Fidelity & Guaranty Life
Form 10-K
November 19, 2014

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

Form 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2014

¨ 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: 001-36227

FIDELITY & GUARANTY LIFE
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 46-3489149<br>(I.R.S. Employer Identification No.) |
| 1001 Fleet Street, 6th Floor<br>Baltimore, MD | 21202 |
| (Address of principal executive offices) | (Zip Code) |

(410) 895-0100
(Registrant’s telephone number, including area code)

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

| Title of each class: | Name of each exchange on which registered: |
|---|---|
| Common stock, par value $.01 per share | New York Stock Exchange |

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

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

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

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, and (2) has been subject to such filing requirements for the past 90 days. Yes x or No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x or No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer ¨ Accelerated Filer ¨ Non-accelerated Filer x
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ or No x
As of March 31, 2014, the aggregate market value of the registrant’s common stock held by non-affiliates was approximately $265.6 (based on the closing sale price of the registrant’s common stock as reported on the NYSE $23.60).

The number of shares of common stock outstanding as of November 17, 2014 was 58,462,949.
DOCUMENTS INCORPORATED BY REFERENCE
Certain information required by Part III of this document is incorporated by reference herein to specific portions of the registrant’s definitive proxy statement to be delivered to stockholders in connection with the 2015 Annual Meeting of Stockholders.

FIDELITY & GUARANTY LIFE
ANNUAL REPORT ON FORM 10-K
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PART I

Unless the context otherwise indicates or requires, the terms "we", "our", "us", "FGL", and the "Company", as used in this For 10-K filing, refer to Fidelity & Guaranty Life (formerly, Harbinger F&G, LLC) and its subsidiaries and the term "FGLH" refers to Fidelity & Guaranty Life's direct subsidiary Fidelity & Guaranty Life Holdings, Inc. FGL primarily operates through FGLH's subsidiary, Fidelity & Guaranty Life Insurance Company ("FGLIC"), which is domiciled in Iowa. Our fiscal year ends on September 30 of each year.

Dollar amounts in the accompanying sections are presented in millions, unless otherwise noted.

Special Note Regarding Forward-Looking Statements

This annual report includes forward-looking statements. Some of the forward-looking statements can be identified by the use of terms such as "believes", "expects", "may", "will", "should", "could", "seeks", "intends", "plans", "estimates", "anti other comparable terms. However, not all forward-looking statements contain these identifying words. These forward-looking statements include all matters that are not related to present facts or current conditions or that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our consolidated results of operations, financial condition, liquidity, prospects and growth strategies and the industries in which we operate and including, without limitation, statements relating to our future performance.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition and liquidity, and industry development may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our consolidated results of operations, financial condition and liquidity, and industry development are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the risks and uncertainties discussed in "Risk Factors" (Part I, Item 1A of this Form 10-K). Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include:

- the accuracy of management's assumptions and estimates;
- the accuracy of our assumptions regarding the fair value and future performance of our investments;
- our and our insurance subsidiaries' ability to maintain or improve financial strength ratings;
- our and our insurance subsidiaries' potential need for additional capital to maintain our and their financial strength and credit ratings and meet other requirements and obligations;
- the stock of our primary operating subsidiary is subject to the security interest of its former owner;
- our ability to manage our business in a highly regulated industry, which is subject to numerous legal restrictions and regulations;
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) underwriting of insurance products and regulation of the sale, underwriting and pricing of products and minimum capitalization and statutory reserve requirements for insurance companies, or the ability of our insurance subsidiaries to make cash distributions to us (including dividends or payments on surplus notes those subsidiaries issue to us);
- the impact of our reinsurers failing to meet or timely meet their assumed obligations, increasing their rates, or becoming subject to adverse developments that could materially adversely impact their ability to provide reinsurance to us at consistent and economical terms;
- restrictions on our ability to use captive reinsurers;
- being forced to sell investments at a loss to cover policyholder withdrawals;
- the impact of interest rate fluctuations;

- the availability of credit or other financings and the impact of equity and credit market volatility and disruptions on both our ability to obtain capital and the value and liquidity of our investments;

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- changes in the federal income tax laws and regulations which may affect the relative income tax advantages of our products;
- increases in our valuation allowance against our deferred tax assets, and restrictions on our ability to fully utilize such assets;
- being the target or subject of, and our ability to defend ourselves against or respond to, litigation (including class action litigation), enforcement investigations or regulatory scrutiny;
- the performance of third parties including distributors, underwriters, actuarial consultants and other service providers;
- the loss of key personnel;
- interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems;
- the continued availability of capital required for our insurance subsidiaries to grow;
- the impact on our business of new accounting rules or changes to existing accounting rules;
- our risk management policies and procedures could leave us exposed to unidentified or unanticipated risk;
- general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance which may affect (among other things) our ability to sell our products and the fair value of our investments, which could result in impairments and other than temporary impairments ("OTTI") and certain liabilities, and the lapse rate and profitability of policies;
- our ability to protect our intellectual property;
- difficulties arising from outsourcing relationships;
- the impact on our business of man-made catastrophes, pandemics, and malicious and terrorist acts;
- our ability to compete in a highly competitive industry and maintain competitive unit costs;
- adverse consequences if the independent contractor status of our IMOs is successfully challenged;
- our ability to attract and retain national marketing organizations and independent agents;
- adverse tax consequences if we generate passive income in excess of operating expenses;
- significant operating and financial restrictions, which may prevent us from capitalizing on business opportunities;
- the inability of our subsidiaries and affiliates to generate sufficient cash to service all of their obligations;
- our subsidiaries' ability to pay dividends to us;
- the ability to maintain or obtain approval of Iowa Insurance Division ("IID") and other regulatory authorities as required for our operations and those of our insurance subsidiaries; and
- the other factors discussed in "Risk Factors", of (Part I, Item 1A of this Form 10-K).

You should read this report completely and with the understanding that actual future results may be materially different from expectations. All forward looking statements made in this report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this report and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

# Item 1. Business

## Overview

### Our Company

For over 50 years, our Company has been helping middle-income Americans prepare for retirement and unexpected loss of life. Our focus on the middle-income market gives us access to significant, underserved market niches and drives our product development. As of September 30, 2014, we had approximately 700,000 policyholders counting on the safety and protection features of our fixed annuity and life insurance products, and we constantly seek to innovate our products to meet their evolving needs.

Through the efforts of our approximately 200 employees, who are primarily located in Baltimore, MD, we offer various types of fixed annuities and life insurance products. Fixed annuities represent a retirement and savings tool which our customers rely on for principal protection and predictable income streams. In addition, our life insurance products provide our customers with a complementary product that allows them to build on their savings and assign payment of a death benefit to a designated beneficiary upon the policyholder's death. Currently, our most popular products are fixed indexed annuities ("FIAs"), which provide our customers with interest tied to the performance of the stock market, while limiting the risk of losing money should the stock market decline. We believe this mix of "some upside but limited downside" fills the need for middle-income Americans who must save for retirement but who want to limit the risk of decline in their savings. In addition to FIAs, we also sell indexed universal life policies ("IULs") and other fixed annuities.

In Fiscal 2014, FIAs generated approximately 66% of our total sales and the remaining 34% of sales was primarily generated from fixed annuity sales during the year. Our fixed indexed products such as FIAs tie contractual returns to specified market indices, such as the Standard & Poor's Ratings Services ("S&P") 500 Index. The benefit of FIAs to our customers is to provide a portion of the gains of an underlying market index without the risk of losing the original principal. We invest the fixed annuity premium in fixed income securities and hedge our risk, predominantly using call options on the S&P 500 Index, and pass through a portion of the returns of the market index to our policyholders. The majority of our products contain provisions that permit us to annually adjust the formula by which index credits are provided in response to changing market conditions. In addition, our annuity contracts generally either cannot be surrendered or include surrender charges that discourage early redemptions.

We offer our products through a network of approximately 200 independent insurance marketing organizations ("IMOs") that in turn represent an estimated 25,000 independent agents.

### Our Industry

The demand for retirement planning products is large and growing. Over 10,000 people will turn 65 each day in the United States over the next 15 years, and according to the U.S. Census Bureau, the proportion of the United States population over the age of 65 is expected to grow from 14.8% in 2015 to 20.3% in 2030. The U.S. Government Accountability Office has indicated that increasing life expectancy has created a risk that many retirees will outlive their retirement assets. Additionally, employer-sponsored private sector pension plans face severe funding deficits. According to a report by Mercer Consulting, a consulting and research firm, the aggregate funding deficit for pension plans sponsored by companies included in the S&P 1500 Index was $236 billion as of December 31, 2013. Americans realize that funding deficits in government and employer-sponsored pension plans leave them exposed to retirement income shortfalls. According to a 2013 study conducted by LIMRA, 50% of individuals aged 35 to 54 are not confident in their ability to have a secure retirement.

We operate in the sector of the insurance industry that focuses on the needs of middle-income Americans. The underserved middle-income market represents a major growth opportunity for FGL. As a tool for addressing the unmet need for retirement planning, we believe that many middle-income Americans have grown to appreciate the "sleep at night protection" that annuities such as our FIA products afford. As a result, the FIA market grew from nearly $12 billion of sales in 2002 to $38.6 billion of sales in 2013. Similarly, the IUL market expanded from $100 million of annual premiums in 2002 to over $1.4 billion of annual premiums in 2013.

Our Strategy

We will seek to grow our business by pursuing a set of short-, medium- and long-term efforts aimed at delivering sustainable and profitable growth for shareholders. Our main strategies include:

- Increase Sales in Our Existing Market. We believe that increasing demand for retirement and principal protection products combined with an evolving competitive landscape present us with significant opportunities to grow sales with the market. We will continue to pursue opportunities to increase shelf space in the IMO market.
- Expand the Types of Products We Sell. We also expect to develop and distribute new products that will address important unmet needs of middle-income households and a growing senior population.
- Diversify Our Distribution Channels. We will leverage our strong capital position and target higher ratings to develop broader relationships with broker-dealers, banks and financial planning professionals, thereby increasing the ways in which we reach our customers and eventually reaching our customers directly. Effective implementation will require phased investment over a number of years in institutional relationships, systems, marketing, wholesaling, and product development.
- Selectively Pursue Acquisitions. Although acquisitions are not the primary focus of our current business strategy, we actively monitor the life insurance and annuity markets for opportunities to acquire businesses that are compatible with our existing operations. We also look for opportunities to acquire seasoned blocks of in-force business with measurable experience, which can help leverage our existing operational and corporate structures to generate enhanced returns on invested capital.
- Bottom-line, Profit-oriented Objectives. We focus on initiatives that we expect will deliver target profits and avoid markets and products when industry pricing makes it difficult to achieve targeted profit margins.

Our Competitive Strengths

We believe the following strengths will allow us to capitalize on the growth prospects for our business:

- Middle-Income Market Focus. We have historically sold life insurance to the large and underserved middle-income market. Our experience designing and developing annuities and life insurance products allows us to continue to introduce innovative products and solutions designed to meet customers’ changing needs.
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- Deep Distribution Relationships. Our collaborative, demand-driven approach to product design anchors the loyalty of our IMOs, and we design customized products to support the marketing strategies of our key IMOs. In addition, we have worked with our IMOs to create innovative, mobile-friendly tools that enable them to deliver real-time information when marketing and providing service to their clients.
- Seasoned Management Team. Our management team has extensive experience in the insurance sector and has managed large and small companies through numerous economic cycles. Our executive officers average over 25 years of tenure in the insurance and financial services sector.
- Highly Scalable Operating Structure. We manage our core competencies internally and outsource other operations to external vendors. Our outsourcing model provides us with predictable pricing and volume capabilities and also allows us to benefit from technological developments that enhance our customer experience and sales processes in ways that we would not otherwise have without deploying more capital.
- Strong Risk Management Culture. Risk assessment and management is an important aspect of every decision we make. Our Chief Risk Officer heads our risk management process and reports directly to our CEO, who actively reviews more significant risks. Our Enterprise Risk Committee is comprised of our entire executive management team, including the CEO, and discusses and approves all risk policies and reviews and approves risks associated with our activities. We manage our risk limits based on two key metrics: regulatory capital and earnings sensitivities. Our Enterprise Risk Committee regularly reviews our operational, governance, strategy, product distribution and investment risks.
- Conservative Investment Portfolio. We maintain a high quality, conservatively positioned investment portfolio, as our business model is designed to allow us to operate profitably without over-reliance on investment returns.
- Strong Balance Sheet and Cash Flow Profile. We maintain strong capital balances, including an RBC ratio of over 350%, and our long-term target of total debt to equity ratio (excluding accumulated other comprehensive income (“AOCI”)) is in the mid-20% range.

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## Competition

Our ability to compete is dependent upon many factors which include, among other things, our ability to develop competitive and profitable products, our ability to maintain stable relationships with our contracted IMOs, our ability to maintain low unit costs and our maintenance of adequate financial strength ratings from ratings agencies. Principal competitive factors for FIAs are initial crediting rates, reputation for renewal crediting action, product features, brand recognition, customer service, cost, distribution capabilities and financial strength ratings of the provider. Competition may affect, among other matters, both business growth and the pricing of our products and services. Principal competitive factors for IULs are based on service and distribution channel relationships, price, brand recognition, financial strength ratings of our insurance subsidiaries and financial stability.

As of June 30, 2014, we were the 10th largest provider of FIA in terms of premium, and our market share for the same period was 3.0%. As of June 30, 2014, we are the 19th largest provider of IUL in terms of premium, and our market share for the same period was 1.7%.

Source: Wink, Inc. (formerly Annuity Specs)

For detailed information about revenues, operating income and total assets of our Company, see Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and the financial statements beginning on page F-1 in this report.

## Products

Our experience designing and developing annuities and life insurance products will allow us to continue to introduce innovative products and solutions designed to meet customers’ changing needs. We work hand-in-hand with our distributors to devise the most suitable product solutions for the ever-changing market. We believe that, on a practical basis, we have a unique understanding of the safety, accumulation, protection, and income needs of middle-income Americans.

Our current most popular product line is FIAs. Most FIAs have two phases-accumulation and distribution or payment. During accumulation, a policyholder’s money is credited with interest linked to an index, but never less than zero. High surrender charges apply for early withdrawal, typically for seven to fourteen years after purchase. During the distribution or payout phase, the policyholder will receive money from the annuity. The policyholders are guaranteed minimum values based on state regulation.

### Annuity Products

Through our insurance subsidiaries, we issue a broad portfolio of deferred annuities (fixed indexed and fixed rate annuities) and immediate annuities. A deferred annuity is a type of contract that accumulates value on a tax deferred basis and typically begins making specified periodic or lump sum payments a certain number of years after the contract has been issued. An immediate annuity is a type of contract that begins making specified payments within one annuity period (e.g., one month or one year) and typically pays principal and earnings in equal payments over some period of time.

### Deferred Annuities

FIAs. Our FIAs allow contract owners the possibility of earning interest based on the performance of a specified market index, predominantly the S&P 500 Index, without risk to principal. The contracts include a provision for a minimum guaranteed surrender value calculated in accordance with applicable law. A market index tracks the performance of a specific group of stocks representing a particular segment of the market, or in some cases an entire market. For example, the S&P 500 Composite Stock Price Index is an index of 500 stocks intended to be representative of a broad segment of the market. Most FIA policies allow policyholders to allocate funds once a year among several different crediting strategies, including one or more index-based strategies and a traditional fixed rate strategy.

The value to the contractholder of a FIA contract is equal to the sum of deposits paid, premium bonuses (described below), index credits, up to a cap and a participation rate based on the annual appreciation (based in certain situations on annual point-to-point, monthly point-to-point or monthly average calculations) in a recognized market index less any fees for riders. Caps generally range from 3.0% to 6.0% when measured annually and 1.0% to 3.0% when measured monthly and participation rates generally range from 30.0% to 100.0% of the performance of the applicable market index. The cap can be reset annually. Certain riders allow for a contractholder to increase

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their cap for a set fee. As this fee is fixed, the contractholder may lose principal if the index credits received do not exceed the amount of such fee.

Approximately 88% of the FIA sales for Fiscal 2014 involved “premium bonuses” or vesting bonuses. For premium bonuses, we increased the initial annuity deposit by a specified premium bonus of 2.0% to 4.0% and a vesting bonus of 2.0% to 10.0%. The vesting bonuses are earned over time, which increases the account value when the bonus is settled. We made compensating adjustments in the commission paid to the agent or the surrender charges on the policy to offset the premium bonus.

Over 29% of our FIA contracts were issued with a guaranteed minimum withdrawal benefit (“GMWB”) rider. With this rider, a contract owner can elect to receive guaranteed payments for life from the FIA contract without requiring the owner to annuitize the FIA contract value. The amount of the living income benefit available is determined by the growth in the policy's benefit base value as defined in the FIA contract rider. Typically this accumulates for 10 years at a guaranteed rate of 4.00% to 7.25%. Guaranteed withdrawal payments may be stopped and restarted at the election of the contract owner. Some of the FIA contract riders that we offer include an additional death benefit or an increase in benefit amounts under chronic health conditions. Rider fees range from 0.10% to 1.05%.

Fixed Rate Annuities. Fixed rate annuities include annual reset and multi-year rate guaranteed policies. Fixed rate annual reset annuities issued by us have an annual interest rate (the “crediting rate”) that is guaranteed for the first policy year. After the first policy year, we have the discretionary ability to change the crediting rate once annually to any rate at or above a guaranteed minimum rate. Fixed rate multi-year guaranteed annuities are similar to fixed rate annual reset annuities except that the initial crediting rate is guaranteed for a specified number of years before it may be changed at our discretion. For Fiscal 2014, we sold $33.1 in fixed rate annual reset annuities. For Fiscal 2014, we sold $675.2 of fixed rate multi-year guaranteed annuities. As of September 30, 2014, crediting rates on outstanding (i) single-year guaranteed annuities generally ranged from 1.5% to 6.0% and (ii) multi-year guaranteed annuities ranged from 1.0% to 6.0%. The average crediting rate on all outstanding fixed rate annuities at September 30, 2014, was 3.5%.

As of September 30, 2014, the distribution of the annuity account values by crediting rate was as follows:

(dollars in millions)

| Crediting Rate | 1% to 2% | 2% to 3% | 3% to 4% |
|---|---|---|---|