AMERICAN EQUITY INVESTMENT LIFE HOLDING CO
Form 10-Q
May 10, 2010
FORM 10-Q

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

(Mark One)

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

For the quarterly period ended March 31, 2010

o 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 : 001-31911
American Equity Investment Life Holding Company
(Exact name of registrant as specified in its charter)

Iowa	42-1447959
(State of Incorporation)	(I.R.S. Employer Identification No.)
6000 Westown Parkway	
West Des Moines, Iowa	50266
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	(515) 221-0002
	(Telephone)

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 $1	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $1

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

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

Indicate by check mark whether the registrant is a large accelerated filed, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
(Do not check if a 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 o No x

APPLICABLE TO CORPORATE ISSUERS:
Shares of common stock outstanding at April 30, 2010: 58,485,359

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	March 31, 2010 (Unaudited)	December 31, 2009
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2010 - $12,437,208; 2009 - $10,912,680)	$ 12,365,666	$ 10,704,131
Held for investment, at amortized cost (fair value: 2010 - $1,004,767; 2009 - $1,601,864)	1,030,490	1,635,083
Equity securities, available for sale, at fair value (cost: 2010 - $76,243; 2009 - $82,930)	87,981	93,086
Mortgage loans on real estate	2,461,975	2,449,778
Derivative instruments	497,469	479,272
Other investments	15,565	12,760
Total investments	16,459,146	15,374,110
Cash and cash equivalents	704,166	528,002
Coinsurance deposits	2,420,411	2,237,740
Accrued investment income	131,248	113,658
Deferred policy acquisition costs	1,611,704	1,625,785
Deferred sales inducements	1,028,192	1,011,449
Deferred income taxes	86,826	85,661
Income taxes recoverable	—	103,684
Other assets	66,057	231,915
Total assets	$ 22,507,750	$ 21,312,004
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves:		
Traditional life and accident and health insurance products	$ 145,694	$ 140,351
Annuity products	20,007,212	19,195,870
Other policy funds and contract claims	132,572	119,403
Notes payable	317,957	316,468
Subordinated debentures	268,383	268,347

Income taxes payable	24,098	—
Other liabilities	803,934	516,942
Total liabilities	21,699,850	20,557,381
Stockholders' equity:		
Common stock, par value $1 per share, 125,000,000 shares authorized; issued and outstanding: 2010 - 56,428,074 shares (excluding 5,776,031 treasury shares); 2009 - 56,203,159 shares (excluding 5,936,696 treasury shares)	56,428	56,203
Additional pain-in capital	424,525	422,225
Unallocated common stock held by ESOP; 2010 - 527,272 shares; 2009 - 527,272 shares	(5,498)	(5,679)
Accumulated other comprehensive income (loss)	5,230	(30,456)
Retained earnings	327,215	312,330
Total stockholders' equity	807,900	754,623
Total liabilities and stockholders' equity	$ 22,507,750	$ 21,312,004

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Revenues:		
Traditional life and accident and health insurance premiums	$ 3,287	$ 3,486
Annuity product charges	15,518	15,051
Net investment income	242,910	220,654
Change in fair value of derivatives	82,015	(43,823)
Net realized gains on investments, excluding other than temporary impairment ("OTTI") losses	9,903	760
OTTI losses on investments:		
Total OTTI losses	(12,584)	(55,391)
Portion of OTTI losses recognized in other comprehensive income	9,361	41,953
Net OTTI losses recognized in operations	(3,223)	(13,438)
Total revenues	350,410	182,690
Benefits and expenses:		
Insurance policy benefits and change in future policy benefits	2,332	2,199
Interest sensitive and index product benefits	196,869	59,763
Amortization of deferred sales inducements	13,089	13,711
Change in fair value of embedded derivatives	63,875	14,183
Interest expense on notes payable	4,651	4,276
Interest expense on subordinated debentures	3,685	4,208
Interest expense on amounts due under repurchase agreements	—	242
Amortization of deferred policy acquisition costs	27,268	34,644
Other operating costs and expenses	15,985	14,464
Total benefits and expenses	327,754	147,690
Income before income taxes	22,656	35,000
Income tax expense	7,771	8,525
Net income	$ 14,885	$ 26,475
Earnings per common share	$ 0.26	$ 0.50
Earnings per common share - assuming dilution	$ 0.25	$ 0.48

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Unallocated Common Stock Held by ESOP	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2009	$ 56,203	$ 422,225	$ (5,679)	$ (30,456)	$ 312,330	$ 754,623
Other comprehensive income:						
Net income for period	—	—	—	—	14,885	14,885
Change in net unrealized investment gains/losses	—	—	—	41,770	—	41,770
Noncredit component of OTTI losses, available for sale securities, net	—	—	—	(6,084)	—	(6,084)
Other comprehensive income						50,571
Acquisition of 6,300 shares of common stock	(6)	(44)	—	—	—	(50)
Allocation of 16,813 shares of common stock by ESOP, including excess income tax benefits	—	(24)	181	—	—	157
Share-based compensation, including excess income tax benefits	—	2,056	—	—	—	2,056
Issuance of 231,215 shares of common stock under compensation plans, including excess income tax benefits	231	312	—	—	—	543
Balance at March 31, 2010	$ 56,428	$ 424,525	$ (5,498)	$ 5,230	$ 327,215	$ 807,900
Balance at December 31, 2008	$ 50,739	$ 376,782	$ (6,336)	$ (147,376)	$ 223,035	$ 496,844
Cumulative effect of noncredit OTTI, net	—	—	—	(20,094)	25,240	5,146
Other comprehensive income:						
Net income for the period	—	—	—	—	26,475	26,475

Change in net unrealized investment gains/losses	—	—	—	6,422	—	6,422
Noncredit component of OTTI losses, available for sale securities, net	—	—	—	(27,270)	—	(27,270)
Other comprehensive income						5,627
Acquisition of 12,362 shares of common stock	(12)	(40)	—	—	—	(52)
Allocation of 9,994 shares of common stock by ESOP, including excess income tax benefits	—	(35)	107	—	—	72
Share-based compensation, including excess income tax benefits	—	64	—	—	—	64
Issuance of 339,015 shares of common stock under compensation plans, including excess income tax benefits	339	(339)	—	—	—	—
Balance at March 31, 2009	$ 51,066	$ 376,432	$ (6,229)	$ (188,318)	$ 274,750	$ 507,701

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Operating activities		
Net income	$ 14,885	$ 26,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest sensitive and index product benefits	196,869	59,763
Amortization of deferred sales inducements	13,089	13,711
Annuity product charges	(15,518)	(15,051)
Change in fair value of embedded derivatives	63,875	14,183
Increase in traditional life and accident and health insurance reserves	2,677	1,708
Policy acquisition costs deferred	(64,441)	(73,200)
Amortization of deferred policy acquisition costs	27,268	34,644
Provision for depreciation and other amortization	2,345	1,519
Amortization of discounts and premiums on investments	(53,692)	(56,721)
Realized gains on investments and net OTTI losses recognized	(6,680)	12,678
Change in fair value of derivatives	(82,653)	43,531
Deferred income taxes	(21,440)	(2,854)
Share-based compensation	1,881	433
Change in accrued investment income	(17,590)	(13,065)
Change in income taxes recoverable/payable	127,782	(4,253)
Change in other assets	4,303	(778)
Change in other policy funds and contract claims	13,169	(1,159)
Change in collateral held for derivatives	(25,005)	—
Change in other liabilities	(1,971)	17,975
Other	143	27
Net cash provided by operating activities	179,296	59,566
Investing activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities - available for sale	1,074,998	650,765
Fixed maturity securities - held for investment	616,334	588,601
Equity securities - available for sale	23,014	200
Mortgage loans on real estate	26,058	25,353
Derivative instruments	135,601	2,539
Acquisition of investments:		

Fixed maturity securities - available for sale	(2,068,305)	(1,683,183)
Equity securities - available for sale	(10,125)	—
Mortgage loans on real estate	(45,230)	(46,936)
Derivative instruments	(60,809)	(50,418)
Other investments	(26)	(13)
Purchases of property, furniture and equipment	(604)	(233)
Net cash used in investing activities	(309,094)	(513,325)

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2010	2009
Financing activities		
Receipts credited to annuity policyholder account balances	$ 846,855	$ 653,133
Coinsurance deposits	(139,240)	44,066
Return of annuity policyholder account balances	(382,706)	(342,312)
Proceeds from notes payable	—	25,000
Repayments of notes payable	—	(1,028)
Acquisition of common stock	(50)	(34)
Excess tax benefits realized from share-based compensation plans	199	20
Proceeds from issuance of common stock	533	—
Change in checks in excess of cash balance	(19,653)	(31,916)
Other	24	—
Net cash provided by financing activities	305,962	346,929
Increase (decrease) in cash and cash equivalents	176,164	(106,830)
Cash and cash equivalents at beginning of period	528,002	214,862
Cash and cash equivalents at end of period	$ 704,166	$ 108,032
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest expense	$ 3,911	$ 5,868
Income taxes	390	15,800
Income tax refunds received	100,000	—
Non-cash operating activity:		
Deferral of sales inducements	61,206	58,788
Non-cash investing activity:		
Real estate acquired in satisfaction of mortgage loans	2,905	—

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

1. Significant Accounting Policies
Consolidation and Basis of Presentation

The accompanying consolidated financial statements of American Equity Investment Life Holding Company (“we”, “us” or “our”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements. The consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly our financial position and results of operations on a basis consistent with the prior audited consolidated financial statements. Operating results for the three month period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements requires the use of management estimates. For further information related to a description of areas of judgment and estimates and other information necessary to understand our financial position and results of operations, refer to the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Reclassifications have been made to prior period financial statements to conform to the current period presentation.

Adopted Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that expands the disclosure requirements related to fair value measurements. A reporting entity is now required to disclose separately the amounts of significant transfers in to and out of Level 1 and Level 2 fair value measurement categories and describe the reasons for the transfers. Clarification on existing disclosure requirements is also provided in this update relating to the level of disaggregation of information as to determining appropriate classes of assets and liabilities as well as disclosure requirements regarding valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This standard was effective for us on January 1, 2010, and has not had a material impact on our consolidated financial statements.

In June 2009, the FASB amended accounting standards for transfers and servicing of financial assets and extinguishments of liabilities. The new standard removes the concept of a qualifying special-purpose entity ("QSPE") from existing standards and removes the exception of QSPE's from consolidation requirements. Additionally, more stringent conditions for reporting a transfer of a portion of a financial asset as a sale were created, derecognition criteria was clarified, the initial measurement of retained interests was revised, the guaranteed mortgage securitization recharacterization provisions were removed and disclosure requirements were added. This standard was effective for us on January 1, 2010 and had no effect on our consolidated financial statements upon adoption.

In June 2009, the FASB issued an amendment to the accounting standards for consolidation of variable interest entities. The new standard replaces the quantitative-based risks and rewards calculation of existing standards for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with a primarily qualitative approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity ("VIE") that most significantly impacts the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This standard was effective for us on January 1, 2010, and had no effect on our consolidated financial statements upon adoption. Through our funds withheld coinsurance agreement with an unauthorized life reinsurer we have been named as beneficiary of the trust that holds the funds withheld. We have determined that this trust is a VIE. We also have determined that the reinsurer is the primary beneficiary of this VIE due to the fact that all earnings of the trust inure to the reinsurer, and the reinsurer directs the operations of the trust subject to an investment policy. Therefore, we have not consolidated the trust prior to or after the adoption of this amendment to the accounting standards for consolidation of VIE's.

New Accounting Pronouncements

In January 2010, the FASB issued an accounting standards update that expands the disclosure requirements related to fair value measurements. A reporting entity will be required to present on a gross basis rather than as one net number information about the purchases, sales, issuances and settlements of financial instruments that are categorized as Level 3 for fair value measurements. This guidance will be effective on January 1, 2011, and we do not expect the adoption to have a material impact on our consolidated financial statements.

2. Fair Values of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The objective of a fair value measurement is to determine that price for each financial instrument at each measurement date. We meet this objective using various methods of valuation that include market, income and cost approaches.

We categorize our financial instruments into three levels of fair value hierarchy based on the priority for use of inputs in determining fair value. The hierarchy defines the highest priority inputs (Level 1) as quoted prices in active markets for identical assets. The lowest priority inputs (Level 3) are our own assumptions about what a market participant would use in determining fair value such as estimated future cash flows. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. We categorize financial assets and liabilities recorded at fair value in the consolidated balance sheets as follows:

Level 1 -	Quoted prices are available in active markets for identical financial instruments as of the reporting date. We do not adjust the quoted price for these financial instruments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.
Level 2 -	Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active; and models and other valuation methodologies using inputs other than quoted prices that are observable.
Level 3 -	Models and other valuation methodologies using significant inputs that are unobservable for financial instruments and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in Level 3 are securities for which no market activity or data exists and for which we used discounted expected future cash flows with our own assumptions about what a market participant would use in determining fair value.

Transfers of securities among the levels occur at times and depend on the type of inputs used to determine fair value of each security. Transfers between Level 1 and Level 2 were not material for the three months ended March 31, 2010.

We utilize independent pricing services in estimating the fair values of investment securities. The independent pricing services incorporate a variety of observable market data in their valuation techniques, including:

- reported trading prices,
- benchmark yields
- broker-dealer quotes,
- benchmark securities,
- bids and offers,
- credit ratings,
- relative credit information, and
- other reference data.

The independent pricing services also take into account perceived market movements and sector news, as well as a security's terms and conditions, including any features specific to that issue that may influence risk and marketability. Depending on the security, the priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary. We generally obtain one value from our primary external pricing service. In situations where a price is not available from this service, we may obtain further quotes or prices from additional parties as needed.

The independent pricing services provide quoted market prices when available. Quoted prices are not always available due to market inactivity. The pricing service obtains a broker quote when sufficient information, such as security structure or other market information, is not available to produce a valuation. Valuations and quotes obtained from third party commercial pricing services are non-binding and do not represent quotes on which one may execute the disposition of the assets.

In addition, we obtain prices from a broker for our callable United States Government sponsored agencies. Market indices of similar rated asset class spreads are considered for valuations and broker indications of similar securities are compared. Inputs used by the broker include market information, such as yield data and other factors relating to instruments or securities with similar characteristics.

Fair value of call options are determined by obtaining prices from our counterparties who use market standard valuation methodologies. Market inputs include market volatility and risk free interest rates and are used in income valuation techniques in arriving at a fair value for each option contract.

We estimate the fair value of the embedded derivative component at each valuation date by (i) projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and (ii) discounting the excess of the projected contract value amounts at the applicable risk free interest rates adjusted for our nonperformance risk related to those liabilities. The projections of policy contract values are based on our best estimate assumptions for future policy growth and future policy decrements. Our best estimate assumptions for future policy growth include assumptions for the expected index credit on the next policy anniversary date which are derived from the fair values of the underlying call options purchased to fund such index credits and the expected costs of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary. The projections of minimum guaranteed contract values include the same best estimate assumptions for policy decrements as were used to project policy contract values.

We validate external valuations at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list. Additionally, as needed we utilize discounted cash flow models or perform independent valuations on a case-by-case basis of inputs and assumptions similar to those used by the pricing services. Although we do identify differences from time to time as a result of these validation procedures, we did not make any significant adjustments as of March 31, 2010.

The fixed income securities markets in early 2009 experienced a period of extreme volatility and limited market liquidity conditions, which affected a broad range of asset classes and sectors. In addition, there were credit downgrade events and an increased probability of default for many fixed income instruments. These volatile market conditions increased the difficulty of valuing certain instruments as trading was less frequent and/or market data was less observable. There were certain instruments that were in active markets with significant observable data that became illiquid due to the current financial environment or market conditions. As a result, certain valuations require greater estimation and judgment as well as valuation methods which are more complex. These values may not ultimately be realizable in a market transaction, and such values may change very rapidly as market conditions change and valuation assumptions are modified.

The following methods and assumptions were used in estimating the fair values of financial instruments during the periods presented in these consolidated financial statements.

Fixed maturity securities: The fair values of fixed maturity securities are obtained from third parties and are based on quoted market prices when available. The third parties use yield data and other factors relating to instruments or securities with similar characteristics to determine fair value for securities that are not actively traded.

Equity securities: The fair values of equity securities are based on quoted market prices.

Mortgage loans on real estate: The fair values of mortgage loans on real estate are calculated using discounted expected cash flows using current competitive market interest rates currently being offered for similar loans which are not fair value exit prices.

Derivative instruments: The fair values of derivative instruments are based upon the amount of cash that we will receive to settle each derivative instrument on the reporting date. These amounts are obtained from each of the counterparties and are adjusted for the nonperformance risk of each counterparty net of any collateral held. The nonperformance risk for each counterparty is based upon its credit default swap rate. We have no performance obligations related to the call options purchased to fund our fixed index annuity policy liabilities.

Other investments: Other investments is comprised of policy loans, rental real estate and real estate held for sale. We have not attempted to determine the fair values associated with our policy loans, as we believe any differences between carrying value and the fair values afforded these instruments are immaterial to our consolidated financial position and, accordingly, the cost to provide such disclosure does not justify the benefit to be derived. The fair value of our real estate owned was determined either by obtaining a third party appraisal of the property or by estimating the potential annual net operating income from each commercial rental property and dividing that by a current market capitalization rate.

Cash and cash equivalents: Amounts reported in the consolidated balance sheets for these instruments are reported at their historical cost which approximates fair value due to the nature of the assets assigned to this category.

Policy benefit reserves and coinsurance deposits: The fair values of the liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities), are stated at the cost we would incur to extinguish the liability (i.e., the cash surrender value). The coinsurance deposits related to the annuity benefit reserves have fair values determined in a similar fashion. We are not required to and have not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value.

Notes payable: The fair value of the contingent convertible senior notes is based upon quoted market prices. Fair values for other notes payable with fixed interest rates are estimated by discounting expected cash flows using current market interest rates currently being offered for similar securities.

Subordinated debentures: The carrying amount of subordinated debentures with variable interest rates reported in the consolidated balance sheets approximates fair value. Fair values for subordinated debentures with fixed interest rates are estimated by discounting expected cash flows using current market interest rates currently being offered for similar securities.

Interest rate swaps: The fair values of our pay fixed/receive variable interest rate swaps are obtained from third parties and are based on market rates currently being offered for similar instruments.

The following sets forth a comparison of the fair values and carrying amounts of our financial instruments:

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Assets				
Fixed maturity securities:				
Available for sale	$ 12,365,666	$ 12,365,666	$ 10,704,131	$ 10,704,131
Held for investment	1,030,490	1,004,767	1,635,083	1,601,864
Equity securities, available for sale	87,981	87,981	93,086	93,086
Mortgage loans on real estate	2,461,975	2,458,944	2,449,778	2,409,197
Derivative instruments	497,469	497,469	479,272	479,272
Other investments	15,565	17,438	12,760	12,760
Cash and cash equivalents	704,166	704,166	528,002	528,002
Coinsurance deposits	2,420,411	2,052,538	2,237,740	1,934,996
Liabilities				
Policy benefit reserves	20,152,906	16,752,355	19,336,221	16,152,088
Notes payable	317,957	381,038	316,468	340,673
Subordinated debentures	268,383	204,082	268,347	186,215
Interest rate swaps	2,541	2,541	1,891	1,891

Our assets and liabilities which are measured at fair value on a recurring basis as of March 31, 2010 and December 31, 2009 are presented below based on the fair value hierarchy levels:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
March 31, 2010				
Assets				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$ 3,424	$ 3,424	$ —	$ —
United States Government sponsored agencies	5,043,470	—	5,043,470	—
United States municipalities, states and territories	528,379	—	528,379	—
Corporate securities	4,254,772	63,493	4,177,236	14,043
Residential mortgage backed securities	2,535,621	—	2,532,812	2,809
Equity securities, available for sale: finance, insurance and real estate	87,981	67,327	18,597	2,057
Derivative instruments	497,469	—	497,469	—
Cash and cash equivalents	704,166	704,166	—	—
	$ 13,655,282	$ 838,410	$ 12,797,963	$ 18,909
Liabilities				
Interest rate swaps	$ 2,541	$ —	$ 2,541	$ —
Fixed index annuities - embedded derivatives	1,526,117	—	—	1,526,117
	$ 1,528,658	$ —	$	