company's SEC filings such as exposure to market risks, anticipated cash flows or operating performance, future capital needs, and statutory or regulatory related issues. However, National Western, as a matter of policy, does not make any specific projections as to future earnings, nor does it endorse any projections regarding future performance that may be made by others. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments. Also, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

Management's discussion and analysis of financial condition and results of operations ("MD&A") of National Western Life Insurance Company for the three years ended December 31, 2008 follows. This discussion should be read in conjunction with the Company's consolidated financial statements and related notes beginning on page 81 of this report.

Overview

The Company provides life insurance products on a global basis for the savings and protection needs of policyholders and annuity contracts for the asset accumulation and retirement needs of contractholders both domestically and internationally. The Company accepts funds from policyholders or contractholders and establishes a liability representing future obligations to pay the policy or contract-holders and their beneficiaries. To ensure the Company will be able to pay these future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities.

Due to the business of accepting funds to pay future obligations in later years, the underlying economics and relevant factors affecting the life insurance industry include the following:

- level of premium revenues collected
- persistency of policies and contracts
  - returns on investments
  - investment credit quality
- levels of policy benefits and costs to acquire business
- effect of interest rate changes on revenues and investments including asset and liability matching
  - adequate levels of capital and surplus

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item includes these indicators and presents information useful to an overall understanding of the Company's business performance in 2008, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.



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### Critical Accounting Policies

Accounting policies discussed below are those considered critical to an understanding of the Company's financial statements.

**Impairment of Investment Securities.** The Company's accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the reasons for the decline in value (credit event, interest rate related, credit spread widening), (c) the overall financial condition as well as the near-term prospects of the issuer, (d) whether the debtor is current on contractually obligated principal and interest payments, and (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous purchase or prior impairment, then an other-than-temporary impairment charge is recognized. The Company would recognize impairment of securities due to changing of interest rates or market dislocations only if the Company no longer had the ability to hold the securities until recovery or maturity. When a security is deemed to be impaired a charge is recorded as a realized loss equal to the difference between the fair value and amortized cost basis of the security. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. However, the new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value.

**Deferred Acquisition Costs ("DAC").** The Company is required to defer certain policy acquisition costs and amortize them over future periods. These costs include commissions and certain other expenses that vary with and are primarily associated with acquiring new business. The deferred costs are recorded as an asset commonly referred to as deferred policy acquisition costs. The DAC asset balance is subsequently charged to income over the lives of the underlying contracts in relation to the anticipated emergence of revenue or profits. Actual revenue or profits can vary from Company estimates resulting in increases or decreases in the rate of amortization. The Company does regular evaluations to determine if actual experience or other evidence suggests that earlier estimates should be revised. Assumptions considered significant include surrender and lapse rates, mortality, expense levels, investment performance, and estimated interest spread. Should actual experience dictate that the Company change its assumptions regarding the emergence of future revenues or profits (commonly referred to as "unlocking"), the Company would record a charge or credit to bring its DAC balance to the level it would have been if using the new assumptions from the inception date of each policy.

DAC is also subject to periodic recoverability and loss recognition testing. These tests ensure that the present value of future contract-related cash flows will support the capitalized DAC balance to be amortized in the future. The present value of these cash flows, less the benefit reserve, is compared with the unamortized DAC balance and if the DAC balance is greater, the deficiency is charged to expense as a component of amortization and the asset balance is reduced to the recoverable amount. For more information about accounting for DAC including the discussion of the adoption of Statement of Position ("SOP") 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts, see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

**Deferred Sales Inducements.** Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or

enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability. For more information about accounting for DAC including the discussion of the adoption of Statement of Position ("SOP") 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts, see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

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**Future Policy Benefits.** Because of the long-term nature of insurance contracts, the Company is liable for policy benefit payments many years into the future. The liability for future policy benefits represents estimates of the present value of the Company's expected benefit payments, net of the related present value of future net premium collections. For traditional life insurance contracts, this is determined by standard actuarial procedures, using assumptions as to mortality (life expectancy), morbidity (health expectancy), persistency, and interest rates, which are based on the Company's experience with similar products. The assumptions used are those considered to be appropriate at the time the policies are issued. An additional provision is made on most products to allow for possible adverse deviation from the assumptions assumed. For universal life and annuity products, the Company's liability is the amount of the contract's account balance. Account balances are also subject to minimum liability calculations as a result of minimum guaranteed interest rates in the policies. While management and Company actuaries have used their best judgment in determining the assumptions and in calculating the liability for future policy benefits, there is no assurance that the estimate of the liabilities reflected in the financial statements represents the Company's ultimate obligation. In addition, significantly different assumptions could result in materially different reported amounts. A discussion of the assumptions used to calculate the liability for future policy benefits is reported in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

**Revenue Recognition.** Premium income for the Company's traditional life insurance contracts is generally recognized as the premium becomes due from policyholders. For annuity and universal life contracts, the amounts collected from policyholders are considered deposits and are not included in revenue. For these contracts, fee income consists of policy charges for policy administration, cost of insurance charges and surrender charges assessed against policyholders' account balances which are recognized in the period the services are provided.

Investment activities of the Company are integral to its insurance operations. Since life insurance benefits may not be paid until many years into the future, the accumulation of cash flows from premium receipts are invested with income reported as revenue when earned. Anticipated yields on investments are reflected in premium rates, contract liabilities, and other product contract features. These anticipated yields are implied in the interest required on the Company's net insurance liabilities (future policy benefits less deferred acquisition costs) and contractual interest obligations in its insurance and annuity products. The Company benefits to the extent actual net investment income exceeds the required interest on net insurance liabilities and manages the rates it credits on its products to maintain the targeted excess or "spread" of investment earnings over interest credited. The Company will continue to be required to provide for future contractual obligations in the event of a decline in investment yield. For more information concerning revenue recognition, investment accounting, and interest sensitivity, please refer to Note 1, Summary of Significant Accounting Policies, Note 3, Investments, in the Notes to Consolidated Financial Statements and the discussions under Investments in Item 7 of this report.

**Pension Plans and Other Postretirement Benefits.** The Company sponsors a qualified defined benefit pension plan, which was frozen effective December 31, 2007, covering substantially all employees, and three nonqualified defined benefit plans covering certain senior officers. In addition, the Company has postretirement health care benefits for certain senior officers. The freeze of the qualified benefit pension plan ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. In accordance with prescribed accounting standards, the Company annually reviews plan assumptions.

The Company annually reviews its pension benefit plans assumptions which include the discount rate, the expected long-term rate of return on plan assets, and the compensation increase rate. The assumed discount rate is set based on the rates of return on high quality long-term fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on the long-term investment policy of the plans, the various classes of the invested funds, based on the input of the plan's investment advisors and consulting actuary, and the plan's historic rate

of return. The compensation rate increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation. These assumptions involve uncertainties and judgment, and therefore actual performance may not be reflective of the assumptions.

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Other postretirement benefit assumptions include future events affecting retirement age, mortality, dependency status, per capita claims costs by age, health care trend rates, and discount rates. Per capita claims cost by age is the current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Health care trend rates involve assumptions about the annual rate(s) of change in the cost of health care benefits currently provided by the plan, due to factors other than changes in the composition of the plan population by age and dependency status. These rates implicitly consider estimates of health care inflation, changes in utilization, technological advances and changes in health status of the participants.

Share-Based Payments. Liability awards under a share-based payment arrangement have been measured based on the award's fair value at the reporting date. The Black-Scholes valuation method has been used to estimate the fair value of the options. This fair value calculation of the options include assumptions relative to the following:

- exercise price
- expected term based on contractual term and perceived future behavior relative to exercise
- current price
- expected volatility
- risk-free interest rates
- expected dividends

These assumptions are continually reviewed by the Company and adjustments may be made based upon current facts and circumstances.

Other significant accounting policies, although not involving the same level of measurement uncertainties as those discussed above, but nonetheless important to an understanding of the financial statements, are described in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Impact of Recent Business Environment

The financial markets began experiencing stress during the second half of 2007 which significantly increased during 2008 and on into 2009. The volatility and disruption in the financial markets has caused the availability and cost of credit to be materially affected. Combined with volatile oil prices, depressed home prices, increasing foreclosures, falling equity market values, declining business and consumer confidence, and higher unemployment, these factors have precipitated a severe recession. The combination of economic conditions began to negatively impact our sales in 2008, particularly in the international markets, and may continue to adversely impact the demand for our products in the future. We also may experience a higher incidence of claims, lapses or surrenders of policies.

The fixed income markets, our primary investment source, are experiencing a high level of volatility and limited market liquidity conditions. Credit downgrade events have begun and there is an increased probability of default for many fixed income instruments. These volatile market conditions have also increased the difficulty of valuing certain securities as trading is less frequent and/or market data is less observable. Certain securities that were in active markets with significant observable data became illiquid due to the current financial environment resulting in valuations that require greater estimation and judgment as well as valuation methods which are more complex. Such valuations may not ultimately be realizable in a market transaction and may change very rapidly as market conditions change and valuation assumptions need to be modified.

Credit spreads (difference between bond yields and risk-free interest rates) on fixed maturity securities increased markedly during 2008 given the market conditions. While the increase in credit spreads generated higher yields making our products more attractive to consumers, the higher rate levels also caused a reduction in the carrying value

of our marked-to-market investments negatively impacting our financial condition and reported book value per share. It also caused us to hold a higher amount of cash and short-term investments in order to maintain a more liquid position during uncertain times.

Our operating strategy is to maintain capital levels substantially above regulatory and rating agency requirements. While not significant, our capital levels were nonetheless negatively impacted during 2008 as a result of impairment losses on our investments due to the downturn in economic activity, the increased level of credit spreads and limited liquidity conditions.



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## RESULTS OF OPERATIONS

The Company's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate derivative and realized investment gains and losses from operating revenues and earnings. Similar measures are commonly used in the insurance industry in order to assess profitability and results from ongoing operations. The Company believes that the presentation of these non-GAAP financial measures enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates derivative and realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business. Therefore, in the following sections discussing consolidated operations and segment operations, appropriate reconciliations have been included to report information management considers useful in enhancing an understanding of the Company's operations to reportable GAAP balances reflected in the consolidated financial statements.

## Consolidated Operations

Revenues. The following details Company revenues.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Universal life and annuity contract revenues	\$ 133,424	119,677	106,320
Traditional life and annuity premiums	17,752	19,513	15,805
Net investment income (excluding derivatives)	339,038	334,799	336,489
Other income	12,769	13,683	17,304
Operating revenues	502,983	487,672	475,918
Derivative income (loss)	(65,676)	(16,662)	43,279
Realized gains (losses) on investments	(26,228)	3,497	2,662
Total revenues	\$ 411,079	474,507	521,859

Universal life and annuity contract revenues – Revenues for universal life and annuity contract revenues increased 11.5% in 2008 compared to 2007. Revenues for these products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums. Cost of insurance charges were \$82.9 million in 2008 compared to \$74.3 million in 2007 and \$67.7 million in 2006. Administrative charges were \$25.0 million, \$20.9 million, and \$17.1 million for the years ended December 31, 2008, 2007, and 2006, respectively. Surrender charges assessed against policyholder account balances upon withdrawal were \$39.1 million in 2008 compared to \$33.4 million in 2007 and \$28.7 million in 2006.

Traditional life and annuity premiums – Traditional life and annuity premiums decreased 9.0% in 2008 compared to 2007. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. The Company's life insurance sales focus has been primarily centered around universal life products.



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Net investment income - A detail of net investment income is provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Gross investment income:			
Debt securities	\$ 320,275	309,708	306,129
Mortgage loans	7,223	8,513	8,480
Policy loans	6,096	6,302	6,354
Short-term investments	1,915	7,059	3,118
Other investment income	5,934	6,087	15,289
<b>Total investment income</b>	<b>341,443</b>	<b>337,669</b>	<b>339,370</b>
Less: investment expenses	2,405	2,870	2,881
<b>Net investment income (excluding derivatives)</b>	<b>339,038</b>	<b>334,799</b>	<b>336,489</b>
Derivative income (loss)	(65,676)	(16,662)	43,279
<b>Net investment income</b>	<b>\$ 273,362</b>	<b>318,137</b>	<b>379,768</b>

Investment grade debt securities generated approximately 94.5% of total investment income, excluding derivatives in 2008. The decrease in short-term investment income in 2008 is attributable to fewer asset holdings on these investments compared to prior years when the yield curve was flat or slightly inverted and the Company did not sacrifice yield holding shorter term securities and lower short-term yields. There was no other investment income from profit participation agreements in 2008. Other investment income received on various profit participation arrangements of \$0.9 million and \$1.2 million were recorded in 2007 and 2006, respectively. In addition, proceeds of \$0.9 million and \$4.3 million were received in 2008 and 2006, respectively from a class action settlement on a disposed debt security.

Net investment income performance is analyzed excluding derivative income (loss), which is a common practice in the insurance industry, in order to assess underlying profitability and results from ongoing operations. Net investment income performance is summarized as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In thousands except percentages)		
Excluding derivatives:			
Net investment income	\$ 339,038	334,799	336,489
Average invested assets, at amortized cost	\$ 5,762,688	5,732,212	5,514,196
Yield on average invested assets	5.88%	5.84%	6.10%
Including derivatives:			
Net investment income	\$ 273,362	318,137	379,768
Average invested assets, at amortized cost	\$ 5,814,439	5,789,502	5,548,266
Yield on average invested assets	4.70%	5.50%	6.84%

The average invested asset yield increase in 2008 is due to the Company obtaining higher yields on newly invested funds as well as re-investing prepayments, calls, and maturities of debt securities at higher rates. The additional income recognized from the other invested assets in 2006, as discussed below, contributes to a higher yield for that year. Refer to the Derivatives discussion following this section for a more detailed explanation.

Other income - Other income consists primarily of gross income associated with nursing home operations of \$12.5 million, \$12.6 million, and \$11.2 million in 2008, 2007, and 2006, respectively. In addition, the Company received \$0.5 million and \$5.5 million related to lawsuit settlements during 2007 and 2006, respectively.

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Derivatives income (loss) - Index options are derivative financial instruments used to fully hedge the equity return component of the Company's fixed-indexed products, which were first introduced for sale in 1997. In 2002, the Company began selling an fixed-indexed universal life product in addition to its fixed indexed annuities. Any income or loss from the sale or expiration of the options, as well as period-to-period changes in fair values, are reflected as a component of net investment income. However, increases or decreases in income from these options are substantially offset by corresponding increases or decreases in amounts credited to indexed annuity and life policyholders.

Income and losses from index options are due to market conditions. Index options are intended to act as hedges to match the returns on the product's underlying reference index and the rise or decline in the index causes option values to likewise rise or decline. While income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company's fixed-indexed products also fluctuates in a similar manner and direction. In 2008 and 2007, the reference indices decreased resulting in index option losses and a reduction in contract interest expenses. In 2006, the reference indices increased and the Company recorded income from index options and likewise increased contract interest expenses.

Derivative components included in net investment income and the corresponding contract interest amounts are detailed below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Derivatives:			
Unrealized income (loss)	\$ (17,480)	(56,204)	27,108
Realized income (loss)	(48,196)	39,542	16,171
Total income (loss) included in net investment income	\$ (65,676)	(16,662)	43,279
Total contract interest	\$ 138,960	164,391	213,736

Realized gains (losses) on investments - The net losses reported in 2008 of \$26.2 million consisted of gross gains of \$2.2 million primarily from calls and sales of debt securities, offset by gross losses of \$28.4 million, which includes the other-than-temporary impairment losses highlighted in the table below.

Realized losses on investments have primarily resulted from impairment writedowns on investments in debt securities and valuation allowances recorded on mortgage loans. The Company records impairment writedowns when a decline in value is considered other-than-temporary and full recovery of the investment is not expected. Impairment writedowns are summarized in the following table.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Impairment or valuation writedowns:			
Bonds	\$ 21,803	67	99
Equities	5,412	-	-
Mortgage loans	1,020	1,467	2,100
	\$ 28,235	1,534	2,199

For the year, the Company recorded other-than-temporary impairment writedowns on debt securities consisting of Washington Mutual (\$9.3 million), Clear Channel Communications (\$8.7 million), GMAC (\$2.3 million), and Greentree (\$1.5 million). Due to the events leading to the writedowns also providing evidence of a significant deterioration in the issuers' credit worthiness, the Washington Mutual, Greentree Financial and two GMAC securities were transferred from held to maturity to available for sale.

The \$5.4 million of equity impairments in 2008 include Fannie Mae and Freddie Mac preferred stock holdings (\$4.6 million) and mark-to-market writedowns on various other equity holdings.

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The mortgage loan valuation writedown in 2008 principally involves one property located in Ft. Smith, Arkansas. The 2007 and 2006 mortgage loan valuation write downs involve a New Orleans property whose value was negatively impacted by Hurricane Katrina.

Benefits and Expenses. The following details benefits and expenses.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Life and other policy benefits	\$ 39,759	41,326	35,241
Amortization of deferred policy acquisition costs	127,161	88,413	90,358
Universal life and annuity contract interest	138,960	164,391	213,736
Other operating expenses	55,630	55,130	65,709
Totals	\$ 361,510	349,260	405,044

Life and other policy benefits - Life and other policy benefits include death claims of \$29.6 million, \$28.5 million, and \$26.2 million for 2008, 2007, and 2006, respectively.

Amortization of deferred policy acquisition costs - Life insurance companies are required to defer certain expenses associated with acquiring new business. The majority of these acquisition expenses consist of commissions paid to agents, underwriting costs, and certain marketing expenses and sales inducements. The Company defers sales inducements in the form of first year interest bonuses on annuity and universal life products that are directly related to the production of new business. These charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. Recognition of these deferred policy acquisition costs in the consolidated financial statements is to occur over future periods in relation to the expected emergence of profits priced into the products sold. This emergence of profits is based upon assumptions regarding premium payment patterns, mortality, persistency, investment performance, and expense patterns. Companies are required to review these assumptions periodically to ascertain whether actual experience has deviated significantly from that assumed. If it is determined that a significant deviation has occurred, the emergence of profit patterns is to be "unlocked" and reset based upon the actual experience.

Amortization of deferred policy acquisition costs increased to \$127.1 million for the year ended December 31, 2008 compared to \$88.4 million and \$90.4 million reported in 2007 and 2006. An unlocking adjustment was recorded in the current year which resulted in an increase of amortization by \$6.3 million. This unlocking adjustment was based upon changes to future annuitizations and full surrenders reflecting current experience studies. An unlocking adjustment was recorded in 2007 which resulted in a decrease in amortization of \$10.4 million. This unlocking adjustment was based upon changes to (1) future mortality assumptions reflecting current experience studies and (2) assumption changes to future cost of insurance rates. There were no unlocking adjustments recognized during 2006. True-up adjustments were also recorded in 2008 and 2007 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience resulting in a \$16.2 million and \$1.0 million increase in amortization, respectively. Amortization for 2006 includes a true-up adjustment relative to partial surrenders, mortality assumptions, annuitizations, credited rates and earned rates which increased amortization in that year by approximately \$5.4 million.

During the fourth quarter of 2008, during a detailed review of Deferred Acquisition Cost assets, the Company identified that it had over capitalized \$2.4 million of deferred acquisition costs during the first three quarters of 2008, and an additional \$3.5 million for periods prior to 2008. This immaterial error was corrected during the fourth

quarter and resulted in a decrease in the deferred acquisition cost asset and an increase in amortization.

In accordance with the adoption of SOP 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ("SOP 05-1"), beginning in 2007 the Company's amortization of deferred policy acquisition costs is expected to increase. Under this pronouncement, annuitizations and certain internal replacements of contracts result in the associated contract's unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets being written off.



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Universal life and annuity contract interest - The Company closely monitors its credited interest rates on interest sensitive policies, taking into consideration such factors as profitability goals, policyholder benefits, product marketability, and economic market conditions. As long-term interest rates change, the Company's credited interest rates are often adjusted accordingly, taking into consideration the factors described above. The difference between yields earned on investments over policy credited rates is often referred to as the "interest spread". Raising policy credited rates can typically have an impact sooner than higher market rates on the Company's investment portfolio yield, making it more difficult to maintain the current interest spread.

The Company's approximated average credited rates are as follows:

	December 31,			December 31,		
	2008 (Excluding equity-indexed products)	2007	2006	2008 (Including equity-indexed products)	2007	2006
Annuity	3.01%	3.41%	3.39%	2.42%	2.84%	3.86%
Interest sensitive life	3.92%	3.23%	4.30%	3.39%	4.28%	5.41%

Contract interest includes the performance of the derivative component of the Company's equity-indexed products. As previously noted, the recent market performance of these derivative features decreased contract interest expense in 2008 and 2007, while also decreasing the Company's investment income given the hedge nature of the options. During 2006, the reverse was noted, as the underlying reference index performance was up resulting in higher investment income and contract interest expense. With these credited rates, the Company generally realized its targeted interest spread on its products.

Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, commissions not subject to deferral, and expenses of nursing home operations. Nursing home expenses amounted to \$11.4 million, \$11.0 million, and \$10.2 million in 2008, 2007, and 2006, respectively. Compensation costs related to stock options totaled negative \$1.4 million in 2008 and negative \$1.1 million in 2007 as a result of marking the options to fair value under the liability method of accounting. In 2006, \$13.1 million of increased compensation costs resulted from a change to liability classification for the Company's stock option plan.

Federal Income Taxes - Federal income taxes on earnings from continuing operations for 2008, 2007, and 2006 reflect effective tax rates of 32.1%, 31.8%, and 34.6%, respectively, which are lower than the expected Federal rate of 35% primarily due to tax-exempt investment income related to investments in municipal securities and dividends-received deductions on income from stock investments.

During 2008, the Company was notified that its 2005 tax return amendment, which was filed September 2007, was being audited by the IRS. The audit is currently in progress. Adjustments to the amended return are not expected to have a material effect on the financial condition or operating results of the Company.

During the second quarter of 2007, upon the completion of a detailed review of the deferred tax items, the Company identified a \$2.3 million error in the net deferred tax liability. The error, which occurred during various periods prior to 2005, was corrected in the second quarter of 2007 and resulted in a decrease in the net deferred tax liability and deferred tax expense. The adjustment was not material to 2007 or any prior period financial statements.

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## Segment Operations

## Summary of Segment Earnings

A summary of segment earnings from continuing operations for the years ended December 31, 2008, 2007, and 2006 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Totals
Segment earnings:					
2008	\$ 717	15,350	27,842	6,781	50,690
2007	342	20,179	56,299	6,278	83,098
2006	297	12,191	56,559	5,566	74,613

## Domestic Life Insurance Operations

A comparative analysis of results of operations for the Company's domestic life insurance segment is detailed below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Premiums and other revenue:			
Premiums and contract revenues	\$ 27,919	25,879	22,731
Net investment income	20,254	18,863	20,462
Other income	20	41	29
Total premiums and other revenue	48,193	44,783	43,222
Benefits and expenses:			
Life and other policy benefits	14,478	14,922	13,656
Amortization of deferred policy acquisition costs	12,416	7,998	7,313
Universal life insurance contract interest	9,171	9,463	9,168
Other operating expenses	11,057	11,898	12,630
Total benefits and expenses	47,122	44,281	42,767
Segment earnings before Federal income taxes	1,071	502	455
Federal income taxes	354	160	158
Segment earnings	\$ 717	342	297

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Revenues from domestic life insurance operations include life insurance premiums on traditional type products and revenues from universal life insurance. Revenues from traditional products are simply premiums collected, while revenues from universal life insurance consist of policy charges for the cost of insurance, policy administration fees, and surrender charges assessed during the period. A comparative detail of premiums and contract revenues is provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Universal life insurance revenues	\$ 26,978	23,028	18,286
Traditional life insurance premiums	5,849	6,629	6,906
Reinsurance premiums	(4,908)	(3,778)	(2,461)
<b>Totals</b>	<b>\$ 27,919</b>	<b>25,879</b>	<b>22,731</b>

The Company's premiums and contract revenues have increased 8% from 2007 as efforts have been made to promote domestic life products. It is the Company's marketing plan to increase domestic life product sales through increased recruiting of new distribution and the development of new life insurance products. The Company had approximately 4,300 contracted agents as of December 31, 2008.

In accordance with generally accepted accounting principles, premiums collected on universal life products are not reflected as revenues in the Company's consolidated statements of earnings. Actual domestic universal life premiums are detailed below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Universal life insurance:			
First year and single premiums	\$ 15,272	15,592	14,640
Renewal premiums	19,948	16,639	14,118
<b>Totals</b>	<b>\$ 35,220</b>	<b>32,231</b>	<b>28,758</b>

Policy benefits in 2006 through 2008 were consistent with Company expectations. Net investment income increased to \$20.3 million in 2008 as compared to \$18.9 million in 2007, consistent with the growth of the volume of insurance in force. Other operating expenses increased significantly in 2006 due to an increase in compensation costs resulting from the change to liability classification for the Company's stock option plan. Compensation costs totaled \$0.3 million in both 2008 and 2007 and \$3.0 million 2006.

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## International Life Insurance Operations

A comparative analysis of results of operations for the Company's international life insurance segment is detailed below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Premiums and other revenue:			
Premiums and contract revenues	\$ 97,661	88,782	78,005
Net investment income	17,350	24,690	28,530
Other income	62	126	78
<b>Total premiums and other revenue</b>	<b>115,073</b>	<b>113,598</b>	<b>106,613</b>
Benefits and expenses:			
Life and other policy benefits	21,292	22,810	18,161
Amortization of deferred policy acquisition costs	37,525	24,959	23,075
Universal life insurance contract interest	16,803	20,993	25,675
Other operating expenses	16,502	15,271	21,051
<b>Total benefits and expenses</b>	<b>92,122</b>	<b>84,033</b>	<b>87,962</b>
<b>Segment earnings before Federal income taxes</b>	<b>22,951</b>	<b>29,565</b>	<b>18,651</b>
<b>Federal income taxes</b>	<b>7,601</b>	<b>9,386</b>	<b>6,460</b>
<b>Segment earnings</b>	<b>\$ 15,350</b>	<b>20,179</b>	<b>12,191</b>

As with domestic operations, revenues from the international life insurance segment include both premiums on traditional type products and revenues from universal life insurance. A comparative detail of premiums and contract revenues is provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Universal life insurance revenues	\$ 98,458	85,633	78,008
Traditional life insurance premiums	14,727	15,692	11,027
Reinsurance premiums	(15,524)	(12,543)	(11,030)
<b>Totals</b>	<b>\$ 97,661</b>	<b>88,782</b>	<b>78,005</b>

International operations have emphasized universal life policies over traditional life insurance products. In accordance with generally accepted accounting principles, premiums collected on universal life products are not reflected as revenues in the Company's consolidated statements of earnings. Actual international universal life premiums collected are detailed below.

Years Ended December 31,

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	2008	2007	2006
	(In thousands)		
Universal life insurance			
First year and single premiums	\$ 39,257	44,426	36,758
Renewal premiums	96,456	91,621	81,226
Totals	\$ 135,713	136,047	117,984

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The Company's international life operations historically have been a significant contributor to the Company's overall growth and represent a market niche where the Company believes it has a competitive advantage. A productive agency force has been developed given the Company's longstanding reputation for supporting its international life products coupled with the instability of competing companies in international markets. In particular, the Company has experienced growth with its fixed-indexed universal life products and has collected premiums of \$78.5 million, \$76.8 million, and \$60.5 million for the years ended 2008, 2007, and 2006, respectively.

The largest selling product in the international life insurance segment for the past five years has been a fixed-indexed universal life policy with the equity component linked in part to an equity index. With the growth in this block of business, the period-to-period changes in fair values of the underlying options have had an increasingly greater impact on net investment and contract interest. A detail of net investment income for international life insurance operations is provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Net investment income (excluding derivatives)	\$ 28,687	26,519	25,893
Derivative income (loss)	(11,337)	(1,829)	2,637
Net investment income	\$ 17,350	24,690	28,530

Derivative income and losses fluctuate from period to period based on the Company's international equity-indexed universal life product and the applicable performance of the S&P 500 Index®.

Life and other policy benefits in 2006 through 2008 were generally consistent with Company expectations. Amortization of deferred policy acquisition costs in 2008, were impacted as the Company recorded true-up adjustments that reduced the DAC asset and increased amortization by \$3.7 million. The Company recorded an unlocking adjustment benefit in 2007 totaling \$9.0 million relative to improved mortality assumptions that resulted in an increase to the deferred asset balance and a decrease in amortization expense. In addition, a true-up adjustment of \$1.7 million was also recorded in 2007 resulting in a decrease to amortization. Offsetting the decrease to 2007 amortization for the unlocking and true-up adjustments was an increase in amortization due primarily to the application of SOP 05-1 which requires the write-off of deferred balances on contracts that are considered substantially changed. These balances were previously carried and amortized over the projected life of the contract. In 2006, a true-up of amortization assumptions resulted in increased amortization of \$1.0 million.

Contract interest expense includes fluctuations primarily the result of the S&P 500 Index® performance relative to the equity-indexed universal life products. The associated stock market gains and losses increase or decrease the amounts the Company credited to policyholders.

As the international life insurance in force continues to grow, the Company anticipates operating earnings to increase as well. The amount of international life insurance in force has grown from \$13.3 billion at December 31, 2006 to \$14.8 billion at December 31, 2007 and \$15.9 billion at December 31, 2008.

Other operating expenses reported in 2008 were 8% higher compared to 2007. The lower level in 2007 resulted from negative compensation costs related to stock options recorded under liability accounting. Compensation costs totaled \$0.6 million, \$0.4 million, and \$5.1 million in 2008, 2007, and 2006, respectively.



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## Annuity Operations

The Company's annuity operations are almost exclusively in the United States. Although some of the Company's investment contracts are available to international residents, current sales are small relative to total annuity sales. A comparative analysis of results of operations for the Company's annuity segment is detailed below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Premiums and other revenue:			
Premiums and contract revenues	\$ 25,596	24,529	21,389
Net investment income	226,683	266,953	323,326
Other income	232	920	5,950
<b>Total premiums and other revenue</b>	<b>252,511</b>	<b>292,402</b>	<b>350,665</b>
Benefits and expenses:			
Life and other policy benefits	3,990	3,594	3,424
Amortization of deferred policy acquisition costs	77,219	55,456	59,970
Annuity contract interest	112,986	133,935	178,893
Other operating expenses	16,685	16,931	21,847
<b>Total benefits and expenses</b>	<b>210,880</b>	<b>209,916</b>	<b>264,134</b>
<b>Segment earnings before Federal income taxes</b>	<b>41,631</b>	<b>82,486</b>	<b>86,531</b>
<b>Federal income taxes</b>	<b>13,789</b>	<b>26,187</b>	<b>29,972</b>
<b>Segment earnings</b>	<b>\$ 27,842</b>	<b>56,299</b>	<b>56,559</b>

Revenues from annuity operations primarily include surrender charges and recognition of deferred revenues relating to immediate or payout annuities. A comparative detail of the components of premiums and annuity contract revenues is provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Surrender charges	\$ 20,502	20,238	17,260
Payout annuity and other revenues	5,071	4,263	4,098
Traditional annuity premiums	23	28	31
<b>Totals</b>	<b>\$ 25,596</b>	<b>24,529</b>	<b>21,389</b>

In accordance with generally accepted accounting principles, deposits collected on annuity contracts are not reflected as revenues in the Company's consolidated statements of earnings. Actual annuity deposits collected are detailed below.



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Years Ended December 31,  
 2008                      2007                      2006  
 (In thousands)

Fixed indexed annuities	\$ 281,649	316,848	303,613
Other deferred annuities	121,319	116,280	171,631
Immediate annuities	7,165	4,637	10,750
Totals	\$ 410,133	437,765	485,994

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Fixed-indexed products are more attractive for consumers when interest rate levels remain low as has been the market environment the past few years. Fixed indexed annuity deposits as a percentage of total annuity deposits recorded were 68.7%, 72.4%, and 62.5% for the years ended December 31, 2008, 2007, and 2006, respectively. Since the Company does not offer variable products or mutual funds, fixed-indexed products provide an important alternative to the Company's existing fixed interest rate annuity products. The performance of equity markets in 2008 had a dampening effect on sales of these products.

Other deferred annuity deposits increased 4.3% in 2008 compared to 2007. These product sales had been trending lower over the past few years due to low interest rates and investor preferences. As a selling inducement, many fixed-rate annuity products include a first year premium or interest rate bonus in addition to the base first year deposit interest rate. These bonuses are credited to the policyholder account but are deferred by the Company and amortized over future periods. The amount deferred was approximately \$19.4 million, \$20.8 million, and \$19.8 million for the years ended December 31, 2008, 2007, and 2006, respectively.

A detail of net investment income for annuity operations is provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Net investment income (excluding derivatives)	\$ 279,925	281,553	282,684
Derivative income (loss)	(53,242)	(14,600)	40,642
Net investment income	\$ 226,683	266,953	323,326

Derivative income and losses fluctuate from period to period based on the performance of the indices underlying the Company's fixed-indexed products.

As previously described, derivatives are used to hedge the equity return component of the Company's fixed indexed annuity products with any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, reflected in net investment income. Net investment income for 2006 included additional income from other income items as previously discussed in the consolidated operations section of this filing.

With respect to deferred policy acquisition costs, the Company recorded an unlocking adjustment of \$6.3 million and a true-up adjustment of \$11.1 million that together increased amortization by \$17.4 million in 2008. During 2007 the Company recorded an unlocking adjustment of \$1.8 million and true-up adjustments of \$3.3 million resulting in decreased amortization of deferred acquisition costs. A true-up of assumptions in 2006 resulted in increased amortization of deferred policy acquisition costs of \$3.1 million.

During the fourth quarter of 2008, during a detailed review of Deferred Acquisition Cost assets, the Company identified that it had over capitalized \$ 2.4 million of cost during the first three quarters of 2008, and \$3.5 million for periods prior to 2008. This immaterial error was corrected during the fourth quarter and resulted in a decrease in the deferred acquisition cost and an increase in amortization.

The Company is required to periodically adjust for actual experience that varies from that assumed. While management does not currently anticipate any impact from unlocking in 2009, facts and circumstances may arise in the future which require that the factors be reexamined.



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Annuity contract interest includes the equity component return associated with the Company's fixed indexed annuities. The detail of fixed indexed annuity contract interest compared to contract interest for all other annuities is as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Fixed indexed annuities	\$ 42,224	50,743	88,094
All other annuities	74,596	94,632	101,619
Gross contract interest	116,820	145,375	189,713
Bonus interest deferred and capitalized	(19,442)	(20,796)	(19,700)
Bonus interest amortization	15,608	9,356	8,880
Total contract interest	\$ 112,986	133,935	178,893

In comparison by year, the fluctuation in reported contract interest amounts for fixed-indexed annuities is due to sales and the positive or negative performance of the stock market on option values as noted previously. In the fourth quarter of 2008, the Company increased its amortization of bonus interest (deferred sales inducements) by approximately \$3.5 million for updates in future expected gross profit assumptions.

Other operating expenses in 2008 were level compared to 2007. The 2006 expense includes an additional \$5.0 million due to increased compensation cost on stock options resulting from the change to liability classification for the Company's plan. Compensation costs were \$0.5 million in 2008.

## Other Operations

National Western's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, the Company also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Most of the income from the Company's subsidiaries is from a life interest in a trust. Gross income distributions from the trust totaled \$4.1 million, pre-tax, in both 2008 and 2007, and \$4.5 million in 2006.

The Company owns a nursing home facility which is operated by an affiliated limited partnership, whose financial operating results are consolidated with those of the Company. Daily operations and management of the nursing home are performed by an experienced management company through a contract with the limited partnership. Nursing home operations generated \$1.1 million, \$1.6 million, and \$1.0 million of operating earnings in 2008, 2007, and 2006, respectively.

## INVESTMENTS

## General

The Company's investment philosophy emphasizes the careful handling of policyowners' and stockholders' funds to achieve security of principal, to obtain the maximum possible yield while maintaining security of principal, and to maintain liquidity in a measure consistent with current and long-term requirements of the Company.



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The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below as of December 31, 2008 and 2007. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans.

	2008		2007	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Debt securities	\$ 5,563,000	96.3	\$ 5,659,604	95.9
Mortgage loans	90,733	1.6	99,033	1.7
Policy loans	79,277	1.4	83,772	1.4
Derivatives	11,920	0.2	25,907	0.4
Equity securities	13,683	0.2	19,713	0.3
Real estate	10,828	0.2	11,994	0.2
Other	3,340	0.1	4,568	0.1
<b>Totals</b>	<b>\$ 5,772,781</b>	<b>100.0</b>	<b>\$ 5,904,591</b>	<b>100.0</b>

## Debt and Equity Securities

The Company maintains a diversified portfolio which consists primarily of corporate, mortgage-backed, and public utility fixed income securities. Investments in mortgage-backed securities primarily include U.S. government agency pass-through securities and collateralized mortgage obligations ("CMO"). As of December 31, 2008 and 2007, the Company's debt securities portfolio consisted of the following:

	2008		2007	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	\$ 2,453,404	44.0	\$ 2,429,753	43.0
Mortgage-backed securities	2,001,060	36.0	1,909,405	33.7
Public utilities	790,419	14.2	689,447	12.2
U.S. Agencies	119,674	2.2	429,373	7.6
U.S. Treasury	1,923	-	1,930	-
Asset-backed securities	88,278	1.6	107,019	1.9
States & political subdivisions	86,962	1.6	61,794	1.1
Foreign governments	21,280	0.4	30,883	0.5
<b>Totals</b>	<b>\$ 5,563,000</b>	<b>100.0</b>	<b>\$ 5,659,604</b>	<b>100.0</b>

The Company's investment guidelines prescribe limitations as a percent of the total investment portfolio by type of security and all holdings were within these threshold limits at December 31, 2008 and 2007. Because the Company's holdings of mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing in collateralized mortgage obligations, which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I"), very

accurately defined maturity ("VADM") and sequential tranches are designed to amortize in a more predictable manner than other CMO classes or pass-throughs. The Company does not purchase tranches, such as PAC II and support tranches, that subject the portfolio to greater than average prepayment risk. Using this strategy, the Company can more effectively manage and reduce prepayment and extension risks, thereby helping to maintain the appropriate matching of the Company's assets and liabilities.

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Due to recent negative news relative to the mortgage industry and in particular subprime mortgages the Company has included detailed information below related to the exposure at December 31, 2008 in the debt securities portfolio. The Company holds approximately \$88.3 million in asset-backed securities at December 31, 2008. This portfolio includes \$41.3 million of manufactured housing bonds and \$47.0 million of home equity loans (also referred to as subprime securities). The Company does not have any holdings in collateralized bond obligations (CBOs), collateralized debt obligations (CDOs), or collateralized loan obligations (CLOs). Principal risks in holding asset-backed securities are structural, credit, and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral and the potential for prepayments. Credit risks include corporate credit risks or consumer credit risks for financing such as subprime mortgages. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace.

The mortgage-backed portfolio includes one Alt-A security with a carrying value of \$3.8 million. The Alt-A sector is a sub-sector of the jumbo prime MBS sector. The average FICO for an Alt-A borrower is approximately 715 compared to a score of 730 for a jumbo prime borrower. The Company's exposure to the Alt-A and subprime sectors is limited to investments in the senior tranches of structured securities collateralized by Alt-A or subprime residential mortgage loans. The asset-backed portfolio includes thirteen subprime securities, totaling \$47.0 million. The subprime sector is generally categorized under the asset-backed sector. This sector lends to borrowers who do not qualify for prime interest rates due to poor or insufficient credit history. Subprime borrowers generally have FICO scores of 660 or below. The slowing housing market, rising interest rates, and relaxed underwriting standards for loans originated after 2005 resulted in higher delinquency rates and losses beginning in 2007. These events caused illiquidity in the market and volatility in the market prices of subprime securities. All of the loans classified as Alt-A or subprime in the Company's portfolio as of December 31, 2008 were underwritten prior to 2005 as noted in the table below.

Investment Origination Year	December 31, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(In thousands)				
<b>Subprime:</b>				
1998	\$ 12,125	11,157	14,026	14,045
2002	1,123	556	1,312	1,290
2003	6,894	3,779	7,761	7,232
2004	26,817	21,970	31,186	30,278
Subtotal subprime	\$ 46,959	37,462	54,285	52,845
<b>Alt A:</b>				
2004	\$ 3,821	3,821	4,665	4,665

As of December 31, 2008, nine of the subprime securities were rated AAA, two were rated AA, one was rated A, and one was rated BBB.



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In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investments in debt securities. Thorough credit analysis is performed on potential corporate investments including examination of a company's credit and industry outlook, financial ratios and trends, and event risks. This emphasis is reflected in the high average credit rating of the Company's portfolio with 98.7% held in investment grade securities. In the table below, investments in debt securities are classified according to credit ratings by Standard and Poor's ("S&P®"), or other nationally recognized statistical rating organizations if securities were not rated by S&P®.

	2008		2007	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
AAA and U.S. government	\$ 2,306,694	41.5	\$ 2,564,975	45.3
AA	205,729	3.7	301,469	5.3
A	1,431,703	25.7	1,399,581	24.7
BBB	1,546,720	27.8	1,293,358	22.9
BB and other below investment grade	72,154	1.3	100,221	1.8
Totals	\$ 5,563,000	100.0	\$ 5,659,604	100.0

National Western does not purchase below investment grade securities. Investments held in debt securities below investment grade are the result of subsequent downgrades of the securities. These holdings are summarized below.

	Below Investment Grade Debt Securities			
	Amortized Cost	Carrying Value	Fair Value	% of Invested Assets
	(In thousands except percentages)			
December 31, 2008	\$ 84,229	72,154	67,375	1.2%
December 31, 2007	\$ 105,067	100,221	97,618	1.7%

As of December 31, 2008, the Company's percentage of below investment grade securities compared to total invested assets totaled 1.2%. The decrease from 2007 is primarily due to maturities, tenders, principal payments, and one issue being upgraded during the year. The Company's holdings of below investment grade securities as a percentage of total invested assets is relatively small compared to industry averages.

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Holdings in below investment grade securities by category as of December 31, 2008 are summarized below, including 2008 and 2007 fair values for comparison. The Company is continually monitoring developments in these industries that may affect security valuation issues.

Industry Category	Below Investment Grade Debt Securities			
	Amortized Cost 2008	Carrying Value 2008	Fair Value 2008	Fair Value 2007
	(In thousands)			
Retail	\$ 17,980	13,181	12,420	17,639
Telecommunications	6,323	4,850	4,850	13,064
Medical	13,000	12,255	11,050	11,960
Utilities/energy	12,184	11,654	11,219	12,117
Asset-backed	8,718	8,717	6,337	9,227
Auto finance	4,031	4,031	4,031	2,630
Banking/finance	1	1	1	7,986
Manufacturing	7,520	6,999	7,001	7,438
Transportation	1,984	1,769	1,769	2,395
Other	12,488	8,697	8,697	9,433
Totals	\$ 84,229	72,154	67,375	93,889

The Company closely monitors its below investment grade holdings by reviewing investment performance indicators, including information such as issuer operating performance, debt ratings, analyst reports and other economic factors that may affect these specific investments. While additional losses are not currently anticipated, based on the existing status and condition of these securities, continued credit deterioration of some securities or the markets in general is possible, which may result in further writedowns.

Generally accepted accounting principles require that investments in debt securities be written down to fair value when declines in value are judged to be other than temporary. As defined in SFAS No. 157, Fair Value Measurement, (“SFAS 157”) fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). SFAS 157 establishes a framework for measuring fair value that includes a hierarchy used to classify inputs used in measuring fair value. The hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels which are either observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect an entity’s view of market assumptions in the absence of observable market information. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Company’s Level 1 assets include equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs. The Company's Level 2 assets include fixed maturity debt securities (corporate and private bonds, government or agency securities, asset-backed and mortgage-backed securities), preferred stock, certain equity securities, and over-the-counter derivative contracts. The Company's Level 2 liabilities consist of certain product-related embedded derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or determined through use of valuation methodologies using observable market inputs.

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Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service assumptions about the assumptions market participants would use in pricing an asset or liability. The Company's Level 3 assets include certain equity securities and certain less liquid or private fixed maturity debt securities where significant valuation inputs cannot be corroborated with market observable data. The Company's Level 3 liabilities consist of share-based compensation obligations. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

The following table sets forth the Company's assets and liabilities that are measured at fair value on a recurring basis as of the date indicated:

Description	Total	December 31, 2008		
		Level 1	Level 2	Level 3
(In thousands)				
Debt securities, available for sale	\$ 1,731,583	-	1,721,341	10,242
Equity securities, available for sale	13,683	302	6,191	7,190
Derivatives	11,920	-	11,920	-
<b>Total assets</b>	<b>\$ 1,757,186</b>	<b>302</b>	<b>1,739,452</b>	<b>17,432</b>
Policyholder account balances (a)	\$ 19,377	-	19,377	-
Other liabilities (b)	3,787	-	-	3,787
<b>Total liabilities</b>	<b>\$ 23,164</b>	<b>-</b>	<b>19,377</b>	<b>3,787</b>

(a) Represents the fair value of certain product-related embedded derivatives that were recorded at fair value.

(b) Represents the liability for share-based compensation.

The following table provides additional information about fair value measurements for which significant unobservable (Level 3) inputs were utilized to determine fair value.

	For the Twelve Months Ended December 31, 2008			
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
(In thousands)				
Beginning balance, January 1, 2008	\$ 1,618	7,147	8,765	7,712
Total realized and unrealized gains (losses):				
Included in net income	-	-	-	(1,424)
Included in other comprehensive loss	(2,773)	43	(2,730)	-
Purchases, sales, issuances and settlements, net	(527)	-	(527)	(2,501)
Transfers into (out of) Level 3	11,924	-	11,924	-
<b>Ending balance, December 31, 2008</b>	<b>\$ 10,242</b>	<b>7,190</b>	<b>17,432</b>	<b>3,787</b>

Amount of total gains (losses) for the period included in net income attributable to the change

in unrealized gains (losses) relating to assets still held as of December 31, 2008	\$	-	-	-	(2,321)
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Realized gains (losses) on Level 3 assets and liabilities are reported in the consolidated statements of earnings as net investment gains (losses), while unrealized gain (losses) on debt and equity securities are reported as other comprehensive income (loss) within stockholders' equity.

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The fair value hierarchy classifications are reviewed each reporting period. Reclassification of certain financial assets and liabilities may result based on changes in the observability of valuation attributes. Reclassifications are reported as transfers into and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

The Company is required to classify its investments in debt and equity securities into one of three categories: (a) trading securities, (b) securities available for sale, or (c) securities held to maturity. The Company purchases securities with the intent to hold to maturity and accordingly does not maintain a portfolio of trading securities. Of the remaining two categories, available for sale and held to maturity, the Company makes a determination as to which category based on various factors including the type and quality of the particular security and how it will be incorporated into the Company's overall asset/liability management strategy. As shown in the table below, at December 31, 2008, approximately 31.9% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. These holdings provide flexibility to the Company to react to market opportunities and conditions and to practice active management within the portfolio to provide adequate liquidity to meet policyholder obligations and other cash needs.

	Fair Value	Amortized Cost (In thousands)	Unrealized Gains (Losses)
Securities held to maturity:			
Debt securities	\$ 3,727,353	3,831,417	(104,064)
Securities available for sale:			
Debt securities	1,731,583	1,896,946	(165,363)
Equity securities	13,683	7,107	6,576
Totals	\$ 5,472,619	5,735,470	(262,851)

In accordance with the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company may under certain conditions transfer a debt security from held to maturity to available for sale. For the year 2008, the Company recorded other-than-temporary impairment writedowns on debt securities consisting of Washington Mutual (\$9.3 million), Clear Channel Communications (\$8.7 million), GMAC (\$2.3 million), and Greentree Financial (\$1.5 million) and on equity securities totaling \$5.4 million including Freddie Mac and Fannie Mae preferred stock (\$4.6 million). Due to the events leading to the writedowns also providing evidence of a significant deterioration in the issuers' credit worthiness, the Washington Mutual, Greentree Financial and two GMAC securities were transferred from held to maturity to available for sale. No transfers were made in 2007 or 2006. During 2007, one security was sold from the held to maturity portfolio due to credit deterioration, with an amortized cost of \$5.2 million, resulting in a minimal realized gain. No held to maturity sales were made during 2006.

#### Mortgage Loans and Real Estate

In general, the Company originates loans on high quality, income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial and sales or service facilities, selected apartment buildings, motels, and health care facilities. The location of these properties is typically in major metropolitan areas that offer a potential for property value appreciation. Credit and default risk is minimized through strict underwriting guidelines and diversification of underlying property types and geographic locations. In addition to being secured by the property, mortgage loans with leases on the underlying property are often guaranteed by the lessee. This approach has proven to result in quality mortgage loans with few defaults.

The Company requires a minimum specified yield on mortgage loan investments. In the loan interest rate environment of the past few years, fewer loan opportunities have been available which met the Company's required rate of return. As a result, the Company's portfolio has declined.

The Company's direct investments in real estate are not a significant portion of its total investment portfolio as many of these investments were acquired through mortgage loan foreclosures. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties. These investments have enhanced the Company's overall investment portfolio returns.

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The Company held net investments in mortgage loans totaling \$90.7 million and \$99.0 million at December 31, 2008 and 2007, respectively. The diversification of the portfolio by geographic region and by property type was as follows:

Geographic Region:	2008		2007	
	Amount (In thousands)	%	Amount (In thousands)	%
West South Central	\$ 62,123	68.5	\$ 62,160	62.8
East North Central	12,030	13.3	11,572	11.7
Mountain	7,919	8.7	8,240	8.3
South Atlantic	3,666	4.0	4,590	4.6
Pacific	2,562	2.8	9,970	10.1
All Other	2,433	2.7	2,501	2.5
Totals	\$ 90,733	100.0	\$ 99,033	100.0

Property Type:	2008		2007	
	Amount (In thousands)	%	Amount (In thousands)	%
Retail	\$ 70,954	78.2	\$ 71,893	72.6
Hotel/Motel	6,320	7.0	6,490	6.5
Office	5,971	6.6	16,721	16.9
Land/Lots	3,885	4.3	3,923	4.0
Apartments	3,600	3.9	-	-
All other	3	-	6	-
Totals	\$ 90,733	100.0	\$ 99,033	100.0

The Company does not recognize interest income on loans past due ninety days or more. The Company had two mortgage loans past due six months or more with the principal balance totaling \$7.0 million at December 31, 2008, 2007 and 2006. Interest income not recognized for past due loans totaled approximately \$0.4 million in 2008, 2007, and 2006.

The Company recognized valuation losses of \$1.0 million, \$1.5 million, and \$2.1 million for the years ended December 31, 2008, 2007, and 2006 respectively, based on information which indicated that the Company may not collect all amounts in accordance with the mortgage agreement. While the Company closely manages its mortgage loan portfolio, future changes in economic conditions can result in impairments beyond those currently identified.

The contractual maturities of mortgage loan principal balances at December 31, 2008 are as follows:

	Principal Due (In thousands)
Due in one year or less	\$ 6,541



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Due after one year through five years	42,133
Due after five years through ten years	48,770
Due after ten years through fifteen years	3,221
Due after fifteen years	-
Total	\$ 100,665

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The Company's real estate investments totaled approximately \$10.8 million and \$12.0 million at December 31, 2008 and 2007, respectively, and consist primarily of income-producing properties which are being operated by a wholly-owned subsidiary of the Company. The Company recognized operating income on these properties of approximately \$0.9 million, \$1.0 million, and \$0.8 million for the years ended December 31, 2008, 2007, and 2006, respectively. The Company monitors the conditions and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition. The Company recorded net realized investment losses of \$0.1 million in 2008 and gains of \$0.2 million and \$0.6 million in 2007 and 2006, respectively, associated with these properties.

## Market Risk

Market risk is the risk of change in market values of financial instruments due to changes in interest rates, currency exchange rates, commodity prices, or equity prices. The most significant market risk exposure for National Western is interest rate risk. The fair values of fixed income debt securities correlate to external market interest rate conditions. Because interest rates are fixed on almost all of the Company's debt securities, market values typically increase when market interest rates decline, and decrease when market interest rates rise. However, market values may fluctuate for other reasons, such as changing economic conditions, market dislocations or increasing event-risk concerns.

The correlation between fair values and interest rates for debt securities is reflected in the tables below.

	December 31,	
	2008	2007
	(In thousands except percentages)	
Debt securities - fair value	\$ 5,458,936	5,655,194
Debt securities - amortized cost	\$ 5,728,363	5,670,827
Fair value as a percentage of amortized cost	95.30 %	99.72 %
Unrealized losses at year-end	\$ (269,427)	(15,633)
Ten-year U.S. Treasury bond – decrease in yield for the year	(1.81)%	(0.68)%

	Unrealized Losses		
	Net Balance	Net Balance	
	at	at	
	December	December	Change in
	31,	31,	Net Balance
	2008	2007	
	(In thousands)		
Debt securities held to maturity	\$ (104,064)	(4,410)	(99,654)
Debt securities available for sale	(165,363)	(11,223)	(154,140)
Totals	\$ (269,427)	(15,633)	(253,794)

Changes in interest rates typically have a significant impact on the fair values of the Company's debt securities. During 2008, market interest rates of the ten-year U.S. Treasury bond decreased 181 basis points from year

end 2007 while there was a substantial increase in corporate spreads over the treasury yield. This increase in spread contributed to the increase in the unrealized loss balance of \$253.8 million on a portfolio of approximately \$5.6 billion. This amount is reasonable based upon the current market factors and the current investment portfolio characteristics. The Company would expect similar results in the future from a significant upward or downward movement in market rates. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have relatively small effects on the Company's financial results.

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The Company manages interest rate risk through ongoing cash flow testing required for insurance regulatory purposes. Business models are used to perform cash flow testing under various commonly used stress test interest rate scenarios to determine if existing assets would be sufficient to meet projected liability outflows. Sensitivity analysis allows the Company to measure the potential gain or loss in fair value of its interest-sensitive instruments and to protect its economic value and achieve a predictable spread between what is earned on invested assets and what is paid on liabilities. The Company seeks to minimize the impact of interest rate risk through surrender charges that are imposed to discourage policy surrenders and to offset unamortized acquisition costs. Interest rate changes can be anticipated in the computer models and the corresponding risk addressed by management actions affecting asset and liability instruments. However, potential changes in the values of financial instruments indicated by hypothetical interest rate changes will likely be different from actual changes experienced, and the differences could be significant.

The following table illustrates the market risk sensitivity of the Company's interest rate-sensitive assets. The table shows the effect of a change in interest rates on the fair value of the portfolio using models that measure the change in fair value arising from an immediate and sustained change in interest rates in increments of 100 basis points.

	Fair Values of Assets				
	Changes in Interest Rates in Basis Points				
	-100	0	+ 100	+ 200	+ 300
	(In thousands)				
Debt and equity securities	\$ 5,681,585	5,472,619	5,201,005	4,916,196	4,647,935
Mortgage loans	93,944	90,884	87,996	85,268	82,689
Other loans	1,584	1,572	1,560	1,548	1,536
Derivatives	11,668	11,920	12,170	12,421	12,674

Expected maturities of debt securities may differ from contractual maturities due to call or prepayment provisions. The models assume that prepayments on mortgage-backed securities are influenced by agency and pool types, the level of interest rates, loan age, refinancing incentive, month of the year, and underlying coupon. During periods of declining interest rates, principal payments on mortgage-backed securities and collateralized mortgage obligations tend to increase as the underlying mortgages are prepaid. Conversely, during periods of rising interest rates, the rate of prepayment slows. Both of these situations can expose the Company to the possibility of asset-liability cash flow and yield mismatch. The model uses a proprietary method of sampling interest rate paths along with a mortgage prepayment model to derive future cash flows. The initial interest rates used are based on the current U.S. Treasury yield curve as well as current mortgage rates for the various types of collateral in the portfolio.

Mortgage and other loans were modeled by discounting scheduled cash flows through the scheduled maturities of the loans, starting with interest rates currently being offered for similar loans to borrowers with similar credit ratings. Policy loans were modeled by discounting estimated cash flows using U.S. Treasury Bill interest rates as the base rates at December 31, 2008. The estimated cash flows include assumptions as to whether such loans will be repaid by the policyholders or settled upon payment of death or surrender benefits on the underlying insurance contracts and incorporate both Company experience and mortality assumptions associated with such contracts.

In addition to the securities analyzed above, the Company invests in index options which are derivative financial instruments used to hedge the equity return component of the Company's indexed annuity and life products. The values of these options are primarily impacted by equity price risk, as the options' fair values are dependent on the performance of the underlying reference index. However, increases or decreases in investment returns from these options are substantially offset by corresponding increases or decreases in amounts paid to indexed policyholders, subject to minimum guaranteed policy interest rates.



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The Company's market risk liabilities, which include policy liabilities for annuity and supplemental contracts, are managed for interest rate risk through cash flow testing as previously described. As part of this cash flow testing, the Company has analyzed the potential impact on net earnings of a 100 basis point decrease and increases in increments of 100 basis points in the U.S. Treasury yield curve as of December 31, 2008. The potential impact on net earnings from these interest rate changes are summarized below.

	Changes in Interest Rates in Basis Points			
	-100	+100	+200	+300
	(In thousands)			
Impact on net earnings	\$ (1,087)	1,767	746	(897)

These estimated impacts in earnings are net of tax effects and the estimated effects of deferred policy acquisition costs.

The above described scenarios produce estimated changes in cash flows as well as cash flow reinvestment projections. Estimated cash flows in the Company's model assume cash flow reinvestments, which are representative of the Company's current investment strategy. Calls and prepayments include scheduled maturities and those expected to occur which would benefit the security issuers. Assumed policy surrenders consider differences and relationships between credited interest rates and market interest rates as well as surrender charges on individual policies. The impact to earnings also includes the expected effects on amortization of deferred policy acquisition costs. The model considers only annuity and supplemental contracts in force at December 31, 2008, and does not consider new product sales or the possible impact of interest rate changes on sales.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and annuity considerations, investment income, and investment maturities and prepayments are the primary sources of funds while investment purchases, policy benefits in the form of claims, and payments to policyholders and contract holders in connection with surrenders and withdrawals as well as operating expenses are the primary uses of funds. To ensure the Company will be able to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities. Funds are invested with the intent that the income from investments, plus proceeds from maturities, will meet the ongoing cash flow needs of the Company. The approach of matching asset and liability durations and yields requires an appropriate mix of investments. Although the Company historically has not been put in the position of liquidating invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company may also borrow up to \$40 million on its bank line of credit for short-term cash needs.

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A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. The Company includes provisions within its annuity and universal life insurance policies, such as surrender and market value adjustment charges, that help limit and discourage early withdrawals. The following table sets forth withdrawal characteristics of the Company's annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	December 31, 2008		December 31, 2007	
	Amount	% of Total (\$ Amounts in thousands)	Amount	% of Total
Not subject to discretionary withdrawal provisions	\$ 369,405	8.3%	\$ 307,133	6.8%
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	1,305,478	29.3%	1,368,899	30.6%
At contract value less current surrender charge of 5% or more	2,347,156	52.6%	2,295,358	51.3%
Subtotal	4,022,039	90.2%	3,971,390	88.7%
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	440,694	9.8%	506,247	11.3%
Total annuity reserves and deposit liabilities	\$ 4,462,733	100.0%	\$ 4,477,637	100.0%

The actual amounts paid by product line in connection with surrenders and withdrawals for the years ended December 31 are noted in the table below.

	2008	2007	2006
	(In thousands)		
Product Line:			
Traditional Life	\$ 5,763	6,408	4,845
Universal Life	41,430	34,356	30,566
Annuities	391,879	435,800	363,407
Total	\$ 439,072	476,564	398,818

The above contractual withdrawals, as well as the level of surrenders experienced, were generally consistent with the Company's assumptions in asset-liability management, and the associated cash outflows did not have an adverse impact on overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and tests under various market interest rate scenarios are also performed to assist in evaluating liquidity needs and adequacy. The Company currently expects available liquidity sources and future cash flows to be more than adequate to meet the demand for funds.

In the past, cash flows from the Company's insurance operations have been sufficient to meet current needs. Cash flows from operating activities were \$195 million, \$260 million, and \$224 million in 2008, 2007, and 2006,

respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled \$729 million, \$517 million, and \$399 million in 2008, 2007, and 2006, respectively. Cash flows from security maturities, redemptions, and prepayments were relatively higher over the last three years due to the decline in interest rates. These cash flow items could be reduced if interest rates rise in 2009. Net cash flows from the Company's universal life and annuity deposit product operations totaled inflows (outflows) of \$(118) million, \$(93) million, and \$25 million in 2008, 2007, and 2006, respectively.



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Capital Resources

The Company relies on stockholders' equity for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. As of December 31, 2008, the Company had commitments of approximately \$2.5 million which were approved by the Company's Board of Directors for the construction of a nursing home facility in Central Texas. The construction of the new facility began in 2007.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

It is Company practice not to enter into off-balance sheet arrangements or to issue guarantees to third parties, other than in the normal course of issuing insurance contracts. Commitments related to insurance products sold are reflected as liabilities for future policy benefits. Insurance contracts guarantee certain performances by the Company.

Insurance reserves are the means by which life insurance companies determine the liabilities that must be established to assure that future policy benefits are provided for and can be paid. These reserves are required by law and based upon standard actuarial methodologies to ensure fulfillment of commitments guaranteed to policyholders and their beneficiaries, even though the obligations may not be due for many years. Refer to Note (1) in the Notes to Consolidated Financial Statements for a discussion of reserving methods.

The table below summarizes future estimated cash payments under existing contractual obligations.

	Total	Payment due by Period			
		Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
(In thousands)					
Operating lease obligations (1)	\$ 1,342	988	354	-	-
Construction commitments	2,461	2,461	-	-	-
Life claims payable (2)	51,905	51,905	-	-	-
Other long-term reserve liabilities reflected on the balance sheet under GAAP (3)	7,875	800	1,456	1,788	3,831
<b>Total</b>	<b>\$ 63,583</b>	<b>56,154</b>	<b>1,810</b>	<b>1,788</b>	<b>3,831</b>

(1) Refer to Note 9 in the Notes to Consolidated Financial Statements relating to Company leases.

(2) Life claims payable include benefit and claim liabilities for which the Company believes the amount and timing of the payment is essentially fixed and determinable. Such amounts generally relate to incurred and reported death and critical illness claims including an estimate of claims incurred but not reported.

(3) Other long-term liabilities include estimated life and annuity obligations related to death claims, policy surrenders, policy withdrawals, maturities and annuity payments based on mortality, lapse, annuitization, and withdrawal assumptions consistent with the Company's historical experience. These estimated life and annuity obligations are undiscounted projected cash outflows that assume interest crediting and market growth consistent with assumptions used in amortizing deferred acquisition costs. They do not include any offsets for future premiums or deposits. Other long-term liabilities also include determinable payout patterns related to immediate annuities. In contrast to this table, the majority of the Company's liabilities for future obligations recorded on the consolidated balance sheet do not incorporate future credited interest and market growth. Therefore, the estimated life and annuity

obligations presented in this table significantly exceed the life and annuity liabilities recorded in the reserves for future life and annuity obligations. Due to the significance of the assumptions used, the actual cash outflows will differ both in amount and timing, possibly materially, from these estimates.

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ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING

Recently Issued Accounting Standards

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 establishes accounting and reporting standards for entities that have equity investments that are not attributable directly to the parent, called noncontrolling interests or minority interests. Specifically, SFAS 160 states where and how to report noncontrolling interests in the consolidated statements of financial position and operations, how to account for changes in noncontrolling interests and provides disclosure requirements. The provisions of SFAS 160 are effective beginning January 1, 2009. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

In December 2007, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 141(R), Business Combinations. SFAS 141(R) establishes how an entity accounts for the identifiable assets acquired, liabilities assumed, and any noncontrolling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, early adoption is prohibited. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years and interim periods beginning after November 15, 2008.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. This statement requires enhanced disclosures regarding an entity’s derivative and hedging activity to enable investors to better understand the effects on an entity’s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 is not expected to have a material impact on the Company’s consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. The provisions of FSP FAS 142-3 are to be applied prospectively to intangible assets acquired after January 1, 2009 although the disclosure provisions are required for all intangible assets as of or subsequent to January 1, 2009. The adoption of FSP FAS 142-3 is not expected to impact the Company’s consolidated financial condition and results of operations.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. This FSP amends SFAS 133 to require disclosures by entities that assume credit risk through the sale of credit derivatives including credit derivatives embedded in a hybrid instrument to enable users of financial statements to assess the potential effect on its financial position, financial performance, and cash flows from these credit derivatives. This FSP also amends FASB Interpretation No. 45, Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, to require additional disclosure about the current status of the payment/performance risk of a guarantee. FSP FAS 133-1 and FIN 45-4 are effective for financial statements issued for fiscal years and interim periods ending after

November 15, 2008. The Company does not expect the adoption of FSP FAS 133-1 and FIN 45-4 to have an effect on the Company's consolidated financial condition and results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

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## Change in Accounting

In September 2005, the AICPA issued Statement of Position (“SOP”) 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts, which is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The Company has an impact related to the adoption of SOP 05-1 for contracts which have annuitized and relative to reinstatements of contracts in that the unamortized deferred acquisition costs and deferred sales inducement assets must be written-off at the time of annuitization and may not be continued related to reinstatements. SOP 05-1 results in changes in assumptions relative to estimated gross profits which affects unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement balances as of the beginning of the year. The effect of this SOP on beginning retained earnings as of January 1, 2007 was a decrease of \$2.2 million, net of tax, as detailed below.

	Amounts (In thousands)
Write-off of deferred acquisition costs	\$ 3,321
Adjustment to deferred annuity revenue	56
	3,377
Federal income tax	(1,182)
Cumulative effect of change in accounting for internal replacements and investment contracts	\$ 2,195

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES  
ABOUT MARKET RISK**

The information called for by Item 7A is set forth in the Investments section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Attachment A, Index to Financial Statements and Schedules, on page 81.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no changes in auditors or disagreements with auditors that are reportable pursuant to Item 304 of Regulation S-K.

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ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information to be disclosed in reports filed or submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding disclosure matters.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

The management of National Western Life Insurance Company ("Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. The Company's management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework. Based on the Company's assessment under this framework, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2008.

Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting change as the Company modifies and enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment. While changes have taken place in internal controls during the quarter ended December 31, 2008, there have been no changes that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of this examination.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
National Western Life Insurance Company:

We have audited National Western Life insurance Company's (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, our audit included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, National Western Life Insurance Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Western Life Insurance Company and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of earnings, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated March 16, 2009 expressed an unqualified opinion on those consolidated financial statements.



KPMG LLP  
Dallas, Texas  
March 16, 2009

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## ITEM 9B. OTHER INFORMATION

There is no information required to be disclosed on Form 8-K for the quarter ended December 31, 2008 which has not been previously reported.

## PART III

## ITEM 10. DIRECTORS, AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

## Identification of Directors

The following information as of January 31, 2009, is furnished with respect to each director. All terms expire in June of 2009.

Name of Director	Principal Occupation During Last Five Years and Directorships	First Elected	Age
Robert L. Moody (1) (3)	Chairman of the Board and Chief Executive Officer of the Company	1963	73
Ross R. Moody (1) (3)	President and Chief Operating Officer of the Company	1981	46
Stephen E. Glasgow (2) (4)	Partner, G-2 Development, L.P. Austin, Texas	2004	46
E. Douglas McLeod	Director of Development, The Moody Foundation, Galveston, Texas	1979	67
Charles D. Milos (1) (3)	Senior Vice President of the Company	1981	63
Frances A. Moody-Dahlberg	Executive Director, The Moody Foundation, Dallas, Texas	1990	39
Russell S. Moody	Investments, League City, Texas	1988	47
Louis E. Pauls, Jr. (2) (4)	President, Louis Pauls & Company; Investments, Galveston, Texas	1971	73
E. J. Pederson (2) (4)	Former Executive Vice President, The University of Texas Medical Branch, Galveston, Texas	1992	61

(1) Member of Executive Committee; (2) Member of Audit Committee; (3) Member of Investment Committee; (4) Member of Compensation and Stock Option Committee.



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Under the Company's Articles of Incorporation, respective members of the Board of Directors are elected by the Company's two classes of common stockholders. One-third (1/3) of the directors, plus one director for any remaining fraction, are elected by the Class A stockholders and the remaining directors are elected by the Class B stockholders. The Board of Directors, as elected by the respective classes of stockholders, is as follows.

Class A	Class B
Robert L. Moody	E. Douglas McLeod
Stephen E. Glasgow	Charles D. Milos
E. J. Pederson	Frances A. Moody-Dahlberg
	Ross R. Moody
	Russell S. Moody
	Louis E. Pauls, Jr.

## Committees

The Company's Board of Directors has the following standing committees:

**Executive Committee.** The Company's Executive Committee may exercise all of the authority of the Board of Directors in the management of the business and affairs of the corporation, except where action of some or all members of the Board of Directors is required by statute or the Articles of Incorporation or the Bylaws or resolution of the Board. The Chairman of the Board serves as Chairman of the Executive Committee.

**Audit Committee.** The Audit Committee of the Board of Directors consists of three non-employee directors. The committee is primarily responsible for oversight of the Company's financial statements and controls; assessing and ensuring the independence, qualifications and performance of the independent auditors; approving the independent auditor's services and fees; reviewing and approving all related party transactions; reviewing potential conflict of interest situations where appropriate; overseeing and directing internal audit activities; reviewing the Company's financial risk assessment process and ethical, legal, and regulatory compliance programs; and reviewing and approving the annual audited financial statements for the Company before issuance. Mr. Louis E. Pauls, Jr. serves as Chairman of the Audit Committee.

The Company has at least one person that it believes is qualified to be the Audit Committee Financial Expert. However, the Company has not designated anyone as an Audit Committee Financial Expert at this time as the Company's Board of Directors has concluded that the ability of the Audit Committee to perform its duties would not be impaired by the failure to designate one of the committee members as an "Audit Committee Financial Expert" if its members otherwise satisfied the NASDAQ standards and rules and regulations of the SEC.

**Investment Committee.** The Investment Committee of the Board of Directors is comprised of three directors (and one Company officer) and has the responsibility for oversight of the Company's investment transactions including compliance with investment guidelines approved by the full Board of Directors. The Chairman of the Board serves as Chairman of the Investment Committee.

**Compensation and Stock Option Committee.** The Compensation and Stock Option Committee consists of three independent, outside directors and the committee has oversight responsibility for the compensation programs for the Company's independent named executive officers as well as all other officers. Mr. E.J. Pederson serves as Chairman

of the Compensation and Stock Option Committee. The Committee's report on executive compensation is included in Item 11 of this report on Form 10-K.

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## Identification of Executive Officers

The following is a list of the Company's executive officers, their ages, and their positions and offices as of January 31, 2009.

Name of Officer	Age	Position (Year elected to position)
Robert L. Moody	73	Chairman of the Board and Chief Executive Officer (1963-1968, 1971-1980, 1981), Director
Ross R. Moody	46	President and Chief Operating Officer (1992), Director
Scott E. Arendale	64	Senior Vice President - International Marketing (2006)
Paul D. Facey	57	Senior Vice President - Chief Actuary (1992)
Michael P. Hydanus	57	Senior Vice President – Chief Information Officer (2008)
S. Christopher Johnson	40	Senior Vice President - Chief Marketing Officer (2006)
Charles D. Milos	63	Senior Vice President - Mortgage Loans and Real Estate (1990), Director
James P. Payne	64	Senior Vice President - Secretary (1998)
Brian M. Pribyl	50	Senior Vice President - Chief Financial & Administrative Officer and Treasurer (2001)
Patricia L. Scheuer	57	Senior Vice President - Chief Investment Officer (1992)

There are no arrangements or understandings pursuant to which any officer was elected. All officers hold office for a term of one year or until their successors are elected and qualified, unless otherwise specified by the Board of Directors.

## Identification of Certain Significant Employees

None in addition to the individuals identified as Executive Officers above.

## Family Relationships

Robert L. Moody is the father of Frances A. Moody-Dahlberg, Ross R. Moody, and Russell S. Moody, and the brother-in-law of E. Douglas McLeod.

## Business Experience

All of the Executive Officers listed above have served in various executive capacities with the Company for more than five years, with the exception of the following:

Mr. Arendale was Vice President of International Sales Development with the Company for the preceding five years prior to being promoted to his current position in June 2006.

Mr. Johnson was National Promotions Director of National Fitness Corp. from 1992 to 1993; Branch Manager of Hooper Holmes/Portamedic from 1993 to 1994; Agent/Consultant with Financial Facts & Services from 1994 to 1995; Field Sales Manager of Financial Brokerage from 1995 to 1998; Senior Sales Representative with Mutual of Omaha from 1998 to 1999 and Senior Regional Vice President of Allstate - Lincoln Benefit Life from 1999 to 2006.

Mr. Hydanus was previously with Financial Industries Corporation (Austin, TX) serving as Chief Operations Officer from 2005 to 2007 and Interim President and Chief Executive Officer from 2007 to 2008. Prior to that Mr. Hydanus was a principal in Sage Consulting Group (California and Tennessee) from 2001 to 2005 providing information technology improvements and corporate operations consulting services.

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Involvement in Certain Legal Proceedings

During the past five years there have been no criminal proceedings, judgments, injunctions or bankruptcy petitions material to an evaluation of the ability or integrity of any of the Company's directors or executive officers.

Code of Ethics

The Company has adopted a Code of Ethics and Conduct for all directors, officers, and employees. This Code is intended to comply with the requirement of the Federal Securities Laws and the requirements of NASDAQ. The Code of Ethics and Conduct has been posted to the Company's website at [www.nationalwesternlife.com](http://www.nationalwesternlife.com) and is available upon request.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Purpose

The Compensation and Stock Option Committee (“Compensation Committee”) is appointed by and serves at the discretion of the Company’s Board of Directors. The Compensation Committee consists of no fewer than three members who meet the independence requirements of the listing standards of NASDAQ. The purpose of the Compensation Committee is to discharge the Board of Directors’ responsibilities for reviewing and establishing the compensation not just for the Chief Executive Officer, Chief Financial Officer, and the other three most highly paid executive officers, but for all of the Company’s officers. These compensation elements include base salary, annual incentive bonuses, discretionary bonuses and awards, stock option grants, and any other officer compensation arrangements.

To assist the Compensation Committee with its responsibilities, it is supported by the Company’s Human Resource, Legal and Financial departments. The Compensation Committee may retain, and has retained, independent compensation consultants who report directly to the members of the Compensation Committee. Meetings of the Compensation Committee are scheduled during the year with additional meetings on an as-necessary interim basis and include sessions without members of management present. The Compensation Committee reports to the Board of Directors on its actions and recommendations.

Compensation Philosophy and Objectives

The Company’s overall philosophy in setting compensation policies is to align pay with performance while at the same time providing a competitive compensation that allows the Company to retain and attract talented individuals. Within this overall philosophy, the Compensation Committee has adopted several key principles to help guide compensation decisions for executive officers:

- Provide a competitive total compensation package so the Company can attract, retain, and motivate talented individuals;
- Tie compensation in part to overall Company financial performance so that executives are held accountable through their compensation for the performance of the business;
- Tie compensation in part to the Company’s stock performance through stock options to align executives’ interests with those of the Company’s stockholders; and
-



Maintain a committee of the Board of Directors independent of senior management that may engage independent compensation consultants as needed to review and establish compensation for executive officers.

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### Elements of Executive Compensation

Officer compensation arrangements, including executive officers, are reviewed and approved annually by the Compensation Committee typically at its April meeting. The Compensation Committee focuses primarily on the following components in forming the total compensation package for each Company executive officer:

- Base salary;
- Annual cash incentive bonus based on Company performance versus predetermined targets;
  - Discretionary cash bonus based upon individual performance; and
  - Long-term incentive compensation in the form of stock options.

The mix of executive compensation elements is based upon a philosophy of correlating a portion of executive compensation with the Company's financial and stock performance thus putting a segment of executive officer annual and long-term compensation at-risk. This structure provides upside potential and downside risk for senior executive positions in recognition that these roles have greater influence on the Company's performance.

### Base Salaries

To ensure that compensation levels are reasonably competitive with market rates, the Compensation Committee engages independent compensation consultants from time-to-time to conduct a survey of executive compensation in a defined group of companies comparable to the Company. The surveyed companies are selected based on similar products and product lines, comparable financial size in terms of assets and revenues, and other known competitive factors. This process was most recently completed during 2008. While the primary focus of the survey was upon base salaries, the independent consultants were also asked to provide total compensation data for the various officer positions and levels in order to target current and future appropriate compensation levels. The Compensation Committee's past practice has been to generally target base salaries between the 25th and 75th percentile range of the identified peer group.

For the most recent survey, the Company engaged independent compensation consultants (Towers Perrin) to update the work previously performed in 2005 following the same criteria and scope as was done at the time of a previous study. Companies to be considered in the benchmarking process include, among others, American Equity Investment Life, American Fidelity Life, AVIVA, Best Meridian Insurance, Citizens Insurance Company, Lincoln National Life, Old Mutual Financial Network, Pan-American Life, and Sammons Financial Group.

In addition to market information, the Compensation Committee also subjectively reviews and evaluates the level of performance of the Company and of each officer. In approving salary and incentive compensation for individuals other than the Chief Executive Officer and the President and Chief Operating Officer, the Compensation Committee considers recommendations from these two individuals concerning the other Company officers incorporating such factors as individual performance, the scope and complexity of their current responsibilities, length of time in their current positions, value of the executive's position to the market, and difficulty of replacement of the officer. This evaluation focuses most heavily on the base salary levels for each officer.

### Annual Incentive Compensation

For certain executive officer positions, the Compensation Committee has determined that annual incentive bonuses are an integral part of the executive's compensation package as the cash bonuses create a direct link between executive compensation and individual and business performance. Consequently, there are four bonus programs in effect which are reviewed and approved annually by the Compensation Committee:

- Executive Officer Bonus Program
- Domestic Marketing Officer Bonus Program
- International Marketing Officer Bonus Program
  - Senior Vice President Bonus Program

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Executive Officer Bonus Program. Currently, the participants in the Executive Officer Bonus Program (“Executive Bonus”) are the Chairman and Chief Executive Officer (Mr. Robert Moody), the President and Chief Operating Officer (Mr. Ross Moody), the Senior Vice President, Chief Financial & Administrative Officer (Mr. Brian Pribyl), and the Senior Vice President, Chief Information Officer (Mr. Michael Hydanus). In order to tie the compensation under the program with the Company’s financial performance, the Executive Bonus includes metrics associated with the Company’s annual sales performance, expense management and profitability. In accordance with the program, the Compensation Committee set performance targets for each metric at various levels equating to various bonus level percentages as follows:

F i n a n c i a l P e r f o r m a n c e M e t r i c	Bonus % Range
Sales	0% to 15%
E x p e n s e M a n a g e m e n t	0% to 12%
Profitability	0% to 12%

The sum of the achieved bonus percentages for each metric, subject to a maximum aggregate percentage of 30%, is applied to the weighted average base salary for each participant to determine the earned bonus amount. The profitability metric is based upon the Company’s audited financial statements for the year. Bonus awards are generally paid in the year following the annual financial performance metrics concurrent with the completion of the Company’s audit of the year-end financial statements and approval of the award amounts by the Compensation Committee. Accordingly, the Executive Bonus payments in 2008 were primarily based upon the results achieved for 2007 financial performance metrics established by the Compensation Committee. The bonus percentage achieved under the program was 18% and 30% in 2008 and 2007, respectively.

Domestic Marketing Officer Bonus Program. Participants in the Domestic Marketing Officer Bonus Program (“Domestic Bonus”) are all domestic marketing officers including assistant vice presidents, vice presidents, and the senior vice president (Mr. Chris Johnson). As these individuals are most able to influence the outcome of the Company’s financial performance in terms of sales, the program is heavily weighted toward this metric. The measures associated with this program include the Company’s annual sales performance, persistency of policies sold and expense management. These measures were incorporated into the program to award not only the amount of sales but the quality of sales and the management of the costs incurred to acquire the business sold. Unlike the Executive Bonus, the Domestic Bonus metrics assume a targeted level of performance or “par” level to which the Compensation Committee assigned a targeted bonus percentage in order to reflect a disproportionate weighting of the potential bonus award toward the sales metric. If the targeted level for each metric is attained, the sum of the metrics is equal to a bonus percentage of 100% which is applied to the weighted average base salary of each participant. The performance metrics set by the Compensation Committee equating to various bonus level percentages under the program are as follows:

F i n a n c i a l P e r f o r m a n c e M e t r i c	Par Bonus Level	Bonus % Range
Sales	70%	0% to no limit

Persistency	15%	0% to 30%
E x p e n s e	15%	0% to 30%
Management		

The Domestic Bonus also differs from the Executive Bonus in that the bonus percentage is not subject to a cap and bonus amounts may be advanced quarterly based upon the year-to-date results achieved. Sales metric amounts under the program above the par level increase incrementally with an additional bonus percentage added for every increment of additional sales established by the Compensation Committee. However, if the aggregate sum of the three performance metrics exceeds 100%, the bonus award paid at the end of the calendar year is limited to 100% for each participant. The bonus percentage above 100% is applied to the weighted average base salaries of all participants to create a pool which is paid out to participants in the subsequent calendar year based upon the recommendation of the Domestic Marketing senior vice president and subject to approval by the President and Chief Operating Officer. The Domestic Bonus percentage achieved under the program was 32.5% and 100.5% in 2008 and 2007, respectively.

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International Marketing Officer Bonus Program. Participants in the International Marketing Officer Bonus Program (“International Bonus”) are all international marketing officers including assistant vice presidents, vice presidents, and the senior vice president (Mr. Scott Arendale). The International Bonus is identical in format to the Domestic Bonus with the exception that the metric targets established by the Compensation Committee are customized for the differences between the domestic and international lines of business. The weighting of the three performance metrics (annual sales, persistency of policies sold, expense management) is the same as in the Domestic Bonus and all other features are similarly administrated. The International Bonus percentage achieved under the program was 44.0% and 214.0% in 2008 and 2007, respectively.

Senior Vice President Bonus Program. Participants in the Senior Vice President Bonus Program (“Senior VP Bonus”) are all Senior Vice Presidents not otherwise included in any of the other three officer bonus programs. Currently, these individuals include the Senior Vice President, Chief Actuary (Mr. Paul Facey), the Senior Vice President, Mortgage Loans and Real Estate (Mr. Charles Milos), the Senior Vice President, Secretary (Mr. James Payne) and the Senior Vice President, Chief Investment Officer (Ms. Patricia Scheuer). In order to tie compensation under the program with the Company’s financial performance, the Senior VP Bonus is based entirely upon a profitability metric, namely GAAP operating earnings as a percentage of beginning stockholder’s equity. The Compensation Committee set performance targets for this metric equating to various bonus level percentages as follows:

Financial Performance Metric	Bonus %
0.00% to 7.49%	0%
7.50% to 8.49%	6%
8.50% to 9.49%	8%
9.50% and above	10%

The achieved bonus percentage is applied to the weighted average base salary for each participant to determine the earned bonus amount. The bonus determination under the program is based upon the Company’s audited financial statements for the year. Bonus awards are paid in the year following the annual financial performance concurrent with the completion of the Company’s audit of the year-end financial statements and approval of the award amount by the Compensation Committee. The bonus percentage achieved under the program was 0% in 2008.

#### Discretionary Bonus Awards

For officers who are not participants in any of three bonus programs, the Compensation Committee considers from time-to-time circumstances which merit the need to recognize outstanding performance in the form of a discretionary bonus. Although many of these situations may be deemed within the normal responsibilities of officers, the Compensation Committee on occasion may provide one-time recognition bonuses to identified officers where the demands of the situation and the results of the effort warrant such recognition. There were no discretionary bonuses awarded in 2008. In 2007, none of the \$14,500 total discretionary bonuses awarded to officers was paid to named executive officers. In 2006, total discretionary bonuses awarded to officers totaled \$88,000 of which \$75,000 was targeted to Mr. Charles Milos for his efforts involving the Company’s real estate and investment properties and subsidiary operations.

### Long-Term Incentive Compensation

Under the Company's 1995 Stock and Incentive Plan and 2008 Incentive Plan, the Compensation Committee provides Company officers with long-term incentive awards through grants of stock options or stock appreciation rights ("SARs") directly aligning the interest of the officers with stockholder interests. The stock options and SARs have a graded five-year vesting period that begins on the third anniversary date of the grant in order to promote a long-term perspective and to encourage key employees to remain at the Company. All options and SARs to date have been granted at the fair market value of the Company's Class A common stock on the date of the grant. The Compensation Committee believes that stock options and SARs are inherently performance-based and a form of at-risk compensation since the recipient does not benefit unless the Company's common stock price subsequently rises.

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The Compensation Committee is responsible for determining the recipients of the grants, when the grants should be made, and the number of shares to be granted. The size of the awards generally reflect each officer's position relative to other officers in the Company with consideration to total compensation targets obtained from the peer group information previously discussed. In addition, as is the case with base salaries, the Compensation Committee considers the grant recommendations of the Chairman and Chief Executive and the President and Chief Operating Officer for other Company officers.

The normal practice of the Compensation Committee has been to grant stock options awards or SARs every three years at the time of its annual review of officer compensation. In April 2008 the Compensation Committee approved the issuance of 28,268 stock options to selected officers. The Compensation Committee approved the issuance of 2,750 shares to new officers during the third quarter of 2008.

### Retirement and Other Benefits

The Company's executive officers are eligible to participate in the health and welfare, 401(k) and defined benefit retirement benefit plans that are offered to other Company employees. In addition, if eligible, executive officers may participate in the following plans:

#### Group Excess Benefit Plan

Company officers at the senior vice president level and above, as well as those hired or promoted to the vice president level prior to May 1, 2007, including named executive officers, are eligible to participate in a group excess benefit plan which supplements the Company's core medical insurance plan. Administered by a third party insurer, the group excess benefit plan provides coverage for co-pays, deductibles and other out-of-pocket expenses not covered by the core medical insurance plan. Offering such a plan to the selected Company officer levels is viewed as a key component of the overall compensation strategy for attracting and retaining talented executive officers. The benefits provided to each named executive officer are reported in the "All Other Compensation Column" of the Summary Compensation Table.

#### Non-Qualified Defined Benefit Plan

This plan covers those officers of the Company who were in a senior vice president position or above prior to 1991. The plan provides retirement benefits to those individuals affected by the revisions to the Company's qualified defined benefit pension plan precipitated by the limitations imposed by Internal Revenue Code Section 401(a)(17) and 415. As of December 31, 2008 and 2007, the active officers participating in this plan were Mr. Robert Moody and Mr. Charles Milos. Benefits associated with this plan are disclosed in the Pension Benefits table in the Pension Benefits section.

#### Non-Qualified Deferred Compensation Plan

This plan allows Company senior officers, including named executive officers, to defer payment of a percentage of their compensation and to provide for up to a 2% matching and 2% profit sharing contribution on plan compensation that exceeds certain qualified plan limits, and additional Company discretionary matching contribution of up to 2% of plan compensation. Company contributions are subject to a vesting schedule based upon the officer's years of service. Benefit information associated with this plan is disclosed in the Non-Qualified Deferred Compensation table included in this Item 11 of the report on Form 10-K and Company contributions are included in the "All Other Compensation" column in the Summary Compensation Table.

#### Non-Qualified Defined Benefit Plan for Robert L. Moody



This plan specifically covers the Company's Chairman of the Board and Chief Executive Officer, Mr. Robert L. Moody, and is intended to supplement the retirement benefits of the Non-Qualified Defined Benefit Plan, mentioned above, that were limited by the American Jobs Creation Act of 2004. Mr. Moody's benefits associated with this plan are disclosed in the Pension Benefits table in the Pension Benefits section.

Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company

Similar to the previously discussed plan, this plan specifically covers the Company's President and Chief Operating Officer, Mr. Ross R. Moody, and is intended to provide the retirement benefits that comply with the American Jobs Creation Act of 2004. Mr. Moody's benefits associated with this plan are disclosed in the Pension Benefits table in the Pension Benefits section.

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### National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody

This program provides an annual payment to Mr. Robert L. Moody equal to 2% of his compensation. The payment made in 2008 related to 2007 compensation is reported in the “Non-Equity Incentive Plan Compensation” column of the Summary Compensation table.

### Postretirement Benefits

The Company’s basic health plan and group excess benefit plan have a provision for individuals serving in the positions of Chairman of the Board or President for seven years or more subsequent to 1980 to continue to receive lifetime health benefits for themselves and their dependents upon retirement. Mr. Robert L. Moody and Mr. Ross R. Moody, currently meet this eligibility criteria.

### Perquisites and Other Personal Benefits

The Compensation Committee periodically reviews executive officer perquisites and other benefits based upon information supplied to it by the Company’s Human Resources, Legal and Financial departments. In addition to base salaries and annual and long-term bonus incentives, the Company provides its executive officers with certain and varying perquisites and benefits.

The perquisites and personal benefits provided to each named executive officer are reported in the “All Other Compensation Column” of the Summary Compensation Table included in this Item 11 of the report on Form 10-K and are described in further detail in the footnotes to that table.

### Stock Ownership Guidelines

The Company does not require its directors or executive officers to own a particular amount of the Company’s common stock and accordingly has not established a set of stock ownership guidelines. The Compensation Committee is satisfied that the long-term incentive compensation offered to directors and officers in the form of stock options adequately aligns this group’s interest with those of the Company’s stockholders.

### Employment Agreements

The Company does not utilize employment agreements with its executive officers or other employees. The Company’s practice has been to issue offer letters to executive officer candidates when recruited to their positions. In addition to outlining the executive officer’s responsibilities, each offer letter specifies the beginning base salary and eligibility for any additional compensation programs overseen by the Compensation Committee. Accordingly, the Company does not have any contractual obligations to its executive officers for severance payments in connection with any termination or change-in-control.

### Financial Restatements

The Compensation Committee has not formally adopted a policy with respect to whether retroactive adjustments to any form of compensation paid under arrangements for executive officers will be made where the prior payment was related to financial results of the Company that are subsequently restated. As this situation has not previously been experienced, the Compensation Committee believes that such an issue is best addressed at the time it occurs and all facts and circumstances surrounding the restatement are known.

### Tax and Accounting Treatment of Compensation

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for non-performance based compensation over \$1 million paid in any one year to each of the individuals who were, at the end of the year, the corporation's chief executive officer and the four other most highly compensated executive officers. Except for the Chairman and Chief Executive Officer of the Company, the levels of non-performance based salary, bonus and other compensation paid do not typically exceed this level. As an insurance company subject to the laws and regulations of the State of Colorado, the Company is currently exempt from the requirements of Section 162(m) of the Internal Revenue Code pursuant to Section 12(g)(2)(G) of the Securities Exchange Act of 1934 until such time as the Company completes a registration filing as a NASDAQ exchange listed registrant.

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The Compensation Committee reserves the right to award compensation to executive officers that may not qualify under Section 162(m) as deductible compensation, however, it will continue to consider all elements of cost to the Company of providing such compensation, including the potential impact, if any, of Section 162(m).

The Company accounts for long-term incentive compensation in the form of stock options to executive officers under the rules set forth within SFAS No. 123(R) which requires the Company to estimate and expense each award of equity compensation over the service period of the award. Other accounting rules require that cash compensation be recorded as an expense at the time the obligation is accrued.

## Compensation Committee Report

The Compensation Committee has reviewed each element of executive officer compensation and believes that the compensation philosophy and practices are designed to serve the best interests of the Company and its stockholders. The Compensation Committee also believes that the compensation of the Company's executive officers is both appropriate and consistent with the objectives set by this committee.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth with the Company's management. Based on its reviews and discussions, the Compensation Committee approved and recommended to the Company's Board of Directors that the Compensation Discussion and Analysis be included in this report on Form 10-K for the year ended December 31, 2008.

Members of  
the  
Compensation  
Committee

E. J. Pederson  
(Chairman)  
Stephen E.  
Glasgow  
Louis E. Pauls

## Summary Compensation Table

The following table sets forth all of the compensation awarded to, earned by, or paid to the Company's principal executive officer, principal financial officer, and the three other highest paid executive officers for the years ended December 31, 2008, 2007 and 2006.

Name and Principal Position	Year	Salary (a)	Option Awards (b)	Non-Equity Incentive Plan Compen- sation	Change in Pension Value and Nonqualified Deferred Compensation	All Other Compen- sation (f)	Total
Robert L. Moody	2008	\$ 1,648,582	\$ (579,747)	\$ 263,757 (c)	\$ 1,100,754	\$ 703,007	\$ 3,136,353

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Chairman of the Board and Chief Executive Officer	2007	1,588,653	(259,064)	495,251	2,733,499	686,181	5,244,520
	2006	1,536,875	5,705,108	373,001	3,041,422	757,891	11,414,297
Ross R. Moody	2008	588,956	(360,998)	90,490 (c)	123,587	60,630	502,665
President and Chief Operating Officer	2007	565,534	(238,177)	160,520	126,568	121,963	736,408
	2006	550,925	2,870,250	118,903	14,951	74,171	3,629,200
Brian M. Pribyl	2008	253,165	16,678	41,863 (c)	4,580	34,937	351,223
Senior Vice President, Chief Financial and Administrative Officer	2007	252,665	(13,538)	74,695	15,239	36,405	365,466
	2006	240,600	145,571	54,433	13,409	40,627	494,640
Scott E. Arendale	2008	158,878	(8,878)	321,700 (d)	15,271	20,403	507,374
Senior Vice President, International Marketing	2007	150,050	5,445	178,101	33,595	17,570	384,761
	2006	117,456	123,872	117,085	25,853	12,354	396,620
Charles D. Milos	2008	249,130	(341,443)	-	88,350	44,980	41,017
Senior Vice President, Mortgage Loans and Real Estate	2007	239,569	(385,385)	-	81,780	50,598	(13,438)
	2006	232,732	1,054,108	-	77,788	43,167	1,407,795

Note: Columns with no data have been omitted.

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- (a) The 2008 amounts in this column include Company and subsidiary Board of Director fees of \$27,700 for Mr. Robert L. Moody, \$3,750 for Mr. Pribyl, \$30,450 for Mr. Ross R. Moody, and \$31,200 for Mr. Milos.
- (b) The amounts in this column represent the dollar amount recognized for financial statement purposes in accordance with SFAS No. 123(R) for all stock options and SARs granted and outstanding. Negative amounts in this column result from recording the options and SARs at fair value under liability accounting. For a discussion of the assumptions made in the valuation of these option and SARs awards, refer to the Notes to Consolidated Financial Statements section of this Annual Report on Form 10-K.
- (c) The amounts for Mr. Robert L. Moody, Mr. Ross R. Moody, and Mr. Pribyl represent bonuses earned under the 2008 Executive Officer Bonus Program. Also included in Mr. Robert L. Moody's amount is \$27,373 representing the bonus earned under the NWLIC Retirement Bonus Program.
- (d) The amount for Mr. Arendale represents the bonus earned, excluding pool amount, under the 2008 International Marketing Officer Bonus Program plus the pool amount under the 2007 International Marketing Officer Bonus Program paid during 2008.
- (e) The amounts in this column represent the change in the accumulated pension benefit under the Company's qualified defined benefit plan for Messrs. Pribyl and Arendale and the change in the accumulated pension benefit under the Company's qualified and non-qualified defined benefit plans for Messrs. Robert L. Moody and Ross R. Moody. For a discussion of the assumptions made in the calculation of these amounts, refer to the Notes to Consolidated Financial Statements section of this Annual Report on Form 10-K.
- (f) The amounts in this column include the items summarized in the following table:

## All Other Compensation

Name and Principal Position	Year	Company Paid Benefit Premiums (1)	Excess Benefit Claims Paid (2)	Company Contributions To Savings Plans (3)	Company Paid Taxes/ Insurance	Other Perquisites	Total All Other Compen- sation
Robert L. Moody Chairman of the Board and Chief Executive Officer	2008	\$ 5,264	\$ 8,613	\$ 2,300	\$ 670,684 (4)	\$ 16,146 (5)	\$ 703,007
	2007	4,995	2,021	4,500	669,135	5,530	686,181
	2006	4,391	48,850	4,400	667,775	32,475	757,891
Ross R. Moody President and Chief Operating Officer	2008	4,284	7,296	32,557	-	16,493 (6)	60,630
	2007	3,884	64,032	34,057	-	19,990	121,963
	2006	3,540	5,649	32,980	-	32,002	74,171

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Brian M. Pribyl	2008	8,540	9,638	13,854	-	2,905 (7)	34,937
Senior Vice President,	2007	8,040	10,499	15,435	-	2,431	36,405
Chief Financial and Administrative Officer	2006	7,206	15,023	14,661	-	3,737	40,627
Scott E. Arendale	2008	5,305	3,065	8,286	-	3,747 (8)	20,403
Senior Vice President,	2007	4,943	-	9,297	-	3,330	17,570
International Marketing	2006	4,314	-	6,412	-	1,628	12,354
Charles D. Milos	2008	8,670	21,496	13,043	-	1,771 (9)	44,980
Senior Vice President,	2007	8,170	26,116	14,346	-	1,966	50,598
Mortgage Loans and Real Estate	2006	7,286	15,692	13,754	-	6,435	43,167

- (1) The Company provides its officers additional compensation equivalent to the premiums for health, dental and accidental death and dismemberment coverage offered to all employees.
- (2) The amounts in this column represent claims paid under the Company's Group Excess Benefit Program.
- (3) The amounts in this column represent Company contributions to the Company's qualified and non-qualified savings plans. The Company's 401(k) plan is available to all employees with the same contribution criteria.
- (4) Mr. Robert L. Moody contributed a life interest in a trust estate to the Company as a capital contribution. The Company, in turn, issued term policies on the life of Mr. Moody in excess of the amount of the asset contributed which was assigned to Mr. Moody. Premiums paid on the excess amount of \$426,220 in 2008 represent additional compensation to Mr. Moody. In addition, the Company reimburses Mr. Moody the applicable taxes associated with this benefit which was \$244,464 in 2008.

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- (5) Mr. Robert Moody's amounts in this column include \$5,017 in miscellaneous travel and entertainment, \$4,263 in membership dues and event tickets, \$1,400 in gifts, \$4,540 for car expense and \$926 in various other expense items.
- (6) Mr. Ross Moody's amounts in this column include \$4,058 for car expense, \$3,982 in miscellaneous entertainment, \$3,176 in membership dues and event tickets, \$1,513 for guest travel on Company business trips, \$2,200 for personal tax return preparation, \$1,400 in gifts and \$164 in various other expense items.
- (7) Mr. Pribyl's amounts in this column include \$2,205 for guest travel and entertainment on Company business trips and \$700 in gifts.
- (8) Mr. Arendale's amounts in this column include \$3,047 for guest travel on Company business trips and \$700 in gifts.
- (9) Mr. Milos's amounts in this column include \$371 for car expense and \$1,400 in gifts.

## Grants of Plan-Based Awards

The following table provides information regarding grants under the Company's 2008 Executive Officer Bonus Program and International Marketing Officer Bonus Program for the executive officers named in the Summary Compensation Table.

Name	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a)		
	Threshold	Target	Maximum (b)
<b>Robert L. Moody</b>			
2008 Executive Officer Bonus Program:			
International life sales	\$ 32,284	\$ 53,914	\$ 80,709
Domestic life sales	32,284	53,752	80,709
Annuities sales	32,284	53,752	80,709
Expense management	96,851	161,418	193,702
Company profitability	96,851	161,418	193,702
<b>Ross R. Moody</b>			
2008 Executive Officer Bonus Program:			
International life sales	11,076	18,497	27,690
Domestic life sales	11,076	18,441	27,690
Annuities sales	11,076	18,441	27,690
Expense management	33,228	55,379	66,455
Company profitability	33,228	55,379	66,455
<b>Brian M. Pribyl</b>			
2008 Executive Officer Bonus Program:			
International life sales	5,124	8,557	12,810
Domestic life sales	5,124	8,531	12,810
Annuities sales	5,124	8,531	12,810
Expense management	15,372	25,620	30,744
Company profitability	15,372	25,620	30,744



Scott E. Arendale

2008 International Marketing Officer Bonus Program:

International life sales	30,700	107,450	No limit
International life persistency	4,605	23,025	46,050
Expense management	4,605	23,025	46,050

Charles D. Milos

2008 Senior Vice President Bonus Program:

Company profitability	13,076	17,434	21,793
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Note: Columns with no data have been omitted.

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- (a) Amounts that have been or are expected to be paid in 2009 pertaining to the 2008 programs are reflected in the Summary Compensation Table. The 2008 program bonus amounts are based upon the base salary actually paid during 2008, except for the Senior Vice President Program Bonus which is based upon the individual's base salary at the time of payment.
- (b) Although the Executive Officer Bonus Program has stated maximums per program component, the aggregate bonus amount cannot exceed 30% of base salaries paid.

## Outstanding Equity Awards at December 31, 2008

The following table provides information regarding outstanding stock options held by the executive officers named in the Summary Compensation Table as of December 31, 2008.

Name	Number of Securities Underlying Options (#) Exercisable	Option Awards		Option Exercise Price	Option Expiration Date
		Number of Securities Underlying Unexercised Options (#) Unexercisable			
Robert L. Moody Grants:					
4/20/2001	2,300	-		\$ 92.130	4/20/2011
6/22/2001	1,000	-		95.000	6/22/2011
4/23/2004	8,000	12,000		150.000	4/23/2014
6/25/2004	800	200		150.000	6/25/2014
4/18/2008	-	7,500		255.130	4/18/2018
6/20/2008	-	1,000		208.050	6/20/2018
Ross R. Moody Grants:					
4/20/2001	5,000	-		92.130	4/20/2011
6/22/2001	1,000	-		95.000	6/22/2011
4/23/2004	4,000	6,000		150.000	4/23/2014
6/25/2004	800	200		150.000	6/25/2014
4/18/2008	-	5,518		255.130	4/18/2018
6/20/2008	-	1,000		208.050	6/20/2018
Brian M. Pribyl Grants:					
4/23/2004	-	1,200		150.000	4/23/2014
4/18/2008	-	1,000		255.130	4/18/2018
Scott E. Arendale Grants:					
4/20/2001	140	-		92.130	4/20/2011
4/23/2004	150	450		150.000	4/23/2014
4/18/2008	-	1,000		255.130	4/18/2018
Charles D. Milos Grants:					
4/20/2001	1,300	-		92.130	4/20/2011
6/22/2001	1,000	-		95.000	6/22/2011

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4/23/2004	800	1,200	150.000	4/23/2014
6/25/2004	800	200	150.000	6/25/2014
4/18/2008	-	1,000	255.130	4/18/2018
6/20/2008	-	1,000	208.050	6/20/2018

Note: Columns with no data have been omitted.

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Officer stock options vest 20% annually following three full years of service to the Company from the date of grant. Stock options granted to members of the Board of Directors vest 20% annually following one full year of service to the Company from the date of grant. Accordingly, the unexercisable options shown in the previous table are scheduled to vest during the following years:

	2009	2010	2011	2012	2013 to 2015	Total Unexercisable
<b>Robert L. Moody</b>						
Grants:						
4/23/2004	4,000	4,000	4,000	-	-	12,000
6/25/2004 (director)	200	-	-	-	-	200
4/18/2008	-	-	1,500	1,500	4,500	7,500
6/20/2008 (director)	200	200	200	200	200	1,000
<b>Ross R. Moody</b>						
Grants:						
4/23/2004	2,000	2,000	2,000	-	-	6,000
6/25/2004 (director)	200	-	-	-	-	200
4/18/2008	-	-	1,103	1,104	3,311	5,518
6/20/2008 (director)	200	200	200	200	200	1,000
<b>Brian M. Pribyl</b>						
Grants:						
4/23/2004	400	400	400	-	-	1,200
4/18/2008	-	-	200	200	600	1,000
<b>Scott E. Arendale</b>						
Grants:						
4/23/2004	150	150	150	-	-	450
4/13/2008	-	-	200	200	600	1,000
<b>Charles D. Milos</b>						
Grants:						
4/23/2004	400	400	400	-	-	1,200
6/25/2004 (director)	200	-	-	-	-	200
4/18/2008	-	-	200	200	600	1,000
6/20/2008 (director)	200	200	200	200	200	1,000

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## Option Exercises and Stock Vested

The following table sets forth information regarding option exercises by the executive officers named in the Summary Compensation Table for the year ended December 31, 2008. The Company does not have stock award plans with stock awards subject to vesting.

Name	Option Awards	
	Number of Shares Exercised	Value Realized on Exercise
Robert L. Moody	7,200	\$ 744,552
Ross R. Moody	6,630	743,922
Brian M. Pribyl	680	85,231
Scott E. Arendale	-	-
Charles D. Milos	3,500	402,020

Note: Columns with no data have been omitted.

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## Pension Benefits

The following table provides information regarding benefits under the Company's Pension Plan, Non-Qualified Defined Benefit Plan, Non-qualified Defined Benefit Plan for Robert L. Moody, and Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company (NWLIC).

Name	Plan Name	Number of Years of Credited Service	Present Value of Accumulated Benefit	Payments During Last Fiscal Year
Robert L. Moody	NWLIC Pension Plan	44	\$ 1,160,376	\$ 153,509
	NWLIC Non-Qualified Defined Benefit Plan	45	5,391,509	713,258
	NWLIC Non-Qualified Defined Benefit Plan for Robert L. Moody	45	12,966,907	1,637,381
Ross R. Moody	NWLIC Pension Plan	17	144,853	-
	Non-Qualified Defined Benefit Plan for the President of NWLIC	18	225,030	-
Brian M. Pribyl	NWLIC Pension Plan	7	76,478	-
Scott E. Arendale	NWLIC Pension Plan	14	220,171	-
Charles D. Milos	NWLIC Pension Plan	25	435,398	-
	NWLIC Non-Qualified Defined Benefit Plan	26	309,754	-

Note: Columns with no data have been omitted.

Pension Plan. The qualified defined benefit plan covers substantially all employees and officers of the Company and provides benefits based on the participant's years of service and compensation. The Company makes annual contributions to the plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act. Annual pension benefits for those employees who became eligible participants prior to January 1, 1991, are generally calculated as the sum of the following:

(1) 50% of the participant's final 5-year average annual eligible compensation at December 31, 1990, less 50% of their primary social security benefit determined at December 31, 1990; this net amount is then prorated for less than 15 years of benefit service at normal retirement date. This result is multiplied by a fraction which is the participant's years of benefit service at December 31, 1990, divided by the participant's years of benefit service at normal retirement date.

(2) 1.5% of the participant's eligible compensation earned during each year of benefit service after December 31, 1990 and through December 31, 2007.

Annual pension benefits for those employees who become eligible participants on or subsequent to January 1, 1991, are generally calculated as 1.5% of their compensation earned during each year of benefit service through December 31, 2007.

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On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. Accordingly future pension expense is projected to be minimal.

**Non-Qualified Defined Benefit Plan.** This plan covers officers of the Company who were in the position of senior vice president or above prior to 1991. The plan provides benefits based on the participant's years of service and compensation. No minimum funding standards are required.

The benefit to be paid pursuant to this plan to a participant, other than the Chairman of the Company, who retires at his normal retirement date shall be equal to (a) minus (b) minus (c), but the benefit may not exceed (d) minus (b) where:

(a) is the benefit which would have been payable at the participant's normal retirement date under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, and,

(b) is the benefit which actually becomes payable under the terms of the Pension Plan at the participant's normal retirement date, and,

(c) is the actuarially equivalent life annuity which may be provided by an accumulation of 2% of the participant's compensation for each year of service on and after January 1, 1991, accumulated at an assumed interest rate of 8.5% to the participant's normal retirement date, and,

(d) is the benefit which would have been payable at the participant's normal retirement date under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a)(17) and 415 limits, except that the proration over 15 years shall instead be calculated over 30 years.

The Chairman of the Company, Robert L. Moody, is currently receiving in-service benefits from this plan. The benefit that Mr. Moody began receiving as of his normal retirement date pursuant to the plan was equal to (a) minus (b) minus (c) where:

(a) was his years of service (up to 45), multiplied by 1.66667%, and then multiplied by the excess of his eligible compensation over his primary social security benefit under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, and,

(b) was the benefit payable to him under the terms of the Pension Plan, and,

(c) was the actuarially equivalent life annuity provided by an accumulation of 2% of his compensation for each year of service on and after January 1, 1991, accumulated at an assumed interest rate of 8.5% to his normal retirement date.

This benefit was increased for additional service and changes in eligible compensation through December 31, 2004. The benefit was frozen as of December 31, 2004 in connection with plan changes required by the American Jobs Creation Act of 2004.

**Non-Qualified Defined Benefit Plan for Robert L. Moody.** This plan covers the current Chairman of the Company, Robert L. Moody, and is intended to provide for post-2004 benefit accruals that mirror and supplement the pre-2005



benefit accruals under the previously discussed Non-Qualified Defined Benefit Plan, while complying with the American Jobs Creation Act of 2004. No minimum funding standards are required.

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The annual benefit paid to the Chairman of the Company on an in-service basis effective July 1, 2005 was equal to (a) minus (b) minus (c) where:

(a) was his years of service on his normal retirement date, multiplied by 1.66667%, and then multiplied by the excess of his eligible compensation over his primary social security benefit under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, less the actuarially equivalent life annuity which may be provided by an accumulation of 2% of his compensation for each year of service on and after January 1, 1991, accumulated at an assumed interest rate of 8.5% to his normal retirement date, and, multiplied by the ratio of his years of service on July 1, 2005 to his years of service on his normal retirement date, multiplied by the ratio of his eligible compensation as of July 1, 2005 to his eligible compensation as of his normal retirement date, and,

(b) was the benefit payable to him under the terms of the Pension Plan as of July 1, 2005, and,

(c) was the benefit payable to him under the terms of the Non-Qualified Defined Benefit Plan as of December 31, 2004.

Subsequent to July 1, 2005, the annual benefit was increased monthly for additional service and changes in eligible compensation.

Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company. This plan covers the President of the Company and is intended to provide benefit accruals that comply with the American Jobs Creation Act of 2004. No minimum funding standards are required.

The annual benefit to be paid to the President of the Company who retires at his normal retirement date shall be equal to (a) minus (b) minus (c) where:

(a) equals his years of service (up to 45), multiplied by 1.66667%, and then multiplied by the excess of his eligible compensation over his primary social security benefit under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, and,

(b) equals the actuarially equivalent life annuity provided by an accumulation of 2% of his compensation for each year of service on and after his date of hire, accumulated at an assumed interest rate of 8.5% to his normal retirement date, and,

(c) equals the benefit actually payable to him under the terms of the Pension Plan.

The plan provides for a monthly in-service benefit if the President of the Company continues employment after his normal retirement date.

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## Non-Qualified Deferred Compensation

The following table provides information regarding the Company's non-qualified deferred compensation plan for the executive officers named in the Summary Compensation Table as of December 31, 2008.

Name	Executive Contributions in Last Fiscal Year	Registrant Contributions in Last Fiscal Year (a)	Aggregate Earnings in Last Fiscal Year (b)	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last Fiscal Year-End (c)
Robert L. Moody	\$ -	\$ -	\$ 323	\$ 51,466	\$ 38,196
Ross R. Moody	27,923	25,657	6,375	-	437,445
Brian M. Pribyl	10,596	6,552	2,263	-	123,455
Scott E. Arendale	20,648	3,147	336	-	35,341
Charles D. Milos	11,217	5,788	4,599	-	478,197

Note: Columns with no data have been omitted.

- (a) Registrant contributions are reflected in the "All Other Compensation" column in the Summary Compensation Table and are not additional earned compensation.
- (b) The investment options under the plan consist of a selection of mutual funds identical to those available to all employees through the 401(k) plan.
- (c) Balances in the plan are settled in cash upon the termination event selected by the officer and distributed either in a lump sum or in annual installments. Deferred amounts represent unsecured obligations of the Company.

## Potential Payments Upon Termination or Change in Control

The Company has no contract, agreement, plan or arrangement, written or unwritten, that provides for payment to any officer at, following, or in connection with any termination, severance, retirement or a constructive termination, or a change in control of the Company or a change in any officer's responsibilities.

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## Director Compensation

The following table sets forth the compensation for 2008 for those individuals who served as members of the Company's Board of Directors during 2008 (excluding named executive officers whose director compensation is included in the Summary Compensation Table).

Name	Fees Earned or Paid in Cash	Option Awards (a)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Harry L. Edwards	\$ 13,600	\$ (26,328)	\$ (19,847)(b)	\$ 6,701(c)	\$ (25,874)
Stephen E. Glasgow	31,700	36,462	-	33,506(d)	101,668
E. Douglas McLeod	25,700	(37,762)	-	952(e)	(11,110)
Russell S. Moody	25,700	(43,827)	-	700(h)	(17,427)
Frances A. Moody-Dahlberg	25,700	13,478	-	700(f)	39,878
Louis E. Pauls Jr.	31,200	(22,887)	-	16,235(g)	24,548
E. J. Pederson	31,700	(9,597)	-	952(e)	23,055

Note: Columns with no data have been omitted.

- (a) The amounts in this column represent the dollar amount recognized for financial statement purposes in accordance with SFAS No. 123(R) for all stock options and SARs granted and outstanding. Negative amounts in this column result from recording the options and SARs at fair value under liability accounting. For a discussion of the assumptions made in the valuation of these option and SARs awards, refer to the Notes to Consolidated Financial Statements section of this Annual Report on Form 10-K.
- (b) The amount in this column for Mr. Edwards is negative due to his having received current distributions. Mr. Edwards passed away in May 2008.
- (c) The amount shown for Mr. Edwards includes \$6,701 of claims paid under the Company's Group Excess Benefit Plan.
- (d) The amount shown for Mr. Glasgow includes \$6,449 of claims paid under the Company's Group Excess Benefit Plan, \$26,357 for the taxable value of health and supplemental life coverage, and \$700 in gifts.
- (e) The amounts shown for Messrs. McLeod and Pederson represent \$252 for the taxable value of supplemental life coverage and \$700 in gifts.
- (f) The amount shown for Ms. Moody-Dahlberg is \$700 in gifts.
- (g) The amount shown for Mr. Pauls includes \$1,017 of claims paid under the Company's Group Excess Benefit Plan, \$14,518 for the taxable value of health and supplemental life coverage, and \$700 in gifts.

(h) The amount shown for Mr. Moody is \$700 in gifts.

All directors of the Company currently receive \$22,200 a year and \$500 for each board meeting attended. They are also reimbursed for actual travel expenses incurred in performing services as directors. An additional \$500 is paid for each committee meeting attended. However, a director attending multiple meetings on the same day receives only one meeting fee. The amounts paid pursuant to these arrangements are included in the Summary Compensation Table of this Item. The directors and their dependents are also eligible to participate in the Company's group insurance program.

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Directors of the Company are eligible for restricted stock awards, incentive awards, and performance awards under the National Western Life Insurance Company 1995 Stock Option and Incentive Plan and 2008 Incentive Plan. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options.

Directors of the Company's subsidiary, NWL Investments, Inc., receive \$250 annually. Nonemployee directors of the Company's subsidiary, NWL Services, Inc., receive \$1,000 per board meeting attended. Directors of the Company's downstream subsidiaries, Regent Care General Partner, Inc., and Regent Care Operations General Partner, Inc., receive \$250 per board meeting attended. Directors of the Company's downstream subsidiary, Regent Care Limited Partner, Inc., receive \$500 per board meeting attended.

### Compensation Committee Interlocks and Insider Participation

The Compensation Committee of the Company's Board of Directors is composed of E. J. Pederson (Chairman), Stephen E. Glasgow, and Louis E. Pauls, none of whom were officers or employees of the Company during 2008. Mr. Pauls, Mr. Glasgow, and Mr. Pederson currently meet the independent criteria in the NASDAQ listing standards and the regulations of the Securities and Exchange Commission.

During 2008, the following executive officers served as a Board of Director of the Company and/or one or more its subsidiaries as follows:

- (1) Mr. Robert L. Moody, Mr. Ross R. Moody, and Mr. Charles D. Milos served as directors and also served as officers and employees of National Western Life Insurance Company.
- (2) Mr. Ross Moody served as an officer and director of the Company's wholly-owned subsidiaries, The Westcap Corporation, NWL Investments, Inc., NWL Financial, Inc., NWL Services, Inc., Regent Care Limited Partner, Inc., and Regent Care Operations Limited Partner, Inc., served as an officer of Westcap Holdings, LLC, a limited liability company whose sole member is The Westcap Corporation, and served as a manager of Regent Care San Marcos Holdings, LLC, a limited liability company whose sole member is National Western Life Insurance Company.
- (3) Mr. Milos served as an officer and director of The Westcap Corporation, Regent Care General Partner, Inc., and Regent Care Operations General Partner, Inc., and as an officer of NWL Investments, Inc., NWL Financial, Inc., NWL Services, Inc., Regent Care Limited Partner, Inc., Regent Care Operations Limited Partner, Inc., Westcap Holdings, LLC, a limited liability company whose sole member is The Westcap Corporation, and Regent Care San Marcos A-1, LLC, Regent Care San Marcos A-2, LLC, Regent Care San Marcos B-1, LLC, and Regent Care San Marcos B-2, LLC, all of which are limited liability companies whose sole member is Regent Care San Marcos Holdings, LLC.
- (4) Mr. Robert Moody was an officer of NWL Services, Inc., and Regent Care Limited Partner, Inc.

None of the Company's executive officers serves as a member of the compensation committee of any company that has an executive officer serving on the Company's Board of Directors. In addition, none of the Company's executive officers serve as a member of the board of directors of any company that has an executive officer serving as a member of the Company's Compensation Committee.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN  
BENEFICIAL OWNERS AND MANAGEMENT AND  
RELATED STOCKHOLDER MATTERS

## Security Ownership of Certain Beneficial Owners

Set forth below is certain financial information concerning persons who are known by the Company to own beneficially more than 5% of any class of the Company's common stock on December 31, 2008.

Name and Address of Beneficial Owners	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class
Robert L. Moody 2302 Post Office Street, Suite 702 Galveston, Texas	Class A Common Class B Common	1,159,096	33.83
		198,074	99.04
Franklin Resources, Inc. One Franklin Parkway San Mateo, California	Class A Common	173,000	5.05
Third Avenue Management, LLC 622 Third Avenue New York, New York	Class A Common	330,909	9.66

Article Four of the Articles of Incorporation of the Company provides that the Class A stockholders have the exclusive right to elect one-third (1/3) of the members of the Board of Directors, plus one director for any remaining fraction, and the Class B stockholders have the exclusive right to elect the remaining members of the Board of Directors. In view of Robert L. Moody's ownership of more than 99% of the Class B stock outstanding, as well as Mr. Moody's ownership of approximately 34% of the Class A stock outstanding (see Security Ownership table above), Mr. Moody holds the voting power to elect a majority of the members of the Board of Directors. The Company is considered to be a controlled company, and Mr. Moody is the controlling stockholder.

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## Security Ownership of Management

The following table sets forth as of December 31, 2008, information concerning the beneficial ownership of the Company's common stock by all directors, named executive officers, and all directors and executive officers of the Company as a group.

Directors and Officers	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class
Directors and Named Executive Officers:			
Robert L. Moody	Class A Common	1,159,096	33.83
	Class B Common	198,074	99.04
Ross R. Moody	Class A Common	1,242	.04
	Class A Common*	625	.02
	Class B Common*	482	.24
Charles D. Milos	Class A Common	4,528	.13
	Class B Common	-	-
Directors:			
Stephen E. Glasgow	Class A Common	-	-
	Class B Common	-	-
E. Douglas McLeod	Class A Common	10	-
	Class B Common	-	-
Frances A. Moody-Dahlberg	Class A Common	1,850	.05
	Class A Common*	625	.02
	Class B Common*	482	.24
Russell S. Moody	Class A Common	1,850	.05
	Class A Common*	625	.02
	Class B Common*	482	.24
Louis E. Pauls, Jr.	Class A Common	410	.01
	Class B Common	-	-
E. J. Pederson	Class A Common	100	-
	Class B Common	-	-
Named Executive Officers:			
Scott E. Arendale	Class A Common	-	-
	Class B Common	-	-
S. Christopher Johnson	Class A Common	-	-
	Class B Common	-	-



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Brian M. Pribyl	Class A Common	-	-
	Class B Common	-	-
<b>Directors and</b>			
Executive	Class A Common	1,170,961	34.17
Officers as a Group	Class B Common	199,520	99.76

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\* Shares are owned indirectly through the Three R Trusts. The Three R Trusts are four Texas trusts for the benefit of the children of Mr. Robert L. Moody (Robert L. Moody, Jr., Ross R. Moody, Russell S. Moody, and Frances A. Moody-Dahlberg). The Three R Trusts own a total of 2,500 Class A common stock shares and 1,926 Class B common stock shares.

Changes in Control

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED  
TRANSACTIONS AND DIRECTOR INDEPENDENCE

Transactions with Management and Others

Robert L. Moody, Jr. ("Mr. Moody, Jr.") is the son of Robert L. Moody, the Company's Chairman and Chief Executive Officer, and is the brother of Ross R. Moody, the Company's President and Chief Operating Officer, and of Russell S. Moody and Frances A. Moody-Dahlberg who serve as directors of National Western.

Mr. Moody, Jr. wholly owns an insurance marketing organization that maintains agency contracts with National Western pursuant to which agency commissions are paid in accordance with the Company's standard commission schedules. Mr. Moody, Jr. also maintains an independent agent contract with National Western for policies personally sold under which commissions are paid in accordance with standard commission schedules. In 2008, commissions paid under these agency contracts aggregated approximately \$160,000. In conjunction with these agency contracts, Mr. Moody, Jr. may be eligible to attend Company sales conferences and functions based upon meeting published minimum levels of qualifying sales production. In his capacity as an insurance marketing organization with the Company, Mr. Moody, Jr. also received product development fees of \$48,000 associated with a product line of the Company, \$28,000 for consulting fees, and a marketing development allowance of \$9,000 for the Company's business efforts in Puerto Rico in 2008.

Mr. Moody, Jr. further serves as the agent of record for several of the Company's benefit plans including the self-insured health plan for which Mr. Moody, Jr. provides utilization review services through a wholly-owned utilization review company. In 2008, amounts paid to Mr. Moody, Jr. as commissions and service fees pertaining to the Company's benefit plans approximated \$58,800.

During 2008, management fees totaling \$498,106 were paid to Regent Management Services, Limited Partnership ("RMS") for services provided to a downstream nursing home subsidiary of National Western. RMS is 1% owned by general partner RCC Management Services, Inc. ("RCC"), and 99% owned by limited partner, Three R Trusts. RCC is 100% owned by the Three R Trusts. The Three R Trusts are four Texas trusts for the benefit of the children of Robert L. Moody (Robert L. Moody, Jr., Ross R. Moody, Russell S. Moody, and Frances A. Moody-Dahlberg). Charles D. Milos, Senior Vice President-Mortgage Loans and Real Estate, and a director of the Company, is a director and Vice President of RCC. Ellen C. Otte, Assistant Secretary of the Company, is a director and secretary of RCC.

The Company holds a common stock investment totaling approximately 9.4% of the issued and outstanding shares of Moody Bancshares, Inc. at December 31, 2008. Moody Bancshares, Inc. owns 100% of the outstanding shares of Moody Bank Holding Company, Inc., which owns approximately 98% of the outstanding shares of The Moody National Bank of Galveston ("MNB"). The Company utilizes MNB for certain bank custodian services as well as for certain administrative services with respect to the Company's defined benefit and contribution plans. Robert L.

Moody, the Company's Chairman and Chief Executive Officer, serves as Chairman of the Board and Chief Executive Officer of MNB. The ultimate controlling person of MNB is the Three R Trusts. During 2008, fees totaling \$170,000 were paid to MNB with respect to these services.

Beginning November 1, 2008, the Company entered into a 36 month sublease on one of the Company's leased office locations for \$6,000 per month with Moody National Bank. Robert L. Moody, the Company's Chairman and Chief Executive Officer, serves as Chairman of the Board and Chief Executive Officer of MNB.

During 2008 the Company paid American National Insurance Company ("ANICO") \$244,818 in premiums for certain company sponsored benefit plans and \$1,126,992 in reimbursements for claim costs for which ANICO provides third party administrative services. ANICO paid the Company \$1,173,950 in premiums for its company sponsored benefit plans. Robert L. Moody, the Company's Chairman and Chief Executive Officer is also ANICO's Chairman and Chief Executive Officer.

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## Review, Approval or Ratification of Transactions with Related Persons

In accordance with the Company's Audit Committee Charter, related party transactions must be reviewed and approved by the Audit Committee of the Board of Directors, both at inception and on an ongoing basis. Periodic reports of potential related party transactions are brought to the attention of the Audit Committee by management and the Audit Committee reviews the information on a case by case basis to determine if any transaction is a related party transaction. The standard of review for any related party transaction is that the transaction must be fair to the Company and the transaction must be no more favorable to the related party than a similar arm's length transaction with a non-related party.

While the Company has not adopted written procedures for review of, or written standards for approval of, these transactions, the policies and procedures followed are evidenced by the Audit Committee Charter, memorandums, and documentation of review and approvals.

## Director Independence

The Company's Board of Directors has determined that Messrs. Glasgow, Pauls, and Pederson are each an "Independent Director" under NASDAQ Global Market Marketplace Rules. The Board of Directors has also determined that all, or the majority of, members of the Audit Committee and the Compensation and Stock Option Committee meet the independence requirements prescribed by NASDAQ and the Securities and Exchange Commission.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table represents aggregate fees approved by the Audit Committee for the audits of the fiscal years ended December 31, 2008 and 2007 by KPMG LLP, the Company's principal accounting firm.

	Fiscal Years Ended	
	2008	2007
	(In thousands)	
Financial statement audit fees	\$ 678	652
Benefit plans audit fee	-	-
Tax fees	-	-
All other fees	-	7
Total fees	\$ 678	659

## Audit Fees Pre-approval Policy

The Audit Committee has adopted a formal policy concerning approval of audit and non-audit services to be provided by the independent auditor to the Company. The policy requires that all services the Company's independent auditor may provide to the Company, including audit services and permitted audit-related and non-auditor services, be pre-approved by the Committee. The Committee approved all audit and non-audit services provided by KPMG LLP during 2008.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Listing of Financial Statements

See Attachment A, Index to Financial Statements and Schedules, on page 81 for a list of financial statements included in this report.

(a) 2. Listing of Financial Statement Schedules

See Attachment A, Index to Financial Statements and Schedules, on page 81 for a list of financial statement schedules included in this report.

All other schedules are omitted because they are not applicable, not required, or because the information required by the schedule is included elsewhere in the financial statements or notes.

(a) 3. Listing of Exhibits

The exhibits listed below, as part of Form 10-K, are numbered in accordance with the numbering used in Item 601 of regulation S-K of The Securities and Exchange Commission.

Exhibit 2 - Order Confirming Third Amended Joint Consensual Plan Of Reorganization Proposed By The Debtors And The Official Committee Of Unsecured Creditors (As Modified As Of August 28, 1998) (incorporated by reference to Exhibit 2 to the Company's Form 8-K dated August 28, 1998).

Exhibit 3(a) - Restated Articles of Incorporation of National Western Life Insurance Company dated April 10, 1968 (incorporated by reference to Exhibit 3(a) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 3(b) - Amendment to the Articles of Incorporation of National Western Life Insurance Company dated July 29, 1971 (incorporated by reference to Exhibit 3(b) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 3(c) - Amendment to the Articles of Incorporation of National Western Life Insurance Company dated May 10, 1976 (incorporated by reference to Exhibit 3(c) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 3(d) - Amendment to the Articles of Incorporation of National Western Life Insurance Company dated April 28, 1978 (incorporated by reference to Exhibit 3(d) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 3(e) - Amendment to the Articles of Incorporation of National Western Life Insurance Company dated May 1, 1979 (incorporated by reference to Exhibit 3(e) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 3(f) -

Bylaws of National Western Life Insurance Company as amended through April 24, 1987 (incorporated by reference to Exhibit 3(f) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 3ii(g) Bylaws of National Western Life Insurance Company dated August 24, 2007 (incorporated by reference to Exhibit 3ii(g) to the Company's Form 10-Q September 30, 2007).

Exhibit 10(a) - National Western Life Insurance Company Non-Qualified Defined Benefit Plan dated July 26, 1991 (incorporated by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended December 31, 1995).

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Exhibit 10(c) - National Western Life Insurance Company Non-Qualified Deferred Compensation Plan, as amended and restated, dated March 27, 1995 (incorporated by reference to Exhibit 10(c) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 10(d) - First Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1995 (incorporated by reference to Exhibit 10(d) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 10(e) - National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 10(f) - First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 1996).

Exhibit 10(g) - Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(g) to the Company's Form 10-K for the year ended December 31, 1996).

Exhibit 10(h) - Second Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 1996).

Exhibit 10(i) - Third Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(i) to the Company's Form 10-K for the year ended December 31, 1996).

Exhibit 10(j) - Fourth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective June 20, 1997 (incorporated by reference to Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 1997).

Exhibit 10(k) - First Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan effective June 19, 1998 (incorporated by reference to Exhibit 10(k) to the Company's Form 10-Q for the quarter ended June 30, 1998).

Exhibit 10(m) - Fifth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1998 (incorporated by reference to Exhibit 10(m) to the Company's Form 10-Q for the quarter ended September 30, 1998).

Exhibit 10(n) - Sixth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(n) to the Company's Form 10-K for the year ended December 31, 1998).

Exhibit 10(o) - Third Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(o) to the Company's Form 10-K for the year ended December 31, 1998).

Exhibit 10(p) - Exchange Agreement by and among National Western Life Insurance Company, NWL Services, Inc., Alternative Benefit Management, Inc., and American National Insurance Company effective November 23, 1998 (incorporated by reference to Exhibit 10(p) to the Company's Form 10-K for the year ended December 31, 1998).

Exhibit 10(s) - Seventh Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(s) to the Company's Form 10-K for the year ended December 31, 2000).

Exhibit 10(u) - Eighth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(u) to the Company's Form 10-K for the year ended December 31, 2000).



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Exhibit 10(v)	- Fourth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(v) to the Company's Form 10-K for the year ended December 31, 2000).
Exhibit 10(w)	- Second Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(w) to the Company's Form 10-Q for the quarter ended September 30, 2001).
Exhibit 10(z)	- Fifth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2001 (incorporated by reference to Exhibit 10(z) to the Company's Form 10-K for the year ended December 31, 2001).
Exhibit 10(ae)	- Sixth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 23, 2002 (incorporated by reference to Exhibit 10(ae) to the Company's Form 10-Q for the quarter ended September 30, 2002).
Exhibit 10(af)	- Seventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective October 18, 2002 (incorporated by reference to Exhibit 10(af) to the Company's Form 10-Q for the quarter ended September 30, 2002).
Exhibit 10(ai)	- Eighth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2003 (incorporated by reference to Exhibit 10(ai) to the Company's Form 10-K for the year ended December 31, 2002).
Exhibit 10(am)	- Ninth amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10(am) to the Company's Form 10-K for the year ended December 31, 2003).
Exhibit 10(an)	- Ninth amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 5, 2003 (incorporated by reference to Exhibit 10(an) to the Company's Form 10-K for the year ended December 31, 2003.)
Exhibit 10(ar)	- Third Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(ar) to the Company's Form 10-Q for the quarter ended September 30, 2004).
Exhibit 10(as)	- Amendment to the National Western Life Insurance Company Group Excess Benefit Plan effective December 15, 2004 (incorporated by reference to Exhibit 10(as) to the Company's Form 10-K for the year ended December 31, 2004.).

Exhibit 10(at) - The National Western Life Insurance Company Employee Health Plan was amended and restated effective August 20, 2004 (incorporated by reference to Exhibit 10(at) to the Company's Form 10-K for the year ended December 31, 2004.)

Exhibit 10(au) - Tenth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 31, 2004 (incorporated by reference to Exhibit 10(au) to the Company's Form 10-K for the year ended December 31, 2004.).

Exhibit 10(az) - National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(az) to 8-K dated July 1, 2005).

Exhibit 10(ba) - First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(ba) to 8-K dated August 22, 2005).

Exhibit 10(bb) - Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(bb) to 8-K dated December 15, 2005).

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Exhibit 10(bc)	- Tenth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan (Exhibit 10(bc) to 8-K dated December 15, 2005).
Exhibit 10(bd)	- National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody (Exhibit 10(bd) to 8-K dated December 15, 2005).
Exhibit 10(be)	- Eleventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan (Exhibit 10(be) to 8-K dated December 15, 2005).
Exhibit 10(bf)	- Non-Qualified Defined Benefit Plan for the President of the National Western Life Insurance Company (Exhibit 10(bf) to 8-K dated December 15, 2005).
Exhibit 10(bg)	- National Western Life Insurance Company 2006 Executive Officer Bonus Program (Exhibit 10(bg) to 8-K dated February 17, 2006).
Exhibit 10(bh)	- National Western Life Insurance Company 2006 Executive Officer Bonus Program (as amended) (Exhibit 10(bh) to 8-K dated April 21, 2006).
Exhibit 10(bi)	- 2006 International Marketing Officer Bonus Program (Exhibit 10(bi) to 8-K dated June 23, 2006).
Exhibit 10(bj)	- 2006 Domestic Marketing Officer Bonus Program (Exhibit 10(bj) to 8-K dated June 23, 2006).
Exhibit 10(bk)	- National Western Life Insurance Company Harvest Nonqualified Deferred Compensation Plan (Exhibit 10(bk) to 8-K dated June 23, 2006).
Exhibit 10(bl)	- Amendment No. 16 to Loan Agreement (Exhibit 10(bl) to 8-K dated July 31, 2006).
Exhibit 10(bm)	- Life Systems, Incorporated Termination Agreement (Exhibit 10(bm) to 8-K dated March 30, 2007).
Exhibit 10(bn)	- National Western Life Insurance Company 2007 Executive Officer Bonus Program (Exhibit 10(bn) to 8-K dated April 19, 2007).
Exhibit 10(bo)	- National Western Life Insurance Company 2007 Domestic Marketing Officer Bonus Program (Exhibit 10(bo) to 8-K dated April 19, 2007).
Exhibit 10(bp)	- National Western Life Insurance Company 2007 Domestic Marketing Officer Bonus Program (Exhibit 10(bp) to 8-K dated April 19, 2007).
Exhibit 10(bq)	- National Western Life Insurance Company 2008 Executive Officer Bonus Program (Exhibit 10(bq) to 8-K dated March 17, 2008).

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Exhibit 10(br)	National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (Exhibit 10(br) to 8-K dated August 22, 2008).
Exhibit 10(bs)	- National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (Exhibit 10(bs) to 8-K dated August 22, 2008).
Exhibit 10(bt)	- National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (as amended) (Exhibit 10(bt) to 8-K dated August 22, 2008).
Exhibit 10(bu)	National Western Life Insurance Company 2008 Incentive Plan (Exhibit 10 to S-8 dated September 2, 2008)
Exhibit 10(bv)	- National Western Life Insurance Company 2008 Senior Vice President Bonus Program
Exhibit 10(ca)	National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody As Amended and Restated Effective as of January 1, 2009

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Exhibit 10(cb)	Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company As Amended and Restated Effective as of January 1, 2009.
Exhibit 10(cc)	National Western Life Insurance Company Grandfathered Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of December 31, 2004.
Exhibit 10(cd)	National Western Life Insurance Company Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of January 1, 2009.
Exhibit 10(ce)	National Western Life Insurance Company Grandfathered Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of December 31, 2004.
Exhibit 10(cf)	National Western Life Insurance Company Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of January 1, 2009.
Exhibit 10(cg)	First Amendment to The National Western Life Insurance Company Pension Plan As Amended and Restated Effective as of January 1, 2007.
Exhibit 21	- Subsidiaries of the Registrant.
Exhibit 31(a)	- Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31(b)	- Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32(a)	- Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Exhibits

Exhibits required by Regulation S-K are listed as to location in the Listing of Exhibits in Item 15.(a)3. above. Exhibits not referred to have been omitted as inapplicable or not required.

(c) Financial Statement Schedules

The financial statement schedules required by Regulation S-K are listed as to location in Attachment A, Index to Financial Statements and Schedules, on page 81 of this report.

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## ATTACHMENT A

## Index to Financial Statements and Schedules

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	82
<u>Consolidated Balance Sheets, December 31, 2008 and 2007</u>	83
<u>Consolidated Statements of Earnings for the years ended December 31, 2008, 2007, and 2006</u>	85
<u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2008, 2007, and 2006</u>	86
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2008, 2007, and 2006</u>	87
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007, and 2006</u>	88
<u>Notes to Consolidated Financial Statements</u>	90
<u>Schedule I - Summary of Investments Other Than Investments in Related Parties, December 31, 2008</u>	136
<u>Schedule V - Valuation and Qualifying Accounts for the years ended December 31, 2008, 2007, and 2006</u>	137

All other schedules are omitted because they are not applicable, not required, or because the information required by the schedule is included elsewhere in the consolidated financial statements or notes.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
National Western Life Insurance Company:

We have audited the accompanying consolidated balance sheets of National Western Life Insurance Company and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of earnings, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. In connection with our audits of the consolidated financial statements, we also have audited the 2008 financial statement schedule I and the 2008, 2007, and 2006 financial statement schedule V. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Western Life Insurance Company and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for deferred acquisition costs in connection with modifications or exchanges of insurance contracts in 2007 and pension and other postretirement obligations in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Western Life Insurance Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP  
Dallas, Texas

March 16, 2009

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
December 31, 2008 and 2007  
(In thousands)

ASSETS	2008	2007
Investments:		
Securities held to maturity, at amortized cost (fair value: \$3,727,353 and \$3,774,193)	\$ 3,831,417	3,778,603
Securities available for sale, at fair value (cost: \$1,904,053 and \$1,904,499)	1,745,266	1,900,714
Mortgage loans, net of allowance for possible losses (\$4,587 and \$3,567)	90,733	99,033
Policy loans	79,277	83,772
Derivatives	11,920	25,907
Other long-term investments	14,168	16,562
<b>Total Investments</b>	<b>5,772,781</b>	<b>5,904,591</b>
Cash and short-term investments	67,796	45,206
Deferred policy acquisition costs	701,984	664,805
Deferred sales inducements	120,955	104,029
Accrued investment income	64,872	65,034
Federal income tax receivable	1,820	10,010
Other assets	56,272	41,651
	<b>\$ 6,786,480</b>	<b>6,835,326</b>

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007  
(In thousands except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	2008	2007
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	\$ 137,530	138,672
Universal life and annuity contracts	5,424,968	5,441,871
Other policyholder liabilities	131,963	120,400
Deferred Federal income tax liability	26,506	61,720
Other liabilities	79,300	60,978
<b>Total liabilities</b>	<b>5,800,267</b>	<b>5,823,641</b>
COMMITMENTS AND CONTINGENCIES (Notes 4, 7, and 9)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,425,966 and 3,422,324 shares issued and outstanding in 2008 and 2007	3,426	3,422
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2008 and 2007	200	200
Additional paid-in capital	36,680	36,236
Accumulated other comprehensive loss	(65,358)	(7,065)
Retained earnings	1,011,265	978,892
<b>Total stockholders' equity</b>	<b>986,213</b>	<b>1,011,685</b>
	<b>\$ 6,786,480</b>	<b>6,835,326</b>

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

For the Years Ended December 31, 2008, 2007, and 2006

(In thousands except per share amounts)

	2008	2007	2006
Premiums and other revenue:			
Life and annuity premiums	\$ 17,752	19,513	15,805
Universal life and annuity contract revenues	133,424	119,677	106,320
Net investment income	273,362	318,137	379,768
Other income	12,769	13,683	17,304
Realized gains (losses) on investments	(26,228)	3,497	2,662
<b>Total premiums and other revenue</b>	<b>411,079</b>	<b>474,507</b>	<b>521,859</b>
Benefits and expenses:			
Life and other policy benefits	39,759	41,326	35,241
Amortization of deferred policy acquisition costs	127,161	88,413	90,358
Universal life and annuity contract interest	138,960	164,391	213,736
Other operating expenses	55,630	55,130	65,709
<b>Total benefits and expenses</b>	<b>361,510</b>	<b>349,260</b>	<b>405,044</b>
Earnings before Federal income taxes	49,569	125,247	116,815
Federal income taxes	15,927	39,876	40,472
<b>Net earnings</b>	<b>\$ 33,642</b>	<b>85,371</b>	<b>76,343</b>
Basic Earnings Per Share (Note 11):			
Class A	\$ 9.54	24.24	21.69
Class B	\$ 4.77	12.12	10.84
Diluted Earnings Per Share:			
Class A	\$ 9.48	23.95	21.46
Class B	\$ 4.77	12.12	10.84

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 2008, 2007, and 2006

(In thousands)

	2008	2007	2006
Net earnings	\$ 33,642	85,371	76,343
Other comprehensive income (loss), net of effects of deferred costs and taxes:			
Unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) arising during period	(66,789)	1,035	(4,542)
Reclassification adjustment for net (gains) losses included in net earnings	11,866	(3,103)	(2,736)
Amortization of net unrealized (gains) losses related to transferred securities	(31)	104	25
Net unrealized losses on securities	(54,954)	(1,964)	(7,253)
Foreign currency translation adjustments	(112)	(44)	(178)
Benefit plans:			
Amortization of net prior service cost and net gain	(3,227)	1,235	-
Net loss arising during the period	-	(2,561)	-
Change in pension liability	-	-	(1,166)
Other comprehensive loss	(58,293)	(3,334)	(8,597)
Comprehensive income (loss)	\$ (24,651)	82,037	67,746

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
For the Years Ended December 31, 2008, 2007, and 2006  
(In thousands)

	2008	2007	2006
<b>Common stock:</b>			
Balance at beginning of year	\$ 3,622	3,621	3,613
Shares exercised under stock option plan	4	1	8
Balance at end of year	3,626	3,622	3,621
<b>Additional paid-in capital:</b>			
Balance at beginning of year	36,236	36,110	37,923
Shares exercised under stock option plan, net of tax benefits	444	126	503
Adjustment for stock option liability classification	-	-	(2,316)
Balance at end of year	36,680	36,236	36,110
<b>Accumulated other comprehensive income (loss):</b>			
<b>Unrealized gains (losses) on securities:</b>			
Balance at beginning of year	1,184	3,148	10,401
Change in unrealized gains (losses) during period	(54,954)	(1,964)	(7,253)
Balance at end of year	(53,770)	1,184	3,148
<b>Foreign currency translation adjustments:</b>			
Balance at beginning of year	3,078	3,122	3,300
Change in translation adjustments during period	(112)	(44)	(178)
Balance at end of year	2,966	3,078	3,122
<b>Benefit plan liability adjustment:</b>			
Balance at beginning of year	(11,327)	(10,001)	(3,137)
Change in benefit liability during the period	(3,227)	(1,326)	(1,166)
Adjustment to initially apply FASB Statement No. 158, net of tax	-	-	(5,698)
Balance at end of year	(14,554)	(11,327)	(10,001)
Accumulated other comprehensive loss at end of year	(65,358)	(7,065)	(3,731)
<b>Retained earnings:</b>			
Balance at beginning of year	978,892	896,984	821,908
Net earnings	33,642	85,371	76,343
Cumulative effect of change in accounting principle for SOP 05-1, net of tax	-	(2,195)	-
Stockholder dividends	(1,269)	(1,268)	(1,267)
Balance at end of year	1,011,265	978,892	896,984

Total stockholders' equity	\$	986,213	1,011,685	932,984
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See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2008, 2007, and 2006  
(In thousands)

	2008	2007	2006
Cash flows from operating activities:			
Net earnings	\$ 33,642	85,371	76,343
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Universal life and annuity contract interest	142,707	175,768	224,447
Surrender charges and other policy revenues	(41,027)	(36,191)	(31,363)
Realized (gains) losses on investments	26,228	(3,497)	(2,662)
Accrual and amortization of investment income	(4,520)	(4,693)	(5,443)
Depreciation and amortization	2,292	1,467	1,516
Decrease (increase) in value of derivatives	17,480	56,204	(27,108)
Decrease (increase) in deferred policy acquisition and sales inducement costs	16,418	(38,151)	(24,451)
Decrease (increase) in accrued investment income	162	(642)	(3,110)
Decrease (increase) in other assets	(9,394)	8,378	(10,016)
Increase (decrease) in liabilities for future policy benefits	(1,142)	290	(905)
Increase in other policyholder liabilities	11,563	7,951	11,892
Decrease in Federal income tax recoverable	2,572	18,893	2,770
Increase (decrease) increase in other liabilities	(2,108)	(11,247)	11,739
Other	(248)	25	371
Net cash provided by operating activities	194,625	259,926	224,020
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity	-	5,934	-
Securities available for sale	1,722	33,616	36,428
Other investments	1,404	5,684	13,672
Proceeds from maturities and redemptions of:			
Securities held to maturity	520,839	136,752	258,051
Securities available for sale	206,510	340,681	104,435
Derivatives	53,805	44,047	37,010
Purchases of:			
Securities held to maturity	(566,764)	(321,609)	(327,126)
Securities available for sale	(218,874)	(366,238)	(312,584)
Derivatives	(58,010)	(53,073)	(42,508)
Other investments	(261)	(289)	(1,582)
Principal payments on mortgage loans	16,609	22,561	11,680
Cost of mortgage loans acquired	(14,239)	(19,578)	(6,326)
Decrease (increase) in policy loans	4,495	3,084	(471)

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Other	-	(2,205)	(1,600)
Net cash used in investing activities	(52,764)	(170,633)	(230,921)

(Continued on next page)



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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

For the Years Ended December 31, 2008, 2007, and 2006

(In thousands)

	2008	2007	2006
Cash flows from financing activities:			
Stockholders dividends	\$ (1,269)	(1,268)	(1,267)
Deposits to account balances for universal life and annuity contracts	472,776	510,647	547,469
Return of account balances on universal life and annuity contracts	(591,114)	(603,450)	(521,988)
Issuance of common stock under stock option plan	448	127	511
Net cash provided by (used in) financing activities	(119,159)	(93,944)	24,725
Effect of foreign exchange	(112)	(44)	722
Net increase (decrease) in cash and short-term investments	22,590	(4,695)	18,546
Cash and short-term investments at beginning of year	45,206	49,901	31,355
Cash and short-term investments at end of year	\$ 67,796	45,206	49,901

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$ 41	41	41
Income taxes	11,687	19,298	34,726

Noncash operating activities:

Deferral of sales inducements	3,747	11,377	10,712
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Noncash investing activities:

Mortgage loans originated to facilitate the sale of real estate	\$ -	-	900
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See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Principles of Consolidation. The accompanying consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly owned subsidiaries ("Company"), The Westcap Corporation, Regent Care San Marcos Holdings, LLC, NWL Investments, Inc., NWL Services, Inc., and NWL Financial, Inc. All significant intercorporate transactions and accounts have been eliminated in consolidation.

(B) Basis of Presentation. The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates in the accompanying consolidated financial statements include (1) liabilities for future policy benefits, (2) valuation of derivative instruments, (3) recoverability and amortization of deferred policy acquisition costs, (4) valuation allowances for deferred tax assets, (5) other-than-temporary impairment losses on debt securities, and (6) valuation allowances for mortgage loans and real estate.

The Company also files financial statements with insurance regulatory authorities which are prepared on the basis of statutory accounting practices prescribed or permitted by the Colorado Division of Insurance which are significantly different from consolidated financial statements prepared in accordance with GAAP. These differences are described in detail in the statutory information section of this note.

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

(C) Investments. Investments in debt securities the Company purchases with the intent to hold to maturity are classified as securities held to maturity. The Company has the ability to hold the securities, as it would be unlikely that forced sales of securities would be required prior to maturity to cover payments of liabilities. As a result, securities held to maturity are carried at amortized cost less declines in fair value that are deemed other-than-temporary.

Investments in debt and equity securities that are not classified as securities held to maturity are reported as securities available for sale. Securities available for sale are reported in the accompanying consolidated financial statements at fair value. Any valuation changes resulting from changes in the fair value of the securities are reflected as a component of stockholders' equity in accumulated other comprehensive income or loss. These unrealized gains or losses in stockholders' equity are reported net of taxes and adjustments to deferred policy acquisition costs.

Transfers of securities between categories are recorded at fair value at the date of transfer.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. For mortgage-backed and asset-backed securities, the effective interest method is used based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition. This adjustment is reflected in net investment income.

Realized gains and losses for securities available for sale and securities held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold. A decline in the fair

value below cost that is deemed other-than-temporary is charged to earnings, resulting in the establishment of a new cost basis for the security. The new discount or reduced premium amount is amortized over the remaining life of the impaired debt security prospectively based on the amount and timing of future estimated cash flows.

Mortgage loans and other long-term investments are stated at cost, less unamortized discounts, deferred fees, and allowances for possible losses. Policy loans are stated at their aggregate unpaid balances. Real estate is stated at the lower of cost or fair value less estimated costs to sell.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans include (1) nonaccrual loans, (2) loans which are 90 days or more past due, unless they are well secured and are in the process of collection, and (3) other loans which management believes are impaired. Impaired loans are measured based on (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the loan's observable market price, or (3) the fair value of the collateral if the loan is collateral dependent. Substantially all of the Company's impaired loans are measured at the fair value of the collateral. In limited cases, the Company may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

Quarterly the Company reviews its investment portfolio for market value changes to monitor issuer credit deterioration, changes in market interest rates and changes in economic conditions. If this review indicates a decline in fair value that is other than temporary, the Company's carrying amount in the investment is reduced to its estimated fair value and a specific write down is taken through earnings. Such reductions in carrying amount are recognized as realized losses and charges to income. The Company would recognize impairment of securities due to changing of interest rates or market dislocations only if the Company no longer had the ability to hold the securities until recovery or maturity.

The Company considers a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline in fair value, 4) the intent and ability to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered.

While the Company closely manages its investment portfolio, future changes in issuer facts and circumstances can result in impairments beyond those currently identified.

(D) Cash and Short-Term Investments. For purposes of the consolidated statements of cash flows, the Company considers all short-term investments with a maturity at the date of purchase of three months or less to be cash equivalents.

Management determined during 2008 that there was a misclassification of \$2 million in the statement of cash flows between net cash provided by operating activities and net cash used in investing activities. This misclassification error has been corrected in the accompanying Consolidated Statement of Cash Flows and was determined by management to be immaterial.

(E) Derivatives. Fixed-indexed products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an underlying equity index. The equity return component of such policy contracts is identified separately and accounted for in future policy benefits as embedded derivatives on the consolidated balance sheet. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under debt instrument type accounting. The host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates.

The Company purchases over-the-counter indexed options, which are derivative financial instruments, to hedge the equity return component of its indexed annuity and life products. The indexed options act as hedges to match closely the returns on the underlying Index. The amounts which may be credited to policyholders are linked, in part, to the returns of the underlying Index. As a result, changes to policyholders' liabilities are substantially offset by changes in the value of the options. Cash is exchanged upon purchase of the indexed options and no principal or interest payments are made by either party during the option periods. Upon maturity or expiration of the options, cash is paid to the Company based on the underlying Index performance and terms of the contract.

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The Company does not elect hedging accounting relative to derivative instruments. The derivatives are reported at fair value in the accompanying consolidated financial statements. The changes in the values of the indexed options and the changes in the policyholder liabilities are both reflected in the statement of earnings. Any gains or losses from the sale or expiration of the options, as well as period-to-period changes in values, are reflected as net investment income in the statement of earnings. Any changes relative to the embedded derivatives associated with policy contracts are reflected in contract interest in the consolidated statement of earnings.

Although there is credit risk in the event of nonperformance by counterparties to the indexed options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings. In addition, credit support agreements are in place with all counterparties for option holdings in excess of specific limits, which may further reduce the Company's credit exposure. At December 31, 2008 and 2007, the fair values of indexed options owned by the Company totaled \$11.9 million and \$25.9 million, respectively.

(F) Insurance Revenues and Expenses. Premiums on traditional life insurance products are recognized as revenues as they become due from policyholders. Benefits and expenses are matched with premiums in arriving at profits by providing for policy benefits over the lives of the policies and by amortizing acquisition costs over the premium-paying periods of the policies. For universal life and annuity contracts, revenues consist of policy charges for the cost of insurance, policy administration, and surrender charges assessed during the period. Expenses for these policies include interest credited to policy account balances, benefit claims incurred in excess of policy account balances and amortization of deferred policy acquisition costs and sales inducements.

Under GAAP, commissions, sales inducements, and certain expenses related to policy issuance and underwriting, all of which generally vary with and are related to the production of new business, are deferred. For traditional products, these costs are amortized over the premium-paying period of the related policies in proportion to the ratio of the premium earned to the total premium revenue anticipated, using the same assumptions as to interest, mortality, and withdrawals as were used in calculating the liability for future policy benefits. For universal life and annuity contracts, these costs are amortized in relation to the present value of expected gross profits on these policies. The Company evaluates the recoverability of deferred policy acquisition and sales inducement costs on a quarterly basis. In this evaluation, the Company considers estimated future gross profits or future premiums, as applicable for the type of contract. The Company also considers expected mortality, interest earned and credited rates, persistency, and expenses.

A summary of information relative to deferred policy acquisition costs is provided in the table below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Deferred policy acquisition costs, beginning of year	\$ 664,805	643,964	620,129
Policy acquisition costs deferred:			
Agents' commissions	100,254	109,323	97,662
Other	6,742	7,180	6,436
Total costs deferred	106,996	116,503	104,098

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Amortization of deferred policy acquisition costs	(127,161)	(88,413)	(90,358)
Adjustments for unrealized losses (gains) on investment securities	57,344	(3,928)	10,095
Adoption of SOP 05-1	-	(3,321)	-
Deferred policy acquisition costs, end of year	\$ 701,984	664,805	643,964

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A summary of information relative to deferred sales inducements is provided in the table below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Deferred sales inducements, beginning of year	\$ 104,029	93,139	80,450
Sales inducement costs deferred	19,462	20,837	19,813
Amortization of sales inducements	(15,715)	(9,460)	(9,101)
Adjustments for unrealized losses (gains) on investment securities	13,179	(487)	1,977
Deferred sales inducements, end of year	\$ 120,955	104,029	93,139

Amortization of deferred policy acquisition costs increased to \$127.1 million for the year ended December 31, 2008 compared to \$88.4 million and \$90.4 million reported in 2007 and 2006. An unlocking adjustment was recorded in the current year which resulted in an increase of amortization by \$6.3 million. This unlocking adjustment was based upon changes to future annuitizations and full surrenders reflecting current experience studies. An unlocking adjustment was recorded in 2007 which resulted in a decrease in amortization of \$10.4 million. This unlocking adjustment was based upon changes to (1) future mortality assumptions reflecting current experience studies and (2) assumption changes to future cost of insurance rates. There were no unlocking adjustments recognized during 2006. True-up adjustments were also recorded in 2008 and 2007 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience resulting in a \$16.2 million and \$1.0 million increase in amortization, respectively. Amortization for 2006 includes a true-up adjustment relative to partial surrenders, mortality assumptions, annuitizations, credited rates and earned rates which increased amortization in that year by approximately \$5.4 million.

During the fourth quarter of 2008, during a detailed review of Deferred Acquisition Cost assets, the Company identified that it had over capitalized \$2.4 million of deferred acquisition costs during the first three quarters of 2008, and an additional \$3.5 million for periods prior to 2008. This immaterial error was corrected during the fourth quarter and resulted in a decrease in the deferred acquisition cost asset and an increase in amortization.

Under GAAP, the liability for future policy benefits on traditional products has been calculated under SFAS No. 60 using assumptions as to future mortality (based on the 1965-1970 and 1975-1980 Select and Ultimate mortality tables), interest ranging from 4% to 8%, and withdrawals based on Company experience. For universal life and annuity contracts, the liability for future policy benefits represents the account balance. Fixed-indexed products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an equity index. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, the equity return component of such policy contracts must be identified separately and accounted for as embedded derivatives. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under provisions of SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, that requires debt instrument type accounting. The host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates. The



embedded derivatives are recorded at fair values.

(G) Deferred Federal Income Taxes. Federal income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance for deferred tax assets is provided if all or some portion of the deferred tax asset may not be realized. An increase or decrease in a valuation allowance that results from a change in circumstances that affects the realizability of the related deferred tax asset is included in income in the period the change occurs.

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(H) Depreciation of Property, Equipment, and Leasehold Improvements. Depreciation is based on the estimated useful lives of the assets and is calculated on the straight-line and accelerated methods. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

(I) Statutory Information. Domiciled in Colorado, the Company prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance. The Colorado Division of Insurance has adopted the provisions of the National Association of Insurance Commissioners' ("NAIC") Statutory Accounting Practices as the basis for its statutory practices.

The following are major differences between GAAP and accounting practices prescribed or permitted by the Colorado Division of Insurance.

1. The Company accounts for universal life and annuity contracts based on the provisions of Statement of Financial Accounting Standards ("SFAS") No. 97. The basic effect of the statement with respect to certain long-duration contracts is that deposits for universal life and annuity contracts are not reflected as revenues, and surrenders and certain other benefit payments are not reflected as expenses. However, only those contracts with no insurance risk qualify for such treatment under statutory accounting practices. For all other contracts, statutory accounting practices do reflect such items as revenues and expenses.

A summary of direct premiums and deposits collected is provided below.

	Years Ended December 31,		
	2008	2007	2006
(In thousands)			
Annuity deposits	\$ 410,133	437,765	485,994
Universal life insurance deposits	170,933	168,279	146,742
Traditional life and other premiums	20,698	22,310	18,046
<b>Totals</b>	<b>\$ 601,764</b>	<b>628,354</b>	<b>650,782</b>

2. Statutory accounting practices require commissions and related costs to be expensed as incurred, where as for GAAP, these items are deferred and amortized.

3. For statutory accounting purposes, liabilities for future policy benefits for life insurance policies are calculated by the net level premium method or the commissioners reserve valuation method. Future policy benefit liabilities for annuities are calculated based on the continuous commissioners annuity reserve valuation method and provisions of Actuarial Guidelines 33 and 35.

4. Deferred Federal income taxes are provided for temporary differences which are recognized in the consolidated financial statements in a different period than for Federal income tax purposes. Deferred taxes are also recognized in statutory accounting practices; however, there are limitations as to the amount of deferred tax assets that may be reported as admitted assets. The change in the deferred taxes is recorded in surplus, rather than as a component of income tax expense.

5. For statutory accounting purposes, debt securities are recorded at amortized cost, except for securities in or near default, which are reported at fair value. Under GAAP, debt securities are carried at amortized cost or fair value based on their classification as either held to maturity or available for sale.
6. Investments in subsidiaries are recorded at admitted asset value for statutory purposes, whereas the financial statements of the subsidiaries have been consolidated with those of the Company under GAAP.
7. Compensation costs related to the Company's stock option plan are not recognized under statutory accounting.

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8. Pension liabilities and net periodic benefit costs are recognized for statutory accounting however in accordance with GAAP a liability or asset is recognized for the under or over funded status of the plans and does include a non-vested component. Statutory accounting only includes vested benefits.

9. The asset valuation reserve and interest maintenance reserve, which are investment valuation reserves prescribed by statutory accounting practices, have been eliminated, as they are not required under GAAP.

10. The recorded value of the life interest in the Libbie Shearn Moody Trust ("Trust") is reported at its initial valuation, net of accumulated amortization, under GAAP. The initial valuation was based on the assumption that the Trust would provide certain income to the Company at an assumed interest rate and is being amortized over 53 years, the life expectancy of Mr. Robert L. Moody at the date he contributed the life interest to the Company. For statutory accounting purposes, the life interest has been valued at \$26.4 million, which was computed as the present value of the estimated future income to be received from the Trust. However, this amount was amortized to a valuation of \$12.8 million over a seven-year period ended December 31, 1999, in accordance with Colorado Division of Insurance permitted accounting requirements. Prescribed statutory accounting practices provide no accounting guidance for such asset. The statutory admitted value of this life interest at December 31, 2008, is \$12.8 million in comparison to a carrying value of \$1.3 million in the accompanying consolidated financial statements.

11. The table below provides the Company's net gain from operations, net income (loss), unassigned surplus (retained earnings) and capital and surplus (stockholder's equity), on the statutory basis used to report to regulatory authorities for the years ended December 31,

	2008	2007	2006
	(In thousands)		
Net gain from operations	\$ 48,853	37,369	110,101
Net income (loss)	9,643	32,290	72,585
Unassigned surplus	670,963	672,793	632,520
Capital and surplus	708,047	710,935	673,262

(J) Stock Compensation. Effective March 10, 2006, the Company began accounting for its share-based compensation under the liability classification and measuring the compensation cost using the fair value method at each reporting date. Under the fair value based method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. For stock options, fair value is determined using an option pricing model that takes into account various information and assumptions regarding the Company's stock and options. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock.

The Company adopted Statement No. 123(R), Share-Based Payment ("SFAS 123(R)"), as of January 1, 2006. However, because the Company began recognizing stock-based employee compensation cost using the fair value based method of accounting in 2003, the adoption did not have an impact on the consolidated financial statements of the Company.

(K) New Accounting Pronouncements. The FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ("FIN 48"), dated June, 2006. The interpretation requires public companies to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. The amount recognized would be the amount that represents the largest amount of tax benefit that is greater than 50% likely of being ultimately realized. A liability would be recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the financial statements, along with any interest and penalty (if applicable) on the excess. FIN 48 requires a tabular reconciliation of the change in the aggregate unrecognized tax benefits claimed, or expected to be claimed, in tax returns and disclosure relating to accrued interest and penalties for unrecognized tax benefits. Discussion is required for those uncertain tax positions where it is reasonably possible that the estimate of the tax benefit will change significantly in the next 12 months. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have an impact on the Company's consolidated financial statements.

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On February 16, 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS No. 133, Accounting for Derivatives and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Hybrid financial instruments are single financial instruments that contain an embedded derivative. Under SFAS No. 155, entities can elect to record certain hybrid financial instruments at fair value as individual financial instruments. Prior to this amendment, certain hybrid financial instruments were required to be separated into two instruments – a derivative and host – and generally only the derivative was recorded at fair value. SFAS No. 155 also requires that beneficial interests in securitized assets be evaluated for either freestanding or embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired or issued after January 1, 2007. SFAS No. 155 did not have an effect on the Company's consolidated financial statements on the date of adoption.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. The Company adopted this guidance effective January 1, 2008 and the adoption did not have an impact on the Company's consolidated financial statements. See related disclosures in Note 14 to Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). This statement requires an employer on a prospective basis to recognize the overfunded or underfunded status of its defined benefit pension and postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company adopted SFAS 158 effective December 31, 2006. The adoption reduced stockholders equity by \$5,698,000 as of that date.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to choose upon adoption or at specified election dates, to measure at fair value many financial instruments and certain other items at fair value. The Company adopted SFAS 159 effective January 1, 2008, with no impact to the Company's consolidated financial statements as no eligible financial assets or liabilities were elected to be measured at fair value upon initial adoption. Management will continue to evaluate eligible financial assets and liabilities on their election dates, and will disclose any future elections in accordance with provisions outlined in the Statement.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 establishes accounting and reporting standards for entities that have equity investments that are not attributable directly to the parent, called noncontrolling interests or minority interests. Specifically, SFAS 160 states where and how to report noncontrolling interests in the consolidated statements of financial position and operations, how to account for changes in noncontrolling interests and provides disclosure requirements. The provisions of SFAS 160 are effective beginning January 1, 2009. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), Business Combinations. SFAS 141(R) establishes how an entity accounts for the identifiable assets acquired, liabilities assumed, and any noncontrolling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning

on or after December 15, 2008, early adoption is prohibited. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years and interim periods beginning after November 15, 2008.

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In October 2008, the FASB issued FSP No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. This FSP clarifies the application of SFAS 157 in a market that is not active and illustrates key considerations including the use of an entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates, appropriate risk adjustments for nonperformance and liquidity risks, and the reliance that an entity should place on quotes that do not reflect the result of market transactions. This FSP was preceded by a press release that was jointly issued by the Office of the Chief Accountant of the SEC and the FASB staff on September 30, 2008 which provided immediate clarification on fair value accounting based on the measurement guidance of SFAS 157. The FSP was effective upon issuance and did not have a material impact on the Company's consolidated financial statements. See Note 14 for disclosures regarding the Company's fair value measurements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. This statement requires enhanced disclosures regarding an entity's derivative and hedging activity to enable investors to better understand the effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 is not expected to have a material impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. The provisions of FSP FAS 142-3 are to be applied prospectively to intangible assets acquired after January 1, 2009 although the disclosure provisions are required for all intangible assets as of or subsequent to January 1, 2009. The adoption of FSP FAS 142-3 is not expected to impact the Company's consolidated financial condition and results of operations.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. This FSP amends SFAS 133 to require disclosures by entities that assume credit risk through the sale of credit derivatives including credit derivatives embedded in a hybrid instrument to enable users of financial statements to assess the potential effect on its financial position, financial performance, and cash flows from these credit derivatives. This FSP also amends FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, to require additional disclosure about the current status of the payment/performance risk of a guarantee. FSP FAS 133-1 and FIN 45-4 are effective for financial statements issued for fiscal years and interim periods ending after November 15, 2008. The Company does not expect the adoption of FSP FAS 133-1 and FIN 45-4 to have an effect on the Company's consolidated financial condition and results of operations.

In January 2009, the FASB issued FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. The Staff Position amends EITF 99-20's impairment model more consistent with Statement 115's removing its exclusive reliance on "market participant" estimate of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the "market participant" view to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows allows management to apply reasonable judgment in assessing whether an other than temporary impairment has occurred. The new FSP was effective for the Company as of December 31, 2008 and did not have a significant impact on the consolidated financial statements of the Company.



Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

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## Change in Accounting

In September 2005, the AICPA issued Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ("SOP 05-1") which is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The Company has an impact related to the adoption of SOP 05-1 for contracts which have annuitized and relative to reinstatements of contracts in that the unamortized deferred acquisition costs and deferred sales inducement assets must be written-off at the time of annuitization and may not be continued related to reinstatements. SOP 05-1 results in changes in assumptions relative to estimated gross profits which affects unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement balances as of the beginning of the year. The effect of this SOP on beginning retained earnings as of January 1, 2007 was a decrease of \$2.2 million, net of tax, as detailed below.

	Amounts (In thousands)
Write-off of deferred acquisition cost	\$ 3,321
Adjustment to deferred annuity revenue	56
	3,377
Federal income tax	(1,182)
Cumulative effect of change in accounting for internal replacements and investment contracts	\$ 2,195

## (2) DEPOSITS WITH REGULATORY AUTHORITIES

The following assets were on deposit with state and other regulatory authorities as required by law at the end of each year.

	December 31, 2008          2007 (In thousands)	
Debt securities held to maturity	\$ 13,633	13,640
Debt securities available for sale	557	692
Short-term investments	500	502
Totals	\$ 14,690	14,834



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## (3) INVESTMENTS

## (A) Investment Income

The major components of net investment income are as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Gross investment income:			
Debt securities	\$ 320,275	309,708	306,129
Mortgage loans	7,223	8,513	8,480
Policy loans	6,096	6,302	6,354
Derivative gains (losses)	(65,676)	(16,662)	43,279
Short-term investments	1,915	7,059	3,118
Other investment income	5,934	6,087	15,289
Total investment income	275,767	321,007	382,649
Investment expenses	2,405	2,870	2,881
Net investment income	\$ 273,362	318,137	379,768

As of December 31, 2008, 2007, and 2006 mortgage loans totaling \$4.6 million, \$3.3 million, and \$4.8 million, respectively were on non-accrual status. Interest income not recognized for past due loans totaled approximately \$0.4 million in 2008, 2007 and 2006. The Company had real estate investments that were non-income producing for the preceding twelve months totaling \$1.5 million, \$1.8 million, and \$1.7 million at December 31, 2008, 2007, and 2006, respectively.

The Company had investments in debt securities with carrying values totaling \$0.4 million and \$0.6 million as of December 31, 2008 and 2007, respectively that have not produced income for the preceding 12 months. Reductions in interest income associated with nonperforming investments in debt securities totaled \$0.3 million, \$0.3 million, and \$0.1 million in 2008, 2007, and 2006, respectively.

## (B) Mortgage Loans and Real Estate

Concentrations of credit risk arising from mortgage loans exist in relation to certain groups of borrowers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company does not have a significant exposure to any individual customer or counterparty.

Mortgage loans with carrying values totaling \$4.6 million, \$3.3 million, and \$4.8 million were considered impaired as of December 31, 2008, 2007 and 2006, respectively. For the years ended December 31, 2008, 2007, and 2006, average investments in impaired mortgage loans were \$2.7 million, \$3.4 million, and \$0.3 million, respectively. Interest income recognized on impaired loans for the years ended December 31, 2008, 2007 and 2006, was \$596,000, \$469,000 and \$76,000, respectively. Impaired loans are typically placed on nonaccrual status, and no interest income is recognized. However, if cash is received on the impaired loan, it is applied to principal and interest

on past due payments, beginning with the most delinquent payment.

At December 31, 2008 and 2007, the Company owned investment real estate totaling \$10.8 million and \$12.0 million, respectively, which is reflected in other long-term investments in the accompanying consolidated financial statements. The Company records real estate at the lower of cost or fair value less estimated costs to sell. Real estate values are monitored and evaluated at least annually by the use of independent appraisals or internal evaluations. Changes in market values affecting carrying values are recorded as a valuation allowance which is reflected in realized gains or losses on investments. The Company recorded a net gain (loss) on real estate as a result of releasing allowances related to properties sold totaling \$(0.1) million, \$0.1 million, and \$0.1 million for the years ended December 31, 2008, 2007, and 2006, respectively.

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## (C) Debt and Equity Securities

The tables below present amortized cost and fair values of securities held to maturity and securities available for sale at December 31, 2008.

	Amortized Cost	Securities Held to Maturity		Fair Value
		Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	
Debt securities:				
U.S. Agencies	\$ 119,674	3,975	-	123,649
U.S. Treasury	1,923	592	-	2,515
States and political subdivisions	23,123	3	801	22,325
Foreign governments	9,955	438	-	10,393
Public utilities	527,277	5,073	31,530	500,820
Corporate	1,334,157	13,580	118,204	1,229,533
Mortgage-backed	1,747,104	44,213	8,210	1,783,107
Asset-backed	68,204	130	13,323	55,011
Totals	\$ 3,831,417	68,004	172,068	3,727,353

	Amortized Cost	Securities Available for Sale		Fair Value
		Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	
Debt securities:				
U.S. Agencies	\$ -	-	-	-
U.S. Treasury	-	-	-	-
States and political subdivisions	77,160	332	13,653	63,839
Foreign governments	10,418	907	-	11,325
Public utilities	287,927	300	25,085	263,142

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Corporate	1,239,712	6,503	126,968	1,119,247
Mortgage-backed	255,910	5,739	7,693	253,956
Asset-backed	25,819	-	5,745	20,074
Equity securities	7,107	7,481	905	13,683
Totals	\$ 1,904,053	21,262	180,049	1,745,266

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The tables below present amortized cost and fair values of securities held to maturity and securities available for sale at December 31, 2007.

	Amortized Cost	Securities Held to Maturity		Fair Value
		Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	
Debt securities:				
U.S. Agencies	\$ 424,306	2,971	495	426,782
U.S. Treasury	1,930	394	-	2,324
States and political subdivisions	13,287	24	40	13,271
Foreign governments	19,944	390	-	20,334
Public utilities	397,639	9,272	4,838	402,073
Corporate	1,194,260	16,984	19,039	1,192,205
Mortgage-backed	1,646,432	9,340	17,463	1,638,309
Asset-backed	80,805	692	2,602	78,895
Totals	\$ 3,778,603	40,067	44,477	3,774,193

	Amortized Cost	Securities Available for Sale		Fair Value
		Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	
Debt securities:				
U.S. Agencies	\$ 5,000	67	-	5,067
U.S. Treasury	-	-	-	-
States and political subdivisions	48,280	1,134	907	48,507
Foreign governments	10,473	466	-	10,939
Public utilities	293,308	2,568	4,068	291,808
Corporate	1,242,402	18,730	25,639	1,235,493



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Mortgage-backed	266,534	1,739	5,300	262,973
Asset-backed	26,227	412	425	26,214
Equity securities	12,275	8,851	1,413	19,713
Totals	\$ 1,904,499	33,967	37,752	1,900,714

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Due to the Company's investment policy of investing in high quality securities with the primary intention of holding these securities until the stated maturity, the portfolio has exposure to interest rate risk. Interest rate risk is the risk that funds are invested today at a market interest rate and in the future interest rates rise causing the current market price on that investment to be lower. This risk is not a significant factor relative to the Company's buy and hold portfolio, since the original intention was to receive the stated interest rate and principal at maturity to match liability requirements of policyholders. Also, the Company takes steps to manage these risks. For example, the Company purchases the type of mortgage-backed securities that have more predictable cash flow patterns.

In addition, the Company is exposed to credit risk which is continually monitored relating to security holdings. Credit risk is the risk that an issuer of a security will not be able to fulfill their obligations relative to a security payment schedule. The Company has reviewed relative information for all issuers in an unrealized loss position at December 31, 2008 including market pricing history, credit ratings, analyst reports as well as data provided by issuers themselves to conclude on each specific issuer and make the determination relating to other-than-temporary impairment. For the securities that have not been impaired at December 31, 2008, the Company has the ability and intent to hold these securities until recovery in fair value and expects to receive all amounts due relative to principal and interest.

The Company held in its investment portfolio below investment grade debt securities totaling \$72.2 million and \$100.2 million at December 31, 2008 and 2007, respectively. These amounts represent 1.2% and 1.7% of total invested assets for December 31, 2008 and 2007, respectively. Below investment grade holdings are the result of downgrades subsequent to purchase, as the Company only invests in high quality securities with ratings quoted as investment grade. Below investment grade securities generally have greater default risk than higher rated corporate debt. The issuers of these securities are usually more sensitive to adverse industry or economic conditions than are investment grade issuers. For the years ended December 31, 2008, 2007, and 2006, the Company recorded realized losses totaling \$21.8 million, \$0.1 million, and \$0.1 million, respectively, for other-than-temporary impairment writedowns on investments in debt securities.

The following table shows the gross unrealized losses and fair values of the Company's investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2008.

	Less than 12 Months		Held to Maturity 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Government agencies	\$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	9,687	(631)	2,635	(170)	12,322	(801)
Foreign governments	-	-	-	-	-	-

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Public utilities	312,575	(21,485)	84,474	(10,045)	397,049	(31,530)
Corporate bonds	518,841	(52,581)	278,975	(65,623)	797,816	(118,204)
Mortgage-backed	4,624	(299)	54,582	(7,911)	59,206	(8,210)
Asset-backed	23,408	(1,963)	26,681	(11,360)	50,089	(13,323)
Total temporarily impaired securities	\$ 869,135	(76,959)	447,347	(95,109)	1,316,482	(172,068)

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	Less than 12 Months		Available For Sale 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Government agencies	\$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	13,486	(4,978)	45,848	(8,675)	59,334	(13,653)
Foreign governments	-	-	-	-	-	-
Public utilities	105,498	(15,799)	148,901	(9,286)	254,399	(25,085)
Corporate bonds	367,933	(70,754)	560,028	(56,214)	927,961	(126,968)
Mortgage-backed	48,540	(7,693)	-	-	48,540	(7,693)
Asset-backed	8,329	(2,133)	11,745	(3,612)	20,074	(5,745)
	543,786	(101,357)	766,522	(77,787)	1,310,308	(179,144)
Equity securities	1,205	(328)	2,057	(577)	3,262	(905)
Total temporarily impaired securities	\$ 544,991	(101,685)	768,579	(78,364)	1,313,570	(180,049)

The volatility and lack of liquidity in the bond market in the fourth quarter of 2008 caused bond prices to decline significantly. This problem was particularly apparent in the corporate bond market due to deepening recessionary concerns. Where the decline in market value is attributable to changes in market interest rates and not credit quality, we do not consider these investments to be other than temporarily impaired because we have the intent and ability to hold these investments until a recovery of amortized costs, which may be maturity. We do not consider securities to be other than temporarily impaired where the market decline is attributable to factors such as market volatility, liquidity, spread widening and credit quality where we anticipate a recovery of all amounts due under the contractual terms of the security and have the intent and ability to hold until recovery or maturity. Based on the Company's review in concert with the Company's ability and intent to hold those securities until maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008. The Company will monitor the investment portfolio for future changes in issuer facts and circumstances that could result in future impairments beyond those currently identified.

Debt securities. The gross unrealized losses for debt securities are made up of 428 individual issues, or 56% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages

88%. Of the 428 securities, 170, or approximately 40%, fall in the 12 months or greater aging category; of the 428 debt securities, 411 were rated investment grade at December 31, 2008. Additional information on debt securities by investment category is summarized below.

U.S. treasury and U.S. government corporations and agencies. No securities had a gross unrealized loss.

State and political subdivisions. The unrealized losses on these investments are the result of holdings in 53 securities. Of these securities, all are rated A or above except one which is rated BB+. Based on these facts and the Company's intent to hold to maturity, no other-than-temporary loss was recognized as of December 31, 2008.

Foreign government. No securities had a gross unrealized loss.

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Public utilities. Of the 100 securities, all are rated BBB or above except two, one is priced at 93% of par and the other at 71% of par. At this time, the Company does not consider any of these unrealized losses as other-than-temporary.

Corporate bonds. Corporate securities with unrealized losses are reviewed based on monitoring procedures described previously; including review of the amount of the unrealized loss, the length of time that the issue has been in an unrealized loss position, credit ratings, analyst reports, and recent issuer financial information. A total of 235 securities had unrealized losses; with 10 issues rated below investment grade. More extensive analysis was performed on these 10 issues based on the work performed, none of the unrealized losses are considered other-than-temporarily impaired at December 31, 2008.

Mortgage-backed securities. These securities are all rated AAA. The Company generally purchases these investments at a discount relative to their face amount and it is expected that the securities will not be settled at a price less than the stated par. Because the decline in market value is attributable to the current illiquidity in the market and not credit quality, and because the Company has the ability and intent to hold these securities until a recovery of fair value, which may be maturity, and based on the lack of adverse changes in expected cash flows, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

Asset-backed securities. Of the 26 securities, 16 are rated AAA and 2 are rated AA. The Company performs a quarterly cash flow analysis on asset-backed securities that are rated below AA. Based on the lack of adverse changes in expected cash flows, the 8 issues rated below AA are not considered impaired.

Equity securities. The gross unrealized losses for equity securities are made up of 61 individual issues. These holdings are reviewed for impairment quarterly. As of December 31, 2008, 31 equity securities were impaired. Total other-than-temporary impairments taken in 2008 on equities were \$5.4 million.

The following table shows the gross unrealized losses and fair values of the Company's investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2007.

	Less than 12 Months		Held to Maturity 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Debt securities:						
U.S. Government agencies	\$ -	-	44,207	495	44,207	495
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	-	-	2,758	40	2,758	40
Foreign governments	-	-	-	-	-	-
Public utilities	31,604	392	143,527	4,446	175,131	4,838

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Corporate bonds	96,359	1,464	504,077	17,575	600,436	19,039
Mortgage-backed	24,717	82	937,373	17,381	962,090	17,463
Asset-backed	17,795	869	25,989	1,733	43,784	2,602
Total temporarily impaired securities	\$ 170,475	2,807	1,657,931	41,670	1,828,406	44,477

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	Less than 12 Months		Available For Sale 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Debt securities:						
U.S. Government agencies	\$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	-	-	48,507	907	48,507	907
Foreign governments	-	-	-	-	-	-
Public utilities	33,157	95	135,260	3,973	168,417	4,068
Corporate bonds	87,564	1,667	545,726	23,972	633,290	25,639
Mortgage-backed	14,464	83	112,119	5,217	126,583	5,300
Asset-backed	985	7	8,549	418	9,534	425
	136,170	1,852	850,161	34,487	986,331	36,339
Equity securities	-	-	12,247	1,413	12,247	1,413
Total temporarily impaired securities	\$ 136,170	1,852	862,408	35,900	998,578	37,752

The amortized cost and fair value of investments in debt securities at December 31, 2008, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)				
Due in 1 year or less	\$ 66,962	63,604	139,897	140,150
Due after 1 year through 5 years	421,879	394,775	490,974	465,607



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Due after 5 years through 10 years	1,009,704	901,534	1,299,179	1,200,639
Due after 10 years	116,672	97,640	86,059	82,839
	1,615,217	1,457,553	2,016,109	1,889,235
Mortgage and asset-backed securities	281,729	274,030	1,815,308	1,838,118
Total	\$ 1,896,946	1,731,583	3,831,417	3,727,353

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The Company uses the specific identification method in computing realized gains and losses. Proceeds from sales of securities available for sale during 2008, 2007, and 2006 totaled \$1.7 million, \$33.6 million, and \$36.4 million, respectively.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Available for sale debt securities:			
Realized gains on disposal	\$ 1,811	4,830	4,556
Realized losses on disposal	-	(359)	(333)
Held to maturity debt securities:			
Realized gains on disposal	154	19	26
Realized losses on disposal	-	-	-
Impairments on debt securities	(21,803)	(67)	(99)
Equity securities realized gains (losses)	102	250	(14)
Equity securities impairments	(5,412)	-	-
Real estate	-	72	-
Mortgage loans	(1,020)	(1,467)	(2,100)
Other	(60)	219	626
<b>Totals</b>	<b>\$ (26,228)</b>	<b>3,497</b>	<b>2,662</b>

For the year, the Company recorded other-than-temporary impairment writedowns on debt securities consisting of Washington Mutual (\$9.3 million), Clear Channel Communications (\$8.7 million), GMAC (\$2.3 million), and Greentree (\$1.5 million). Due to the events leading to the writedowns also providing evidence of a significant deterioration in the issuers' creditworthiness, the Washington Mutual, Greentree Financial and two GMAC securities were transferred from held to maturity to available for sale.

The \$5.4 million of equity impairments in 2008 include Fannie Mae and Freddie Mac preferred stock holdings (\$4.6 million) and mark-to-market writedowns on various other equity holdings.

Due to significant credit deterioration, one bond from the held to maturity portfolio was sold during 2007. The amortized cost of this bond sold totaled \$5.2 million, which resulted in realized gains of \$0.2 million for 2007.

Except for U.S. government agency mortgage-backed securities, the Company had no other investments in any entity in excess of 10% of stockholders' equity at December 31, 2008 or 2007.

## (D) Net Unrealized Gains (Losses) on Available for Sale Securities

Net unrealized gains (losses) on investment securities included in stockholders' equity at December 31, 2008 and 2007, are as follows:

December 31,	
2008	2007
(In thousands)	

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Gross unrealized gains	\$ 21,262	33,967
Gross unrealized losses	(180,049)	(37,752)
Adjustments for:		
Deferred policy acquisition costs and sales inducements	76,075	5,568
Deferred Federal income tax expense (recoverable)	28,949	(624)
	(53,763)	1,159
Net unrealized gains (losses) related to securities transferred to held to maturity	(7)	25
Net unrealized gains (losses) on investment securities	\$ (53,770)	1,184

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**(4) REINSURANCE**

Effective January 1, 2004, the Company began reinsuring any risk on any one life in excess of \$250,000, subject to a minimum session of \$50,000. The Company's general policy prior to December 31, 2003 was to reinsure that portion of any risk in excess of \$200,000 on the life of any one individual. The Company is party to several reinsurance agreements. Total life insurance in force was \$18.8 billion and \$17.6 billion at December 31, 2008 and 2007, respectively. Of these amounts, life insurance in force totaling \$5.9 billion and \$5.0 billion was ceded to reinsurance companies, primarily on a yearly renewable term basis, at December 31, 2008 and 2007, respectively. In accordance with the reinsurance contracts, reinsurance receivables including amounts related to claims incurred but not reported and liabilities for future policy benefits totaled \$8.2 million and \$9.6 million at December 31, 2008 and 2007, respectively. Premiums and contract revenues were reduced by \$20.4 million, \$16.3 million, and \$13.5 million for reinsurance premiums incurred during 2008, 2007, and 2006, respectively. Benefit expenses were reduced by \$7.7 million, \$8.5 million, and \$17.7 million, for reinsurance recoveries during 2008, 2007, and 2006, respectively. A contingent liability exists with respect to reinsurance, as the Company remains liable if the reinsurance companies are unable to meet their obligations under the existing agreements. The Company does not assume reinsurance.

**(5) FEDERAL INCOME TAXES**

Total Federal income taxes for 2008, 2007, and 2006 were allocated as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Taxes (benefits) on earnings from continuing operations:			
Current	\$ 19,871	7,622	38,711
Deferred	(3,944)	32,254	1,761
Taxes on earnings	15,927	39,876	40,472
Taxes (benefits) on components of stockholders' equity:			
Net unrealized gains and losses on securities available for sale	(29,590)	(1,056)	(3,905)
Foreign currency translation adjustments	(60)	(24)	(96)
Change in benefit liability	(1,738)	(714)	(5,385)
Total Federal income taxes (benefit)	\$ (15,461)	38,082	31,086

The provisions for Federal income taxes attributable to earnings from continuing operations vary from amounts computed by applying the statutory income tax rate to earnings before Federal income taxes. The reasons for the differences and the corresponding tax effects are as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		

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Income tax expense at statutory rate	\$	17,349	43,837	40,885
Dividend received deduction		(1,155)	(1,192)	(1,266)
Tax exempt interest		(1,374)	(813)	(737)
Deferred tax liability correction		-	(2,389)	-
Other		1,107	433	1,590
Taxes on earnings from continuing operations	\$	15,927	39,876	40,472

There were no deferred taxes attributable to enacted tax rate changes for the years ended December 31, 2008, 2007, and 2006.

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During the second quarter of 2007, upon the completion of a detailed review of the deferred tax items, the Company identified a \$2.3 million error in the net deferred tax liability. The error, which occurred during various periods prior to 2005, was corrected in the second quarter of 2007 and resulted in a decrease in the net deferred tax liability and deferred tax expense. The adjustment was not material to 2007 or any prior financial statements.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 are presented below.

	December 31,	
	2008	2007
	(In thousands)	
Deferred tax assets:		
Future policy benefits, excess of financial accounting liabilities over tax liabilities	\$ 160,390	172,619
Investment securities writedowns for financial accounting purposes	12,357	3,872
Net unrealized losses on securities available for sale	28,951	-
Pension liabilities	7,862	6,099
Real estate, principally due to writedowns for financial accounting purposes	49	-
Accrued operating expenses recorded for financial accounting purposes not currently tax deductible	4,430	5,396
Mortgage loans, principally due to valuation allowances for financial accounting purposes	1,605	1,248
Accrued and unearned investment income recognized for tax purposes and deferred for financial accounting purposes	163	193
Other	401	1,223
<b>Total gross deferred tax assets</b>	<b>216,208</b>	<b>190,650</b>
Deferred tax liabilities:		
Deferred policy acquisition and sales inducement costs, principally expensed for tax purposes	(232,400)	(240,294)
Net unrealized gains on securities available for sale	-	(639)
Debt securities, principally due to deferred market discount for tax	(5,601)	(4,903)
Foreign currency translation adjustments	(1,768)	(3,216)
Fixed assets, due to different bases	(2,945)	(3,110)
Other	-	(208)
<b>Total gross deferred tax liabilities</b>	<b>(242,714)</b>	<b>(252,370)</b>
<b>Net deferred tax liabilities</b>	<b>\$ (26,506)</b>	<b>(61,720)</b>

There was no valuation allowance for deferred tax assets at December 31, 2008 and 2007. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

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As discussed in Note 1, the Company adopted FIN 48 in 2007. In connection with the adoption, the Company assessed whether it had any significant uncertain tax positions and determined that there were none. Accordingly, no reserve for uncertain tax positions was recorded. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to record such accruals in its income tax accounts; no such accruals exist as of December 31, 2008 or 2007. The Company and its corporate subsidiaries file a consolidated U.S. federal income tax return, which is subject to examination for all years after 2004.

During 2008, the Company was notified that its 2005 tax return amendment, which was filed September 2007, was being audited by the IRS. The audit is currently in progress. Adjustments to the amended return are not expected to have any material effect on the financial condition or operating results of the Company.

The Company files a consolidated Federal income tax return with its subsidiaries. Allocation of the consolidated tax liability is based on separate return calculations pursuant to the "wait-and-see" method as described in sections 1.1552-1(a)(1) and 1.1502-33(d)(2) of the current Treasury Regulations. Under this method, consolidated group members are not given current credit for net losses until future net taxable income is generated to realize such credits.

## (6) TRANSACTIONS WITH CONTROLLING STOCKHOLDER AND AFFILIATES

## (A) Life Interest in Libbie Shearn Moody Trust

The Company's wholly-owned subsidiary, NWL Services, Inc., is the beneficial owner of a life interest (1/8 share) in the net income of the trust estate of Libbie Shearn Moody ("Trust") which was previously owned by Robert L. Moody, Chairman of the Board of Directors of the Company. The Company has issued term insurance policies on the life of Mr. Moody which are reinsured through agreements with unaffiliated insurance companies. The Company is the beneficiary of these policies for an amount equal to the statutory admitted value of the Trust, which was \$12.8 million at December 31, 2008. The excess of the \$27.0 million face amount of the reinsured policies over the statutory admitted value of the Trust has been assigned to Mr. Moody. The recorded net asset values included in other long-term investments in the accompanying consolidated financial statements for the life interest in the Trust are as follows:

	December 31,	
	2008	2007
	(In thousands)	
Original valuation of life interest at February 26, 1960	\$ 13,793	13,793
Less accumulated amortization	(12,491)	(12,173)
Carrying basis at year end	\$ 1,302	1,620



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Income from the Trust and related expenses reflected in investment income in the accompanying consolidated statements of earnings are summarized as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Income distributions	\$ 4,105	4,057	4,500
Deduct:			
Amortization	(318)	(314)	(312)
Reinsurance premiums	(807)	(807)	(807)
Net income from life interest in the Trust	\$ 2,980	2,936	3,381

## (B) Common Stock

Robert L. Moody, Chairman of the Board of Directors, owns 99.0% of the total outstanding shares of the Company's Class B common stock and 33.9% of the Class A common stock as of December 31, 2008.

Holders of the Company's Class A common stock elect one-third of the Board of Directors of the Company, and holders of the Class B common stock elect the remainder. Any cash or in-kind dividends paid on each share of Class B common stock shall be only one-half of the cash or in-kind dividends paid on each share of Class A common stock. Also, in the event of liquidation of the Company, the Class A stockholders shall first receive the par value of their shares; then the Class B stockholders shall receive the par value of their shares; and the remaining net assets of the Company shall be divided between the stockholders of both Class A and Class B common stock, based on the number of shares held.

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## (7) PENSION AND OTHER POSTRETIREMENT PLANS

## (A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. Going forward future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of December 31 for the respective year. A detail of plan disclosures is provided below.

## Obligations and Funded Status

	December 31,	
	2008	2007
	(In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	\$ 18,614	18,257
Service cost	-	720
Interest cost	1,036	1,086
Plan curtailment	-	(801)
Actuarial (gain) loss	(817)	797
Benefits paid	(1,069)	(1,445)
Projected benefit obligations at end of year	17,764	18,614
Changes in plan assets:		
Fair value of plan assets at beginning of year	15,226	14,153
Actual return on plan assets	(3,176)	699
Contributions	1,050	1,819
Benefits paid	(1,069)	(1,445)
Fair value of plan assets at end of year	12,031	15,226
Funded status at end of year	\$ (5,733)	(3,388)

December 31,  
2008                  2007  
(In thousands)

Amounts recognized in the Company's consolidated financial statements:

Assets	\$ -	-
Liabilities	(5,733)	(3,388)

Net amount recognized	\$	(5,733)	(3,388)
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Amounts recognized in accumulated other comprehensive income:

Net loss	\$	8,863	5,608
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Prior service cost		27	31
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Net amount recognized	\$	8,890	5,639
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The accumulated benefit obligation was \$17.8 million and \$18.6 million at December 31, 2008 and 2007, respectively.

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## Components of Net Periodic Benefit Cost

	Years Ended December 31,		
	2008	2007	2006
(In thousands)			
Components of net periodic benefit costs:			
Service cost	\$ -	720	691
Interest cost	1,036	1,086	1,021
Expected return on plan assets	(1,140)	(1,100)	(947)
Amortization of prior service cost	4	4	4
Amortization of net loss	242	321	352
<b>Net periodic benefit cost</b>	<b>142</b>	<b>1,031</b>	<b>1,121</b>
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net loss	3,497	396	
Amortization of prior service cost	(4)	(4)	
Amortization of net gain	(242)	(320)	
<b>Total recognized in other comprehensive income</b>	<b>3,251</b>	<b>72</b>	
<b>Total recognized in net periodic benefit cost and other comprehensive income</b>	<b>\$ 3,393</b>	<b>1,103</b>	

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be based on the average expected future service of plan participants. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be minimal.

## Assumptions

	December 31,		
	2008	2007	
Weighted-average assumptions used to determine benefit obligations:			
Discount rate	6.00%	6.00%	
Rate of compensation increase	n/a	4.50%	
	2008	December 31, 2007	2006
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	6.00%	6.00%	6.00%

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Expected long-term return on plan assets	7.50%	7.50%	7.50%
Rate of compensation increase	n/a	4.50%	4.50%

The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on the long-term investment policy of the plan and the various classes of invested funds, based on the input of the plan's investment advisors and consulting actuary and the plan's historic rate of return. As of December 31, 2008, the plan's average 10-year and inception-to-date returns were 1.43% and 6.09%, respectively.

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## Plan Assets

The plan's weighted-average asset allocations by asset category are as follows:

	2008	December 31, 2007	2006
Asset Category			
Equity securities	58%	59%	60%
Debt securities	36%	35%	35%
Cash and cash equivalents	6%	6%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The Company has established and maintains an investment policy statement for the assets held in the plan's trust. The investment strategies are of a long-term nature and are designed to meet the following objectives:

- ensure that funds are available to pay benefits as they become due
- set forth an investment structure detailing permitted assets and expected allocation ranges among classes
  - ensure that plan assets are managed in accordance with ERISA

The investment policy statement sets forth the following acceptable ranges for each asset's class.

Asset Category	Acceptable Range
Equity securities	55-65%
Debt securities	30-40%
Cash and cash equivalents	0-15%

Deviations from these ranges are permitted if such deviations are consistent with the duty of prudence under ERISA. Investments in natural resources, venture capital, precious metals, futures and options, real estate, and other vehicles that do not have readily available objective valuations are not permitted. Short sales, use of margin or leverage, and investment in commodities and art objects are also prohibited.

The investment policy statement is reviewed annually to insure that the objectives are met considering any changes in benefit plan design, market conditions, or other material considerations.

## Contributions

The Company expects to contribute \$600,000 to the plan during 2009, although additional amounts may be contributed. The plan's funding status is reviewed periodically throughout the year by the Company's Pension Plan Committee. The Company intends to contribute at least the minimum amounts necessary for tax compliance and to

maintain an Adjusted Funding Target Attainment Percentage (AFTAP) of over 80% to meet the Pension Protection Act Plan's threshold.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2009	\$	1,122
2010		1,174
2011		1,241
2012		1,261
2013		1,265
2014-2018		6,269

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The Company also sponsors three non-qualified defined benefit pension plans. The first plan covers certain senior officers and provides benefits based on the participants' years of service and compensation. The primary pension obligations and administrative responsibilities of the plan are maintained by a pension administration firm, which is a subsidiary of American National Insurance Company ("ANICO") a related party. ANICO has guaranteed the payment of pension obligations under the plan. However, the Company has a contingent liability with respect to the pension plan should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations resulting from these items. Amendments were made to this plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

Effective July 1, 2005, the Company established a second non-qualified defined benefit plan for the benefit of the Chairman of the Company. This plan is intended to provide for post-2004 benefit accruals that mirror and supplement the pre-2005 benefit accruals under the previously discussed non-qualified plan, while complying with the requirements of the Act.

Effective November 1, 2005, the Company established a third non-qualified defined benefit plan for the benefit of the President of the Company. This plan is intended to provide for post-2004 benefit accruals that supplement the pre-2005 benefit accruals under the first non-qualified plan as previously discussed, while complying with the requirements of the Act.

A detail of plan disclosures related to the amendments of the original plan and the additional two plans is provided below:

#### Obligations and Funded Status

	December 31,	
	2008	2007
	(In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	\$ 17,104	13,696
Service cost	586	773
Interest cost	1,190	962
Actuarial loss	3,764	3,257
Benefits paid	(1,904)	(1,584)
Projected benefit obligations at end of year	20,740	17,104
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Contributions	1,904	1,584
Benefits paid	(1,904)	(1,584)



Fair value of plan assets at end of year	-	-
Funded status at end of year	\$ (20,740)	(17,104)

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	December 31,	
	2008	2007
	(In thousands)	
Amounts recognized in the Company's consolidated financial statements:		
Assets	\$ -	-
Liabilities	(20,740)	(17,104)
Net amount recognized	\$ (20,740)	(17,104)
Amounts recognized in accumulated other comprehensive income:		
Net loss	\$ 9,589	6,532
Prior service cost	2,551	3,591
Net amount recognized	\$ 12,140	10,123

The accumulated benefit obligation was \$17.4 million and \$13.7 million at December 31, 2008 and 2007, respectively.

## Components of Net Periodic Benefit Cost

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Components of net periodic benefit cost:			
Service cost	\$ 586	773	1,631
Interest cost	1,190	962	708
Amortization of prior service cost	1,039	1,039	1,040
Amortization of net loss	707	404	182
Net periodic benefit cost	3,522	3,178	3,561
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net loss	3,764	3,257	
Amortization of prior service cost	(1,039)	(1,039)	
Amortization of net gain	(707)	(404)	
Total recognized in other comprehensive income	2,018	1,814	
Total recognized in net periodic benefit cost and other comprehensive income	\$ 5,540	4,992	

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be based on the average expected future service of plan participants. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be \$1.0 million.

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## Assumptions

	December 31,	
	2008	2007
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	6.00%	6.00%
Rate of compensation increase	4.00%	4.00%

	December 31,		
	2008	2007	2006
Weighted-average assumptions used to determine net periodic benefit costs:			
Discount rate	6.00%	6.00%	6.00%
Expected long-term return on plan assets	n/a	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%

The plan is unfunded and therefore no assumption has been made related to the expected long-term return on plan assets.

## Plan Assets

The plan is unfunded and therefore had no assets at December 31, 2008 or 2007.

## Contributions

The Company expects to contribute \$2.0 million to the plan in 2009.

## Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2009	\$	1,957
2010		1,957
2011		1,957
2012		1,957
2013		1,957
2014-2018		9,788

## (B) Defined Contribution Pension Plans

In addition to the defined benefit pension plans, the Company sponsors a qualified 401(k) plan for substantially all employees and a non-qualified deferred compensation plan primarily for senior officers. The Company makes annual contributions to the 401(k) plan of one percent and two percent of each employee's compensation in 2008 and 2007, respectively. Additional Company matching contributions of up to two percent of each employee's compensation are also made each year based on the employee's personal level of salary deferrals to the plan. All Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2008, 2007, and 2006, Company contributions totaled \$344,000, \$432,000, and \$423,000, respectively.

The non-qualified deferred compensation plan was established to allow eligible employees to defer the payment of a percentage of their compensation and to provide for additional Company contributions. Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2008, 2007, and 2006, Company contributions totaled \$46,000, \$61,000, and \$32,000, respectively.

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## (C) Defined Benefit Postretirement Plans

The Company sponsors two health care plans that were amended in 2004 to provide postretirement benefits to certain fully-vested individuals. The plans are unfunded. The Company uses a December 31 measurement date for the plans. A detail of plan disclosures related to these plans is provided below:

## Obligations and Funded Status

	December 31, 2008                  2007 (In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	\$ 2,450	2,053
Interest cost	134	141
Actuarial gain (loss)	(195)	287
Benefits paid	(59)	(31)
Projected benefit obligations at end of year	2,330	2,450
Changes in plan assets:		
Fair value of plan assets at beginning of year	-	-
Contributions	59	31
Benefits paid	(59)	(31)
Fair value of plan assets at end of year	-	-
Funded status at end of year	\$ (2,330)	(2,450)

	December 31, 2008                  2007 (In thousands)	
Amounts recognized in the Company's consolidated financial statements:		
Assets	\$ -	-
Liabilities	(2,330)	(2,450)
Net amount recognized	\$ (2,330)	(2,450)
Amounts recognized in accumulated other comprehensive income:		
Net gain	\$ 277	478
Prior service cost	1,082	1,186
Net amount recognized	\$ 1,359	1,664



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## Components of Net Periodic Benefit Cost

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Components of net periodic benefit cost:			
Interest cost	\$ 134	141	117
Amortization of prior service costs	103	103	103
Amortization of net loss	7	29	-
Net periodic benefit cost	244	273	220
Other change in plan assets and benefit obligations recognized in other comprehensive income:			
Net (gain) loss	(195)	287	
Amortization of prior service cost	(103)	(103)	
Amortization of net gain	(7)	(29)	
Total recognized in other comprehensive income	(305)	155	
Total recognized in net periodic benefit cost and other comprehensive income	\$ (61)	428	

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be based on the average expected future service of plan participants. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2009 will be \$0.1 million.

## Assumptions

A weighted-average discount rate assumption of 6.0% was used to determine benefit obligations and net periodic benefit cost as of and for the years ended December 31, 2008 and 2007. No assumption was made related to the expected long-term return on plan assets as the plan is unfunded.

For measurement purposes, an 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009 and future years.

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A 1% point change in assumed health care cost trend rates would have the following effects for the years ended December 31:

2008		2007	
1% Point Increase	1% Point Decrease	1% Point Increase	1% Point Decrease
(In thousands)			

Effect on total of service and interest



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cost components	\$	20	(27)	32	(24)
Effect on postretirement benefit obligation	\$	472	(368)	560	(428)

Plan Assets

The plans are unfunded and therefore had no assets at December 31, 2008 and 2007.

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## Contributions

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2009	\$ 80,892
2010	87,363
2011	94,354
2012	101,901
2013	110,053
2014-2018	697,286

## (8) SHORT-TERM BORROWINGS

The Company has available a \$40 million bank line of credit primarily for cash management purposes relating to investment transactions. The Company is required to maintain a collateral security deposit in trust with the sponsoring bank equal to 120% of any outstanding liability. The Company had no outstanding liabilities with the bank at December 31, 2008 or 2007. The Company had assets having an amortized value of \$57.4 million on deposit with the lender at year end 2008.

## (9) COMMITMENTS AND CONTINGENCIES

## (A) Legal Proceedings

The Company is a defendant in two class action lawsuits. In one case, the Court has certified a class consisting of certain California policyholders age 65 and older alleging violations under California Business and Professions Code section 17200. The Court has additionally certified a subclass of 36 policyholders alleging fraud against their agent, and vicariously, against the Company. A second class action lawsuit in federal court in California is in discovery with no class certification motion pending. Management believes that the Company has good and meritorious defenses and intends to continue to vigorously defend itself against these claims.

The Company is involved or may become involved in various other legal actions, in the normal course of business, in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from potential, pending, or threatened legal actions, will have a material adverse effect on the financial condition or operating results of the Company.

In January 2009, the SEC published its newly adopted rule 151A, Indexed Annuities and Certain Other Insurance Contracts. This rule defines “indexed annuities to be securities and thus subject to regulation by the SEC and under federal securities laws”. Currently indexed annuities sold by life insurance companies are regulated by the States as Insurance products and Section 3(a)(8) of the Securities Act of 1933 provides an exemption for certain “annuity contracts,” “optional annuity contracts,” and other insurance contracts. The new rule is not effective until January 12, 2011. The Company and others have filed suit in the U. S. Court of Appeals for the District of Columbia to overturn this rule. In the event rule 151A is not overturned, it could have a material effect on our business, results of operations and financial condition.



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## (B) Financial Instruments

In order to meet the financing needs of its customers in the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments are commitments to extend credit which involve elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amounts, assuming that the amounts are fully advanced and that collateral or other security is of no value. Commitments to extend credit are legally binding agreements to lend to a customer that generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments do not necessarily represent future liquidity requirements, as some could expire without being drawn upon. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company controls the credit risk of these transactions through credit approvals, limits, and monitoring procedures.

The Company had no commitments to extend credit relating to mortgage loans at December 31, 2008. The Company evaluates each customer's creditworthiness on a case-by-case basis.

## (C) Guaranty Association Assessments

The Company is subject to state guaranty association assessments in all states in which it is licensed to do business. These associations generally guarantee certain levels of benefits payable to resident policyholders of insolvent insurance companies. Many states allow premium tax credits for all or a portion of such assessments, thereby allowing potential recovery of these payments over a period of years. However, several states do not allow such credits.

The Company estimates its liabilities for guaranty association assessments by using the latest information available from the National Organization of Life and Health Insurance Guaranty Associations. The Company monitors and revises its estimates for assessments as additional information becomes available which could result in changes to the estimated liabilities. As of December 31, 2008 and 2007, liabilities for guaranty association assessments totaled \$1.4 million and \$1.3 million, respectively. Other operating expenses related to state guaranty association assessments were minimal for the years ended December 31, 2008, 2007, and 2006.

## (D) Leases

The Company leases its executive office building and various computers and other office related equipment under operating leases. Rental expenses for these leases were \$0.9 million for the years ended December 31, 2008, 2007, and 2006. Total future annual lease obligations as of December 31, 2008, are as follows:

2009	\$ 987,700
2010	354,600
2011	-
2012 and thereafter	-
Total	\$ 1,342,300



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## (E) Compensation Plan

Effective January 1, 2006, the Company implemented a Non-Qualified Deferred Compensation Plan to provide incentive bonuses to eligible agents. Agents qualify for participation by meeting certain sales goals each year. Company contributions are subject to a vesting schedule based on the agents' years of qualification in the plan. The Company expects to contribute \$0.5 million to the plan in 2009.

## (10) STOCKHOLDERS' EQUITY

## (A) Changes in Common Stock Shares Outstanding

Details of changes in shares of common stock outstanding are provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Common stock shares outstanding:			
Shares outstanding at beginning of year	3,622	3,621	3,613
Shares exercised under stock option plan	4	1	8
Shares outstanding at end of year	3,626	3,622	3,621

## (B) Dividend Restrictions

The Company is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The restrictions are based on statutory earnings and surplus levels of the Company. The maximum dividend payment which may be made without prior approval in 2009 is \$70.4 million.

On August 22, 2008, the Board of Directors of the Company declared a cash dividend to stockholders on record as of October 31, 2008 and payable November 28, 2008. The dividends approved were \$0.36 per common share to Class A stockholders and \$0.18 per common share to Class B stockholders.

## (C) Regulatory Capital Requirements

The Colorado Division of Insurance imposes minimum risk-based capital requirements on insurance companies that were developed by the National Association of Insurance Commissioners ("NAIC"). The formulas for determining the amount of risk-based capital ("RBC") specify various weighting factors that are applied to statutory financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of the Company's regulatory total adjusted capital to its authorized control level RBC, as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The Company's current statutory capital and surplus is significantly in excess of all RBC requirements.

(D) Share-Based Payments

The Company has a stock and incentive plan ("1995 Plan") which provides for the grant of any or all of the following types of awards to eligible employees: (1) stock options, including incentive stock options and nonqualified stock options; (2) stock appreciation rights, in tandem with stock options or freestanding; (3) restricted stock; and (4) performance awards. The 1995 Plan began on April 21, 1995, and was amended on June 25, 2004 to extend the termination date to April 20, 2010. The number of shares of Class A, \$1.00 par value, common stock which may be issued under the 1995 Plan, or as to which stock appreciation rights or other awards may be granted, may not exceed 300,000. Effective June 20, 2008, the Company's shareholders approved a 2008 Incentive Plan ("2008 Plan"). The 2008 Plan is substantially similar to the 1995 Plan and authorized an additional number of Class A, \$1.00 per value, common stock shares eligible for issue not to exceed 300,000. These shares may be authorized and unissued shares. The Company has only issued nonqualified stock options and stock appreciation rights.

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All of the employees of the Company and its subsidiaries are eligible to participate in the two Plans. In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' grants vest 20% annually following one full year of service to the Company from the date of grant. The employees' grants vest 20% annually following three full years of service to the Company from the date of grant. All grants issued expire after ten years.

Effective March 10, 2006, as more fully described below, the Company's Plan classification was changed to liability accounting and accordingly, the Company began using the current fair value method to measure compensation cost. For the years ended December 31, 2008 and 2007, the liability balance was \$3.8 million and \$7.7 million, respectively. A summary of shares available for grant and stock option activity is detailed below.

	Shares Available For Grant	Options Outstanding Shares	Weighted- Average Exercise Price
Balance at January 1, 2008	27,668	94,984	\$ 128.47
Stock Options:			
Exercised	-	(25,440)	105.77
Forfeited	1,000	(1,000)	150.00
Stock options granted April 18, 2008	(28,268)	28,268	255.13
2008 Plan addition	300,000	-	-
Stock options granted June 20, 2008	(9,000)	9,000	208.05
Balance at December 31, 2008	291,400	105,812	\$ 174.33

	Stock Appreciation Rights Awards	Outstanding Weighted- Average Exercise Price
Plan adoption June 20, 2008	-	\$ -
Stock Appreciation Rights:		
SARs granted August 21, 2008	1,250	236.00
SARs granted September 2, 2008	1,000	251.49
SARs granted September 22, 2008	500	256.00
Balance at December 31, 2008	2,750	\$ 245.70

The total intrinsic value of options exercised was \$2.8 million, \$4.6 million, and \$3.3 million for the years ended December 31, 2008, 2007, and 2006, respectively. The total share-based liabilities paid were \$2.5 million and \$4.4 million for the years ended 2008 and 2007, respectively. For the years ended December 31, 2008 and 2007, the total



cash received from the exercise of options under the Plan was \$0.4 million and \$0.1 million, respectively. The total fair value of shares vested during 2008 and 2007 was \$2.0 million and \$3.2 million, respectively.

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The following table summarizes information about stock options and SARs outstanding at December 31, 2008.

	Options Outstanding		
	Number Outstanding	Weighted- Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
\$ 92.13	10,194	2.3 years	10,194
95.00	6,000	2.5 years	6,000
150.00	52,350	5.3 years	21,450
255.13	28,268	9.3 years	-
208.05	9,000	9.5 years	-
236.00	1,250	9.6 yeras	-
251.49	1,000	9.7 years	-
256.00	500	9.7 years	-
Totals	108,562		37,644
Aggregate intrinsic value (in thousands)	\$ 2,234		\$ 1,642

The aggregate intrinsic value in the table above is based on the closing stock price of \$169.17 per share on December 31, 2008.

In estimating the fair value of the options outstanding at December 31, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

	2008	2007
Expected term of options	2 to 10 years	2 to 6 years
Expected volatility:		
Range	24.70% to 77.55%	18.84% to 27.56%
Weighted-average	37.10%	22.25%
Expected dividend yield	0.22%	0.17%
Risk-free rate:		
Range	1.44% to 2.40%	3.02% to 3.68%
Weighted-average	1.94%	3.28%

The Company reviewed the contractual term relative to the options as well as perceived future behavior patterns of exercise. Volatility is based on the Company's historical volatility over the expected term.

The pre-tax compensation cost recognized in the financial statements related to the Plan was \$(1.4) million, \$(1.1) million, and \$13.1 million for the years ended December 31, 2008, 2007, and 2006, respectively. The related tax (expense)/benefit recognized was \$(0.5) million, \$(0.4) million and \$4.6 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Effective during March 2006, the Company adopted and implemented a limited stock buy-back program which provides option holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. Option holders may elect to sell such acquired shares back to the Company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election. The buy-back program did not alter the terms and conditions of the Plan, however the program necessitated a change in accounting from the equity classification to the liability classification. The modification affected 35 plan participants who had options outstanding on the date of modification and resulted in \$11.7 million of total incremental pre-tax compensation cost due to the change from the equity to liability classification.

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In August 2008, the Company implemented another limited stock buy-back program, substantially similar to the 2006, program for shares issued under the 2008 Plan.

For the years ended December 31, 2008, 2007, and 2006, the total compensation cost related to nonvested options not yet recognized was \$1.3 million, \$1.1 million, and \$2.9 million, respectively. This amount is expected to be recognized over a weighted-average period of 2.4 years. The Company recognizes compensation cost over the graded vesting periods.

**(11) EARNINGS PER SHARE**

Earnings per share amounts for the Company are presented using two different computations. Basic earnings per share excludes dilutive effects of certain securities or contracts, such as stock options, and is computed by dividing income available to each class of common stockholders on an as if distributed basis by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock, that then shared in the distributed earnings of each class of common stock. Stock options not included in the weighted-average number of diluted shares, because such shares would have been anti-dilutive, were immaterial. U.S. GAAP requires a two-class presentation for the Company's two classes of common stock (Note 6B). Accordingly, the earnings per share for both Class A and Class B are presented. The following table sets forth the computations of basic and diluted earnings per share.

	Years Ended December 31,					
	2008		2007		2006	
	Class A	Class B	Class A	Class B	Class A	Class B
(In thousands except per share amounts)						
Numerator for Basic and Diluted Earnings Per Share:						
Net income	\$ 33,642		85,371		76,343	
Dividends – Class A shares	(1,233)		(1,232)		(1,231)	
Dividends – Class B shares	(36)		(36)		(36)	
Undistributed income	\$ 32,373		84,103		75,076	
Allocation of net income:						
Dividends	\$ 1,233	36	1,232	36	1,231	36
Allocation of undistributed income	31,455	919	81,715	2,388	72,944	2,132
Net income	\$ 32,688	955	82,947	2,424	74,175	2,168
Denominator:						

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Basic earnings per share - weighted-average shares	3,425	200	3,422	200	3,421	200
Effect of dilutive stock options	23	-	42	-	36	-
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,448	200	3,464	200	3,457	200
Basic Earnings Per Share \$	9.54	4.77	24.24	12.12	21.69	10.84
Diluted Earnings Per Share \$	9.48	4.77	23.95	12.12	21.46	10.84

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## (12) COMPREHENSIVE INCOME

SFAS No. 130, Reporting Comprehensive Income, establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. This Statement requires that all items required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This statement requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position.

SFAS No. 130 affects the Company's reporting presentation of certain items such as foreign currency translation adjustments, unrealized gains and losses on investment securities, and minimum pension liabilities. These items are reflected as components of other comprehensive income (loss), as reported in the accompanying consolidated financial statements. Components of other comprehensive income (loss) and the related tax effect are provided below for 2008, 2007, and 2006.

	Amounts Before Taxes	Tax (Expense) Benefit (In thousands)	Amounts Net of Taxes
2008:			
Unrealized gains (losses) on securities, net of effects of deferred costs of \$70,524:			
Net unrealized holding losses arising during period	\$ (102,752)	35,963	(66,789)
Reclassification adjustment for net losses included in net earnings	18,256	(6,390)	11,866
Amortization of net unrealized gains related to transferred securities	(47)	16	(31)
Net unrealized losses on securities	(84,543)	29,589	(54,954)
Foreign currency translation adjustments	(172)	60	(112)
Pension liability adjustment	(4,965)	1,738	(3,227)
Other comprehensive loss	\$ (89,680)	31,387	(58,293)

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	Amounts Before Taxes	Tax (Expense) Benefit (In thousands)	Amounts Net of Taxes
2007:			
Unrealized gains (losses) on securities, net of effects of deferred costs of \$(4,415):			
Net unrealized holding gains arising during period	\$ 1,593	(558)	1,035
Reclassification adjustment for net gains included in net earnings	(4,773)	1,670	(3,103)
Amortization of net unrealized losses related to transferred securities	160	(56)	104
Net unrealized losses on securities	(3,020)	1,056	(1,964)
Foreign currency translation adjustments	(68)	24	(44)
Pension liability adjustment	(2,040)	714	(1,326)
Other comprehensive loss	\$ (5,128)	1,794	(3,334)

	Amounts Before Taxes	Tax (Expense) Benefit (In thousands)	Amounts Net of Taxes
2006:			
Unrealized gains (losses) on securities, net of effects of deferred costs of \$12,702:			
Net unrealized holding losses arising during period	\$ (6,988)	2,446	(4,542)
Reclassification adjustment for net gains included in net earnings	(4,209)	1,473	(2,736)
Amortization of net unrealized losses related to transferred securities	39	(14)	25
Net unrealized losses on securities	(11,158)	3,905	(7,253)
Foreign currency translation adjustments	(274)	96	(178)
Pension liability adjustment	(1,793)	627	(1,166)
Other comprehensive loss	\$ (13,225)	4,628	(8,597)





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## (13) SEGMENT AND OTHER OPERATING INFORMATION

## (A) Operating Segment Information

Under SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, the Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. The Company's segments are organized based on product types and geographic marketing areas. In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate realized investment gains and losses from operating revenues and earnings. The Company believes that the presentation of these non-GAAP financial measures enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business.

A summary of segment information, prepared in accordance with SFAS No. 131, is provided below.

	Domestic Life Insurance	International Life Insurance	Annuities  (In thousands)	All Others	Totals
2008:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$ 64,748	222,263	535,928	-	822,939
Total segment assets	397,413	842,119	5,369,920	127,189	6,736,641
Future policy benefits	319,485	598,843	4,644,170	-	5,562,498
Other policyholder liabilities	10,456	16,397	105,110	-	131,963
Condensed Income Statements:					
Premiums and contract revenues	\$ 27,919	97,661	25,596	-	151,176
Net investment income	20,254	17,350	226,683	9,075	273,362
Other income	20	62	232	12,455	12,769
Total revenues	48,193	115,073	252,511	21,530	437,307
Life and other policy benefits	14,478	21,292	3,990	(1)	39,759
Amortization of deferred policy acquisition costs	12,416	37,525	77,219	1	127,161
Universal life and investment annuity contract interest	9,171	16,803	112,986	-	138,960
Other operating expenses	11,057	16,502	16,685	11,386	55,630
Federal income taxes	354	7,601	13,789	3,363	25,107
Total expenses	47,476	99,723	224,669	14,749	386,617
Segment earnings	\$ 717	15,350	27,842	6,781	50,690



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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
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	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Totals
2007:					
Selected Balance Sheet Items:					
Deferred policy acquisition					
costs and sales inducements	\$ 58,883	204,322	505,629	-	768,834
Total segment assets	399,097	796,012	5,500,226	106,039	6,801,374
Future policy benefits	320,287	556,893	4,703,363	-	5,580,543
Other policyholder liabilities	9,641	16,729	94,030	-	120,400
Condensed Income Statements:					
Premiums and contract					
revenues	\$ 25,879	88,782	24,529	-	139,190
Net investment income	18,863	24,690	266,953	7,631	318,137
Other income	41	126	920	12,596	13,683
Total revenues	44,783	113,598	292,402	20,227	471,010
Life and other policy benefits	14,922	22,810	3,594	-	41,326
Amortization of deferred					
policy acquisition costs	7,998	24,959	55,456	-	88,413
Universal life and investment					
annuity contract interest	9,463	20,993	133,935	-	164,391
Other operating expenses	11,898	15,271	16,931	11,030	55,130
Federal income taxes	160	9,386	26,187	2,919	38,652
Total expenses	44,441	93,419	236,103	13,949	387,912
Segment earnings	\$ 342	20,179	56,299	6,278	83,098
2006:					
Selected Balance Sheet Items:					
Deferred policy acquisition					
costs and sales inducements	\$ 50,965	182,268	503,870	-	737,103
Total segment assets	381,490	715,064	5,467,733	103,087	6,667,374
Future policy benefits	314,039	498,997	4,720,421	-	5,533,457
Other policyholder liabilities	7,796	18,480	86,173	-	112,449
Condensed Income Statements:					
Premiums and contract					
revenues	\$ 22,731	78,005	21,389	-	122,125
Net investment income	20,462	28,530	323,326	7,450	379,768
Other income	29	78	5,950	11,247	17,304

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Total revenues	43,222	106,613	350,665	18,697	519,197
Life and other policy benefits	13,656	18,161	3,424	-	35,241
Amortization of deferred					
policy acquisition costs	7,313	23,075	59,970	-	90,358
Universal life and investment					
annuity contract interest	9,168	25,675	178,893	-	213,736
Other operating expenses	12,630	21,051	21,847	10,181	65,709
Federal income taxes	158	6,460	29,972	2,950	39,540
Total expenses	42,925	94,422	294,106	13,131	444,584
Segment earnings	\$ 297	12,191	56,559	5,566	74,613

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Reconciliations of segment information to the Company's consolidated financial statements are provided below.

	Years Ended December 31,		
	2008	2007	2006
(In thousands)			
Premiums and Other Revenue:			
Premiums and contract revenues	\$ 151,176	139,190	122,125
Net investment income	273,362	318,137	379,768
Other income	12,769	13,683	17,304
Realized gains (losses) on investments	(26,228)	3,497	2,662
<b>Total consolidated premiums and other revenue</b>	<b>\$ 411,079</b>	<b>474,507</b>	<b>521,859</b>

	Years Ended December 31,		
	2008	2007	2006
(In thousands)			
Federal Income Taxes:			
Total segment Federal income taxes	\$ 25,107	38,652	39,540
Taxes on realized gains (losses) on investments	(9,180)	1,224	932
<b>Total taxes on consolidated net earnings</b>	<b>\$ 15,927</b>	<b>39,876</b>	<b>40,472</b>

	Years Ended December 31,		
	2008	2007	2006
(In thousands)			
Net Earnings:			
Total segment earnings	\$ 50,690	83,098	74,613
Realized gains (losses) on investments, net of taxes	(17,048)	2,273	1,730
<b>Total consolidated net earnings</b>	<b>\$ 33,642</b>	<b>85,371</b>	<b>76,343</b>

	2008	December 31, 2007	2006
	(In thousands)		
Assets:			
Total segment assets	\$ 6,736,641	6,801,374	6,667,374
Other unallocated assets	49,839	33,952	26,069
<b>Total consolidated assets</b>	<b>\$ 6,786,480</b>	<b>6,835,326</b>	<b>6,693,443</b>

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## (B) Geographic Information

A significant portion of the Company's premiums and contract revenues are from countries other than the United States. Premiums and contract revenues detailed by country are provided below.

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
United States	\$ 66,091	61,637	48,561
Brazil	25,786	20,161	16,851
Taiwan	12,246	10,098	9,052
Argentina	9,352	8,987	8,811
Chile	9,245	8,465	8,324
Venezuela	8,739	7,925	6,905
Other foreign countries	40,150	38,238	37,112
Revenues, excluding reinsurance premiums	171,609	155,511	135,616
Reinsurance premiums	(20,433)	(16,321)	(13,491)
Total premiums and contract revenues	\$ 151,176	139,190	122,125

Premiums and contract revenues are attributed to countries based on the location of the policyholder. The Company has no significant assets, other than financial instruments, located in countries other than the United States.

## (C) Major Agency Relationships

A significant portion of the Company's premiums and deposits were sold through two independent marketing agencies in recent years. Combined business from these agencies accounted for approximately 22%, 22%, and 21% of total direct premium revenues and universal life and annuity contract deposits in 2008, 2007, and 2006, respectively.

## (14) FAIR VALUES OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted SFAS 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. The Company adopted this guidance effective January 1, 2008 and the adoption did not have an impact on the Company's consolidated financial statements.

In compliance with SFAS No. 157, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the Consolidated Balance Sheets are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Company's Level 1 assets include equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

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Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs. The Company's Level 2 assets include fixed maturity debt securities (corporate and private bonds, government or agency securities, asset-backed and mortgage-backed securities), preferred stock, certain equity securities, and over-the-counter derivative contracts. The Company's Level 2 liabilities consist of certain product-related embedded derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or determined through use of valuation methodologies using observable market inputs.

Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service assumptions about the assumptions market participants would use in pricing an asset or liability. The Company's Level 3 assets include certain equity securities and certain less liquid or private fixed maturity debt securities where significant valuation inputs cannot be corroborated with market observable data. The Company's Level 3 liabilities consist of share-based compensation obligations. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

The following table sets forth the Company's assets and liabilities that are measured at fair value on a recurring basis as of the date indicated:

Description	Total	December 31, 2008		
		Level 1	Level 2	Level 3
		(In thousands)		
Debt securities, available for sale	\$ 1,731,583	-	1,721,341	10,242
Equity securities, available for sale	13,683	302	6,191	7,190
Derivatives	11,920	-	11,920	-
<b>Total assets</b>	<b>\$ 1,757,186</b>	<b>302</b>	<b>1,739,452</b>	<b>17,432</b>
Policyholder account balances (a)	\$ 19,377	-	19,377	-
Other liabilities (b)	3,787	-	-	3,787
<b>Total liabilities</b>	<b>\$ 23,164</b>	<b>-</b>	<b>19,377</b>	<b>3,787</b>

(a) Represents the fair value of certain product-related embedded derivatives that were recorded at fair value.

(b) Represents the liability for share-based compensation.



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The following table provides additional information about fair value measurements for which significant unobservable (Level 3) inputs were utilized to determine fair value.

	For the Twelve Months Ended December 31, 2008			
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
	(In thousands)			
Beginning balance, January 1, 2008	\$ 1,618	7,147	8,765	7,712
Total realized and unrealized gains (losses):				
Included in net income	-	-	-	(1,424)
Included in other comprehensive loss	(2,773)	43	(2,730)	-
Purchases, sales, issuances and settlements, net	(527)	-	(527)	(2,501)
Transfers into (out of) Level 3	11,924	-	11,924	-
Ending balance, December 31, 2008	\$ 10,242	7,190	17,432	3,787
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held as of December 31, 2008	\$ -	-	-	(2,321)

Realized gains (losses) on Level 3 assets and liabilities are reported in the consolidated statements of earnings as net investment gains (losses), unrealized gain (losses) on debt and equity securities are reported as other comprehensive income (loss) within stockholders' equity.

The fair value hierarchy classifications are reviewed each reporting period. Reclassification of certain financial assets and liabilities may result based on changes in the observability of valuation attributes. Reclassifications are reported as transfers into and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

Investment securities. Fair values for investments in debt and equity securities are based on quoted market prices, where available. For securities not actively traded, fair values are estimated using values obtained from various independent pricing services. In the cases where prices are unavailable from these sources, values are estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the investments.

Cash and short-term investments. The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

Mortgage and other loans. The fair values of performing mortgage and other loans are estimated by discounting scheduled cash flows through the scheduled maturities of the loans, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Fair values for significant nonperforming loans are based on recent internal or external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows,

and discount rates are judgmentally determined using available market information and specific borrower information.

Policy Loans. The carrying value of policy loans approximates fair values.

Derivatives. Fair values for indexed options are based on counterparty market prices.

Life interest in Libbie Shearn Moody Trust. The fair value of the life interest is estimated based on assumptions as to future distributions from the Trust over the life expectancy of Mr. Robert L. Moody. These estimated cash flows were discounted at a rate consistent with uncertainties relating to the amount and timing of future cash distributions. However, the Company has limited the fair value to the statutory admitted value of the Trust, as this is the maximum amount to be received from insurance proceeds in the event of Mr. Moody's premature death.

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Annuity and supplemental contracts. Fair values for the Company's insurance contracts other than annuity contracts are not required to be disclosed. This includes the Company's traditional and universal life products. Fair values for immediate annuities without mortality features are based on the discounted future estimated cash flows using current market interest rates for similar maturities. Fair values for deferred annuities, including fixed-indexed annuities, are determined using estimated projected future cash flows discounted at the rate that would be required to transfer the liability in an orderly transaction. The fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance and annuity contracts.

The carrying amounts and fair values of the Company's financial instruments are as follows:

	December 31, 2008		December 31, 2007	
	Carrying Values	Fair Values	Carrying Values	Fair Values
(In thousands)				
<b>ASSETS</b>				
Investments in debt and equity securities:				
Securities held to maturity	\$ 3,831,417	3,727,353	3,778,603	3,774,193
Securities available for sale	1,745,266	1,745,266	1,900,714	1,900,714
Cash and short-term investments	67,796	67,796	45,206	45,206
Mortgage loans	90,733	90,884	99,033	100,786
Policy loans	79,277	79,277	83,772	83,772
Other loans	1,541	1,572	2,327	2,383
Derivatives	11,920	11,920	25,907	25,907
Life interest in Libbie Shearn Moody Trust	1,302	12,775	1,620	12,775
<b>LIABILITIES</b>				
Deferred annuity contracts	\$ 4,324,702	3,997,005	4,442,799	4,096,947
Immediate annuity and supplemental contracts	388,486	409,553	320,539	311,694

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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(15) RELATED PARTY TRANSACTIONS

Robert L. Moody, Jr. ("Mr. Moody, Jr.") is the son of Robert L. Moody, the Company's Chairman and Chief Executive Officer, and is the brother of Ross R. Moody, the Company's President and Chief Operating Officer, and of Russell S. Moody and Frances A. Moody-Dahlberg who serve as directors of National Western.

Mr. Moody, Jr. wholly owns an insurance marketing organization that maintains agency contracts with National Western pursuant to which agency commissions are paid in accordance with the Company's standard commission schedules. Mr. Moody, Jr. also maintains an independent agent contract with National Western for policies personally sold under which commissions are paid in accordance with standard commission schedules. In 2008, commissions paid under these agency contracts aggregated approximately \$160,000. In conjunction with these agency contracts, Mr. Moody, Jr. may be eligible to attend Company sales conferences and functions based upon meeting published minimum levels of qualifying sales production. In his capacity as an insurance marketing organization with the Company, Mr. Moody, Jr. also received product development fees of \$48,000 associated with a product line of the Company.

Mr. Moody, Jr. further serves as the agent of record for several of the Company's benefit plans including the self-insured health plan for which Mr. Moody, Jr. provides utilization review services through a wholly-owned utilization review company. In 2008, amounts paid to Mr. Moody, Jr. as commissions and service fees pertaining to the Company's benefit plans approximated \$58,800.

During 2008, management fees totaling \$498,106 were paid to Regent Management Services, Limited Partnership ("RMS") for services provided to a downstream nursing home subsidiary of National Western. RMS is 1% owned by general partner RCC Management Services, Inc. ("RCC"), and 99% owned by limited partner, Three R Trusts. RCC is 100% owned by the Three R Trusts. The Three R Trusts are four Texas trusts for the benefit of the children of Robert L. Moody (Robert L. Moody, Jr., Ross R. Moody, Russell S. Moody, and Frances A. Moody-Dahlberg). Charles D. Milos, Senior Vice President-Mortgage Loans and Real Estate, and a director of the Company, is a director and Vice President of RCC. Ellen C. Otte, Assistant Secretary of the Company, is a director and secretary of RCC.

The Company holds a common stock investment totaling approximately 9.4% of the issued and outstanding shares of Moody Bancshares, Inc. at December 31, 2008. Moody Bancshares, Inc. owns 100% of the outstanding shares of Moody Bank Holding Company, Inc., which owns approximately 98% of the outstanding shares of The Moody National Bank of Galveston ("MNB"). The Company utilizes MNB for certain bank custodian services as well as for certain administrative services with respect to the Company's defined benefit and contribution plans. Robert L. Moody, the Company's Chairman and Chief Executive Officer, serves as Chairman of the Board and Chief Executive Officer of MNB. The ultimate controlling person of MNB is the Three R Trusts. During 2008, fees totaling \$170,000 were paid to MNB with respect to these services.

Beginning November 1, 2008, the Company entered into a 36 month sublease on one of the Company's leased office locations for \$6,000 per month with Moody National Bank. Robert L. Moody, the Company's Chairman and Chief Executive Officer, serves as Chairman of the Board and Chief Executive Officer of MNB.

During 2008 the Company paid American National Insurance Company ("ANICO") \$244,818 in premiums for certain company sponsored benefit plans and \$1,126,992 in reimbursements for claim costs for which ANICO provides third party administrative services. ANICO paid the Company \$1,173,950 in premiums for its company sponsored benefit

plans. Robert L. Moody, the Company's Chairman and Chief Executive Officer is also ANICO's Chairman and Chief Executive Officer.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (16) UNAUDITED QUARTERLY FINANCIAL DATA

Quarterly results of operations for 2008 are summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share data)			
2008:				
Revenues	\$ 98,637	113,381	87,960	111,100
Earnings (loss)	\$ 14,446	18,142	(9,800)	10,853
Basic earnings (loss) per share:				
Class A	\$ 4.10	5.15	(2.78)	3.08
Class B	\$ 2.05	2.57	(1.39)	1.54
Diluted earnings (loss) per share:				
Class A	\$ 4.07	5.10	(2.78)	3.06
Class B	\$ 2.05	2.57	(1.39)	1.54

Quarterly results of operations for 2007 are summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share data)			
2007:				
Revenues	\$ 114,112	148,695	112,136	99,564
Earnings	\$ 18,672	21,851	15,622	29,226
Basic earnings per share:				
Class A	\$ 5.30	6.20	4.44	8.30
Class B	\$ 2.65	3.10	2.22	4.15
Diluted earnings per share:				
Class A	\$ 5.23	6.12	4.38	8.22
Class B	\$ 2.65	3.10	2.22	4.15

During the fourth quarter of 2008, the Company determined that \$3.2 million of additional amortization of deferred sales inducements should have been recorded in the third quarter of 2008 related to the unlocking of assumptions in that quarter. This immaterial error was corrected in the fourth quarter of 2008 and was not material to the third or fourth quarter consolidated financial statements.



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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
SCHEDULE I  
SUMMARY OF INVESTMENTS  
OTHER THAN INVESTMENTS IN RELATED PARTIES  
December 31, 2008  
(In thousands)

Type of Investment	(1) Cost	Fair Value	Balance Sheet Amount
Fixed maturity bonds:			
Securities held to maturity:			
United States government and government agencies and authorities			
	\$ 121,597	126,164	121,957
States, municipalities, and political subdivisions	23,123	22,325	23,123
Foreign governments	9,955	10,393	9,955
Public utilities	527,277	500,820	527,277
Corporate	1,334,157	1,229,533	1,334,157
Mortgage-backed	1,747,104	1,783,107	1,747,104
Asset-backed	68,204	55,011	68,204
Total securities held to maturity	3,831,417	3,727,353	3,831,417
Securities available for sale:			
United States government and government agencies and authorities			
	-	-	-
States, municipalities, and political subdivisions	77,160	63,839	63,839
Foreign Government	10,418	11,325	11,325
Public utilities	287,927	263,142	263,142
Corporate	1,239,712	1,119,247	1,119,247
Mortgage-backed	255,910	253,956	253,956
Asset-backed	25,819	20,074	20,074
Total securities available for sale	1,896,946	1,731,583	1,731,583
Total fixed maturity bonds	5,728,363	5,458,936	5,563,000
Equity securities:			
Securities available for sale:			
Common stocks:			
Public utilities	877	1,027	1,027
Banks, trust and insurance companies (2)	46	41	41
Corporate	3,340	2,997	2,997
Preferred stocks	2,649	2,428	2,428
Total equity securities	6,912	6,493	6,493
Derivatives	56,808		11,920
Mortgage loans (3)	67,116		67,116
Policy loans	79,277		79,277
Other long-term investments (4)	15,481		14,168
Total investments other than			



investments in related parties	\$ 5,953,957	5,741,974
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Notes:

(1) Bonds are shown at amortized cost, mortgage loans are shown at unpaid principal balances before allowances for possible losses, and real estate is stated at cost before allowances for possible losses.

(2) Equity securities with related parties having a cost of \$0.2 million and balance sheet amount of \$7.2 million have been excluded.

(3) Mortgage loans with related parties totaling \$23.6 million have been excluded.

(4) Real estate acquired by foreclosure included in other long-term investments is as follows: cost \$1.6 million; balance sheet amount \$1.3 million.

See accompanying report of Independent Registered Public Accounting Firm.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
SCHEDULE V  
VALUATION AND QUALIFYING ACCOUNTS  
For the Years Ended December 31, 2008, 2007, and 2006  
(In thousands)

Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	Reductions	Transfers	Balance at End of Period
Valuation accounts deducted from applicable assets:					
Allowance for possible losses on mortgage loans:					
December 31, 2008	\$ 3,567	1,020	-	-	4,587
December 31, 2007	\$ 2,100	1,467	-	-	3,567
December 31, 2006	\$ -	2,100	-	-	2,100
Allowance for possible losses on real estate:					
December 31, 2008	\$ -	-	-	-	-
December 31, 2007	\$ -	-	-	-	-
December 31, 2006	\$ -	-	-	-	-

## Notes:

(1) These amounts were recorded to realized (gains) losses on investments.

See accompanying report of Independent Registered Public Accounting Firm.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL WESTERN LIFE INSURANCE COMPANY  
(Registrant)

Date: March 13, 2009 /S/Robert L. Moody  
By: Robert L. Moody, Chairman of the Board and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title (Capacity)	Date
/S/Robert L. Moody	Chairman of the Board and Chief Executive Officer, and Director (Principal Executive Officer)	March 13, 2009
Robert L. Moody		
/S/ Ross R. Moody	President and Chief Operating Officer, and Director	March 13, 2009
Ross R. Moody		
/S/ Brian M. Pribyl	Senior Vice President - Chief Financial & Administrative Officer, and Treasurer (Principal Financial Officer)	March 13, 2009
Brian M. Pribyl		
/S/Michael G. Kean	Vice President, Controller & Assistant Treasurer (Principal Accounting Officer)	March 13, 2009
Michael G. Kean		
/S/Stephen E. Glasgow	Director	March 13, 2009
Stephen E. Glasgow		
/S/E. Douglas McLeod	Director	March 13, 2009
E. Douglas McLeod		
/S/Charles D. Milos	Director	March 13, 2009
Charles D. Milos		

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/S/Frances A. Moody-Dahlberg	Director	March 13, 2009
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Frances A. Moody-Dahlberg

/S/Russell S. Moody	Director	March 13, 2009
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Russell S. Moody

/S/Louis E. Pauls, Jr.	Director	March 13, 2009
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Louis E. Pauls, Jr.

/S/E.J. Pederson	Director	March 13, 2009
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E.J. Pederson

