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PRESENTATION

Operator

Welcome to the American Equity Investment Life Holding Company's fourth-quarter 2016 conference call. At this time for opening remarks and introductions, I would now like to introduce Julie LaFollette, Director of Investor Relations

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Julie LaFollette - *American Equity Investment Life Holding Company - Director of IR*

Good morning, and welcome to American Equity Investment Life Holding Company's conference call to discuss fourth-quarter 2016 earnings. Our earnings release and financial supplement can be found on our website at www.american-equity.com Non-GAAP financial measures discussed on today's call and reconciliations of non-GAAP financial measures to the most comparable gap measures, can be found in those documents.

Presenting on today's call are: John Matovina, Chief Executive Officer; Ted Johnson, Chief Financial Officer; and Ron Grensteiner, President of American Equity Investment Life Insurance Company. Some of the comments made during this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act.

There are number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Factors that could cause the actuals results to differ materially are discussed in detail in our most recent filings with the SEC. An audio replay will be made available on our website shortly after today's call. It is now my pleasure to introduce John Matovina.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

Thank you, Julie. Good morning everyone, and thank you for joining us this morning. We finished 2016 on a strong note, reporting non-GAAP operating earnings of $0.63 per share that was appreciably above the third-quarter amount when you exclude the effects of the revisions to the assumptions in unlocking and as a reminder, that excluding those items, we have $0.55 per share on the third quarter. It was also, then, slightly more than the $0.60 per share, we reported in the fourth quarter of 2015.

As you will hear from Ted shortly, we had a couple of positive developments in the quarter that should be trendable for future quarters, and we had one positive item that was discrete to the quarter. Our performance in 2016, in the three key areas that drive our earnings of financial performance, was mixed. As a reminder, the key measurements are: to grow invested assets and policyholder funds under management: generate a high level of operating earnings on the growing asset base through investment spread; and minimizing impairment losses in our portfolio.

So for the year, on the first measure, we delivered 9.6% growth in policyholder funds under management. We generated a 6.7% non-GAAP operating return on equity, and our investment impairment losses after the effects of DAC and income taxes, were about half a percent of average equity.

The growth in our policyholder funds under management was fueled by a record $7.1 billion in gross sales. That was up slightly from the record sales we had last year, or in 2015. However, we had much larger contributions to sales in 2016 from products that were co-insured and our net sales after co-insurance declined 18% to $5.4 billion. However that still represents the second-highest year for net sales in the Company's history.

Our formula for growth and funds under management has been to develop and maintain excellent relationships with our distribution partners and have a consistent presence in the fixed index annuity marketplace. And that formula has allowed American Equity to rank in the top three of fixed index annuity sales in 16 out of the last 17 years.

Our non-GAAP operating return on average equity was negatively impacted by the unlocking and assumption revisions we had in the first and third quarters of last year, of the year. Excluding those items, our non-GAAP operating return on average equity would've been 10.8%. That result is still a bit below our historical performance and is attributable to the narrowing of investments spreads that we've been talking about for quite a few quarters now.

Our low level of impairment losses reflects our commitment to a high quality investment portfolio. That measure has been 0.8% or less on each of the last four years. Looking back over the year, it's safe to say that 2016 had its share of challenges. In my mind the biggest challenge was dealing with the low interest rate environment that we've been in since well before the beginning of the year and certainly while investment yields have reversed the downward path they followed for much of 2016, the fact is the rates today are only slightly higher than they were at the end of 2015.

Of course another major challenge has been the Department of Labor's fiduciary rule, which poses significant challenges to sales of fixed index annuities by independent agents and will limit access to a fixed annuity insurance product that more and more Americans find to be the right solution for their retirement savings and retirement income needs.

While we're hopeful that legal challenges to the rule would overturn or delay it, litigation including yesterday's decision in the Northern District of Texas, has been unsuccessful. Another update last month, the DOL proposed for comment a best-interest contract exemption for insurance intermediaries often referred to as the IMO exemption. That could facilitate sales of fixed index annuities subject to the fiduciary rule by independent insurance agents. However, in our view, the proposed requirements may arbitrarily and unnecessarily prevent some highly qualified independent or national marketing organizations from obtaining financial institution status.

Even if the proposed exemption is finalized prior to April of this year, the eligible marketing organizations may not have sufficient time to meet the proposed requirement. Also, since last November Presidential election, there's been much speculation about a possible delay in repeal or replacement of the fiduciary rule. Last week's Presidential memorandum increases the likelihood that a delay of the April 10 applicability date may be forthcoming. However, no actions have been taken by the Department at this time and proponents of the rule have been very vocal in their opposition to a delay.

We would certainly welcome a delay and the opportunity to work with relevant parties to draft a rule that meets the DOL's objectives but allows for continued access to fixed indexed annuities by Americans saving for or enjoying their retirement. I'll be back at the end of the call for some closing remarks, but not I'd like to turn the call over to Ted Johnson for additional comments on the fourth-quarter financial results.

Ted Johnson - *American Equity Investment Life Holding Company - CFO and Treasurer*

Thank you, John. As we reported yesterday afternoon, we had non-GAAP operating income of $56 million or $0.63 per share for the fourth quarter of 2016 compared to non-GAAP operating income of $50.1 million or $0.60 per share for the fourth quarter of 2015. Our diluted share count was 6.4% higher in the fourth quarter of 2016 compared to the fourth quarter a year ago. Primarily due to the settlement of two equity forward sales agreements through the issuance of 5.6 million shares of our common stock in the third quarter of 2016.

We have one discrete item in the quarter. A $2.3 million reduction of an accrual for potential guarantee fund assessments. This reduction benefited operating expenses and, on an after-tax basis, benefited both net income and non-GAAP operating income by approximately $1.5 million or $0.02 per share.

Investment spreads for the fourth quarter were 262 basis points compared to 257 basis points in the third quarter as a result of a one basis point increase in average yield on invested assets and a four basis point decrease in the cost of money. Average yield on invested assets was 4.47 % in the fourth quarter. The average yield continues to be unfavorably impacted by the investment of new premiums and portfolio cash flows at rates below the portfolio rate.

The unfavorable impact from this factor was partially offset by fee income from bond transactions and prepayment income, which added seven basis points to fourth-quarter average yield on invested assets above the third-quarter level of four basis points. The unfavorable impact from investing at rates below the portfolio rate, was partially offset by a reduction of the impact on investment income and yield from carrying high cash and short-term investment balances.

The average balance for cash and short-term investments declined to $307 million in the fourth quarter compared to $1.2 billion in the third quarter of 2016. We ended the fourth quarter with excess cash and short-term investments of just $29 million. The benefit from a fully invested profile should carry forward into 2017.

The average yield on fixed income security purchased and commercial mortgage loans funded in the fourth quarter was 3.71% compared to 3.31%, 3.95%, and 4.14% in the third, second and, first quarters of 2016, respectfully. In January, we invested new money at nearly 4.1%. The aggregate cost of money for annuity liabilities was 185 basis points in the fourth quarter compared to 189 basis points in the third quarter. This decrease reflects continuing reductions in crediting rates on enforced policies and a lower cost of money on new deposits. The benefit from over hedging the obligations for index linked interests was two basis points for both the fourth and third quarters.

We have been working to counteract the impact of lower investment yields by reducing the rates on our policyholder liability. But the impact on the cost of money from these reductions is less than the impact on average yield on invested assets from investment purchases by a few basis points. We will continue to achieve reductions in our cost of money through renewal rate reductions that will be implemented on policy anniversary dates over the remainder of this year.

We continue to have flexibility to reduce our crediting rates if necessary and could decrease our cost of money by approximately 49 basis points if we reduce current rates to guaranteed minimums. Other operating costs and expenses in the fourth quarter were $23.4 million, which reflects the previously mentioned benefit of $2.3 million from the reduction in an accrual for potential guarantee fund assessments.

In addition, other operating costs and expenses were reduced by $1.1 million for a lower reinsurance risk charge under our reinsurance agreement with an unaffiliated reinsurer. Under this agreement, we feed excess regulatory reserves to the reinsurer and pay a risk charge for the regulatory reserve credit received. The agreement was amended effective October 1 and the lower risk charge will continue over the remaining term of the amended agreement.

Our risk-based capital ratio at year end is 342% up from 336% at the end of last year. We funded the increase in required capital from another robust year of sales with $235 million of proceeds from previously discussed equity and debt capital-raising activities and $105 million of internally generated capital. Now I'll turn the call over to Ron to discuss sales, marketing, and competitions.

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

Thank you, Ted. Good morning, everybody. As we reported yesterday, full sales for 2016 were a record $7.1 billion, slightly surpassing our previous record set back in 2015.

We achieved our new record on the strength of almost a $1 billion or 290% increase in sales by Eagle Life, which offset a $900 million decline in sales at American Equity Life. A large portion of the increase for Eagle Life was from multi-year rate guaranteed annuity policies or MIGA policies. American Equity Life also saw sales of MIGA policies increase by $370 million.

In 2016, we co-insured 80% of Eagle Life sales and 80% of American Equity Life MIGA sales resulting in an 18% decrease in net sales to $5.4 billion. Looking at the fourth quarter, total sales were $1.4 billion before coinsurance seeded and $1.1 billion net of coinsurance seeded. These amounts were substantially less than the record quarter sales posted in the fourth quarter of 2015, which benefited significantly from the absence of products from a major competitor.

On a sequential basis, gross sales were down 10% with net sales flat. American Equity Life gross sales for the quarter of $1.2 billion, declined 1% sequentially, while Eagle Life's gross sales of $210 million declined 40% sequentially but were up slightly from the fourth quarter of 2015. Our observations indicate that industry sales of fixed indexed annuities in the fourth quarter may be down on both a sequential and a year-over-year basis, low interest rates and a more robust stock market may be factors. We also believe actions by distributor's to conform to the DOL fiduciary rule, were a distraction from marketing efforts and played a role in lower sales.

Finally, we have seen evidence that registered representatives are repositioning money away from annuities and into managed money in anticipation of the DOL fiduciary rule. The sales environment in the first quarter has been very aggressive and perhaps more than usual as insurers look to get a strong start for the year.

We've seen companies improve lifetime income benefit rider terms by increasing role-up rates, income benefit bonuses and pay-out factors. Some companies have also been quick to raise interest cap and participation rates following the jump in the 10-year treasury rate. Many competitors have increased new money rates twice since the Presidential election.

In January, we announced a modest increases on Eagle Life's FIA products and the comparable American Equity Life at FIA products. However, as John mentioned his opening comments, rates today are only slightly higher than they were in the beginning of 2016. Our philosophy has always been that we will not chase sales at the expense of spread, our commitments since day one has been to have competitive rates and commissions, not necessarily to be the highest. Dave Noble instilled in us that our difference makers will be excellent relationships with our distribution partners and the best service in the business. Competitive products plus excellent service equals success; our formula for 20 years now.

A testament to our philosophy is the fact that nearly 50% of American Equity's 2016 premium was through 623 elite Gold Eagle members, our most committed relationships. Elite members produce at least $2 million of premium in a calendar year. All of our Golden Eagle members, those who write at least $1 million in premium, were responsible for 62% of our sales. This group was made up of 1,220 individual producers.

Focusing on Eagle Life for a moment, in 2016, we added one wholesaling relationship and 11 selling agreements for a total of 53. We also have seven anchor accounts, those that produce at least $30 million annually, and in 2015 we had two anchor accounts produce over $100 million in premium but we finished 2016 with four anchor accounts producing over $100 million in premiums. That said, the competitive landscape is even more furious than the bank and broker-dealer channel. Some companies have rates that we consider untouchable.

While our excellent customer service reputation is very important at Eagle Life, the bank and broker-dealer channel seem a bit more rate sensitive compared to the independent agent challenge. Both companies are making progress in the bank and broker dealer channels, on a combined basis 5% of our 2015 FIA sales came from banks and broker dealers and in 2016 that percentage increased to 11%. We understand that 2017 is off to a slow start industrywide and at American Equity and Eagle Life.

One of our top NMO's indicated that January was their lowest month of sales in the past 24 months. Pending applications are at the lowest we've seen since early 2014. As of today, American Equity's pending count is 2,515. It was in the low-to-mid 3,000s for the fourth quarter. Pending at Eagle Life is 118 today. During the fourth quarter it was in the mid-200s to low-300s.

Looking forward, we're planning on some product enhancements that we think will help us gain some momentum this year. In early March we will be introducing several traditional fixed rate annuities with a competitive lifetime income benefit rider. These products were designed primarily for independent insurance agents looking to sell, under prohibited transactions exemptions, 8424 of the DOL fiduciary rule.

Due to competitive guaranteed income, we think they'll be accepted by a broader group of agents. We're also looking to having a new version of our lifetime income benefit rider available for our FIA products in the second quarter.

Finally, we're planning to offer several of our FIAs with an optional Market Value Adjustment or MVA feature. Policyholders selecting the optional MVA feature would receive higher rates than policyholders not selecting the MVA. We have resisted having MVAs in the past, on our FIAs, but have found ourselves to be outliers by not having them.

We haven't discussed our client appreciation events for some time and I'm happy to report that we will be continuing them in 2017. We've been conducting these special luncheons for our policyholders and their agents around the country since 2010.

Today, we have had 127 events with 26,436 policyholders and 1,629 agents in attendance. This is a wonderful way for us to solidify our policyholders' confidence in our Company and producers. The benefit of this program, that are very apparent to us, based on the feedback from our agents and the countless comment cards and emails received from policyholders every time we hold an event.

We recently had an event in Scottsdale, Arizona and I received this note after the fact. To whom it may concern, my husband and I just recently attended the American Equity Client Appreciation Event in Scottsdale, Arizona, this was our first Appreciation Event Luncheon; we wanted to thank you for recognizing your clients. The event was well organized and informational. We don't know of another insurance company who recognizes and celebrates their clients. We thank you again. We are glad that we are your clients and yes, we do sleep well at night because of our decision to trust our money in your hands. And with that I'll turn the call back over to John for concluding remarks.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

Thank you, Ted and Ron. It goes without saying that 2016 had its share of challenges and several of those challenges are still with us. However, looking to the future, we feel good about 2017. Were optimistic that interest rates will continue to move higher based upon expectations for a more robust economy, which is predicated upon lower tax rates, infrastructure spending, and a more business-friendly regulatory environment.

As I said earlier, we would welcome a delay in the DOL fiduciary rule and are optimistic that the new administration will recognize the harm the fiduciary rule will cost for America's retirees and delay the rule. However, if a delay does not occur by April 10, we are ready with product and operational strategies that we expect will partially mitigate the potential disruption in fixed-index annuity sales by independent insurance agents.

Thinking longer term beyond those immediate challenges, the winds remain in our favor as we've said for many years. The need for guaranteed lifetime income will only grow and our products, fixed-indexed annuities with lifetime income riders, remain the most efficient way to provide these guarantees. American Equity strategy, as set by our foundered Dave Noble, is unchanged.

We want to continue to offer attractive products with principal protection and guaranteed lifetime income that meet the needs of Americans preparing for or enjoying retirement. We want to build and maintain strong relationships with our distribution partners. We want to stay consistent in our business practices and maintain a consistent presence in the marketplace. We want to provide the industry's best service to our distribution partners and policyholders.

These tenants together with maintaining an investment portfolio that is high in credit quality, have been the key to our success in the past and will continue to guide us in the future. American Equity has created a strong foundation for more success in the years ahead. That foundation is the result for the extraordinary commitment the each of our employees brings to our office each day and so on behalf of our American Equity Management Team and our 530 employees, thank you for your time and attention this morning and interest in our Company. I will now turn the call back over to the operator and open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John Nadel, Credit Suisse. Your line is open ahead.

John Nadel - *Credit Suisse - Analyst*

Thank you. Good morning, everybody. I guess the first question is, it sounds to me, from your commentary like the competitive environment -- and maybe this isn't specific or only limited to the bank and broker-dealer channel, but it definitely sounded like you were highlighting that -- has really elevated here of late. Can you give a some way of measuring how much differential there is between the overall crediting rate that you're willing to offer currently versus what's being offered by some of the competitors who are maybe taking share currently?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

Yes, good morning, John. This is Ron.

John Nadel - *Credit Suisse - Analyst*

Good morning, Ron.

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

When we look at our rates, at Eagle and at American Equity for that matter, and when you look at non-bonus products, our competitors are 90 to 100 basis points, in some cases, higher than we are.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

Those are caps.

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

Excuse me, thank you, John. In caps (laughter). Participation rates, obviously, is not quite that much. It might be a difference between 40% and 45% in the participation rate.

So the thing that is why it's particularly sensitive at Eagle Life is when we get on the shelf at a bank or broker dealer, the bank and broker-dealer has already done all the vetting, so to speak, for all the companies that they agreed to have selling agreements with.

So at the representative level, they look at all the companies out there and they will gravitate towards companies that have good service and good relationships with, but all of the companies have been vetted by the financial institution, so rates -- the bigger the disparity, they're going to go to the company that has highest rates. When there's that big of a disparity today, it's not in the cards for us to raise rates on our caps from 90 to 100 basis points.

John Nadel - *Credit Suisse - Analyst*

I appreciate that. Maybe a question for you, John. One other company that I cover, that maybe most of us on the line cover, Lincoln National has done a pretty good job this last couple of years.

In light of -- definitely company that's more focused on the variable annuity market, but has done been a pretty good job of indicating to investors that downward pressure on variable annuity sales that management would take the capital that was otherwise earmarked for sales growth and return that to shareholders via incremental buybacks, such that the impact on earnings per share overtime would be effectively nil. To the extent that you continue to see that kind of pressure on indexed annuity sales in particular, looking out, is that something that the management and Board at American Equity might be considering?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

Well, certainly, if we found ourselves, and we've said this in response to questions and meetings, and I don't know how far back we'd have to go on earnings calls or more public scenarios, but certainly if capital -- if sales decline or back off, and capital starts building, that certainly tells us to evaluate what's the best use of that capital.

I know there are probably a fair amount of conversation along those lines, as we were ending 2014 and entering 2015, our risk-based capital ratio had elevated up to 372%. And we were starting to think about what's the level where it really is excess and probably 350 was in our minds back then. But we're also coming off of a period where we had sales of about $4 billion for two years in a row or little more than $4 billion, in the back of our minds thought that's not the right number for sales they could easily be higher.

And low and behold, before we had to make a decision, one of the major competitors pulled their products out of the marketplace and our sales took off. So we never got to the final decision on that. But certainly if we find ourselves in a low sales environment and the prospects for continuing that low sales environment are high, capital will build and we'll be considering what's the right use for it.

John Nadel - *Credit Suisse - Analyst*

All right. I appreciate that. Thank you very much.

Operator

Randy Binner, FBR Capital Markets.

Weston Bloomer - *FBR & Co. - Analyst*

Hello, good morning. This is Weston Bloomer, on for Randy. Do you guys have a run rate of quarterly expenses associated with the DOL and has there been any change to that since the election? Kind of be interested to hear -- either like the cost to unwind any DOL expenses you've implemented or would expenses run lower? Thanks.

Ted Johnson - *American Equity Investment Life Holding Company - CFO and Treasurer*

We don't really have a run rate for DOL expenses. Now, we did note, we thought DOL expenses decreased this quarter by approximately $0.5 million, but there isn't a regular run rate for those. Those expenses have been somewhat lumpy over time as we've hired outside consultants to help us, and as we've implement things.

I don't really foresee any additional costs to unwind anything. Again, were still in a period of time where we don't know exactly, even if the rule does get delayed, there is still ultimately a question what could happen in future. So there very well could be future costs associated with DOL.

Weston Bloomer - *FBR & Co. - Analyst*

Okay. And then, just as a follow-up, is there any way to quantify the sales impact from DOL versus competition, is it more 50-50 to difficult to quantify at this point?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

We never get that level of insight Weston. I think for 13 years now, the sales information we have is often pretty anecdotal. You hear conversations we pick up through interactions with our marketing partners in that. Never so precise that you could say that it's this percent, that percent from the different sources.

Weston Bloomer - *FBR & Co. - Analyst*

Okay. Thanks. That color is helpful. Appreciate it.

Operator

Pablo Singzon, JPMorgan.

Pablo Singzon - *JPMorgan - Analyst*

Thank you. As you guys pointed out, it seems like the likelihood of the DOL rule being postponed is higher on the back of the executive order from the White House. My question is can you please comment on your understanding of the mechanics and timeline of how the rule could be postponed, given the requirements of the APA and the window between now and April?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

It's been several weeks since I read the details on that, Pablo. My recollection was that an acting secretary could without much difficulty specify a short-term delay. A longer-term delay would require more procedural action out of the department -- perhaps some comment or exposure to comment in that. You've got it right. You've got a rule that's been promulgated pursuant to the APA.

Pablo Singzon - *JPMorgan - Analyst*

Okay. And then my second question is somewhat related to that too. Some of your peers have said they're willing to serve as -- and I'm talking about insurance companies -- to serve as financial institutions for IMOs under the BICE. Just assuming that the DOL rule is not postponed by April 27, do you think this particular competitive disadvantage, given your position not to serve as an FI?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

Well, this is Ron. When we look at our IMOs or NMOs at American Equity, we've determined that a very large percentage of them will have a path to be a financial institution, either because they own a broker-dealer or they own a registered investment advisor or they've filed for financial institution status with the DOL. So I'm not -- I think based on those statistics, we're comfortable that there's a path for our producers to have their business fall under BICE.

Pablo Singzon - *JPMorgan - Analyst*

Thank you.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

Pablo, this is John, one other point on that, it's been a while since there been any active conversations around here that I know of about which carrier may or may not be serving or be willing to serve as financial institutions. But, I'm not aware that any of them have kind of unequivocally said they would do it. So, I'm not sure -- and I guess I'd still think that's the case.

Pablo Singzon - *JPMorgan - Analyst*

Okay. Thank you.

Operator

Erik Bass, Autonomous Research.

Erik Bass - *Autonomous Research LLP - Analyst*

Just given the spread pressure that the industry's faced, are you surprised that pricing has moved this quickly in response to rates? Does it change your view, at all, on the potential to get back to historical target spreads even if the interest rate environment continues to improve?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

Certainly, pricing is surprising to us. We know other companies might be willing to accept lower levels of credit quality or other approaches to generating some higher investment yields, but that's, in our view, Erik, doesn't support some of the differentials in rates that we see.

I just have a hard time believing this is a long-term situation. I just don't see how they can persist at those rates for an extended period of time. So I don't know if some companies are trying to have a very good first quarter not knowing what the balance of the year is going to look like because of the DOL uncertainty or what the motivation is for some of those higher rates.

Historically, companies with one exception have not really stayed outside of the norms of general competition for an extended period of time. But I suppose there's always a possibility that traditions breakdown and something else happens.

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

I'll add to that a little bit, John. Some of our intelligence in the bank and broker-dealer channel, in attending the various meetings, the banks in particular are telling companies that they're going to determine who stays on their shelf after sales analysis. And so our impression is that there's probably some companies out there who are trying to stay on the radar by having elevated rates, so they make sure that they have some sales and stay on the shelf.

When we talked to, whether it's the independent channel or the bank channel, everybody tells us that sales are down, yet those same financial institutions and agents are selling for those companies that have these really elevated rates. So where's the theory there? I'm not sure.

Erik Bass - *Autonomous Research LLP - Analyst*

Got it. Thank you, I appreciate the color. Just one follow-up on one new product development. In addition to the new fixed annuity product you talked about, are you looking any fee-based fixed indexed annuities that could work in managed accounts?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

Yes, we are. It's a relatively easy thing for us to do. We have a couple of products on the shelf that it's just a matter of stripping off the commissions and leaving the surrender charges and the other features intact.

And then, increasing caps and participation rates on those products and put them out there, so there's no filing that we feel we have to do, it's just something that we haven't done yet. And waiting to see if there's a demand for it.

Erik Bass - *Autonomous Research LLP - Analyst*

Okay. Thank you.

Operator

Mark Hughes, SunTrust.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Thank you, good morning. On the crediting rates, you've been getting what 4 basis points this most recent quarter, with the competition out there, with the change in interest rates, is there -- should we assume that you'll continue to follow through with the adjustment on crediting rates or might you back off on that to stay competitive?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

Mark, it's John. Are you referring to the renewal rate adjustments?

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Yes.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

Those renewal rate adjustments are on pass, so to speak, and they will not be rescinded or adjusted. I think we've said on several other occasions, in response to questions about those, that the competitive factors don't extend down into renewal rate activity.

While that may sometimes show up in conversations with agents as they see how different carriers treat their policyholders on renewal, and I think even with our adjustments, we've treated ours awfully well relative to what we hear about how they may have been treated by some other carriers. But that's not really a big question in the competitive landscape, unlike comparisons of rates for new sales opportunities.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Understood. And then, could you maybe adjust your coinsurance strategy or reinsurance strategies if you've got extra capital? Would you keep more of that business in house or are you always going to coinsure the MIGAs?

Ted Johnson - *American Equity Investment Life Holding Company - CFO and Treasurer*

One thing we want to point out, Mark, is that the coinsurance treaty that Eagle has with the team was scheduled to drop to 50%, effective January 1, and that's what's happened. So that has dropped from 80% to 50% as part of the agreed-upon terms in the agreement.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

And you mentioned MIGA at the tail end of your question. MIGAs at American Equity have never been part of our strategy. They've been an accommodation to agents who are selling fixed-index annuities, and if a particular agent had a customer policyholder who wanted a MIGA policy, we wanted to at least have a policy available for that agent to place with us, as opposed to forcing them to go to a competitor.

MIGA policies are very rate sensitive and so the tenants of agent loyalty and relationships disappear in the MIGA space. It's just not one were interested in being in because the only way you really do have long-term success is kind of almost always having the highest rate.

Ted Johnson - *American Equity Investment Life Holding Company - CFO and Treasurer*

And the coinsurance percentage on MIGA stays at 80%. It's just on the FIA business it drops to 50%.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Thank you.

Operator

Dan Bergman, Citi.

Dan Bergman - *Citigroup - Analyst*

Thanks, good morning. I guess following up on the initiatives and product enhancements in the coming months to make your products more competitive, is there any additional color you can provide on what we should expect here, particularly with respect to that revised FIA product you mentioned and the impact of including MVAs? I just wanted to see if there's any sense you can provide on how much, if any of that current gap in pricing to competitors you mentioned earlier that you would expect these product changes to close?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

This is Ron. We think by adding MVAs to our FIAs it certainly won't put us at the top of the heap but it'll get us closer. Instead of being 90 to 100 basis points on a cap, we think that we can get maybe 25 basis points or 35 basis points closer to the top. So at that point, our producers will start remembering the value that we provide in excellent customer service and renewal rates and all this other stuff that we've built the Company on.

So that's a plus there. On the income part, on the guaranteed lifetime income part, as you look at the competition today, we're about, on an income basis, 80% of the number one income company, but we're about 98% of the company that would be ranked number two. So there's a big cluster of us that are pretty close and our guaranteed income and there's an outlier company that's way above everybody else.

We think we can put together a new lifetime income benefit rider for our FIA products that can kind of, maybe take us a little closer to the top of the cluster, so to speak, but we're not to be anywhere closer to the outlier company. And the reason I talk about that is, if you look at us and rank us in the cluster, we might be ranked fifth or sixth or even seventh as far as a guaranteed income.

But it's in a very close pack, so people that run these comparisons, they will see us show up and we're ranked fifth or sixth. If we can make little tweaks here and there, and show up second or third, we can be selected more frequently, obviously, than when you rank fifth or sixth.

Dan Bergman - *Citigroup - Analyst*

Got it. Maybe just a follow-up as we think about kind of the financial profile of these products, from your perspective, is there any change we should be thinking about in terms of expected returns or capital requirements et cetera, in terms of revised products versus what you're selling today?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

No, we've been -- all the price testing we've done is looking at consistent profit measures with what existing products have.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Got it. Thanks so much. I appreciate for taking my question.

Operator

John Barnidge, Sandler O'Neill.

John Barnidge - *Sandler O'Neill & Partners - Analyst*

Thanks, and congrats on the results. I have a question. Do you think the IMO exemption proposal or uncertainty with the DOL rule is adversely impacting smaller firms, such that there could be M&A opportunities for AEL?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

It's certainly affecting the smaller firms, in that they can't -- they don't have the infrastructure to be a financial institution, and when you look at the IMO exception, it's very, very few IMOs that will even qualify for the IMO exemption.

So the way I look at it is that these smaller firms you know have to make a decision, either get out of the FIA business or consolidate with the larger IMOs out there that do have the infrastructure and that has a capability to be an FI. It's unfortunate in that the DOL rule is almost turning the FIA business into a monopoly because there's going to be fewer and fewer IMOs if the rule goes through that have the ability to be financial institution than currently exist today. We're going from hundreds of IMOs down to maybe, I don't know, 5 to 10 that could be an FI.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

Hey, John, you said M&A opportunity from AEL --

John Barnidge - *Sandler O'Neill & Partners - Analyst*

For you to consolidate smaller ones.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

But we don't own any now so what's your --?

Ted Johnson - *American Equity Investment Life Holding Company - CFO and Treasurer*

It's not really part of our business plan would be to be owning IMOs. I think we still are on the path that we don't want to own production. And where the consolidation and the potential for M&A really happens, it's for the larger IMOs who do qualify for FI. They either have the potential where they might be acquiring smaller firms or having striking agreements where somehow that production is rolling up underneath them and they're acting as the FI and they're getting paid for the --

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John Barnidge - *Sandler O'Neill & Partners - Analyst*

All right. And then, one follow-up. Have you seen any Golden Eagle members leave ahead of the DOL rule at all?

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

I don't think I can put a finger on that statistic. We have -- our persistency is usually good with our Gold Eagle members, as far as retaining them from one year to the next, but I don't know of any numbers I can point directly to the DOL about.

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

John, agents wouldn't leave, they might start producing and that obviously would catch our radar. And our guys monitor production activity from sources in that and don't hesitate to pick up the phone to call people. But I certainly haven't heard any commentary. I doubt Ron has either about -- we've got these agents that are no longer producing for us.

John Barnidge - *Sandler O'Neill & Partners - Analyst*

Great, thanks, and congrats on the results.

Operator

Thank you.

(Operator Instructions)

Alex Scott, Evercore ISI.

Alex Scott - *Evercore ISI - Analyst*

Good morning. I was just wanted to ask a question on the IMO exemption, and I guess, more specifically around what portion of your sales come from maybe if you get something around the top 10 or top 20 IMOs? In terms of size.

Ron Grensteiner - *American Equity Investment Life Holding Company - President, American Equity Life Insurance Company*

Our top 5 IMOs are responsible for about 52% of our sales and our top 10 are responsible for 78% of our sales.

Alex Scott - *Evercore ISI - Analyst*

Okay. One of the other things we saw in the IMO exemption was just some commentary around product structure, and I think it was specifically asking for comment on adjustments during the surrender period and whether that was sort of appropriate for IMOs to be selling. Would something like an MVA be included in that? Or what kind of -- if you have any comments on what kind of product that would be targeting?

John Matovina - *American Equity Investment Life Holding Company - Vice Chairman, President and CEO*

Some of that commentary to me, that's just kind of evidence the DOL's lack of knowledge of what our products are in all that but -- financial -- the ability to adjust rates during the surrender period is part of natural product design. We've said repeatedly that particularly on index annuities, our pricing sets an option budget at the start or at the time a product is issued, and we buy a 10-year bond or whatever it is, to fund whatever rates we can offer.

But the indexed terms are going to be influenced in subsequent periods by what's going on in the market because option prices are dictated by market volatility and other factors. So while we might have to change our caps and participation rates, it's going to be because of factors that are not necessarily -- that are outside of our control.

So, I think, as I read that, one example of not having a very good grasp of what the product is and how it's designed, the policyholders have lots of options and the companies do to. So it's part of overall product structure. MVAs, your question on MVAs is in effect doesn't happen during the operation of the product. It happens when somebody elects to surrender or receive cash outflows prior to the expiration of the surrender period.

Alex Scott - *Evercore ISI - Analyst*

Understood. Okay. Thank you.

Operator

Thank you. That concludes our Q&A session for today. I like to turn the call back over to Julie LaFollette for any further remarks.

Julie LaFollette - *American Equity Investment Life Holding Company - Director of IR*

Thank you for your interest in American Equity and for participating in today's call. Should you have any follow-up questions, please feel free to contact us.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone have a great day.