

**CITIZENS, INC.**

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We perform an expense study on an annual basis, utilizing an enterprise-wide time study, and we adjust cost allocations among entities as needed based upon this review. Any allocation changes are reflected in the segment operations, but do not impact consolidated expenses.

**Capitalization of DAC.** Capitalized DAC was \$20.5 million and \$22.3 million in 2020 and 2019, respectively. Decreases in capitalized amounts are in line with the decreases noted in sales activity. These costs will vary based upon successful efforts related to newly issued policies and renewal business. Significantly lower amounts are capitalized related to renewal business in correlation with the lower commissions paid on that business compared to first year business which has higher commission rates.

**Amortization of DAC.** Amortization of DAC totaled \$27.4 million and \$28.3 million in 2020 and 2019, respectively. Amortization of DAC is impacted by new business, persistency and the level of surrenders. Additionally, 2019 included \$1.4 million of amortization associated with the conversion to a new actuarial valuation system.

**Amortization of Cost of Insurance Acquired ("COIA").** Amortization of COIA increased in 2020 compared to 2019 due primarily to an update in our Home Service Insurance segment's expected earned rate assumptions used within annuity models that resulted in additional amortization of approximately \$0.2 million in 2020.

**Federal Income Tax.** Federal income tax benefit of \$1.3 million in 2020 and federal income tax expense of \$7.1 million in 2019 resulted in effective tax rates of 10.8% and 126.0%, respectively. Subsequent to the novation of all of the international policies issued by CICA to CICA Ltd., the earnings of CICA Ltd. are subject to Subpart F of the IRC and, therefore, are included in Citizens' taxable income. The Subpart F income inclusion generated \$2.2 million of federal income tax expense in 2020, as compared to \$5.9 million in 2019. The decrease in tax from Subpart F income was partially offset in 2019 and 2020 by foreign income tax rate differential of \$1.6 million and \$1.8 million, respectively. Differences between our effective tax rate and the statutory tax rate result from income and expense items that are treated differently for financial reporting and tax purposes. Refer to [Note 9. Income Taxes](#) in the notes to our consolidated financial statements for further discussion.

**SEGMENT OPERATIONS**

Our business is comprised of two operating business segments, as detailed below.

- Life Insurance
- Home Service Insurance