UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED December 31, 2018
COMMISSION FILE NUMBER 001-32244

INDEPENDENCE HOLDING COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE	**58-1407235**
(State of Incorporation)	(I.R.S. Employer Identification No.)

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT	**06902**
(Address of Principal Executive Offices)	(Zip Code)

(203) 358-8000
(Registrant's telephone number, including area code)

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

COMMON STOCK, $1.00 PAR VALUE PER SHARE	**NEW YORK STOCK EXCHANGE**
(Title of each class)	(Name of each exchange on which registered)

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 ___ 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 ___ 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 (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No __

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer __ Accelerated filer X Non-accelerated filer __ Smaller reporting company X

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ___ No X

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of June 30, 2018 was $164,103,000.

14,949,149 shares of common stock were outstanding as of March 8, 2019.

FORM 10-K CROSS REFERENCE INDEX

Forward-Looking Statements

This report on Form 10−K contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by those laws. We have based our forward-looking statements on our current expectations and projections about future events. Our forward-looking statements include information about possible or assumed future results of our operations. All statements, other than statements of historical facts, included or incorporated by reference in this report that address activities, events or developments that we expect or anticipate may occur in the future, including such things as the growth of our business and operations, our business strategy, competitive strengths, goals, plans, future capital expenditures and references to future successes may be considered forward-looking statements. Also, when we use words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "probably" or similar expressions, we are making forward-looking statements.

Numerous risks and uncertainties may impact the matters addressed by our forward-looking statements, any of which could negatively and materially affect our future financial results and performance. We describe some of these risks and uncertainties in greater detail in Item 1A-Risk Factors of this report.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements that are included in this report, our inclusion of this information is not a representation by us or any other person that our objectives and plans will be achieved. In light of these risks, uncertainties and assumptions, any forward-looking event discussed in this report may not occur. Our forward-looking statements speak only as of the date made, and we undertake no obligation to update or review any forward-looking statement, whether as a result of new information, future events or other developments, unless the securities laws require us to do so.

PART I

ITEM 1. BUSINESS

Business Overview

Independence Holding Company is a Delaware corporation (NYSE: IHC) that was formed in 1980. We are a holding company principally engaged in the life and health insurance business with principal executive offices located at 96 Cummings Point Road, Stamford, Connecticut 06902.

Our website is located at www.ihcgroup.com. Detailed information about IHC, its corporate affiliates and insurance products and services can be found on our website. In addition, we make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports available, free of charge, through our website, as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission. The information on our website, however, is not incorporated by reference in, and does not form part of, this Annual Report on Form 10-K.

In 2018, the Securities and Exchange Commission amended the definition of a smaller reporting company to expand the number of smaller companies eligible to comply with scaled disclosure requirements. Under the new definition, a company with a public float less than $250 million is eligible to provide scaled disclosures. IHC qualified for smaller reporting company status and has elected to use the scaled disclosure accommodations in this annual report and subsequent filings.

Since the sale of its stop loss business in 2016, IHC has been primarily known as an underwriter of specialty health and disability products through its three carriers, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life") and Independence American Insurance Company (“Independence American”). Standard Security Life focuses on underwriting and selling its New York short-term disability (“DBL”) and paid family leave rider (“PFL”) products through general agents primarily to small employers. Madison National Life emphasizes underwriting long-term disability and group life primarily to school districts and municipalities in the Upper Midwest through a managing general agent and independent brokers, and is establishing a worksite marketing division. Independence American is our primary specialty health and pet underwriter. Madison National Life, Standard Security Life and Independence American are sometimes collectively referred to as the "Insurance Group." IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company", or "IHC", or are implicit in the terms "we", "us" and "our".

We have three business segments: Specialty Health segment; Group disability, life, DBL and PFL segment; and our individual life, annuities and other segment.

The Specialty Health Segment is comprised of premiums from policies underwritten by IHC’s carriers as well as commission and fee income earned by our agencies for selling products from IHC’s insurance companies as well as unaffiliated carriers. While our carriers have distributed in a variety of manners to individuals and small employers, including through dedicated controlled distribution, we have primarily relied on independent producers, national accounts and white-label relationships. In general, companies that provide insurance through user-centric platforms, or create efficiencies in the insurance industry through technological advances, are referred to as “insuretech” companies. As further described in Outlook, we are increasingly focused on expanding our “insuretech” footprint through our agencies, which generate leads and sell through our owned call center and career advisors. IHC’s insurance companies sell the following products: (i) ancillary benefits including dental, vision, short-term medical (“STM”), supplemental products including fixed indemnity limited benefit, critical illness, and hospital indemnity (“HIP”); (ii) pet insurance; and (iii) non-subscriber occupational accident and injured on duty. The segment includes run-off of a limited amount of discontinued major medical coverage and occupational accident from one producer that was sold in 2017. The Insurance Group and certain of their affiliates collectively perform marketing, sales, underwriting and certain administrative functions on the majority of our Specialty Health business. Several third party administrators perform claims and other administrative functions.

The Specialty Health Segment performs underwriting, risk selection and pricing, policy administration and management of the majority of our specialty health business, which totaled approximately $186.5 million of gross individual and group health premiums in 2018. In addition, our Agencies produce other coverages for multiple insurers including producing small group stop-loss. Gross earned premiums produced by our Agencies was approximately $197.1 million in 2018.

In 2019, IHC will retain the vast majority of the risk that it underwrites, and will focus on the following lines of business:

- Multiple specialty health lines including pet insurance
- Group disability, life and DBL and PFL

Standard Security Life, Madison National Life and Independence American are each rated A- (Excellent) by A.M. Best Company, Inc. ("Best"). Standard Security Life is domiciled in New York and licensed as an insurance company in all 50 states, the District of Columbia, the Virgin Islands and Puerto Rico. Madison National Life is domiciled in Wisconsin, licensed to sell insurance products in 49 states, the District of Columbia, the Virgin Islands and American Samoa. Independence American is domiciled in Delaware and licensed to sell insurance products in all 50 states and the District of Columbia. We have been informed by Best that a Best rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial condition and operating performance and is also based upon factors relevant to policyholders, agents, and intermediaries, and is not directed toward protection of investors. Best ratings are not recommendations to buy, sell or hold any of our securities.

Our administrative companies underwrite, market, administer and/or price life and health insurance business for our owned and affiliated carriers, and, to a lesser extent, for non-affiliated insurance companies. They receive fees for these services and do not bear any of the insurance risk of the companies to which they provide services, other than through profit commissions. Specialty Benefits is a technology-driven full-service marketing and distribution company that focuses on small employer and individual consumer products through general agents, tele-brokerages, advisor centers, private label arrangements, and through the following brands: www.HealtheDeals.com; Health eDeals Advisors; www.PetPartners.com; and www.PetPlace.com. On January 4, 2019, the Company acquired My1HR, Inc. (“My1HR”) a Web-Based Entity that develops quoting and cloud based enrollment platforms. The Insurance Group and certain of its affiliates perform program management, actuarial, regulatory compliance, product development and implementation, and valuation services for IHC’s specialty health segment. IHC owns controlling interests in Global Accident Facilities, LLC (“GAF”), Healthinsurance.org LLC (“HIO”) and PetPartners, Inc. (“PetPartners”). GAF is a holding company for an agency that produces injured on duty business. HIO is an online marketing company that owns www.healthinsurance.org, a lead generation site for individual health insurance. PetPartners is the exclusive provider of pet insurance to the American Kennel Club and the Cat Fanciers Association. Specialty Benefits, GAF, HIO and PetPartners are collectively referred to as our “Agencies.” Our Agencies earn commissions for selling life and health insurance products underwritten by IHC’s owned and affiliated insurance companies and also by unaffiliated carriers. IHC also owns a significant equity interest in Ebix Health Exchange Holdings, LLC (“Ebix Health Exchange”), an administration exchange for health insurance. Ebix Health Exchange administers various lines of health insurance for IHC and non-affiliated carriers through Ebix Health Administration Exchange, Inc. (“EHAE”).

For information pertaining to the Company's business segments, reference is made to Note 17 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

Our Philosophy

Our business strategy has focused on maximizing underwriting profits through a variety of niche specialty health insurance, pet, and group disability and life products and through distribution channels that enable us to access specialized or underserved markets in which we believe we have a competitive advantage. Historically, our carriers have focused on establishing preferred relationships with producers who seek an alternative to larger, more bureaucratic health insurers, and on providing these producers with personalized service, competitive compensation and a broad array of products. In 2017 and 2018, several large health insurers marketed a significant amount of our ancillary health products to supplement or in lieu of their major medical products. We have recently begun to emphasize sales directly-to-consumers through our call center, career advisors and website. While our management considers a wide range of factors in its strategic planning and decision-making, underwriting profit is consistently emphasized as the primary goal in all decisions.

As further described in Outlook, our goal for the next two years is to maximize the valuation of IHC by expanding on its existing “insuretech” capabilities to generate sales directly to consumers through our call center, career advisors and website, while continuing our emphasis on higher-margin specialty health products.

DISTRIBUTION

Specialty Health

IHC distributes its specialty health products in a variety of ways. We distribute directly to consumers through our call centers, career advisors and www.heathedeals.com. Our call centers currently employ 44 sales agents in three locations. One of these offices is dedicated to servicing calls from members of USAA, while the others sell based on leads generated organically or purchased. The core products sold by these agents are IHC’s STM and HIP as well as Affordable Care Act (“ACA”) plans underwritten by other carriers. Consumers often also purchase ancillary products, including dental, accident, telemedicine and Rx discounts plans, with a core plan. In 2019, we anticipate that we will also sell senior products through our call centers, including Medicare Supplement, Medicare Advantage, dental, vision and HIP products designed for seniors. IHC distributes through our career advisors model. These are licensed 1099 agents who primarily sell IHC products. We typically provide them with leads (which they either “purchase” or “earn” through IHC production), but they are also expected to generate their own leads. IHC has used this distribution model for over ten years, and we expect to significantly enhance this distribution in 2019. Finally, we sell directly to consumers through www.healthedeals.com.

IHC also distributes through independent producers in the following ways: (i) through our four regional sales directors who support non-owned general agents, (ii) through national account relationships such as Anthem, United Health as well as single state Blue Cross organizations and regional health plans, and (iii) through our 12 sales telebrokerage employees who function as company-owned general agents calling upon independent agents who have a book of business (often Property & Casualty) with small employers. Our employees earn production bonuses for assisting the agent in placing the health sale with IHC or our carrier partners. The lead product for the owned general agents is small group stop-loss underwritten by Westport Insurance Corporation, although they also sell our individual and group products. The regional sales directors and national account relationships focus on individual health products. We believe that the purchase of My1HR in 2019 will greatly enhance the ability of all of our distributors to increase their sale of both small group and individual products. The Trump Administration has announced its intent to adopt regulations that will allow HRA dollars that employers have contributed on a pre-tax basis to be used by employees to purchase STM as well as Affordable Care Act (“ACA”) plans. Through the proprietary My1HR exchange platform, small employers will be given the option to offer their employees benefits through any of the following: (i) a self-funded employer sponsored plan, (ii) a fully insured small group plan (e.g. Anthem would be the carrier), or (iii) an HRA funded by the employer with pre-tax dollars that the employee could spend on either an ACA or STM policy. The My1HR platform provides all of these choices as well as an enrollment tool to the employees with little to no effort on the part of the employer. In addition to health insurance, IHC's other products would be readily available for purchase including disability, dental, critical illness and accident plans.

We distribute our pet insurance in three ways: (i) through PetPartners, where IHC distributes, administers and underwrites the risk, (ii) through three significant pet administrators where IHC only underwrites the risk, and (iii) where an unaffiliated entity is responsible for sales and marketing, and IHC administers and underwrites the risk. In 2017, we acquired 85% of the equity of PetPartners, which is a pet insurance producer that has an exclusive distribution relationship with The American Kennel Club ("AKC"), and has a strong IT platform. Since that acquisition, we have seen steady improvement in the number of leads generated from the AKC and the conversion ratio, but we believe we can do even better in 2019. In addition, PetPartners is seeking other internally controlled distribution channels. In 2018, PetPartners was also successful in partnering with a new distributor of pet insurance to use our platform to administrate, on Independence American paper, business that they generate. We view partnering in this manner with distributors who are already in the pet space and want to expand into selling pet insurance to be a very promising growth opportunity in 2019. In 2019, we plan to rebuild the website for PetPlace.com, which we acquired in 2016, and we expect to improve lead generation from this domain. PetPlace.com attracted over 15 million visitors in 2018 with more than 10,000 veterinarian-approved articles and has an opted-in subscriber database of over 500,000 users responsive to marketing messaging on pet insurance as well as other pet health products. The majority of Independence American's pet business is distributed by a pet administrator in which we have a small equity investment.

In 2018, we entered into an agreement with another independent pet insurance distributor/administrator that has a significant block of premiums. They began selling on Independence American paper in late 2018, after we received approvals for a new pet policy for this company, and expect these sales to accelerate in 2019 as we receive additional state approvals.

Except for licensed agents who are employed in IHC's call center, most agents and brokers who produce the Specialty Health business are non-salaried contractors who receive commissions.

Disability and Life Products

Our disability and life products are primarily distributed by general agents, agents and brokers. The short-term statutory disability benefit product, including the paid family leave benefits, in New York State is marketed primarily through independent general agents who are paid commissions based upon the amount of premiums produced. Madison National Life's disability and group life products are primarily sold in the Upper Midwest to school districts, municipalities and hospital employer groups through a managing general agent that specializes in these target markets. Independence American also reinsured health products serving the needs of expatriates, third-party nationals and high net-worth local nationals, which is now in run out. The Abacus Group LLC, a 44% owned equity investment of the Company, specializes in worksite marketing of voluntary benefits and is producing life and disability business for Madison National Life.

Medical Stop-Loss

Standard Security Life was the primary carrier for our employer medical stop-loss products although, in 2016, we also wrote business for Madison National Life, Independence American and unaffiliated carriers. IHC's carriers wrote the vast majority of their medical stop-loss business through Risk Solutions, which was sold on March 31, 2016, and TRU Services, LLC. IHC owned two managing general underwriters ("MGUs"), Majestic Underwriters, LLC and Alliance Underwriters, LLC, which transferred their stop-loss blocks and employees to Risk Solutions as of January 1, 2012 in exchange for fee income based on the business transferred. These two MGUs were liquidated in 2016 as a result of the Risk Solutions Sale and Coinsurance Transaction. Risk Solutions was responsible for underwriting accounts in accordance with guidelines formulated and approved by its carriers, billing and collecting premiums, paying commissions to agents, third party administrators and/or brokers, and processing claims. With respect to the MGUs with which we did business, we established underwriting guidelines, maintained approved policy forms and oversaw claims for reimbursement, as well as appropriate accounting procedures and reserves. In order to accomplish this, we audited their underwriting, claims and policy issuance practices to assure compliance with our guidelines, provided them with access to our medical management and cost containment expertise, and reviewed cases that required referral based on our underwriting guidelines. MGUs are non-salaried contractors that receive fee income, generally a percentage of gross premiums produced by them on behalf of the insurance carriers they represent, and typically are entitled to additional income based on underwriting results. The Insurance Group has now ceased writing medical stop-loss business.

PRINCIPAL PRODUCTS

Specialty Health Products

In 2018, this line of business had the following categories: (i) ancillary benefits, including dental, vision, STM, and supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity); (ii) pet insurance; and (iii) non-subscriber occupational accident. This category also includes reinsured international health plans sold to expatriates although this business is now in runoff. Net earned premium attributable to specialty health products increased from $181.9 million in 2017 to $184.5 million in 2018. Earned premium is expected to increase again in 2019 due to: increased sales of short-term medical, new sales of employer sponsored and voluntary health plans and the continued growth of our owned call centers.

Ancillary Products

This category is primarily comprised of dental, vision, STM, supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity). These are sold through multiple distribution strategies as described above.

IHC sells group and individual dental products in all 50 states. The dental portfolio includes indemnity and PPO plans for employer groups of two or more lives and for individuals within affinity groups. Employer plans are offered on both employer paid and voluntary basis. As part of the distribution of our dental products, we also offer vision benefits. Vision plans will offer a flat reimbursement amount for exams and materials. We expect to see a growth in vision sales primarily due to new distribution partnerships.

IHC sells STM products in the majority of states. STM is designed specifically for people with temporary needs for health coverage. Typically, STM products are written for a defined duration of at least 30 days and less than twelve months. Among the typical purchasers of STM products are people who are in between open enrollment periods or need coverage for a limited duration until their ACA-compliant plan becomes effective, and others who need insurance for a specified period of time. Our STM plans contain many, but not all, of the essential health benefits (“EHB”) found in ACA-compliant plans. In addition, our STM plans often have lower deductibles and broader networks than many ACA-compliant policies, and are almost always more affordable for qualified purchasers. IHC’s gross premium decreased in this line of business in 2018 largely as a result of a ruling which limited STM to plans of 90 days duration or less. Effective October 1, 2018, an executive order from the Trump Administration reversed the previous executive order and restored the decision on the duration of STM to the states. We anticipate growth in this line of business in 2019 in states that allow durations of 6 months or more, however, a number of states have recently moved to severely curtail the ability of carriers to sell STM in their states.

The Company markets supplemental products to individuals and families. These lines of business are generally used as either a supplement or in lieu of an ACA-compliant plan. The main driver for growth in this line is that consumers are moving to higher-cost sharing on their individual major medical plans, and are looking for products to help them offset the additional risk of higher deductibles and out of pocket limits. The product lines included in this supplemental grouping are hospital indemnity plans, fixed indemnity limited benefit plans, critical illness and bundled packages of accident medical coverage, critical illness and life insurance. These products, which are available in most states, are available through multiple distribution sources including Company owned direct-to-consumer websites, call center and career agents, general agents and on-line agencies. In 2017, we introduced several bundled benefit packages that include STM, HIP, dental and a tele-med and Rx benefit. These are being sold by Company owned direct-to-consumer websites, call center and career agents, and some national accounts. We anticipate growth in these lines of business in 2019 as a result of increased distribution and demand for these products, and elimination of the individual mandate.

IHC has medical benefit plans for employers that choose to offer non-EHB coverage to their employees. We offer a fixed indemnity limited benefit policy that offers affordable health coverage to hourly, part-time and/or seasonal employees, which is approved in a majority of states. Fixed indemnity limited benefit plans are a low-cost alternative to EHB plans that permit employees who do not otherwise have health insurance to begin to participate in the healthcare system. The Company anticipates meaningful growth in this line of business in 2019 due to increased consumer demand and increased distribution channels.

Pet Insurance

Independence American has products approved to sells in all 50 states including DC. We use three distinct forms (policies) to achieve diversity of premium targeting channels focused on purebred puppies (through AKC), shelter/rescue/animal welfare markets, direct to consumer, and affiliate partnerships. In 2019, we expect to expand our reach into the employer market and are currently in talks with brokers controlling the benefits relationships for mega-sized employers. We believe an advantage in our product design is flexibility allowing for consumers to build plans of coverage tailored to their needs and budget by offering an array of deductible and coinsurance options and the availability of unlimited policy “maximum” levels. In our owned distribution product, we embed alternative, holistic and behavioral coverage benefits (these are popular with the veterinary channel and we are market leading in providing behavioral coverage), two levels of wellness options (many competitors do not cover wellness and preventative), hereditary and congenital conditions coverage, as well as the option to have veterinary exam fees covered as a benefit (one of the leading pet insurance providers today specifically excludes exam fees). In 2019 we anticipate significant growth in our target channels due to increased consumer awareness of the product category, new distribution partnerships, as well as improved conversion rates through our AKC and lead generation avenues.

Occupational Accident

In 2018, most of IHC’s occupational accident insurance had been written by Independence American through marketing and administrative companies previously owned by GAF, and other exclusive arrangements with independent entities. This occupational accident product provides accidental death, accident disability and accident medical benefits for occupational injuries to employees of companies that have elected to not participate in the Texas Worker’s Compensation system (non-subscribers). The product also gives the employer the option to purchase coverage for employer’s liability, which protects the employer from an action brought by an injured worker. The employer is covered for damages and costs arising from the settlement of such action, subject to the terms and limits of the policy. In 2016, GAF sold the entity that provided administrative services for occupational accident insurance. Independence American still offers Injured on Duty coverage through another subsidiary of GAF and IHC continues to write a smaller block of occupational accident coverage through unaffiliated entities. As a result of the aforementioned sale, total premiums are expected to remain relatively constant in 2019.

Group Disability, Life, DBL and PFL

Group Long-Term and Short-Term Disability

The Company sells group long-term disability ("LTD") products to employers that wish to provide this benefit to their employees. Depending on an employer's requirements, LTD policies (i) cover between 40% and 90% of insurable salary; (ii) have elimination periods (i.e., the period between the commencement of the disability and the start of benefit payments) of between 30 and 730 days; and (iii) terminate after two, five, or ten years, or extend to age 65 or the employee's Social Security normal retirement date. Benefit payments are reduced by social security, workers' compensation, pension benefits and other income replacement payments. Optional benefits are available to employees, including coverage for partial or residual disabilities, survivor benefits and cost of living adjustments. The Company also markets short-term disability ("STD") policies that provide a weekly benefit to disabled employees until the earlier of: recovery from disability, eligibility for long-term disability benefits or the end of the STD benefit period. We continue our efforts to expand our position in the worksite market with new product filings and administration/distribution partners to position us for growth in 2019 and beyond. We have developed relationships with large health carriers to provide our life and disability programs. We are also negotiating with union-based entities to continue to leverage our strengths, namely overall risk management for disability programs in a benefit-rich and complex environment. The Company anticipates moderate growth in 2019.

New York Short-Term Disability and Paid Family Leave

Standard Security Life markets DBL. All companies with more than one employee in New York State are required to provide DBL insurance for their employees. DBL coverage provides temporary cash payments to replace wages lost as a result of disability due to non-occupational injury or illness. The DBL policy provides for (i) payment of 50% of salary to a maximum of $170 per week; (ii) a maximum of 26 weeks in a consecutive 52-week period; and (iii) benefit commencement on the eighth consecutive day of disability. Policies covering fewer than 50 employees have fixed rates approved by the New York State Department of Financial Services ("NYSDFS"). Policies covering 50 or more employees are individually underwritten.

As of January 1, 2018 the DBL policy was amended to include PFL. The PFL benefit allows for parent bonding with a newborn or an adopted child, caring for a seriously ill family members and to help military families during times of need. Beginning January 1, 2018, with incremental changes until 2021, the benefit will be phased in. The maximum benefit (once completely phased in starting January 1, 2021) will be for 12 weeks at 67% of an employees' weekly wage up to a maximum benefit of $869 per week. The PFL premium rate is set by the NYSDFS. In addition to mandating this benefit, the NYSDFS established a risk adjustment program so that all carriers would share on a pro rata basis in the ultimate profit or loss of the PFL business across three group sizes for the entire industry. The goal of the PFL risk adjustment program is to protect issuers from disproportionate adverse or favorable risks that might arise because PFL premium rates are community rated and not allowed to vary by risk factors.

Group Term Life

The Company sells group term life products, including group term life, accidental death and dismemberment ("AD&D"), supplemental life and supplemental AD&D and dependent life. As with its group disability business, IHC anticipates modest growth in this line of business through expansion of its sales of these group term life products through existing distribution sources.

Medical Stop-Loss

The Company was a leading writer nationally of excess or stop-loss insurance for self-insured employer groups that desire to manage the risk of large medical claims. Medical Stop-Loss insurance provides coverage to public and private entities that elect to self-insure their employees' medical coverage for losses within specified ranges, which permits such groups to manage the risk of excessive health insurance costs by limiting specific and aggregate losses to predetermined amounts. This coverage is available on either a specific or a specific and aggregate basis, although the majority of the Insurance Group's policies covered both specific and aggregate claims. Plans were designed to fit the identified needs of the self-insured employer by offering a variety of deductibles (i.e., the level of claims after which the medical stop-loss benefits become payable).

The Risk Solutions Sale and Coinsurance Transaction closed on March 31, 2016 and as a result, this line is in run-off and had substantially reduced premiums in 2017 and no premiums in 2018.

Individual Life, Annuities and Other

Madison National Life ceased writing individual life and annuity policies in 2015 and the remaining policies in runoff are 100% ceded.

The following lines of Standard Security Life's in-force business are in runoff: individual accident and health, individual life (of which a significant portion is 100% ceded), single premium immediate annuities, disability income and miscellaneous insurance business.

ACQUISITIONS OF POLICY BLOCKS

IHC's acquisition group was focused on potential acquisitions of existing blocks of long-term and short-term disability policies, group life policies, and specialty health policies from other insurance companies, guaranty associations and liquidators. We are not actively seeking policy block acquisitions.

REINSURANCE AND POLICY RETENTIONS

IHC retained approximately 99% and 97% of gross and assumed Specialty Health exposure in 2018 and 2017. As of January 1, 2016, all of the in-force stop-loss business of Standard Security Life and Independence American produced by Risk Solutions was co-insured.

The Company purchases quota share reinsurance and excess reinsurance in amounts deemed appropriate by its risk committee. The Company monitors its retention amounts by product line, and has the ability to adjust its retention as appropriate.

Reinsurance is used to reduce the potentially adverse financial impact of large individual or group risks, and to reduce the strain on statutory income and surplus related to new business. By using reinsurance, the Insurance Group is able to write policies in amounts larger than it could otherwise accept. The amount reinsured is the portion of each policy in excess of the retention limit on a particular policy.

The following reinsurers represent approximately 91% of the total ceded premium for the year ended December 31, 2018:

RGA Reinsurance Company	52%
National Guardian Life Insurance Company	35%
Guggenheim Life and Annuity Company	4%
	91%

The Insurance Group remains liable with respect to the insurance in-force, which has been reinsured in the unlikely event that the assuming reinsurers are unable to satisfy their obligations. The Insurance Group cedes business (i) to individual reinsurance companies that are rated "A-" or better by Best or (ii) upon provision of adequate security. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured. At December 31, 2018 and 2017, the Insurance Group's ceded reinsurance in-force was $7.5 billion and $6.9 billion, respectively.

For information pertaining to reinsurance, reference is made to Note 9 of Notes to Consolidated Financial Statements included in Item 8.

INVESTMENTS AND RESERVES

The Company's cash, cash equivalents and securities portfolio are managed by employees of IHC and its affiliates, and ultimate investment authority rests with IHC's in-house investment group. As a result of the nature of IHC's insurance liabilities, IHC endeavors to maintain a significant percentage of its assets in investment grade securities, cash and cash equivalents. At December 31, 2018, 99.3% of the fixed maturities were investment grade and continue to be rated on average AA. The internal investment group provides a summary of the investment portfolio and the performance thereof at the meetings of the Company's board of directors.

As required by insurance laws and regulations, the Insurance Group establishes reserves to meet obligations on policies in-force. These reserves are amounts that, with additions from premiums expected to be received and with interest on such reserves at certain assumed rates, are calculated to be sufficient to meet anticipated future policy obligations. Premiums and reserves are based upon certain assumptions with respect to mortality, morbidity on health insurance, lapses and interest rates effective at the time the polices are issued. The Insurance Group also establishes appropriate reserves for substandard business, annuities and additional policy benefits, such as waiver of premium and accidental death. Standard Security Life and Madison National Life are also required by law to have an annual asset adequacy analysis, which, in general, projects the amount and timing of cash flows to the estimated maturity date of liabilities, prepared by the certifying actuary for each insurance company. The Insurance Group invests their respective assets, which support the reserves and other funds in accordance with applicable insurance law, under the supervision of their respective board of directors. The Company manages interest rate risk seeking to maintain a portfolio with a duration and average life that falls within the band of the duration and average life of the applicable liabilities. The Company occasionally utilizes options to modify the duration and average life of the assets.

Under Wisconsin insurance law, there are restrictions relating to the percentage of an insurer's admitted assets that may be invested in a specific issuer or in the aggregate in a particular type of investment. With respect to the portion of an insurer's assets equal to its liabilities plus a statutorily-determined security surplus amount, a Wisconsin insurer cannot, for example, invest more than a certain percentage of its assets in non-amortizable evidences of indebtedness, securities of any issuer and its affiliates (other than a subsidiary and the United States government), or common stock of any corporation and its affiliates (other than a subsidiary or mutual funds).

Under New York insurance law, there are restrictions relating to the percentage of an insurer's admitted assets that may be invested in a specific issuer or in the aggregate in a particular type of investment. For example, a New York life insurer cannot invest more than a certain percentage of its admitted assets in common or preferred shares of any one institution, obligations secured by any one property (other than those issued, guaranteed or insured by the United States or any state government or agency thereof), or medium and lower grade obligations. In addition, there are certain qualitative investment restrictions.

Under Delaware insurance law, there are restrictions relating to the percentage of an insurer's admitted assets that may be invested in a specific issuer or in the aggregate in a particular type of investment. In addition, there are qualitative investment restrictions.

The Company's total pre-tax investment performance for each of the last two years is summarized below, including amounts recognized in net income and unrealized gains and losses recognized in other comprehensive income or loss (in thousands):

	2018	2017
Consolidated Statements of Income:		
Net investment income	$ 15,021	$ 14,430
Net investment gains (losses)	(1,033)	2,539
Other-than-temporary impairments	-	-
Consolidated Statements of Comprehensive Income (Loss):		
Unrealized gains (losses) on available-for-sale securities	(4,272)	4,996
Total pre-tax investment performance	$ 9,716	$ 21,965

Unrealized gains (losses) on available-for-sale securities recognized through other comprehensive income (loss) represents the pre-tax change in unrealized gains and losses on available-for-sale securities arising during the year net of reclassification adjustments and includes the portion attributable to noncontrolling interests. In 2017, the Company classified certain equity securities as available-for-sale and changes to the fair value of those equity securities classified as available-for-sale were recorded in other comprehensive income (loss). Upon the adoption of new accounting guidance on January 1, 2018, the Company: (i) recorded a cumulative-effect adjustment to reclassify the existing amounts reported in accumulated other comprehensive income on that date for equity securities previously classified as available-for-sale, to retained earnings; and (ii) recorded the subsequent changes in the fair value of those equity securities in net investment gains (losses) in the Consolidated Statements of Income. The Company does not have any non-performing fixed maturity investments at December 31, 2018.

COMPETITION AND REGULATION

We compete with many large mutual and stock insurance companies, small regional health insurers and managed care organizations. Mutual companies may have certain competitive advantages since profits inure directly to the benefit of the policyholders.

The health insurance industry tends to be cyclical. During a "soft" market cycle, a larger number of companies offer insurance on a certain line of business, which causes premiums in that line to trend downward. In a "hard" market cycle, insurance companies limit their writings in certain lines of business following periods of excessive losses and insurance and reinsurance companies redeploy their capital to lines that they believe will achieve higher margins.

IHC is an insurance holding company; and as such, IHC and its subsidiary carriers and administrative companies are subject to regulation and supervision by multiple state insurance regulators, including the NYSDFS (Standard Security Life's domestic regulator), the Wisconsin Office of the Commissioner of Insurance (Madison National Life's domestic regulator) and the Office of the Insurance Commissioner of the State of Delaware (Independence American's domestic regulator). Each of Standard Security Life, Madison National Life and Independence American is subject to regulation and supervision in every state in which it is licensed to transact business. These supervisory agencies have broad administrative powers with respect to the granting and revocation of licenses to transact business, the licensing of agents, the approval of policy forms, the approval of commission rates, the form and content of mandatory financial statements, reserve requirements and the types and maximum amounts of investments which may be made. Such regulation is primarily designed for the benefit of policyholders rather than the stockholders of an insurance company or insurance holding company.

Certain transactions within the IHC holding company system are also subject to regulation and supervision by such regulatory agencies. All such transactions must be fair and equitable. Notice to or prior approval by the applicable insurance department is required with respect to transactions affecting the ownership or control of an insurer and of certain material transactions, including dividend declarations, between an insurer and any person in its holding company system. Under New York, Wisconsin and Delaware insurance laws, "control" is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person. Under New York law, control is presumed to exist if any person, directly or indirectly, owns, controls or holds, with the power to vote ten percent or more of the voting securities of any other person. In Wisconsin, control is presumed if any person, directly or indirectly, owns, controls or holds with the power to vote more than ten percent of the voting securities of another person. In Delaware, control is presumed if any person, directly or indirectly, owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person. In all three states, the acquisition of control of a domestic insurer needs to be approved in advance by the Commissioner of Insurance. See Note 16 of Notes to Consolidated Financial Statements included in Item 8 for information as to restrictions on the ability of the Company's insurance subsidiaries to pay dividends.

Risk-based capital requirements are imposed on life, accident and health and property and casualty insurance companies. The risk-based capital ratio is determined by dividing an insurance company's total adjusted capital, as defined, by its authorized control level risk-based capital. Companies that do not meet certain minimum standards require specified corrective action. The risk-based capital ratios for each of Standard Security Life, Madison National Life and Independence American exceed such minimum ratios.

EMPLOYEES

At December 31, 2018, the Company, including its direct and indirect majority or wholly owned subsidiaries, collectively had approximately 400 employees.

ITEM 1A. RISK FACTORS

Investors should carefully consider the risks set forth below and all other information contained in this report and other documents we file with the SEC. Many of the factors that affect our business and operations involve risk and uncertainty. The risks and uncertainties described below are not the only ones that we face, but are those that we have identified as being the most significant factors. Our business is also subject to general risk and uncertainties that affect many other companies, such as market conditions, geopolitical events, changes in laws or accounting rules, fluctuations in interest rates, terrorism, wars or conflicts, major health concerns, natural disasters or other disruptions of expected economic or business conditions. Additional risks and uncertainties that we do not know about, or that we deem less significant than those identified below, may also materially and adversely affect our business, financial condition or results of operations and the trading price of our common stock.

Risks related to our Business

Our investment portfolio is subject to various risks that may result in realized investment losses. In particular, decreases in the fair value of fixed maturities may greatly reduce the value of our investments, and as a result, our financial condition may suffer.

We are subject to credit risk in our investment portfolio. Defaults by third parties in the payment or performance of their obligations under these securities could reduce our investment income and realized investment gains or result in the continued recognition of investment losses. The value of our investments may be materially adversely affected by increases in interest rates, downgrades in the preferred stocks and bonds included in our portfolio and by other factors that may result in the continued recognition of other-than-temporary impairments. Each of these events may cause us to reduce the carrying value of our investment portfolio.

In particular, at December 31, 2018, fixed maturities represented $453.5 million or 93.5% of our total investments of $484.9 million. The fair value of fixed maturities and the related investment income fluctuates depending on general economic and market conditions. The fair value of these investments generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us will generally increase or decrease in line with changes in market interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. An investment has prepayment risk when there is a risk that the timing of cash flows that result from the repayment of principal might occur earlier than anticipated because of declining interest rates or later than anticipated because of rising interest rates. The impact of value fluctuations affects our Consolidated Financial Statements. Because all of our fixed maturities are classified as available for sale, changes in the fair value of our securities are reflected in our stockholders' equity (accumulated other comprehensive income or loss). No similar adjustment is made for liabilities to reflect a change in interest rates. Therefore, interest rate fluctuations and economic conditions could adversely affect our stockholders' equity, total comprehensive income (loss) and/or cash flows. For mortgage-backed securities, credit risk exists if mortgagees default on the underlying mortgages. Although, at December 31, 2018, 99.3% of the fixed maturities were investment grade and continue to be rated on average AA, all of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst-case scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

We regularly monitor our investment portfolio to ensure that investments that are other-than-temporarily impaired are identified in a timely fashion, properly valued and any impairment is charged against earnings in the proper period. Assessment factors include, but are not limited to, the length of time and the extent to which the market value has been less than cost, the financial condition and rating of the issuer, whether any collateral is held and the Company's intent to sell, or be required to sell, debt securities before the anticipated recovery of its remaining amortized cost basis. However, the determination that a security has incurred an other-than-temporary decline in value requires the judgment of management. Inherently, there are risks and uncertainties involved in making these judgments. Therefore, changes in facts and circumstances and critical assumptions could result in management’s decision that further impairments have occurred. This could lead to additional losses on investments, particularly those that management has the intent and ability to hold until recovery in value occurs.

Our earnings could be materially affected by an impairment of goodwill.

Goodwill represented $50.7 million of our $1.0 billion in total assets as of December 31, 2018. We review our goodwill annually for impairment or more frequently if indicators of impairment exist. We regularly assess whether any indicators of impairment exist, which requires a significant amount of judgment. Such indicators may include: a sustained significant decline in our share price and market capitalization; a decline in our expected future cash flows; a significant adverse change in the business climate; and/or slower growth rates, among others. Any adverse change in one of these factors could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements. If we experience a sustained decline in our results of operations and cash flows, or other indicators of impairment exist, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

Our loss reserves are based on an estimate of our future liability, and if actual claims prove to be greater than our reserves, our results of operations and financial condition may be adversely affected.

We maintain loss reserves to cover our estimated liability for unpaid losses and loss adjustment expenses, where material, including legal and other fees, and costs not associated with specific claims but related to the claims payment functions for reported and unreported claims incurred as of the end of each accounting period. Because setting reserves is inherently uncertain, we cannot be sure that current reserves will prove adequate. If our reserves are insufficient to cover our actual losses and loss adjustment expenses, we would have to augment our reserves and incur a charge to our earnings, and these charges could be material. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what we expect the ultimate settlement and administration of claims will cost. These estimates, which generally involve actuarial projections, are based on our assessment of known facts and circumstances. Many factors could affect these reserves, including economic and social conditions, frequency and severity of claims, medical trends resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, and changes in doctrines of legal liability and damage awards in litigation. Many of these items are not directly quantifiable in advance. Additionally, there may be a significant reporting lag between the occurrence of the insured event and the time it is reported to us. The inherent uncertainties of estimating reserves are greater for certain types of liabilities, particularly those in which the various considerations affecting the type of claim are subject to change and in which long periods of time may elapse before a definitive determination of liability is made. Reserve estimates are continually refined in a regular and ongoing process as experience develops and further claims are reported and settled and are reflected in the results of the periods in which such estimates are changed.

Our inability to assess underwriting risk accurately could reduce our net income.

Our success is dependent on our ability to assess accurately the risks associated with the businesses on which we retain risk. If we fail to assess accurately the risks we retain, we may fail to establish the appropriate premium rates and our reserves may be inadequate to cover our losses, requiring augmentation of the reserves, which in turn would reduce our net income.

Our agreements with our producers that underwrite on our behalf require that each such producer follow underwriting guidelines published by us and amended from time to time. Failure to follow these guidelines may result in termination or modification of the agreement. We perform periodic audits to confirm adherence to the guidelines, but it is possible that we would not detect a breach in the guidelines for some time after the infraction, which could result in a material impact on the Net Loss Ratio (defined as insurance benefits, claims and reserves divided by the difference between premiums earned and underwriting expenses) for that producer and could have an adverse impact on our operating results.

The results of operations of our insurance business will decline if our premium rates are not adequate or if we are unable to increase rates.

We set the premium rates on our health insurance policies based on facts and circumstances known at the time we issue the policies and on assumptions about numerous variables, including the actuarial probability of a policyholder incurring a claim, the probable size of the claim, maintenance costs to administer the policies and the interest rate earned on our investment of premiums. In setting premium rates, we consider historical claims information, industry statistics, the rates of our competitors and other factors, but we cannot predict with certainty the future actual claims on our products. If our actual claims experience proves to be less favorable than we assumed and we are unable to raise our premium rates to the extent necessary to offset the unfavorable claims experience, our financial results will be adversely affected.

Retentions in various lines of business expose us to potential losses.

We retain most of the risk for our own account on some business underwritten by our insurance companies. The determination to not purchase reinsurance, or to reduce the amount of reinsurance we purchase, for a particular risk or line of business is based on a variety of factors including market conditions, pricing, availability of reinsurance, the level of our capital and our loss history. Such determinations have the effect of increasing our financial exposure to losses associated with such risks or in such lines of business and, in the event of significant losses associated with such risks or lines of business, could have a material adverse effect on our financial position, results of operations and cash flows.

If rating agencies downgrade our insurance companies, our results of operations and competitive position in the industry may suffer.

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies and are important to maintaining public confidence in our company and our products, and our ability to market our products. Standard Security Life, Madison National Life and Independence American are all rated "A-" (Excellent) by A.M. Best Company, Inc. A.M. Best's ratings reflect its opinions of an insurance company's financial strength, operating performance, strategic position, and ability to meet its obligations to policyholders and are not evaluations directed to investors. The ratings of our carriers are subject to periodic review by A.M. Best, and we cannot assure the continued maintenance of our current ratings. Because these ratings have become an increasingly important factor in establishing the competitive position of insurance companies, a downgrade in our financial strength ratings, or the announced potential for a downgrade, could have an adverse effect on our financial condition, results of operations and cash flows in several ways, including: (i) materially increasing the number or amount of policy surrenders and withdrawals by contract holders and policyholders, as policyholders might move to other companies with higher claims-paying and financial strength ratings; (ii) reducing new sales of insurance products; (iii) increasing our cost of capital; (iv) adversely affecting our relationships with distribution partners; (v) requiring us to reduce prices or increase crediting rates for many of our products and services to remain competitive; and (vi) adversely affecting our ability to obtain reinsurance or obtain reasonable pricing on reinsurance.

Changes in accounting and reporting standards issued by the Financial Accounting Standards Board or other standard-setting bodies and insurance regulators could materially adversely affect our financial condition and results of operations.

Our financial statements are subject to the application of U.S. generally accepted accounting principles ("GAAP"), which is periodically revised and/or expanded. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board. It is possible that future accounting and reporting standards we are required to adopt could change the current accounting treatment that we apply to our financial statements and that such changes could have a material adverse effect on our financial condition and results of operations. In addition, the required adoption of future accounting and reporting standards may result in significant costs to implement. For example, current proposals may change the accounting for insurance contracts and financial instruments and could result in increased volatility of net income as well as other comprehensive income. In addition, these proposals could require us to make significant changes to systems and use additional resources, resulting in significant incremental costs to implement the proposals.

The Trump Administration made substantial changes to fiscal and tax policies that may adversely affect our business.

The Trump Administration called for substantial changes to fiscal and tax policies, which included comprehensive tax reform. On December 22, 2017, President Trump signed tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to reducing the Federal corporate income tax rate from 35% to 21%, eliminating corporate alternative minimum tax provisions, limiting the utilization of net operating losses arising after December 31, 2017 to 80% of taxable income with no carryback but with an indefinite carryforward, and adding limitations on the deductibility of executive compensation. Notwithstanding the reduction in the corporate income tax rate as well as other significant changes to the U.S. tax code, the overall impact of the Tax Act is uncertain and our business and financial condition could be adversely affected. In addition, the impact of current and future fiscal policy changes are unknown and could affect our business and financial condition. We continue to evaluate the impact of the Tax Act as regulations and accounting standards related to the Tax Act are finalized to determine whether changes could have a material adverse effect on our results of operations, financial condition, and cash flows. Although we believe that our tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that our tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

The impact of this tax reform on holders of our common stock is also uncertain and could be adverse. We urge our stockholders to consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

Increases in insurance claim costs will negatively impact the revenues and profitability of our insurance business.

The major component of insurance cost represents the cost of claims, which are not within our control. While we seek to limit our exposure on any single insured, significant unfavorable claims experience will reduce our revenues and profitability. Increases in insurance claim costs will negatively impact the revenues and profitability of our insurance business.

Legal and regulatory investigations and actions are increasingly common in the insurance business and may result in financial losses and harm our reputation.

We face a risk of litigation and regulatory investigations and actions in the ordinary course of operating our business, including the risk of class actions, regulatory actions and individual lawsuits relating, among other things, to sales or underwriting practices, payment of contingent or other sales commissions, claims payments and procedures, marketing, product design, disclosure, administration, additional premium charges for premiums paid on a periodic basis, interest crediting practices, denial or delay of benefits and breaches of fiduciary or other duties to customers. Adverse judgments in one or more of such lawsuits could require us to pay significant damage amounts or to change aspects of our operations. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time. Further, industry trends, such as increased litigation against the insurance industry and individual insurers, the willingness of courts to expand covered causes of loss and the size of awards, rising jury awards, escalating medical costs, and increasing loss severity may render the loss reserves of our insurance subsidiaries inadequate for current and future losses. The unpredictability of court decisions in the insurance business could have a material adverse effect on our financial position, results of operation and cash flows. In addition, the political divisiveness leading, in some cases, to the stalling of the legislative process, may cause judicial activism and result in rulings concerning our products, the way we sell our products, and the profitability of our products, which may result in greater differences in the regulatory approaches of the states.

We are also subject to various regulatory examinations, inquiries and proceedings, such as information requests, subpoenas, market conduct exams and books and record examinations, from state and federal regulators and other authorities in the ordinary course of our business. Our subsidiaries, Standard Security Life, Madison National Life and Independence American, have been selected for a multistate market conduct exam, related to our short term medical, limited medical and fixed indemnity health insurance products for the period of January 1, 2014 through September 30, 2017. We are fully cooperating with the participating states in this examination. Regulatory agencies and other authorities may find that our policies, procedures, practices or contracts are not compliant with or in violation of applicable regulations, which may result in fines or penalties, recommendations for corrective action or changes in business practices that require us to incur substantial costs, or other regulatory actions. Furthermore, increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal actions or precedents and industry-wide regulations or practices that could adversely affect our business. Even if we ultimately prevail in the litigation, regulatory action or investigation, any such action or proceeding could significantly injure our reputation, cause negative publicity, adversely affect our financial strength ratings, place us at a competitive disadvantage in marketing or administering our products or impair our ability to sell or retain insurance policies, which could have an adverse effect on our business.

Our reliance upon third party administrators and other outsourcing arrangements may disrupt or adversely affect our operations.

We depend, and may in the future increase our dependence, on third parties for significant portions of our operations, including claims processing, premium billing, claims management, claims payment and voice communication services, and other systems-related support. This dependence makes our operations vulnerable to the third parties' failure to perform adequately under the contract due to internal or external factors. In the future, this dependence may increase as we may outsource additional areas of our business operations to additional vendors. There can be no assurance that any conversion or transition of business process functions from the Company to a vendor or between vendors will be seamless and these projects could result in significant operational challenges that cause financial difficulties. In addition, if our relationships with our outsourcing partners are significantly disrupted or terminated for any reason or if the financial terms of such outsourcing partners changes materially, we may not be able to find an alternative partner in a timely manner or on acceptable financial terms. As a result, we may not be able to meet the demands of our customers and, in turn, our business, cash flows, financial condition and results of operations may be harmed.

Our dependence on third parties makes our operations vulnerable to such parties' failure to perform as agreed. Incorrect information from these entities could cause us to incur additional expense to utilize additional resources to validate, reconcile and correct the information. We have not been able to independently test and verify some of these third party systems and data. Any failure to recommend payment on claims fairly could lead to material litigation, undermine our reputation in the marketplace, impair our image and adversely affect our financial results. There can be no assurance that future third party data will not disrupt or adversely affect our results of operations. A change in service providers, or a move of services from a third party to internal operations, could result in significant operational challenges, a decline in service quality and effectiveness, increased cost or less favorable contract terms, which could adversely affect our operating results. Some of our outsourced services are being performed offshore. Prevailing economic conditions and other circumstances could prevent our offshore vendors' ability to adequately perform as agreed, which could have a material adverse effect on our results of operations and financial condition.

Our financial condition and results of operations could be materially adversely affected if our third party administrators, managing general agents, general agents or other producers exceed their authorities, otherwise breach obligations owed to us or commit fraud.

In connection with certain lines of business and insurance programs, we authorize third party administrators, managing general agents, general agents and other producers to write business and/or settle claims on our behalf within underwriting and claims settlement authorities prescribed by us. We have less control and supervision over these underwriters and claims staff than our own employees and rely on the controls of our agents to write business within the underwriting authorities and settle claims within guidelines provided by us. Although we monitor our business on an ongoing basis, our monitoring efforts may not be adequate and our agents may exceed their underwriting authorities or otherwise breach their obligations owed to us. To the extent that our agents exceed their authorities, otherwise breach their obligations owed to us or commit fraud, this may result in a material adverse effect upon our financial condition and results of operations.

We utilize reinsurance arrangements to help manage our business risks, and failure to perform by the counterparties to our reinsurance arrangements may expose us to risks we had sought to mitigate.

We utilize reinsurance to mitigate our risks in various circumstances. Through reinsurance, we have the contractual right to collect the amount reinsured from our reinsurers. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred or ceded to the reinsurer, reinsurance does not relieve us of our direct liability to our policyholders. Accordingly, we bear credit risk with respect to our reinsurers. We cannot assure that our reinsurers will pay all of our reinsurance claims, or that they will pay our claims on a timely basis. Additionally, catastrophic losses from multiple direct insurers may accumulate within the more concentrated reinsurance market and result in claims that adversely impact the financial condition of such reinsurers and thus their ability to pay such claims. Further, additional adverse developments in the capital markets could affect our reinsurers' ability to meet their obligations to us. If we become liable for risks we have ceded to reinsurers or if our reinsurers cease to meet their obligations to us because they are insolvent or in a weakened financial position as a result of incurred losses or otherwise, our financial position, results of operations and cash flows could be materially adversely affected.

Our reliance on brokers, program administrators and third-party claims adjusters subjects us to risk.

We transact business through intermediaries, frequently paying insured claims through brokers, program administrators or third-party claims adjustment services, and these parties, in turn, pay these amounts to the clients that have purchased insurance from us. If such an intermediary were to fail to pass such a payment through to the claimant or policyholder, we may remain liable for the deficiency because of applicable local laws or contractual obligations. Likewise, when a customer pays its policy premium to a broker or program administrator for further remittance to us, that premium is generally considered to have been paid and the client is no longer liable for such amount even if we do not actually receive the premium. Consequently, we assume a degree of credit risk associated with the intermediaries we use with respect to our insurance and reinsurance business.

The success of our business strategy depends on the continuing service of key executives, the members of our senior management team and other highly-skilled personnel.

We rely on the continued service of key executives, members of our senior management team and highly skilled personnel throughout all levels of our business. Our business could be harmed if we are unable to retain or motivate key personnel or hire qualified personnel. We believe that our future success depends in substantial part on our ability to recruit, hire, motivate, develop, and retain talented and highly skilled personnel who are knowledgeable about our business. Doing so may be difficult due to many factors, including fluctuations in economic and industry conditions and the effectiveness of our compensation programs and competition. If we do not succeed in retaining and motivating our existing key employees and in attracting new key personnel, our revenue growth and profitability may be materially adversely affected.

We may be unsuccessful in competing against larger or better-established business rivals.

We compete with a large number of other companies in our selected lines of business. We face competition from specialty insurance companies, and from diversified financial services companies and insurance companies that are much larger than we are and that have far greater financial, marketing and other resources. Some of these competitors also have greater experience and more market recognition than we do in certain lines of business. In addition to competition in the operation of our business, we face competition from a variety of sources in attracting and retaining qualified employees. There can be no assurance that we will maintain our current competitive position in the markets in which we operate, or that we will be able to expand operations into new markets. If we fail to do so, our results of operations and cash flows could be materially adversely affected.

Also, insurance companies may seek to consolidate through mergers and acquisitions. Continued consolidation within the insurance industry will further enhance the already competitive underwriting environment as we would likely experience more robust competition from larger competitors. These consolidated entities may use their enhanced market power and broader capital base to take business from us or to drive down pricing, which could adversely affect the results of our operations.

We may be unsuccessful in our continued efforts to execute on our strategies to diversify sources of income.

We have devoted significant effort and financial resources to build new products, distribution and service capabilities to diversify our product portfolio. We aim to continue implementing our strategies while maintaining current positions of strength in our existing businesses, as well as maintaining the strength of our balance sheet. Our success will depend on a number of factors, including our ability to achieve customer name recognition, accurately predict market trends, differentiate our product offerings from our competitors' products, provide excellent customer service, attract and retain skilled employees, maintain comprehensive focus on all company priorities, develop new products in a timely manner and achieve market acceptance, effectively implement new technology and operational platforms, deepen our existing distribution relationships and add new distribution partners, and set appropriate prices for our products. We may incur higher-than-expected costs or fail to generate expected levels of revenue and profitability associated with this strategy. Further, if we fail to accomplish all or a combination of these strategies, our ability to profitably grow our business could be materially and adversely affected.

The failure to maintain effective and efficient information systems and to safeguard the security of our data could adversely affect our business.

Our business is highly dependent upon the successful and uninterrupted functioning of our computer systems, and we have different information systems for our various businesses. We rely on these systems to perform actuarial and other modeling functions necessary for writing business, to provide insurance quotes, to process our premiums and policies, to administer our products, to process and make claims payments, to establish our loss reserves, and to prepare our management and external financial statements and information. The failure of these systems could interrupt our operation and we could experience adverse consequences, including: (i) inadequate information on which to base pricing, underwriting and reserving decisions; (ii) inadequate information for accurate financial reporting; (iii) increases in administrative expenses; (iv) the loss of existing customers or key distributors; (v) difficulty in attracting new customers or distributors; (vi) an inability to comply with regulations or customer or vendor expectations, such as failure to meet prompt payment obligations; (vii) customer, provider and agent disputes; and (viii) litigation or regulatory enforcement exposure. We have committed and will continue to commit significant resources to develop, maintain and enhance our existing information systems, transition existing systems to upgraded systems, and develop new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and changing customer preferences.

Our database and systems are also vulnerable to damage or interruption from system outages, disasters such as earthquakes, fires, floods, acts of terrorism, blackouts, power loss, telecommunications failures, and similar events, which would compromise our ability to conduct business. In the event of such failures, we may be unable to perform critical functions in a timely manner, and our systems may not be available to our employees, customers or business partners for an extended period of time. Any such interruptions may reduce our revenues or increase our expenses, and may also have an adverse impact upon our reputation, distribution partnerships, or our customer or vendor relationships. Such an occurrence may also impair our ability to timely and accurately complete our financial reporting and other regulatory obligations and may impact the effectiveness of our internal control over financial reporting. We also utilize and/or rely on computer systems developed and maintained by outsourcing relationships and key vendors. Their systems could experience the same risks, which could result in a material adverse effect on our business results.

We have committed and will continue to commit significant resources to develop, maintain and enhance our existing information systems, transition existing systems to upgraded systems, and develop new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and changing customer preferences. Advances in technology that may render our current information technology systems obsolete will require upgrading and maintenance over time, which may require significant future commitments of resources and capital. If we upgrade or change systems, we may suffer interruptions in service, loss of data or reduced functionality.

Despite any precautions we may take, such problems could result in, among other consequences, interruptions in our services, which could harm our reputation and financial results.

If we fail to comply with applicable privacy and security laws and respond to emerging security threats and potential security incidents, our business, reputation, results of operations, financial positions and cash flows could be materially affected.

Our computer systems have been, and will continue to be, subject to computer viruses or other malicious codes, unauthorized access, acts of vandalism, theft, misuse, cyber-attacks, hackers, corruption and destruction of data maintained online or digitally, and other computer-related penetrations. For instance, cyber-attacks may interfere with our processing of transactions including: (i) the processing of orders from our website; (ii) cause the release and possible destruction of confidential customer or business information; (iii) impede application processing; (iv) subject us and/or our service providers and intermediaries to regulatory fines and financial losses; and/or (v) cause reputational damage. Such threats require additional layers of security, which may disrupt or impact efficiency of operations. We commit significant resources to administrative and technical controls to prevent cyber incidents and protect our information technology, but our preventative actions to reduce the risk of cyber threats may be insufficient to prevent physical and electronic break-ins, denial of service and other cyber-attacks or security breaches. Such an event could compromise our confidential information as well as that of our clients and third parties, with whom we interact, impede or interrupt business operations and may result in other negative consequences, including remediation costs, loss of revenue, disruption of our operations, additional regulatory scrutiny, sanctions (such as penalties, fines and loss of license) and litigation, and reputational damage.

Additionally, past or future negligence or misconduct by our employees or employees of our vendors or suppliers could result in misplaced or lost data, programming and/or human errors, violations of laws by us, regulatory sanctions against us and/or serious reputational, legal or financial harm to our business, and the precautions we employ to prevent and detect this activity may not be effective in all cases. Although we employ controls and procedures designed to monitor the business decisions and activities of these individuals to prevent us from engaging in inappropriate activities, excessive risk taking, fraud or security breaches, these individuals may take such risks regardless of such controls and procedures and such controls and procedures may fail to detect all such decisions and activities. We review our compensation policies and procedures as part of our overall risk management program, but it is possible that such compensation policies and practices could inadvertently incentivize excessive or inappropriate risk taking. If these individuals take excessive or inappropriate risks, those risks could harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

The failure to safeguard the security of our data and protect our customers' confidential information and privacy could adversely affect our business.

In the conduct of our business, we are subject to privacy regulations and to confidentiality obligations. The collection, maintenance, protection, use, transmission, disclosure and disposal of sensitive personal information are regulated at the federal, state and industry levels and requirements are imposed on us by contracts with customers. For example, the collection and use of patient data in our health insurance operations is regulated by the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and certain other activities we conduct, are subject to the privacy regulations of the Gramm-Leach-Bliley Act. HIPAA also requires business associates as well as covered entities to comply with certain privacy and security requirements. In addition, we also have contractual obligations to protect certain confidential information we obtain from our existing vendors, partners and policyholders. These obligations generally include protecting such confidential information in the same manner and to the same extent as we protect our own confidential information, and in some instances may impose indemnity obligations on us relating to unlawful or unauthorized disclosure of any such information. A breach of cybersecurity could compromise our confidential information, including personal identifiable information of our customers and employees, and information related to third parties with whom we interact. If we do not properly comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, such as penalties, fines and loss of license, as well as possible litigation. This could also have an adverse impact on our image or customer relationships and, therefore, result in loss of distribution partners, lower sales, lapses of existing business, or increased expenses. We purchase cyber risk insurance and assess the adequacy of this insurance annually, but this insurance may not be sufficient in scope or amount to cover all of our losses from breaches of our data.

The National Association of Insurance Commissioners ("NAIC"), numerous state and federal regulatory bodies and self-regulatory organizations like the Financial Industry Regulatory Authority are focused on cybersecurity standards both for the financial services industry and for all companies that collect personal information, and have proposed legislation, regulations and issued guidance regarding cybersecurity standards and protocols. For example, in February, 2017, the NYSDFS issued final Cybersecurity Requirements for Financial Services Companies that will require banks, insurance companies, and other financial services institutions regulated by the NYSDFS to establish and maintain a cybersecurity program "designed to protect consumers and ensure the safety and soundness of New York State's financial services industry." The regulation became effective on March 1, 2017 and has transition periods ranging to two years from that date. We have established a cybersecurity program and continue to evaluate this regulation and its potential impact on our operations, but depending on its implementation, we may be required to incur significant expense in order to meet its requirements. We expect cybersecurity risk management, prioritization and reporting to continue to be an area of significant focus by governments, regulatory bodies and self-regulatory organizations at all levels.

We may be unable to renew our existing licenses when they expire and may not be able to obtain new licenses on favorable terms.

We may be unable to renew expiring licenses on terms favorable to us or at all, and we may have difficulties obtaining new licenses needed for our business on terms acceptable to us, if at all. In addition, these licensors could decide to license to our competitors. Failure to maintain or renew our existing licenses or to obtain additional licenses necessary for our business could harm our operating results and financial condition.

We have risks from exiting the individual life and annuities business.

We exited the individual life and annuities business in July 2015 when our subsidiaries, Madison National Life and Standard Security Life, closed on an agreement to coinsure substantially all of their run-off blocks of individual life and annuities and sold Madison National Life's infrastructure related to those blocks, to National Guardian Life Insurance Company ("NGL"). If NGL defaults on its reinsurance commitments and/or its administration commitments, then the policies may come back to us. Since we have sold our infrastructure, we would not have the ability to administer the business because we no longer have the IT systems or staff to support the business. We may have to incur expenses to rebuild our capabilities and for regulatory and other legal actions, which could have an adverse effect on our financial condition, results of operations and cash flows.

We have risks from the Paid Family Leave Risk Adjustment Program

Beginning January 1, 2018, a rider was added to all DBL policies adding benefits for PFL. This rider is mandated by the NYSDFS. The PFL premium rate charged is set by the NYSDFS. In addition to mandating this benefit, the NYSDFS established a risk adjustment program so that all carriers would share on a pro rata basis in the ultimate profit or loss of the PFL business across three group sizes for the entire industry. The goal of the PFL risk adjustment program is to protect issuers from disproportionate adverse or favorable risks that might arise because PFL premium rates are community rated and not allowed to vary by risk factors.

Since the NYSDFS established a risk adjustment program, the Company is required to record in its financial statements an accrual for a potential payment to, or recovery from, the risk adjustment program depending on how its loss ratio compares to the industry wide loss ratio. To determine the amount of this risk adjustment, knowledge of industry wide performance is necessary. Unfortunately, the NYSDFS does not share the industry loss ratio data for the current reporting year until the following year. However, the Company uses unaudited industry available information to make its best estimate of its potential payment under the risk adjustment program until actual information is available.

We cannot predict the full effect of the risk adjustment program on the Company at this time, but they could have a material adverse effect on the Company's results of operations, cash flows and financial condition.

Our risk management policies and procedures may prove to be ineffective and leave us exposed to unidentified or unanticipated risk, which could adversely affect our businesses or result in losses.

We have developed an enterprise-wide risk management and governance framework to mitigate risk and loss to the Company. We maintain policies, procedures and controls intended to identify, measure, monitor, report and analyze the risks to which we are exposed. However, there are inherent limitations to risk management strategies because there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we may suffer unexpected losses and could be materially adversely affected. As our business changes and the markets in which we operate evolve, our risk management framework may not evolve at the same pace as those changes. As a result, there is a risk that new products or new business strategies may present risks that are not appropriately identified, monitored or managed. In times of market stress, unanticipated market movements or unanticipated claims experience, the effectiveness of our risk management strategies may be limited, resulting in losses to the Company.

Many of our risk management strategies or techniques are based upon historical customer and market behavior and all such strategies and techniques are based to some degree on management's subjective judgment. We cannot provide assurance that our risk management framework, including the underlying assumptions or strategies, will be accurate and effective.

Risks related to our Industry

Our industry is highly regulated and we are subject to extensive governmental regulation, which may adversely affect our ability to achieve our business objectives. Also, changes in regulations may affect our businesses and reduce our profitability and limit our growth. Moreover, if we fail to comply with these regulations, we may be subject to penalties, including fines and suspensions, which may adversely affect our financial condition and results of operations.

Our insurance subsidiaries are subject to state insurance laws and regulated by the insurance departments of the various states in which they are domiciled and licensed, which, among other things, conduct periodic examination of insurance companies. State laws grant insurance regulatory authorities broad administrative powers with respect to various aspects of our insurance businesses, including:

- licensing companies and agents to transact business and regulating their respective conduct in the market;
- restricting agreements with large revenue-producing agents;
- approving policy forms and premium rates;
- cancelling and non-renewal of policies;
- requiring certain methods of accounting and prescribing the form and content of records of financial condition required to be filed;
- calculating the value of assets to determine compliance with statutory requirements;

- establishing statutory capital and reserve requirements, such as for unearned premiums and losses;
- regulating certain premium rates and requiring deposits for the benefit of policyholders;
- establishing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies;
- establishing standards of solvency, including risk-based capital measurements, which are a measure developed by the NAIC and used by state insurance regulators to identify insurance companies that potentially are inadequately capitalized;
- mandating certain insurance benefits and restricting the size of risks insurable under a single policy;
- regulating unfair trade and claims practices, including the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;
- requiring the filing of annual and other reports relating to the financial condition of insurance companies, holding company issues and other matters;
- approving changes in control of insurance companies;
- restricting transactions between insurance companies and their affiliates, including the payment of dividends to affiliates; and
- regulating the nature or types, concentration or amounts, quality and valuation of investments.

Currently, the U.S. federal government does not directly regulate the business of insurance. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was signed into law in July 2010 by President Obama, expanded the U.S. federal government's presence in insurance oversight, streamlined state-based regulation of reinsurance and non-admitted insurance and established a new Federal Insurance Office with powers over most lines of insurance other than health insurance. The Federal Insurance Office is authorized to gather data and information to monitor aspects of the insurance industry, identify issues in the regulation of insurers about insurance matters, and preempt state insurance measures under certain circumstances. As the Dodd-Frank Act calls for numerous studies and contemplates further regulation, its future impact on our results of operations or financial position cannot be determined at this time.

In addition, the Dodd-Frank Act, along with the Sarbanes-Oxley Act of 2002, regulates corporate governance, executive compensation and other areas, as well as laws relating to federal trade restrictions, privacy/data security and terrorism risk insurance laws. Additionally, federal legislation and administrative policies in other areas can significantly and adversely affect insurance companies, including general financial services regulation, securities regulation, privacy regulation, tort reform legislation, and taxation.

We are uncertain as to the impact that any new legislation and regulatory guidance will have on the Company and cannot assure that it will not adversely affect our financial condition and results of operations. In addition, compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance efforts and other expenses of doing business.

Changes in regulation, or the application thereof, may reduce our profitability and limit our growth.

Legislation or other regulatory reform that increases the regulatory requirements imposed on us or that changes the way we are able to do business may significantly harm our business or results of operations in the future. Further, state insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations or in interpretations or enforcement thereof, enactment of new laws or regulations, or new judicial decisions affecting the insurance industry, are often made for the benefit of the consumer at the expense of the insurer and thus could have an adverse effect on our business. We cannot predict what impact, if any, the results of these studies or other such proposals, if enacted, may have on our financial condition, results of operations and cash flows. If we were unable for any reason to comply with these requirements, it could result in substantial costs to us and may materially adversely affect our results of operations and financial condition.

Several proposals have been adopted or are currently pending to amend state insurance holding company laws to increase the scope of insurance holding company regulation. The timing of their adoption and content will vary by state. These proposals include the NAIC "Solvency Modernization Initiative," which focuses on capital requirements, as well as the Own Risk Solvency Assessment ("ORSA"), which requires large- and medium-sized U.S. insurers and insurance groups to regularly perform an ORSA and file a confidential ORSA Summary Report of the assessment with the regulator of each insurance company upon request.

We cannot predict the full effect of these or any other regulatory initiatives on the Company at this time, but they could have a material adverse effect on the Company's results of operations, cash flows and financial condition.

Changes to health insurance laws may adversely affect our business, cash flows, financial condition and results of operations.

Although health insurance is generally regulated at the state level, actions at the federal level have affected and will likely continue to affect our business. Since the ACA became law in March 2010, it has caused sweeping and fundamental changes to the U.S. health care and health insurance industries. The effects on our business include our decisions to exit the major medical business, which is directly affected by the ACA, and to focus on ancillary health insurance products that are only indirectly affected by the ACA.

The ACA also affects us as an employer because it significantly affects the provision of both health care services and benefits in the United States. The ACA may impact our cost of providing our employees with health insurance and/or benefits, and may also impact various other aspects of our business. We are continually assessing the impact of the ACA on our health care benefit costs.

The Trump Administration has and will undoubtedly continue to have an impact on the ACA. President Trump supports widespread healthcare reform and the repeal of all or portions of the ACA. On October 12, 2017, President Trump signed an Executive Order that ordered the Secretaries of the Treasury, Labor, and Health and Human Services to consider proposing regulations or revising guidance to (i) allow more employers to form association health plans, (ii) expand the availability of short-term limited duration insurance and allow longer coverage periods and (iii) increase the usability of health reimbursement arrangements. Effective for months beginning after December 31, 2018, the Tax Reform Bill provides for the repeal of the provision of the ACA which requires individuals without minimum health coverage to pay a penalty. An increase in the size of the uninsured population or a reduction in funds presently available to patients as a result of the repeal of this provision or the potential repeal of other significant portions of the ACA could adversely affect multiple businesses in the healthcare industry. While we are unable to predict what additional legislation or regulation, if any, relating to the health insurance industry may be enacted in the future or what effect such legislation or regulation would have on our business, it is clear that the Trump Administration is taking concrete steps to provided more healthcare options to consumers. The unsettled nature of reforms, the numerous steps required to implement them, and the potential repeal makes us unable to predict what additional health insurance requirements will be implemented at the federal or state level, or the effect that any future legislation or regulation will have on our business or our growth opportunities.

We will continue to monitor efforts to amend or impact the ACA and reassess our business strategies accordingly. We have made, and are continuing to make, significant changes to our operations, products and strategy to adapt to the new environment. However, if our plans for operating in the new environment are unsuccessful or are less successful than our competitors, or if there is less demand than we expect for our products in the new environment, our results could be adversely affected.

If we fail to comply with extensive state and federal regulations, we will be subject to penalties, which may include fines and suspension and which may adversely affect our results of operations and financial condition.

Some states have imposed time limits for the payment of uncontested covered claims and require health care and dental service plans to pay interest on uncontested claims not paid promptly within the required time period. Some states have also granted their insurance regulatory agencies additional authority to impose monetary penalties and other sanctions on health and dental plans engaging in certain unfair payment practices. If we were unable, for any reason, to comply with these requirements, it could result in substantial costs to us and could materially adversely affect our results of operations and financial condition.

A large portion of our business depends on our compliance with applicable laws and regulations and our ability to maintain valid licenses and approvals for our operations. Regulatory authorities have broad discretion to grant, renew, revoke or deny licenses and approvals. In some instances, we follow practices based on our interpretations of regulations, or interpretations that we believe to be generally followed by the industry, which may be different from the requirements or interpretations of regulatory authorities. If we do not have the requisite licenses and approvals and do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our insurance-related activities or otherwise penalize us. That type of action could have a material adverse effect on our business. Also, changes in the level of regulation of the insurance industry (whether federal, state or foreign), or changes in laws or regulations themselves or interpretations by regulatory authorities, could have a material adverse effect on our business.

Our results may fluctuate as a result of factors generally affecting the insurance and reinsurance industry.

The results of companies in the insurance and reinsurance industry historically have been subject to significant fluctuations and uncertainties. The industry and our financial condition and results of operations may be affected significantly by:

- Fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested capital;
- Rising levels of actual costs that are not known by companies at the time they price their products;
- Losses related to epidemics, terrorist activities, random acts of violence or declared or undeclared war;
- Development of judicial interpretations relating to the scope of insurers' liability;
- The overall level of economic activity and the competitive environment in the industry;
- Greater than expected use of health care services by members;
- New mandated benefits or other regulatory changes that change the scope of business or increase our costs; and
- Failure of managing general underwriters, agents, third-party administrators and producers to adhere to the underwriting guidelines, market-conduct practices and other requirements (as applicable) under their agreements with us.

The occurrence of any or a combination of these factors, which is beyond our control, could have a material adverse effect on our results.

We may experience periods with excess underwriting capacity and unfavorable premium rates because the insurance and reinsurance business is historically cyclical, which could cause our results to fluctuate.

The insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity, as well as periods when shortages of capacity permitted an increase in pricing and, thus, more favorable premium levels. An increase in premium levels is often, over time, offset by an increasing supply of insurance and reinsurance capacity, either by capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms and fewer opportunities to underwrite insurance risks, which could have a material adverse effect on our results of operations and cash flows.

Failures elsewhere in the insurance industry could obligate us to pay assessments through guaranty associations.

Virtually all states require insurers licensed to do business in that state to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies or to bear a portion of the cost of insurance for high-risk or uninsured individuals. When an insurance company becomes insolvent, state insurance guaranty associations have the right to assess other insurance companies doing business in their state for funds to pay obligations to policyholders of the insolvent company, up to the state-specific limit of coverage. Depending on state law, insurers can be assessed up to 2% of premium written for the relevant line of insurance in that state. The total amount of the assessment is based on the number of insured residents in each state, and each company's portion is based on its proportionate share of premium volume in the relevant lines of business. The future failure of a large life, health or annuity insurer could trigger assessments that we would be obligated to pay. Further, amounts for historical insolvencies may be assessed over many years, and there can be significant uncertainty around the total obligation for a given insolvency. Existing liabilities may not be sufficient to fund the ultimate obligations of a historical insolvency, and we may be required to increase our liability, which could have an adverse effect on our results of operations.

Economic, governmental and competitive factors, and changes in societal attitudes such as work ethic, motivation or stability, can significantly affect the demand for and underwriting results from disability products.

Both economic and societal factors can affect claim incidence and recoveries for disability insurance. Claim incidence and claim recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence and the emergence of new infectious diseases or illnesses. Claim durations may be extended by medical improvements that could extend life expectancies. These factors and overall incidence rates affect pricing, underwriting and adjudication of claims.

Group life insurance may be affected by the characteristics of the employees insured, the amount of insurance employees may elect voluntarily, our risk selection process, our ability to retain employer groups with favorable risk characteristics, the geographical concentration of employees, and mortality rates. Claim incidence may also be influenced by unexpected catastrophic events such as terrorist attacks, natural disasters, and pandemic health events, which may also affect the cost of and availability of reinsurance coverage. Although pricing and renewal actions can be taken in reaction to higher claim rates, these actions take time to implement, and there is a risk that the market will not sustain increased prices. In addition, changes in economic and external conditions may not manifest themselves in claims experience for an extended period of time. It is difficult to predict how the above factors will affect our business, financial condition or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

IHC

IHC has entered into a renewable short-term arrangement with Geneve Corporation, an affiliate, for the use of 6,750 square feet of office space as its corporate headquarters in Stamford, Connecticut.

Standard Security Life

Standard Security Life leases 13,000 square feet of office space in New York, New York as its corporate headquarters.

Madison National Life

Madison National Life leases 15,357 square feet of space in Madison, Wisconsin as its corporate headquarters.

IHC Carrier Solutions

IHC Carrier Solutions leases 12,253 square feet of office space in Phoenix, Arizona as its corporate headquarters.

IHC Specialty Benefits

IHC Specialty Benefits leases 6,391 square feet of office space in Minneapolis, Minnesota as its corporate headquarters.

PetPartners

PetPartners leases 7,006 square feet of office space in Raleigh, North Carolina as its corporate headquarters.

ITEM 3. LEGAL PROCEEDINGS

We are involved in legal proceedings and claims that arise in the ordinary course of our businesses. We have established reserves that we believe are sufficient given information presently available relating to our outstanding legal proceedings and claims. We do not anticipate that the result of any pending legal proceeding or claim will have a material adverse effect on our financial condition or cash flows, although there could be such an effect on our results of operations for any particular period.

A third party administrator with whom we formerly did business (“Plaintiff”) filed a Complaint dated May 17, 2017 in the United States District Court, Northern District of Texas, Dallas Division, naming IHC, Madison National Life, Standard Security Life, and IHC Carrier Solutions, Inc. (collectively referred to as “Defendants”). “Plaintiff” and “Defendants” are collectively referred to herein as the “Parties”. The Complaint concerns agreements entered into by Standard Security Life and Madison National Life with Plaintiff, as well as other allegations made by Plaintiff against Defendants. The Complaint seeks injunctive relief and damages in an amount exceeding $50,000,000, profit share payments allegedly owed to Plaintiff under the agreements totaling at least $3,082,000 through 2014, plus additional amounts for 2015 and 2016, and exemplary and punitive damages as allowed by law and fees and costs. Defendants believe these claims to be without merit. Defendants moved to Compel Arbitration and Dismiss or Stay the original Complaint. Plaintiff filed an Amended Complaint on August 18, 2017. Defendants filed a Motion to Compel Arbitration or Stay the Amended Complaint. The Parties agreed to enter into an Order staying the action filed in Texas. The Parties’ disputed claims moved in part to arbitration.

Standard Security Life and Madison National Life demanded arbitration against this TPA. The Arbitration Panel issued an Order splitting the hearing into two phases. Standard Security Life and Madison National Life successfully presented their claims in Phase I on September 25 through September 28, 2018. The TPA's counterclaims were heard during Phase II held on February 11, 2019 through February 15, 2019. Standard Security Life and Madison National Life successfully opposed the counterclaims asserted by the TPA as the Arbitration Panel denied all claims against Standard Security Life and Madison National Life.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

The Company's common stock trades under the symbol IHC on the New York Stock Exchange. The following table shows for the periods indicated the high and low sales prices for IHC's common stock as reported by the New York Stock Exchange.

	HIGH	LOW
QUARTER ENDED:		
December 31, 2018	$ 40.66	$ 34.41
September 30, 2018	38.65	32.80
June 30, 2018	39.85	32.90
March 31, 2018	36.36	26.55
QUARTER ENDED:		
December 31, 2017	$ 30.00	$ 24.85
September 30, 2017	25.95	20.52
June 30, 2017	20.95	17.25
March 31, 2017	20.68	16.55

IHC's stock price closed at $35.20 on December 31, 2018.

Holders of Record

At March 08, 2019, the number of record holders of IHC's common stock was 1,468. The number of record owners was determined from the Company's stockholder records maintained by the Company's transfer agent.

Dividends

IHC declared cash dividends of $.15 per share on its common stock on both May 16, 2018 and December 28, 2018, for a total annual dividend of $.30 per share.

IHC declared a cash dividend of $.06 per share on its common stock on July 5, 2017 and declared a cash dividend of $.10 per share on its common stock on December 20, 2017, for a total annual dividend of $.16 per share.

Securities Authorized for Issuance Under Equity Compensation Plans

In November 2016, the stockholders approved the Independence Holding Company 2016 Stock Incentive Plan (the "2016 Plan").

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Compensation Plan
Equity Compensation Plan			
Approved by Shareholders	567,384	$19.40	821,400

Share Repurchase Program

IHC has a program, initiated in 1991, under which it repurchases shares of its common stock. In August 2016, the Board of Directors increased the number of shares that can be repurchased to 3,000,000 shares of IHC common stock, excluding the shares under the aforementioned tender offer. As of December 31, 2018, 1,855,747 shares were still authorized to be repurchased.

Share repurchases during the fourth quarter of 2018 are summarized as follows:

2018			
Month of Repurchase	Shares Repurchased	Average Price of Repurchased Shares	Maximum Number of Shares which can be Repurchased
October	4,566	$ 35.02	1,856,971
November	-	$ -	1,856,971
December	1,224	$ 34.94	1,855,747

ITEM 6. SELECTED FINANCIAL DATA

Not required for smaller reporting companies.

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

OVERVIEW

Independence Holding Company, a Delaware corporation (NYSE: IHC), is a holding company principally engaged in the life and health insurance business through: (i) its insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life"), and Independence American Insurance Company ("Independence American"); and (ii) its marketing and administrative companies, including IHC Specialty Benefits Inc., IHC Carrier Solutions, Inc. and a majority interest in PetPartners, Inc. ("PetPartners"). IHC also owns a significant equity interest in Ebix Health Exchange Holdings, LLC ("Ebix Health Exchange"), an administration exchange for health insurance. Standard Security Life, Madison National Life and Independence American are sometimes collectively referred to as the "Insurance Group". IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company", or "IHC", or are implicit in the terms "we", "us" and "our".

IHC's health insurance products serve niche sectors of the commercial market through multiple classes of business and varied distribution channels. With regard to those persons in the growing individual market, IHC's products offer coverage for individuals and families with short-term needs, and fixed indemnity limited benefit and scheduled benefit plans through multiple distribution partners. We offer pet insurance for dogs and cats in all 50 states through select distributors. Our fixed indemnity limited benefit product is primarily purchased by hourly workers and others who are generally not eligible for coverage under their employer's group medical plan. The dental and vision products are marketed to large and small groups as well as individuals. With respect to IHC's life and disability business, Madison National Life has historically sold almost all of this business through one distribution source specializing in serving school districts and municipalities.

Medical stop-loss was marketed to employer groups that self-insure their medical risks. In 2016, the Company sold a managing general underwriter that was its principal source of medical stop-loss business and simultaneously 100% co-insured all of the in-force medical stop-loss business of Standard Security Life and Independence American. IHC's block of medical stop-loss business is in run-off.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted. The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to reducing the federal corporate income tax rate from 35% to 21%. In 2017, the Company completed its accounting for the income tax effects under the Tax Act that are relevant to the Company using best estimates based on reasonable and supportable assumptions and available inputs and underlying information. The Consolidated Financial Statements reflect all such adjustments and disclosures related to the Tax Act. Refer to Note 11 of the Consolidated Financial Statements for more information regarding the impacts of the Tax Act.

While management considers a wide range of factors in its strategic planning and decision-making, underwriting profit is consistently emphasized as the primary goal in all decisions as to whether or not to increase our retention in a core line, expand into new products, acquire an entity or a block of business, or otherwise change our business model. Management's assessment of trends in healthcare and morbidity, with respect to specialty health, disability, DBL and PFL; mortality rates with respect to life insurance; and changes in market conditions in general play a significant role in determining the rates charged, deductibles and attachment points quoted, and the percentage of business retained. IHC also seeks transactions that permit it to leverage its vertically integrated organizational structure by generating fee income from production and administrative operating companies as well as risk income for its carriers. Management has always focused on managing the costs of its operations.

The following is a summary of key performance information and events:

Results of operations are summarized as follows for the periods indicated (in thousands):

	2018	2017
Revenues	$ 350,775	$ 320,494
Expenses	313,234	292,158
Income before income taxes	37,541	28,336
Income taxes (benefits)	8,488	(13,794)
Net income	29,053	42,130
Income from noncontrolling interests	(571)	(88)
Net income attributable to IHC	$ 28,482	$ 42,042

- Income from operations of $1.89 per share, diluted, for the year ended December 31, 2018 compared to $2.63 per share, diluted, for the same period in 2017.
  - The Company reduced AMIC's deferred tax asset valuation allowance by $20.3 million at December 31, 2017 primarily due to an increase in projected future income and associated utilization of Federal net operating losses. No such adjustment was recorded for the year ended December 31, 2018.
  - Income taxes for the year ended December 31, 2017 include income tax benefits of $11.6 million on a worthless stock deduction representing the Company's tax basis on its unrecovered investments in that subsidiary.
  - On December 31, 2017, as a result of the Tax Act, the Company recorded a deferred income tax expense of $9.4 million due to the re-measurement of deferred tax assets, liabilities and related valuation allowance.
- Consolidated investment yields (on an annualized basis) of 3.0% in 2018 and 2.9% in 2017; and
- Book value of $30.16 per common share at December 31, 2018 compared to $28.98 at December 31, 2017.

The following is a summary of key performance information by segment:

- The Specialty Health segment reported $28.7 million of income before taxes for the year ended December 31, 2018 compared to $13.2 million for the comparable period in 2017.
  - Premiums earned increased 1.4% or $2.6 million for the year ended December 31, 2018 over the comparable period in 2017. Hospital indemnity premiums increased $26.7 million, primarily due to increased demand for this product as a result of the federal regulation limiting the duration of short-term medical ("STM") products from April 1, 2017 through September 30, 2018, partially offset by a corresponding decrease in STM premium during this period as a result of the shorter duration.

○ Underwriting experience, as indicated by its U.S. GAAP Combined Ratios, for the Specialty Health segment are as follows for the years indicated (in thousands):

	2018	2017
Premiums Earned	$ 184,512	$ 181,851
Insurance Benefits, Claims & Reserves	60,749	84,380
Expenses	93,012	89,809
Loss Ratio	32.9%	46.4%
Expense Ratio	50.4%	49.4%
Combined Ratio	83.3%	95.8%

(A) Loss ratio represents insurance benefits claims and reserves divided by premiums earned.
(B) Expense ratio represents net commissions, administrative fees, premium taxes and other underwriting expenses divided by premiums earned.
(C) The combined ratio is equal to the sum of the loss ratio and the expenses ratio.

○ The loss ratio in 2018 was lower than in 2017 due to better experience on 2018 business and favorable development on 2017 reserves primarily related to hospital indemnity and short term medical business. In addition, 2017 included unfavorable developments related to 2016 reserves.

○ The expense ratio is higher for 2018 primarily due to changes in the mix of products within the Specialty Health segment as hospital indemnity and accident medical premiums tend to have lower loss ratios and higher expense ratios than STM policies.

- Income before taxes from the Group disability, life, DBL and PFL segment increased $0.6 million in 2018 compared to prior year results, primarily reflecting lower claims in the LTD line of business; partially offset by higher losses and other expenses in the DBL and the new Paid Family Leave, or “PFL”, rider on the DBL line of business. The financial statements include a reserve for a potential risk adjustment payment of $7.0 million associated with the Company’s PFL product due to expected better than industry claims experience. In the absence of any state reported industry claims experience, the Company has chosen to reserve for a potential risk adjustment payment in an amount that brings the PFL product to a break even profit. An adjustment to this amount will be made sometime during 2019 when industry claims experience is made available.

- The Individual life, annuities and other segment in run-off reported losses before income taxes of $0.4 million in 2018 compared with losses of $0.5 million in 2017.

- The Medical Stop-Loss segment reported income before taxes of $0.2 million for the year ended December 31, 2018 as compared to income before taxes of $2.8 million for the year ended December 31, 2017. Amounts recorded for investment income, and benefits, claims and reserves in the Medical Stop-Loss segment represent the activity of the remaining blocks of medical stop-loss business in run-off due to the sale of this segment in 2016.

- Loss before tax from the Corporate segment for the year ended December 31, 2018 increased $0.8 million over the same period in 2017 primarily due to changes in compensation and related expenses.

 Premiums by principal product for the years indicated are as follows (in thousands):

Gross Direct and Assumed Earned Premiums:	2018	2017
Specialty Health	$ 186,480	$ 187,793
Group disability, life, DBL and PFL	169,779	129,142
Individual life, annuities and other	23,366	26,053
Medical Stop-Loss	-	10,848
	$ 379,625	$ 353,836

Net Premiums Earned:	2018	2017
Specialty Health	$ 184,512	$ 181,851
Group disability, life, DBL and PFL	136,709	99,953
Individual life, annuities and other	27	210
Medical Stop-Loss	-	252
	$ 321,248	$ 282,266

Information pertaining to the Company's business segments is provided in Note 17 of Notes to Consolidated Financial Statements included in Item 8.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to U.S. GAAP. The preparation of the Consolidated Financial Statements in conformity with U.S. GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. A summary of the Company's significant accounting policies and practices is provided in Note 1 of the Notes to the Consolidated Financial Statements included in Item 8 of this report. Management has identified the accounting policies described below as those that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's Consolidated Financial Statements and this Management's Discussion and Analysis.

Insurance Premium Revenue Recognition and Policy Charges

Premiums for short-duration medical insurance contracts are intended to cover expected claim costs resulting from insured events that occur during a fixed period of short duration. The Company has the ability to not renew the contract or to revise the premium rates at the end of each annual contract period to cover future insured events. Insurance premiums from annual health contracts are collected monthly and are recognized as revenue evenly as insurance protection is provided.

Premiums related to long-term and short-term disability contracts are recognized on a pro rata basis over the applicable contract term.

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Premiums from these products are recognized as revenue when due.

Annuities and interest-sensitive life contracts, such as universal life and interest-sensitive whole life, are contracts whose terms are not fixed and guaranteed. Premiums from these policies are reported as funds on deposit. Policy charges consist of fees assessed against the policyholder for cost of insurance (mortality risk), policy administration and early surrender. These revenues are recognized when assessed against the policyholder account balance.

Policies that do not subject the Company to significant risk arising from mortality or morbidity are considered investment contracts. Deposits received from such contracts are reported as other policyholder funds. Policy charges for investment contracts consist of fees assessed against the policyholder account for maintenance, administration and surrender of the policy prior to contractually specified dates, and are recognized when assessed against the policyholder account balance.

Insurance Liabilities

Policy Benefits and Claims

The Company maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, where material, (including legal, other fees, and costs not associated with specific claims but related to the claims payment function) for reported and unreported claims incurred as of the end of each accounting period. These loss reserves are based on actuarial assumptions. Many factors could affect these reserves, including economic and social conditions, frequency and severity of claims, medical trend resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, and changes in doctrines of legal liability and damage awards in litigation. Therefore, the Company’s reserves are necessarily based on estimates, assumptions and analysis of historical experience. The Company’s results depend upon the variation between actual claims experience and the assumptions used in determining reserves and pricing products. Reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. The Company cannot determine with precision the ultimate amounts that will be paid for actual claims or the timing of those payments. The Company's estimate of loss represents management's best estimate of the Company's liability at the balance sheet date.

All of the Company’s short-duration contracts are generated from its accident, health, term life, disability and pet insurance business, and are accounted for based on actuarial estimates of the amount of loss inherent in that period’s claims, including losses incurred for which claims have not been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

The Company believes that its liability for policy benefits and claims is reasonable and adequate to satisfy its ultimate liability. The Company primarily uses its own loss development experience, but will also supplement that with data from its outside actuaries, reinsurers and industry loss experience as warranted. To illustrate the impact that Loss Ratios have on the Company’s loss reserves and related expenses, each hypothetical 1% change in the Loss Ratio for the health business (i.e., the ratio of insurance benefits, claims and settlement expenses to earned health premiums) for the year ended December 31, 2018, would increase reserves (in the case of a higher ratio) or decrease reserves (in the case of a lower ratio) by approximately $3.0 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves in the Consolidated Statement of Income. Depending on the circumstances surrounding a change in the Loss Ratio, other pre-tax amounts reported in the Consolidated Statement of Income could also be affected, such as commission expense.

The liability for policy benefits and claims by segment is as follows (in thousands):

	December 31, 2018		
	Policy Benefits	Policy Claims	Policy Benefits and Claims
Specialty Health	$ 38,114	$ -	$ 38,114
Group disability, life, DBL and PFL	87,688	24,928	112,616
Individual life, annuities and other	6,796	2,158	8,954
Medical Stop-Loss	431	-	431
	$ 133,029	$ 27,086	$ 160,115

	December 31, 2017		
	Policy Benefits	Policy Claims	Policy Benefits and Claims
Specialty Health	$ 53,531	$ -	$ 53,531
Group disability, life, DBL and PFL	80,788	23,160	103,948
Individual life, annuities and other	6,469	2,181	8,650
Medical Stop-Loss	2,554	-	2,554
	$ 143,342	$ 25,341	$ 168,683

Specialty Health

Policy claims and reserves in the Specialty Health segment decreased since December 31, 2017. During 2018, pending inventory levels have come down causing more claims to be known rather than estimated and this has revealed more favorable experience than previously expected. This has changed some of our thoughts around experience expectations and has resulted in some favorable reserve adjustments. For the Specialty Health business, incurred but not reported ("IBNR") claims liabilities plus expected development on reported claims are calculated using standard actuarial methods and practices. The "primary" assumption in the determination of Specialty Health reserves is that historical Claim Development Patterns are representative of future Claim Development Patterns. Factors that may affect this assumption include changes in claim payment processing times and procedures, changes in time delay in submission of claims, and the incidence of unusually large claims. Liabilities for policy benefits and claims for specialty health medical and disability coverage are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data. The reserving analysis includes a review of claim processing statistical measures and large claim early notifications; the potential impacts of any changes in these factors are not material. The Company has business that is serviced by third-party administrators. From time to time, there are changes in the timing of claims processing due to any number of factors including, but not limited to, system conversions and staffing changes during the year. These changes are monitored by the Company and the effects of these changes are taken into consideration during the claim reserving process. Other than these considerations, there have been no significant changes to methodologies and assumptions from the prior year.

While these calculations are based on standard methodologies, they are estimates based on historical patterns. To the extent that actual claim payment patterns differ from historical patterns, such estimated reserves may be redundant or inadequate. The effects of such deviations are evaluated by considering claim backlog statistics and reviewing the reasonableness of projected claim ratios. Other factors which may affect the accuracy of policy benefits and claim estimates include the proportion of large claims which may take longer to adjudicate, changes in billing patterns by providers and changes in claim management practices such as hospital bill audits.

Since our analysis considered a variety of outcomes related to these factors, the Company does not believe that any reasonably likely change in these factors will have a Material Effect.

Disability

The Company’s disability business is comprised of group disability and DBL. The two “primary” assumptions on which disability policy benefits and claims are based are: (i) morbidity levels; and (ii) recovery rates. If morbidity levels increase, for example due to an epidemic or a recessionary environment, the Company would increase reserves because there would be more new claims than expected. In regard to the assumed recovery rate, if disabled lives recover more quickly than anticipated then the existing claims reserves would be reduced; if less quickly, the existing claims reserves would be increased. Advancements in medical treatments could affect future recovery, termination, and mortality rates.

With respect to DBL, the liability for policy benefits and claims for the most recent quarter of earned premium is established using a Net Loss Ratio methodology. The Net Loss Ratio is determined by applying the completed prior four quarters of historical Net Loss Ratios to the last quarter of earned premium. Policy benefits and claims associated with the premium earned prior to the last quarter are established using a completion factor methodology. The completion factors are developed using the historical payment patterns for DBL. With respect to PFL, policy benefits and claims associated with the premiums earned are established using a completion factor methodology. As this is the first year of this product, the completion factors used were based on the PFL payment patterns developed during 2018 supplemented with an estimated maturity factor to account for run-out longer than 12 months. Since the NYSDFS established a risk adjustment program, the Company is required to record in its financial statements an accrual for a potential payment to, or recovery from, the risk adjustment program depending on how its loss ratio compares to the industry wide loss ratio. To determine the amount of this risk adjustment, knowledge of industry wide performance is necessary. Unfortunately, the NYSDFS does not share the industry loss ratio data for the current reporting year until the following year. However, the Company uses available unaudited industry information to make its best estimate of its potential payment under the risk adjustment program until actual information is available.

With respect to group disability, other assumptions are: (i) changes in market interest rates; (ii) changes in offsets; (iii) advancements in medical treatments; and (iv) cost of living. Changes in market interest rates could change reserve assumptions since the payout period could be as long as 40 years. Changes in offsets such as Social Security benefits, retirement plans and state disability plans also impact reserving. As a result of the forgoing assumptions, it is possible that the historical trend may not be an accurate predictor of the future development of the block. As with most long term insurance reserves that require judgment, the reserving process is subject to uncertainty and volatility and fluctuations may not be indicative of the claim development overall.

While the Company believes that larger variations are possible, the Company does not believe that reasonably likely changes in its “primary” assumptions would have a Material Effect.

Individual Accident and Health and Other

This segment is a combination of closed lines of business as well as certain small existing lines. While the assumptions used in setting reserves vary between these different lines of business, the assumptions would generally relate to the following: (i) the rate of disability; (ii) the morbidity rates on specific diseases; and (iii) accident rates. The reported reserves are based on management’s best estimate for each line within this segment. General uncertainties that surround all insurance reserving methodologies would apply. However, since the Company has so few policies of this type, volatility may occur due to the small number of claims.

Management believes that the Company's methods of estimating the liabilities for policy benefits and claims provided appropriate levels of reserves at December 31, 2018. Changes in the Company's policy benefits and claims estimates are recorded through a charge or credit to its earnings.

Future Policy Benefits

The liability for future policy benefits consists of the liabilities related to insured events for the Company's long-duration contracts, primarily its life and annuity products. For traditional life insurance products, the Company computes the liability for future policy benefits primarily using the net premium method based on anticipated investment yield, mortality, and withdrawals. These methods are widely used in the life insurance industry to estimate the liabilities for insurance reserves. Inherent in these calculations are management and actuarial judgments and estimates that could significantly impact the ending reserve liabilities and, consequently, operating results. Actual results may differ, and these estimates are subject to interpretation and change.

Management believes that the Company's methods of estimating the liabilities for future policy benefits provided appropriate levels of reserves at December 31, 2018 and 2017. Changes in the Company's future policy benefits estimates are recorded through a charge or credit to its earnings.

Other Policyholders' Funds

Other policyholders' funds represent interest-bearing liabilities arising from the sales of products, such as universal life, interest-sensitive life and annuities. Policyholder funds are primarily comprised of deposits received and interest credited to the benefit of the policyholder less surrenders and withdrawals, mortality charges and administrative expenses.

Interest credited to policyholder funds represents interest accrued or paid on interest-sensitive life policies and investment policies. These amounts are reported in insurance benefits, claims and reserves on the Consolidated Statements of Income. Credit rates for certain annuities and interest-sensitive life policies are adjusted periodically by the Company to reflect current market conditions, subject to contractually guaranteed minimum rates.

Investments

The Company classified all of its fixed maturities as available-for-sale. These investments are carried at fair value with unrealized gains and losses reported through other comprehensive income (loss). Fixed maturities available-for-sale totaled $453.5 million and $441.9 million at December 31, 2018 and 2017, respectively. Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Income, using the constant yield method over the period to maturity. Equity securities are carried at fair value. In 2017, unrealized gains and losses on equity securities were reported in other comprehensive income (loss). As a result of a change in accounting principle, the Company recorded a cumulative effect adjustment of $.3 million, net of tax, on January 1, 2018 to reclassify the unrealized gains and losses on equity securities from other comprehensive income (loss) to retained earnings. As of January 1, 2018, changes in unrealized gains and losses on equity securities are reported in the Consolidated Statements of Income. Realized gains and losses on fixed maturities available-for-sale and equity securities are computed using the specific identification method and are reported in the Consolidated Statements of Income on the trade date.

Fair value is determined using quoted market prices when available. In some cases, we use quoted market prices for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets. When there are limited or inactive trading markets, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. Further, we retain independent pricing vendors to assist in valuing certain instruments. Most of the securities in our portfolio are classified in either Level 1 or Level 2 of the Fair Value Hierarchy.

The Company periodically reviews and assesses the vendor's qualifications and the design and appropriateness of its pricing methodologies. Management will on occasion challenge pricing information on certain individual securities and, through communications with the vendor, obtain information about the assumptions, inputs and methodologies used in pricing those securities, and corroborate it against documented pricing methodologies. Validation procedures are in place to determine completeness and accuracy of pricing information, including, but not limited to: (i) review of exception reports that (a) identify any zero or un-priced securities; (b) identify securities with no price change; and (c) identify securities with significant price changes; (ii) performance of trend analyses; (iii) periodic comparison of pricing to alternative pricing sources; and (iv) comparison of pricing changes to expectations based on rating changes, benchmarks or control groups. In certain circumstances, pricing is unavailable from the vendor and broker pricing information is used to determine fair value. In these instances, management will assess the quality of the data sources, the underlying assumptions and the reasonableness of the broker quotes based on the current market information available. To determine if an exception represents an error, management will often have to exercise judgment. Procedures to resolve an exception vary depending on the significance of the security and its related class, the frequency of the exception, the risk of material misstatement, and the availability of information for the security. These procedures include, but are not limited to: (i) a price challenge process with the vendor; (ii) pricing from a different vendor; (iii) a reasonableness review; and (iv) a change in price based on better information, such as an actual market trade, among other things. Management considers all facts and relevant information obtained during the above procedures to determine the proper classification of each security in the Fair Value Hierarchy.

Declines in value of fixed maturities available-for-sale that are judged to be other-than-temporary are determined based on the specific identification method. The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. The factors considered by management in its regular review to identify and recognize other-than-temporary impairment losses on fixed maturities include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the Company's intent to sell, or be required to sell, the debt security before the anticipated recovery of its remaining amortized cost basis; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions including the effect of changes in market interest rates. If the Company intends to sell a debt security, or it is more likely than not that it would be required to sell a debt security before the recovery of its amortized cost basis, the entire difference between the security's amortized cost basis and its fair value at the balance sheet date would be recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Income. If a decline in fair value of a debt security is judged by management to be other-than-temporary and; (i) the Company does not intend to sell the security; and (ii) it is not more likely than not that it will be required to sell the security prior to recovery of the security's amortized cost, the Company assesses whether the present value of the cash flows to be collected from the security is less than its amortized cost basis. To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost basis, a credit loss exists. For any such security, the impairment is bifurcated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Income, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income (loss). It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments in the near term, which could be significant.

In assessing corporate debt securities for other-than-temporary impairment, the Company evaluates the ability of the issuer to meet its debt obligations and the value of the company or specific collateral securing the debt position. For mortgage-backed securities where loan level data is not available, the

Company uses a cash flow model based on the collateral characteristics. Assumptions about loss severity and defaults used in the model are primarily based on actual losses experienced and defaults in the collateral pool. Prepayment speeds, both actual and estimated, are also considered. The cash flows generated by the collateral securing these securities are then determined with these default, loss severity and prepayment assumptions. These collateral cash flows are then utilized, along with consideration for the issue's position in the overall structure, to determine the cash flows associated with the mortgage-backed security held by the Company. In addition, the Company evaluates other asset-backed securities for other-than-temporary impairment by examining similar characteristics referenced above for mortgage-backed securities. The Company evaluates U.S. Treasury securities and obligations of U.S. Government corporations, U.S. Government agencies, and obligations of states and political subdivisions for other-than-temporary impairment by examining the terms and collateral of the security.

For the purpose of other-than-temporary impairment evaluations, redeemable preferred stocks are evaluated in a manner similar to debt securities. Declines in the creditworthiness of the issuer of debt securities with both debt and equity-like features are evaluated using the equity model in consideration of other-than-temporary impairment.

Goodwill and Other Intangible Assets

Goodwill carrying amounts are evaluated for impairment, at least annually, at the reporting unit level that is equivalent to an operating segment. If the fair value of a reporting unit is less than its carrying amount, further evaluation is required to determine if a write-down of goodwill is required. In determining the fair value of each reporting unit, we used an income approach, applying a discounted cash flow method that included a residual value. Based on historical experience, we make assumptions as to: (i) expected future performance and future economic conditions, (ii) projected operating earnings, (iii) projected new and renewal business as well as profit margins on such business, and (iv) a discount rate that incorporated an appropriate risk level for the reporting unit. Any impairment of goodwill would be charged to expense. No impairment charge for goodwill was required in 2018 or 2017.

Other intangible assets are amortized to expense over their estimated useful lives and are subject to impairment testing. Any impairment of other intangible assets would be charged to expense. No impairment charges for intangible assets were required in 2018 or 2017.

Deferred Income Taxes

The provision for deferred income taxes is based on the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized by applying enacted statutory tax rates to temporary differences between amounts reported in the Consolidated Financial Statements and the tax bases of existing assets and liabilities in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recognized for the portion of deferred tax assets that, in management's judgment, is not likely to be realized. A liability for uncertain tax positions is recorded when it is more likely than not that a tax position will not be sustained upon examination by taxing authorities. The effect on deferred income taxes of a change in tax rates or laws is recognized in income tax expense in the period that includes the enactment date.

RESULTS OF OPERATIONS

Results of Operations for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Information by business segment for the periods indicated is as follows (in thousands):

December 31, 2018	Premiums Earned	Net Investment Income	Fee and Other Income	Insurance Benefits, Claims and Reserves	Selling, General and Administrative	Total
Specialty Health	$ 184,512	$ 4,386	$ 14,040	$ 60,749	$ 113,454	$ 28,735
Group disability, life, DBL and PFL	136,709	7,029	891	82,948	42,818	18,863
Individual life, annuities and other	27	1,535	370	796	1,572	(436)
Medical Stop-Loss	-	39	1	(287)	150	177
Corporate	-	2,032	237	-	11,034	(8,765)
Sub total	$ 321,248	$ 15,021	$ 15,539	$ 144,206	$ 169,028	38,574
Net investment losses						(1,033)
Income before income taxes						37,541
Income taxes						8,488
Net income						$ 29,053

December 31, 2017	Premiums Earned	Net Investment Income	Fee and Other Income	Insurance Benefits, Claims and Reserves	Selling, General and Administrative	Total
Specialty Health	$ 181,851	$ 4,251	$ 17,708	$ 84,380	$ 106,223	$ 13,207
Group disability, life, DBL and PFL	99,953	6,469	505	52,792	35,857	18,278
Individual life, annuities and other	210	1,536	393	241	2,411	(513)
Medical Stop-Loss	252	313	2,042	(2,359)	2,127	2,839
Corporate	-	1,861	611	-	10,486	(8,014)
Sub total	$ 282,266	$ 14,430	$ 21,259	$ 135,054	$ 157,104	25,797
Net investment gains						2,539
Income before income taxes						28,336
Income tax benefits						(13,794)
Net income						$ 42,130

Premiums Earned

In 2018, premiums earned increased $38.9 million over the comparable period of 2017. The increase is primarily due to: (i) a $36.7 million increase in earned premiums from the Group disability, life, DBL and PFL segment primarily due to premiums from the new PFL rider on DBL policies; and (ii) an increase of $2.6 million in the Specialty Health segment principally as a result of a $26.7 million increase in premiums from the hospital indemnity line as a result of higher demand; a $9.2 million increase in the group gap line of business due to new distribution, $2.6 million in increased pet premiums, and $.8 million in increased premiums from other ancillary lines; partially offset by decreases of $20.7 million in the STM line of business, $3.6 million in the dental line of business, and $5.1 million in occupational accident and $7.3 million in the international medical business premiums both due to run-off; partially offset by (iii) a decrease of $.3 million in the Medical Stop Loss segment as a result of the exit from this line of business.

Net Investment Income

Total net investment income increased $.6 million. The overall annualized investment yields were 3.0% in 2018 and 2.9% in 2017.

The annualized investment yields on bonds, equities and short-term investments were 3.1% and 3.0% for the years ended December 31, 2018 and 2017, respectively. IHC has approximately $145.8 million in highly rated securities earning on average 2.0%. The average duration of the Company's portfolio is 4 years. A portfolio that is shorter in duration enables us, if we deem prudent, the flexibility to reinvest in much higher yielding longer-term securities, which would significantly increase investment income.

Net Investment Gains

The Company had net investment losses of $1.0 million in 2018 compared to net investment gains of $2.5 million in 2017. These amounts include gains and losses from sales of fixed maturities available-for-sale, equity securities and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period.

Fee Income and Other Income

Fee income increased $2.1 million in 2018 compared to 2017 primarily due to increased fee income from the Specialty Health segment, including PetPartners which was acquired in late March of 2017.

Other income decreased $7.9 million in 2018 compared to the same period in 2017 as a result of a $2.3 million impairment loss on an equity investment from its carried cost to its estimated fair value, and $2.1 million in losses in partnership investments in 2018, as well as fees received in 2017 related to the sale and exit of the Medical Stop-Loss business with no comparable amounts in 2018.

Insurance Benefits, Claims and Reserves

In 2018, insurance benefits, claims and reserves increased $9.2 million over the comparable period in 2017. The increase is primarily attributable to: (i) an increase of $30.2 million in benefits, claims and reserves in the Group disability, life, DBL and PFL segment, primarily due to $28.8 million in reserves associated with the new PFL rider (including an accrual for a potential risk adjustment payment of $7.0 million), as well as $3.2 million in increased DBL reserves due to state mandates, and $2.0 million in increased Group Term Life incurred benefits on higher loss ratios; partially offset by a decrease of $4.1 million in LTD reserves primarily due to lower loss ratios in 2018; (ii) an increase of $2.1 million in the Medical Stop Loss segment as a result of better experience on the run-out business in 2017 with no corresponding amount in 2018; and (iii) an increase of $.5 million in the individual life, annuities and other lines; partially offset by (iv) a decrease of $23.6 million in the Specialty Health segment primarily as a result of a decrease of $20.3 million in the STM line of business due to decreased premium volume and lower loss ratios, a decrease in benefits, claims and reserves related to the run-off of certain occupational accident and international lines of business of $5.0 million and $4.6 million, respectively, and a decrease of $1.1 million in the dental line due to lower premiums; partially offset by increases of $6.0 million in the group gap lines of business due to increased premium volume and $1.3 million in the pet lines.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses increased $11.9 million over the comparable period in 2017. The increase is primarily attributable to: (i) an increase of $7.2 million in the Specialty Health line of business due to an increase in administrative and commission expenses related to increased premium volume in hospital indemnity and group gap lines of business, increased agency expenses from PetPartners with only nine months of comparable expenses in 2017, and increased expenses at IHC

Specialty Benefits Inc. related to call center expansion costs; partially offset by a decrease in commissions and administrative fees in the STM and dental lines on lower premium volume and certain occupational accident and international lines of business in run-off; (ii) an increase of $7.0 million in the Group disability, life, DBL and PFL segment primarily due to increased commission expense and premium taxes on PFL, DBL and LTD lines of business; and (iii) an increase of $.5 million in the Corporate segment largely due to changes in compensation and related expenses; partially offset by (iv) a $2.0 million decrease in expenses related to the Medical Stop Loss segment as a result of exiting this line of business and a decrease of (v) $.8 in the individual life, annuities and other segment.

Income Taxes

The effective tax (benefit) rate was 22.6% in 2018 compared to (48.7)% in 2017. The tax rate in 2018 is primarily the result of a 28% blended tax rate applicable to the first six months of 2018 as a result of the Company's June 30 fiscal tax year, and the new 21% statutory tax rate applicable to the last six months of 2018, as a result of the 2017 Tax Act, partially offset by tax benefits recorded in connection with share-based compensation. In 2017, the Company: (i) completed its accounting for the impact of the Tax Act and recorded a deferred income tax expense of $9.4 million due to the re-measurement of deferred tax assets, liabilities and related valuation allowance; (ii) wound down the operations and dissolved a subsidiary recognizing an estimated $11.6 million income tax benefit on a worthless stock deduction of $33.1 million, representing the Company's tax basis on its unrecovered investment in that subsidiary; and (iii) recorded a $20.3 million credit to federal income taxes in 2017 as a result of the reduction in AMIC's valuation allowance for increased income projections and associated utilization of Federal net operating loss carryforwards. AMIC's valuation allowance was due to the probability that AMIC might not be able to fully utilize its prior tax year federal net operating loss carryforwards ("NOLs").

LIQUIDITY

Insurance Group

The Insurance Group normally provides cash flow from: (i) operations; (ii) the receipt of scheduled principal payments on its portfolio of fixed maturities; and (iii) earnings on investments. Such cash flow is partially used to fund liabilities for insurance policy benefits. These liabilities represent long-term and short-term obligations.

Corporate

Corporate derives its funds principally from: (i) dividends from the Insurance Group; (ii) management fees from its subsidiaries; and (iii) investment income from Corporate liquidity. Regulatory constraints historically have not affected the Company's consolidated liquidity, although state insurance laws have provisions relating to the ability of the parent company to use cash generated by the Insurance Group. The Insurance Group declared and paid $23.4 million and $18.0 million of cash dividends to Corporate in 2018 and 2017, respectively.

Corporate utilizes cash primarily for the payment of general overhead expenses, common stock dividends, and common stock repurchases.

Cash Flows

The Company had $30.8 million and $32.2 million of cash, cash equivalents and restricted cash as of December 31, 2018 and 2017, respectively.

Operating activities provided $36.0 million of cash. Investment activities utilized $27.7 million of cash, primarily for the purchases of investment securities and financing activities utilized $9.7 million of cash, of which $4.1 million was utilized for treasury share purchases and $3.7 million was utilized for payments of common stock dividends.

At December 31, 2018, the Company had $527.2 million of insurance liabilities that it expects to ultimately pay out of current assets and cash flows from future business. If necessary, the Company could utilize the cash received from maturities and repayments of its fixed maturity investments if the timing of claim payments associated with the Company's insurance resources does not coincide with future cash flows. For the year ended December 31, 2018, cash received from the maturities and other repayments of fixed maturities was $32.8 million.

The Company believes it has sufficient cash to meet its currently anticipated business requirements over the next twelve months including working capital requirements and capital investments.

BALANCE SHEET

The Company had receivables from reinsurers of $368.7 million at December 31, 2018 compared to $380.6 million at December 31, 2017. All of such reinsurance receivables are from highly rated companies or are adequately secured. No allowance for doubtful accounts was necessary at December 31, 2018.

The $17.2 million increase in IHC's stockholders' equity in 2018 is primarily due to $28.5 million of net income attributable to IHC reduced by $3.4 million of other comprehensive losses net of tax, attributable to IHC, by $4.0 million of treasury stock purchases and by $4.5 million of common stock dividends declared in 2018.

Asset Quality and Investment Impairments

The nature and quality of insurance company investments must comply with all applicable statutes and regulations, which have been promulgated primarily for the protection of policyholders. Although the Company's gross unrealized losses on fixed maturities available-for-sale securities totaled $11.6 million at December 31, 2018, 99.3% of the Company's fixed maturities were investment grade and continue to be rated on average AA. The Company marks all of its available-for-sale securities to fair value through accumulated other comprehensive income or loss. These investments tend to carry less default risk and, therefore, lower interest rates than other types of fixed maturity investments. The Company does not have any non-performing fixed maturity investments at December 31, 2018.

Certain fixed maturities, primarily municipal obligations, in our investment portfolio are insured by financial guaranty insurance companies. The insurance, however, does not enhance the credit ratings on these securities. The following table summarizes the credit quality of our fixed maturity portfolio, as rated, at December 31, 2018:

Bond Ratings	**As Rated**
AAA	11.8%
AA	50.1%
A	33.9%
BBB	3.5%
Total Investment Grade	99.3%
BB or lower	0.7%
Total Fixed Maturities	100.0%

Changes in interest rates, credit spreads, and investment quality ratings may cause the market value of the Company's investments to fluctuate. The Company does not have the intent to sell nor is it more likely than not that the Company will have to sell debt securities in unrealized loss positions that are not other-than-temporarily impaired before recovery. In the event that the Company's liquidity needs require the sale of fixed maturity securities in unfavorable interest rate, liquidity or credit spread environments, the Company may realize investment losses.

The Company reviews its investments regularly and monitors its investments continually for impairments, as discussed in Note 1(F) (v) of the Notes to Consolidated Financial Statements in Item 8 of this report. The Company did not record any other-than-temporary impairment losses in 2018 or 2017. At December 31, 2018, there were no securities with fair values less than 80% of their amortized cost.

The unrealized losses on fixed maturities available-for-sale securities have been evaluated in accordance with the Company's impairment policy and were determined to be temporary in nature at December 31, 2018. From time to time, as warranted, the Company may employ investment strategies to mitigate interest rate and other market exposures. Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, imbalances in liquidity that exist in the marketplace, worsening of current economic conditions, or declines in real estate values may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods which may cause the Company to incur additional write-downs.

Goodwill

Goodwill represents the excess of the amount we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. The Company tests goodwill for impairment at least annually and between annual tests if an event or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Goodwill is considered impaired when the carrying amount of goodwill exceeds its implied fair value.

All goodwill carrying amounts are evaluated for impairment at the reporting unit level which is equivalent to an operating segment. Goodwill was allocated to each reporting unit or operating segment at the time of acquisition. At December 31, 2018, total goodwill was $50.7 million, all of which was attributable to the Specialty Health segment.

Based upon the goodwill impairment testing performed at December 31, 2018, the fair value of each reporting unit exceeded its carrying value and no impairment charge was required. Fair value exceeded carrying value by more than 10% in the Specialty Health segment.

In determining the fair value of each reporting unit, we used an income approach, applying a discounted cash flow method that included a residual value. Based on historical experience, we made assumptions as to: (i) expected future performance and future economic conditions, (ii) projected operating earnings, (iii) projected new and renewal business as well as profit margins on such business, and (iv) a discount rate that incorporated an appropriate risk level for the reporting unit.

Management uses a significant amount of judgment in estimating the fair value of the Company's reporting units. The key assumptions underlying the fair value process are subject to uncertainty and change. The following represent some of the potential risks that could impact these assumptions and the related expected future cash flows: (i) increased competition; (ii) an adverse change in the insurance industry and overall business climate; (iii) changes in state and federal regulations; (iv) rating agency downgrades of our insurance companies; and (v) a sustained and significant decrease in our share price and market capitalization.

At December 31, 2018, our market capitalization as of December 31, 2018 was above the sum of our reporting units' fair values. However, if in the future we were to experience a sustained decline in our results of operations and cash flows, or other indicators of impairment become known, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

Liability for Policy Benefits and Claims

The following table summarizes the prior year net favorable amount of policy benefits and claims incurred in 2018 according to the year in which it relates, together with the opening balances of the corresponding liability for policy benefits and claims (net of reinsurance recoverable) (in thousands):

	Policy Benefits and Claims at January 1, 2018	Prior Year Amount Incurred in 2018
2017	$ 66,765	$ (16,463)
2016	18,286	(985)
2015	9,421	(2,497)
2014 and Prior	32,075	38
Total	$ 126,547	$ (19,907)

The following sections describe, for each segment, the unfavorable (favorable) development in the liability for policy benefits and claims experienced in 2018, together with the key assumptions and changes therein affecting the reserve estimates.

Specialty Health

The Specialty Health segment had a net favorable development of $10.7 million related to prior years primarily from: (i) $3.1 million of favorable development on hospital indemnity plan business due to the release of reserves from emerging favorable experience on business written in 2017 as a result of increased sales volume of this product from new production sources in 2017; (ii) $ 3.5 million of favorable development in short-term medical business as inventory levels decreased and paid claim activity was below the levels anticipated; (iii) $1.3 million of favorable development from the occupational accident and international lines in run-off; and, (iv) favorable development in other lines of Specialty Health business.

Group Disability

The Group Disability segment had a net favorable development of $6.3 million primarily due to $5.2 million of favorable development in LTD business as a result of a lower number of expected claims and greater number of expected terminations. The remaining favorable development is the result of better than expected experience on the DBL business.

Due to the long-term nature of LTD, in establishing the liability for policy benefits and claims, the Company must make estimates for case reserves, IBNR, and reserves for Loss Adjustment Expenses ("LAE"). Case reserves generally equal the actuarial present value of the liability for future benefits to be paid on claims incurred as of the balance sheet date. The IBNR reserve is established based upon historical trends of existing incurred claims that were reported after the balance sheet date. The LAE reserve is calculated based on an actuarial expense study. Since the LTD block of policies is relatively small, with the potential for very large claims on individual policies, results can vary from year to year. If a small number of claimants with large claim reserves were to recover or several very large claims were incurred, the results could distort the Company's policy benefits and claims estimates from year to year. With respect to DBL, the liability for policy benefits and claims for the most recent quarter of earned premium is established using a Net Loss Ratio methodology. The Net Loss Ratio is determined by applying the completed prior four quarters of historical Net Loss Ratios to the last quarter of earned premium. Policy benefits and claims associated with the premium earned prior to the last quarter are established using a completion factor methodology. The completion factors are developed using the historical payment patterns for DBL.

Medical Stop-Loss

The Company experienced a net favorable development of $.3 million related to the Medical Stop-Loss segment. Our Medical Stop-Loss business is currently in run-off.

Life, Annuities and Other

All other lines, primarily life and other individual health products, experienced favorable development of $2.6 million. The favorable development in life reserves is primarily due to the group term life business developing better than expected claims incidence in the prior incurred years.

CAPITAL RESOURCES

Due to its strong capital ratios, broad licensing and excellent asset quality and credit-worthiness, the Insurance Group remains well positioned to increase or diversify its current activities. It is anticipated that future acquisitions or other expansion of operations will be funded internally from existing capital and surplus and parent company liquidity. In the event additional funds are required, it is expected that they would be borrowed or raised in the public or private capital markets to the extent determined to be necessary or desirable. The Company has no long-term debt outstanding at December 31, 2018 or 2017.

OUTLOOK

For 2019, the Company anticipates that it will:

- Increase our "insuretech" footprint as a significant driver of growth through our recent acquisition of a cloud-based technology platform for individuals and small groups and licensing of a cloud-based platform for our expansion into the senior market.

- Expand on existing "insuretech" capabilities by: (i) developing our controlled distribution through additional call center and career advisor sales representatives and improved sales platforms, (ii) accessing products to be sold to the senior market both underwritten by our carriers and imported from other carriers, (iii) developing new product variations and bundles of ancillary products to meet the needs of individuals and small groups, (iv) expanding the newly acquired My1HR platform for sales of both individual and group products, and (v) expanding the distribution of our pet products and introduce innovative product changes.

- Expand its owned call center and career advisor channels. During the 2019 open enrollment period, our HealtheDeals call center employed up to 49 sales representatives in three locations, which is significantly larger than the prior year. This is a highly scalable model subject to continuing to generate quality leads at an affordable price. One of our call center's key relationships is supporting inquiries received from members of USAA, an insurance, banking, and investment services provider serving millions of military members and their families. We are also ramping up our organic lead generation capabilities and sources of paid leads, and making inroads into large affinity groups that will make our products available to their members. In each case, our call center agents are able to offer a number of quality health insurance choices, including STM, hospital indemnity ("HIP"), dental and gap plans underwritten by IHC's carriers as well as Affordable Care Act ("ACA") and other products available through nationally recognized insurance companies. Greater access to leads has also made it possible to expand our network of career advisors, and we expect growth in this division in 2019 as we improve our systems and product offerings.

- Enter the senior market. Given the expansion of call center representatives and career advisors, we will expand our offerings to serve the rapidly expanding senior market. Initially, we will import Medicare Supplement, Medicare Advantage, term life and final expense products from other carriers to supplement dental, vision and HIP products underwritten by IHC's insurance companies. Over time, we will explore filing some of the products that we don't currently underwrite on IHC paper as well. Over 10,000 people in the United States turn age 65 every day. We believe this affords us an outstanding sales opportunity outside of open enrollment for ACA plans.

- Incorporate our new cloud-based technology platforms and quoting and enrollment tools into our distributions. In January 2019, we acquired My1HR, a state-of-the-art quoting and cloud-based enrollment platform utilized by approximately 4,000 active users to manage the health insurance needs of their clients. As a web-based entity, this includes quoting and enrolling individuals in ACA plans as well as ancillary coverages. In addition, My1HR is in the final stage of launching a cloud-based quoting and enrollment tool that is specifically designed for producers in the small group employer market. This new quoting and enrollment system will support group products for all IHC carriers as well as select group ACA and level funded health coverages from leading national health plans.

- Continue to diversify our sources of pet insurance premium through (i) the expansion of marketing efforts by our subsidiary, PetPartners, (ii) increased white-label distribution opportunities where PetPartners acts as administrator and Independence American is the risk taker, and (iii) increased premium for Independence American through our relationships as an underwriter for PetFirst, a company focused on shelters, rescues and animal welfare marketing space, and Pets Best, which excels on direct-to-consumer and veterinarian sales channels.

- Continue to increase our DBL/PFL premiums. Effective January 1, 2018, Standard Security Life began selling a new rider (“Paid Family Leave” or “PFL”) as part of our New York DBL policies. This is a result of New York State requiring employers to provide PFL, which would cover job-protected paid leave to care for a new child or sick family member or to assist when someone is called to active military service. This has more than doubled our DBL block. The PFL product rate is set by the NYSDFS and provides for a potential risk adjustment payment in the event the company has better experience than the industry.

- Achieve increases in both long-term and short-term disability premiums in 2019 generated from new distribution relationships.

- Accomplish increases in life and disability premium by developing additional strategic functional and distribution partnerships, broaden worksite portfolio, and enhance Business to Business to Consumer website functionality.

- Continue to evaluate strategic transactions. We plan to deploy some of our cash to make additional investments and acquisitions that will bolster existing or new lines of business.

- Continue to focus on administrative efficiencies.

Subject to making additional repurchases, acquisitions and investments, the Company will remain highly liquid in 2018 as a result of the continuing shorter duration of the portfolio. IHC has approximately $145.8 million in highly rated securities earning on average 2.0%; our portfolio as a whole is rated, on average, AA. The average duration of the Company’s portfolio is 4 years. The low duration of our portfolio enables us, if we deem prudent, the flexibility to reinvest in much higher yielding longer-term securities, which would significantly increase investment income in the future. A low duration portfolio such as ours also mitigates the adverse impact of potential inflation. IHC will continue to monitor the financial markets and invest accordingly.

Our results depend on the adequacy of our product pricing, our underwriting, the accuracy of our reserving methodology, returns on our invested assets, and our ability to manage expenses. We will also need to be diligent with increased rate review scrutiny to effect timely rate changes and will need to stay focused on the management of medical cost drivers in the event medical trend levels cause margin pressures. Factors affecting these items, as well as unemployment and global financial markets, may have a material adverse effect on our results of operations and financial condition.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Schedules on page 54.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the Securities Exchange Act of 1934 ("the Exchange Act") Rule 13a-15(f). The Company's internal controls are designed to provide reasonable assurance as to the reliability of its financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

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

With the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

Evaluation of Disclosure Controls and Procedures

At the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of management, including the CEO and the CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act, as amended) were effective.

Changes in Internal Control Over Financial Reporting

Our management identified no change in our internal control over financial reporting that occurred during the fourth quarter ended December 31, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting other than the remediation of the material weakness in our internal controls over financial reporting for income taxes as noted above.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to IHC's 2019 annual meeting of stockholders, which definitive proxy statement will be filed with the Securities and Exchange Commission ("SEC").

Our written Code of Business Ethics and Corporate Code of Conduct may be found on our website, www.ihcgroup.com, under the Corporate Information / Corporate Governance tabs. Both Codes apply to all of our directors, officers and employees, including our principal executive officer and our senior financial officers. Any amendment to or waiver from either of the Codes will be posted to the same location on our website, to the extent such disclosure is legally required.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to IHC's 2019 annual meeting of stockholders, which definitive proxy statement will be filed with the SEC.

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

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to IHC's 2019 annual meeting of stockholders, which definitive proxy statement will be filed with the SEC.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to IHC's 2019 annual meeting of stockholders, which definitive proxy statement will be filed with the SEC.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to IHC's 2019 annual meeting of stockholders, which definitive proxy statement will be filed with the SEC.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2)

See Index to Consolidated Financial Statements and Schedules on page 54.

(a) (3) EXHIBITS

See Exhibit Index on page 106.

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 15, 2019.

INDEPENDENCE HOLDING COMPANY
REGISTRANT

By: /s/ Roy T. K. Thung
Roy T.K. Thung
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Teresa A. Herbert
Teresa A. Herbert
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the 15th day of March, 2019.

/s/ Larry R. Graber
Larry R. Graber
Director and Senior Vice President

/s/ Steven B. Lapin
Steven B. Lapin
Vice Chairman of the Board of Directors

/s/ Allan C. Kirkman
Allan C. Kirkman
Director

/s/ Ronald I. Simon
Ronald I. Simon
Director

/s/ John L. Lahey
John L. Lahey
Director

/s/ James G. Tatum
James G. Tatum
Director

/s/ Roy T.K. Thung
Roy T.K. Thung
Chairman of the Board of Directors and
Chief Executive Officer
(Principal Executive Officer)

/s/ David T. Kettig
David T. Kettig
Director, President and Chief Operating Officer

/s/ Teresa A. Herbert
Teresa A. Herbert
Director, Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

*All other schedules have been omitted as they are not applicable or not required, or the information is included in the Consolidated Financial Statements or Notes thereto.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Independence Holding Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Independence Holding Company and its subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, and changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements and schedules (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 15, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2016.

Jacksonville, Florida
March 15, 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Independence Holding Company

Opinion on the Internal Control Over Financial Reporting

We have audited Independence Holding Company's (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements of the Company and our report dated March 15, 2019 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ RSM US LLP

Jacksonville, FL
March 15, 2019

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (In thousands, except share data)
DECEMBER 31,

		2018		2017
ASSETS:				
Investments:				
Short-term investments	$	1,050	$	50
Securities purchased under agreements to resell		12,063		10,269
Fixed maturities, available-for-sale		453,464		441,912
Equity securities		5,166		6,120
Other investments		13,192		18,547
Total investments		484,935		476,898
Cash and cash equivalents		26,173		26,465
Due and unpaid premiums		24,412		21,950
Due from reinsurers		368,731		380,593
Goodwill		50,697		50,697
Other assets		82,568		84,020
TOTAL ASSETS	$	1,037,516	$	1,040,623
LIABILITIES AND EQUITY:				
LIABILITIES:				
Policy benefits and claims	$	160,115	$	168,683
Future policy benefits		208,910		214,766
Funds on deposit		141,635		143,537
Unearned premiums		5,557		6,666
Other policyholders' funds		10,939		10,402
Due to reinsurers		3,613		3,808
Accounts payable, accruals and other liabilities		53,133		56,453
TOTAL LIABILITIES		583,902		604,315
Commitments and contingencies (Note 14)				
Redeemable noncontrolling interest		2,183		2,065
STOCKHOLDERS' EQUITY:				
Preferred stock $1.00 par value, 100,000 shares authorized; none issued or outstanding		-		-
Common stock $1.00 par value, 23,000,000 shares authorized; 18,625,458 shares issued; and 14,878,248 and 14,890,285 shares outstanding		18,625		18,625
Paid-in capital		124,395		124,538
Accumulated other comprehensive loss		(8,310)		(4,598)
Treasury stock, at cost; 3,747,210 and 3,735,173 shares		(66,392)		(63,404)
Retained earnings		380,431		356,383
TOTAL IHC STOCKHOLDERS' EQUITY		448,749		431,544
NONREDEEMABLE NONCONTROLLING INTERESTS		2,682		2,699
TOTAL EQUITY		451,431		434,243
TOTAL LIABILITIES AND EQUITY	$	1,037,516	$	1,040,623

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (In thousands, except per share data)
YEARS ENDED DECEMBER 31,

	2018	2017
REVENUES:		
Premiums earned	$ 321,248	$ 282,266
Net investment income	15,021	14,430
Fee income	18,900	16,765
Other income (loss)	(3,361)	4,494
Net investment gains (losses)	(1,033)	2,539
	350,775	320,494
EXPENSES:		
Insurance benefits, claims and reserves	144,206	135,054
Selling, general and administrative expenses	169,028	157,104
	313,234	292,158
Income before income taxes	37,541	28,336
Income taxes (benefits)	8,488	(13,794)
Net income	29,053	42,130
(Income) from nonredeemable noncontrolling interests	(352)	(27)
(Income) from redeemable noncontrolling interests	(219)	(61)
NET INCOME ATTRIBUTABLE TO IHC	$ 28,482	$ 42,042
Basic income per common share	$ 1.92	$ 2.67
WEIGHTED AVERAGE SHARES OUTSTANDING	14,812	15,718
Diluted income per common share	$ 1.89	$ 2.63
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	15,104	16,008

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In thousands)
YEARS ENDED DECEMBER 31,

		2018		2017
Net income	$	29,053	$	42,130
Other comprehensive income (loss):				
Available-for-sale securities:				
Unrealized gains (losses) on available-for-sale securities, pre-tax		(4,272)		4,996
Tax expense (benefit) on unrealized gains on available-for-sale securities		(910)		1,815
Unrealized gains (losses) on available-for-sale securities, net of taxes		(3,362)		3,181
Other comprehensive income (loss), net of tax		(3,362)		3,181
COMPREHENSIVE INCOME, NET OF TAX		25,691		45,311
Comprehensive (income) loss, net of tax, attributable to noncontrolling interests				
(Income) loss from noncontrolling interests in subsidiaries		(571)		(88)
Other comprehensive income, net of tax, attributable to noncontrolling interests		-		-
COMPREHENSIVE (INCOME) LOSS, NET OF TAX, ATTRIBUTABLE TO NONCONTROLLING INTERESTS		(571)		(88)
COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO IHC	$	25,120	$	45,223

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (In thousands, except share data)

	COMMON STOCK		PAID-IN	ACCUMULATED OTHER COMPREHENSIVE	TREASURY STOCK, AT COST		RETAINED	TOTAL IHC STOCKHOLDERS'	NONREDEEMABLE NONCONTROLLING INTERESTS IN	TOTAL
	SHARES	AMOUNT	CAPITAL	INCOME (LOSS)	SHARES	AMOUNT	EARNINGS	EQUITY	SUBSIDIARIES	EQUITY
BALANCE AT DECEMBER 31, 2016	18,620,508	$ 18,620	$ 126,468	$ (6,964)	(1,517,983)	$ (17,483)	$ 315,918	$ 436,559	$ 2,697	$ 439,256
Net income							42,042	42,042	27	42,069
Other comprehensive income, net of tax				3,181				3,181	-	3,181
Repurchases of common stock					(2,289,502)	(46,527)		(46,527)	-	(46,527)
Common stock dividends ($0.16 per share)							(2,392)	(2,392)	-	(2,392)
Share-based compensation	4,950	5	(1,930)		72,312	606		(1,319)	-	(1,319)
Distributions to noncontrolling interests								-	(25)	(25)
Reclassification of the stranded tax effects in accumulated other comprehensive income				(815)			815	-	-	-
BALANCE AT DECEMBER 31, 2017	18,625,458	$ 18,625	$ 124,538	$ (4,598)	(3,735,173)	$ (63,404)	$ 356,383	$ 431,544	$ 2,699	$ 434,243
Cumulative effects of new accounting principles				(350)			34	(316)	(97)	(413)
Net income							28,482	28,482	352	28,834
Other comprehensive loss, net of tax				(3,362)				(3,362)	-	(3,362)
Repurchases of common stock					(135,311)	(4,019)		(4,019)	-	(4,019)
Common stock dividends ($0.30 per share)							(4,468)	(4,468)	-	(4,468)
Share-based compensation			(143)		123,274	1,031		888	-	888
Distributions to noncontrolling interests								-	(272)	(272)
BALANCE AT DECEMBER 31, 2018	18,625,458	$ 18,625	$ 124,395	$ (8,310)	(3,747,210)	$ (66,392)	$ 380,431	$ 448,749	$ 2,682	$ 451,431

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

YEARS ENDED DECEMBER 31,

	2018	2017
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income	$ 29,053	$ 42,130
Adjustments to reconcile net income to net change in cash from operating activities:		
Amortization of deferred acquisition costs	982	340
Net investment (gains) losses	1,033	(2,539)
Equity (income) loss from equity method investments	2,111	(1,846)
Impairment loss	2,275	-
Depreciation and amortization	2,852	1,920
Deferred tax expense (benefit)	4,063	(9,746)
Other	6,644	6,535
Changes in assets and liabilities:		
Change in insurance liabilities	(15,660)	(90,065)
Change in amounts due from reinsurers	11,862	59,692
Change in claim fund balances	(249)	10,868
Change in current income tax liability	1,112	(5,979)
Change in due and unpaid premiums	(2,462)	20,946
Other operating activities	(7,599)	372
Net change in cash from operating activities	36,017	32,628
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:		
Net (purchases) sales and maturities of short-term investments	(999)	6,849
Net (purchases) sales of securities under resale agreements	(1,794)	18,693
Sales of equity securities	698	-
Sales of fixed maturities	72,905	193,930
Maturities and other repayments of fixed maturities	32,813	28,355
Purchases of fixed maturities	(126,529)	(210,694)
Payments to acquire business, net of cash acquired	-	(12,323)
Distributions from other investments	-	5,246
Purchases of other investments	-	(602)
Other investing activities	(4,784)	(1,854)
Net change in cash from investing activities	(27,690)	27,600
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:		
Repurchases of common stock	(4,140)	(46,401)
Withdrawals of investment-type insurance contracts	(1,432)	(1,736)
Dividends paid	(3,712)	(1,928)
Proceeds from stock options exercised	856	-
Payments related to tax withholdings for sharebased compensation	(905)	(1,659)
Other financing activities	(384)	(25)
Net change in cash from financing activities	(9,717)	(51,749)
Net change in cash, cash equivalents and restricted cash	(1,390)	8,479
Cash, cash equivalents and restricted cash, beginning of year	32,197	23,718
Cash, cash equivalents and restricted cash, end of period	$ 30,807	$ 32,197

See accompanying notes to consolidated financial statements.

Note 1. Organization, Consolidation, Basis of Presentation and Accounting Policies

(A) Business and Organization

Independence Holding Company, a Delaware corporation (“IHC”), is a holding company principally engaged in the life and health insurance business through: (i) its insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life"), and Independence American Insurance Company (“Independence American”); and (ii) its marketing and administrative companies, including IHC Specialty Benefits Inc., IHC Carrier Solutions, Inc. and a majority interest in PetPartners, Inc. IHC also owns a significant equity interest in Ebix Health Exchange Holdings, LLC (“Ebix Health Exchange”), an administration exchange for health insurance. Standard Security Life, Madison National Life and Independence American are sometimes collectively referred to as the “Insurance Group”. IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company", or “IHC”, or are implicit in the terms “we”, “us” and “our”.

Geneve Corporation, a diversified financial holding company, and its affiliated entities, held approximately 61% of IHC's outstanding common stock at December 31, 2018.

(B) Basis of Presentation

The Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of IHC and its consolidated subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements; and (ii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(C) Reclassifications

Certain amounts in prior year’s consolidated financial statements and Notes thereto have been reclassified to conform to the 2018 presentation primarily as a result of new accounting principles adopted in the current year.

(D) Cash, Cash Equivalents and Short-Term Investments

Cash equivalents are carried at cost which approximates fair value, and include principally interest-bearing deposits at brokers, money market instruments and U.S. Treasury securities with original maturities of less than 91 days. Investments with original maturities of 91 days to one year are considered short-term investments and are carried at cost, which approximates fair value.

(E) Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell ("resale agreements") are carried at the amounts at which the securities will be subsequently resold as specified in the agreements. Resale agreements are utilized to invest excess funds on a short-term basis. At December 31, 2018, the Company had $12,063,000 invested in resale agreements, all of which settled on January 2, 2019 and were subsequently reinvested. The Company maintains control of securities purchased under resale agreements, values the collateral on a daily basis (102% is required) and obtains additional collateral, if necessary, to protect the Company in the event of default by the counterparties.

(F) Investment Securities

(i) Investments in fixed maturities, redeemable preferred securities and equity securities are accounted for as follows:

(a) Equity securities with readily determinable fair values are carried at estimated fair value ("fair value"). Changes in fair value are credited or charged, as appropriate, to net investment gains (losses) in the Consolidated Statements of Income.

(b) Fixed maturities, including redeemable preferred securities, that are not held for trading purposes and may or may not be held to maturity ("available-for-sale securities") are carried at fair value. Unrealized gains and losses deemed temporary, net of deferred income taxes, are credited or charged, as appropriate, to other comprehensive income or loss. Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Income, using the constant yield method over the period to maturity.

(ii) Dividend income from investments in equity securities are included in net investment income in the Consolidated Statements of Income.

(iii) Gains or losses on sales of securities are determined on the basis of specific identification and are recorded in net investment gains (losses) in the Consolidated Statements of Income on the trade date.

(iv) Fair value is determined using quoted market prices when available. In some cases, we use quoted market prices for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets. When there are limited or inactive trading markets, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. Further, we retain independent pricing vendors to assist in valuing certain instruments. Most of the securities in our portfolio are classified in either Level 1 or Level 2 of the Fair Value Hierarchy.

The Company periodically reviews and assesses the vendor's qualifications and the design and appropriateness of its pricing methodologies. Management will on occasion challenge pricing information on certain individual securities and, through communications with the vendor, obtain information about the assumptions, inputs and methodologies used in pricing those securities, and corroborate it against documented pricing methodologies. Validation procedures are in place to determine completeness and accuracy of pricing information, including, but not limited to: (i) review of exception reports that (a) identify any zero or un-priced securities; (b) identify securities with no price change; and (c) identify securities with significant price changes; (ii) performance of trend analyses; (iii) periodic comparison of pricing to alternative pricing sources; and (iv) comparison of pricing changes to expectations based on rating changes, benchmarks or control groups. In certain circumstances, pricing is unavailable from the vendor and broker-pricing information is used to determine fair value. In these instances, management will assess the quality of the data sources, the underlying assumptions and the reasonableness of the broker quotes based on the current market information available. To determine if an exception represents an error, management will often have to exercise judgment. Procedures to resolve an exception vary depending on the significance of the security and its related class, the frequency of the exception, the risk of material misstatement, and the availability of information for the security. These procedures include, but are not limited to; (i) a price challenge process with the vendor; (ii) pricing from a different vendor; (iii) a reasonableness review; and (iv) a change in price based on better information, such as an actual market trade, among other things. Management considers all facts and relevant information obtained during the above procedures to determine the proper classification of each security in the Fair Value Hierarchy.

(v) The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. The factors considered by management in its regular review to identify and recognize other-than-temporary impairment losses on fixed maturities include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the Company's intent to sell, or be required to sell, the debt security before the anticipated recovery of its remaining amortized cost basis; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions including the effect of changes in market interest rates. If the Company intends to sell a debt security, or it is more likely than not that it would be required to sell a debt security before the recovery of its amortized cost basis, the entire difference between the security's amortized cost basis and its fair value at the balance sheet date would be recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Income. If a decline in fair value of a debt security is judged by management to be other-than-temporary and; (i) the Company does not intend to sell the security; and (ii) it is not more likely than not that it will be required to sell the security prior to recovery of the security's amortized cost, the Company assesses whether the present value of the cash flows to be collected from the security is less than its amortized cost basis. To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost basis, a credit loss exists. For any such security, the impairment is bifurcated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Income, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income (loss). It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments in the near term, which could be significant.

In assessing corporate debt securities for other-than-temporary impairment, the Company evaluates the ability of the issuer to meet its debt obligations and the value of the company or specific collateral securing the debt position. For mortgage-backed securities where loan level data is not available, the Company uses a cash flow model based on the collateral characteristics. Assumptions about loss severity and defaults used in the model are primarily based on actual losses experienced and defaults in the collateral pool. Prepayment speeds, both actual and estimated, are also considered. The cash flows generated by the collateral securing these securities are then determined with these default, loss severity and prepayment assumptions. These collateral cash flows are then utilized, along with consideration for the issue's position in the overall structure, to determine the cash flows associated with the mortgage-backed security held by the Company. In addition, the Company evaluates other asset-backed securities for other-than-temporary impairment by examining similar characteristics referenced above for mortgage-backed securities. The Company evaluates U.S. Treasury securities and obligations of U.S. Government corporations, U.S. Government agencies, and obligations of states and political subdivisions for other-than-temporary impairment by examining the terms and collateral of the security. For the purpose of other-than-temporary impairment evaluations, redeemable preferred stocks are evaluated in a manner similar to debt securities. Declines in the creditworthiness of the issuer of debt securities with both debt and equity-like features are evaluated using the equity model in consideration of other-than-temporary impairment.

Subsequent increases and decreases, if not an other-than-temporary impairment, in the fair value of fixed maturities available-for-sale that were previously impaired, are recorded in other comprehensive income (loss).

In certain circumstances, due to cash flow requirements, market conditions or changes in the condition of a specific security, the Company may deem it prudent to sell a security before the anticipated recovery of its remaining amortized cost basis.

(G) Other Investments

Other investments primarily consist of limited partnership interests carried on the equity method, which approximates the Company's equity in the underlying net assets of the partnership. Equity income or loss on partnership interests is credited or charged, as appropriate, to the Consolidated Statements of Income.

Other investments also include equity investments without readily determinable fair values which are carried at their cost minus impairment, if any. Impairment indicators the Company may consider in its evaluation of whether an impairment exists include, but are not limited to: (i) significant deterioration in earnings or performance of the investee; (ii) significant adverse changes in market, regulatory or economic conditions; (iii) a bona fide offer to purchase, or an offer by the investee to sell, for an amount less than the carrying amount of the investment; and (iv) factors that raise concerns about the investee's ability to continue as a going concern. Dividends received from equity investments carried at cost are recognized in earnings.

(H) Property and Equipment

Property and equipment of $3,947,000 and $2,786,000 are included in other assets at December 31, 2018 and 2017, respectively, net of accumulated depreciation and amortization of $5,468,000 and $4,188,000, respectively.

Improvements are capitalized while repair and maintenance costs are charged to operations as incurred. Depreciation of property and equipment has been provided on the straight-line method over the estimated useful lives of the respective assets. Amortization of leasehold improvements has been provided on the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Any impairment of long-lived assets would be charged to expense. The Company had no impairments of long-lived assets in either 2018 or 2017.

(I) Goodwill and Other Intangible Assets

Goodwill carrying amounts are evaluated for impairment, at least annually on December 31 each year, at the reporting unit level that is equivalent to an operating segment. If the fair value of a reporting unit is less than its carrying amount, further evaluation is required to determine if a write-down of goodwill is required. In determining the fair value of each reporting unit, we used an income approach, applying a discounted cash flow method that included a residual value. Based on historical experience, we make assumptions as to: (i) expected future performance and future economic conditions, (ii) projected operating earnings, (iii) projected new and renewal business as well as profit margins on such business, and (iv) a discount rate that incorporated an appropriate risk level for the reporting unit. Any impairment of goodwill would be charged to expense.

Other intangible assets are amortized to expense over their estimated useful lives and are subject to impairment testing. Any impairment of other intangible assets would be charged to expense.

(J) Insurance Liabilities

Policy Benefits and Claims

The Company maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, where material, including legal, other fees, and costs not associated with specific claims but related to the claims payment function), for reported and unreported claims incurred as of the end of each accounting period. These loss reserves are based on actuarial assumptions. Many factors could affect these reserves, including economic and social conditions, frequency and severity of claims, medical trend resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, and changes in doctrines of legal liability and damage awards in litigation. Therefore, the Company's reserves are necessarily based on estimates, assumptions and analysis of historical experience. The Company's results depend upon the variation between actual claims experience and the assumptions used in determining reserves and pricing products. Reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. The Company cannot determine with precision the ultimate amounts that will be paid for actual claims or the timing of those payments. The Company's estimate of loss represents management's best estimate of the Company's liability at the balance sheet date.

All of the Company's short-duration contracts are generated from its accident, health, disability and pet insurance business, and are accounted for based on actuarial estimates of the amount of loss inherent in that period's claims, including losses incurred for which claims have not been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

Specialty Health

For the Specialty Health business, incurred but not reported ("IBNR") claims liabilities plus expected development on reported claims are calculated using standard actuarial methods and practices. The "primary" assumption in the determination of Specialty Health reserves is that historical Claim Development Patterns are representative of future Claim Development Patterns. Factors that may affect this assumption include changes in claim payment processing times and procedures, changes in time delay in submission of claims, and the incidence of unusually large claims. Liabilities for policy benefits and claims for specialty health medical and disability coverage are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data. The reserving analysis includes a review of claim processing statistical measures and large claim early notifications; the potential impacts of any changes in these factors are not material. The Company has business that is serviced by third-party administrators. From time to time, there are changes in the timing of claims processing due to any number of factors including, but not limited to, system conversions and staffing changes during the year. These changes are monitored by the Company and the effects of these changes are taken into consideration during the claim reserving process. Other than these considerations, there have been no significant changes to methodologies and assumptions from the prior year.

While these calculations are based on standard methodologies, they are estimates based on historical patterns. To the extent that actual claim payment patterns differ from historical patterns, such estimated reserves may be redundant or inadequate. The effects of such deviations are evaluated by considering claim backlog statistics and reviewing the reasonableness of projected claim ratios. Other factors which may affect the accuracy of policy benefits and claim estimates include the proportion of large claims which may take longer to adjudicate, changes in billing patterns by providers and changes in claim management practices such as hospital bill audits.

Disability and Paid Family Leave

The Company's disability business is primarily comprised of New York short-term disability ("DBL") and group disability.

With respect to DBL, the liability for policy benefits and claims for the most recent quarter of earned premium is established using a Net Loss Ratio methodology. The Net Loss Ratio is determined by applying the completed prior four quarters of historical Net Loss Ratios to the last quarter of earned premium. Policy benefits and claims associated with the premium earned prior to the last quarter are established using a completion factor methodology. The completion factors are developed using the historical payment patterns for DBL. There have been no significant changes to methodologies and assumptions from the prior year. With respect to PFL, policy benefits and claims associated with the premiums earned are established using a completion factor methodology. As this is the first year of this product, the completion factors used were based on the PFL payment patterns developed during 2018 supplemented with an estimated maturity factor to account for run-out longer than 12 months. Since the NYSDFS established a risk adjustment program, the Company is required to record in its financial statements an accrual for a potential payment to, or recovery from, the risk adjustment program depending on how its loss ratio compares to the industry wide loss ratio. To determine the amount of this risk adjustment, knowledge of industry wide performance is necessary. Unfortunately, the NYSDFS does not share the industry loss ratio data for the current reporting year until the following year. However, the Company uses available unaudited industry information to make its best estimate of its potential payment under the risk adjustment program until actual information is available.

Policy benefits and claims for the Company's group disability products are developed using actuarial principles and assumptions that consider, among other things, future offsets and recoveries, elimination periods, interest rates, probability of rehabilitation or mortality, incidence and termination rates based on the Company's experience. The liability for policy benefits and claims is made up of case reserves, IBNR and reopen reserves and Loss Adjustment Expenses ("LAE"). IBNR and reopen reserves are calculated by a hind-sight study, which takes historical experience and develops the reserve as a percentage of premiums from prior years.

The two "primary" assumptions on which group disability reserves are based are: (i) morbidity levels; and (ii) recovery rates. If morbidity levels increase, for example due to an epidemic or a recessionary environment, the Company would increase reserves because there would be more new claims than expected. In regard to the assumed recovery rate, if disabled lives recover more quickly than anticipated then the existing claims reserves would be reduced; if less quickly, the existing claims reserves would be increased.

Due to the long-term nature of LTD, in establishing the liability for policy benefits and claims, the Company must make estimates for case reserves, IBNR, and reserves for LAE. Case reserves generally equal the actuarial present value of the liability for future benefits to be paid on claims incurred as of the balance sheet date. The IBNR reserve is established based upon historical trends of existing incurred claims that were reported after the balance sheet date. The LAE reserve is calculated based on an actuarial expense study. There have been no significant changes to methodologies and assumptions from the prior year.

Future Policy Benefits

The liability for future policy benefits consists of the liabilities related to insured events for the Company's long-duration contracts, primarily its life and annuity products. For traditional life insurance products, the Company computes the liability for future policy benefits primarily using the net premium method based on anticipated investment yield, mortality, and withdrawals. These methods are widely used in the life insurance industry to estimate the liabilities for future policy benefits. Inherent in these calculations are management and actuarial judgments and estimates that could significantly impact the ending reserve liabilities and, consequently, operating results. Actual results may differ, and these estimates are subject to interpretation and change.

Management believes that the Company's methods of estimating the liabilities for future policy benefits provided appropriate levels of reserves at December 31, 2018. Changes in the Company's future policy benefits estimates are recorded through a charge or credit to its earnings.

Funds on Deposit

Funds received (net of mortality and expense charges) for certain long-duration contracts (principally deferred annuities and universal life policies) are credited directly to a policyholder liability account, funds on deposit. Withdrawals are recorded directly as a reduction of respective policyholders' funds on deposit. Amounts on deposit were credited at annual rates ranging from 3.0% to 6.0% in both 2018 and 2017.

Other Policyholders' Funds

Other policyholders' funds represent interest-bearing liabilities arising from the sale of products, such as universal life, interest-sensitive life and annuities. Policyholder funds are primarily comprised of deposits received and interest credited to the benefit of the policyholder less surrenders and withdrawals, mortality charges and administrative expenses.

Interest credited to policyholder funds represents interest accrued or paid on interest-sensitive life policies and investment policies. These amounts are reported in insurance benefits, claims and reserves on the Consolidated Statements of Income. Credit rates for certain annuities and interest-sensitive life policies are adjusted periodically by the Company to reflect current market conditions, subject to contractually guaranteed minimum rates.

(K) Deferred Income Taxes

The provision for deferred income taxes is based on the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized by applying enacted statutory tax rates to temporary differences between amounts reported in the Consolidated Financial Statements and the tax bases of existing assets and liabilities in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recognized for the portion of deferred tax assets that, in management's judgment, is not likely to be realized. A liability for uncertain tax positions is recorded when it is more likely than not that a tax position will not be sustained upon examination by taxing authorities. The effect on deferred income taxes of a change in tax rates or laws is recognized in income tax expense in the period that includes the enactment date.

The Company uses a portfolio approach to release income tax effects from accumulated other comprehensive income. The portfolio approach involves a strict period-by-period cumulative incremental allocation of income taxes to the change in unrealized gains and losses reflected in other comprehensive income. Under this approach, the net cumulative tax effect is ignored. The net change in unrealized gains or losses recorded in accumulated other comprehensive income under this approach would be eliminated only on the date the entire inventory of available-for-sale securities is sold or otherwise disposed of.

Interest and penalties, if any, are included in income tax expense in the Consolidated Statements of Income.

(L) Reinsurance

Amounts paid for or recoverable under reinsurance contracts are included in total assets or total liabilities as due from reinsurers or due to reinsurers. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies.

(M) Insurance Premium Revenue Recognition and Policy Charges

Premiums from short-duration medical insurance contracts are intended to cover expected claim costs resulting from insured events that occur during a fixed period of short duration. The Company has the ability to not renew the contract or to revise the premium rates at the end of each annual contract period to cover future insured events. Insurance premiums from annual health contracts are collected monthly and are recognized as revenue evenly as insurance protection is provided.

Premiums related to long-term and short-term disability contracts are recognized on a pro rata basis over the applicable contract term.

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Revenue from these products are recognized as premium when due.

Annuities and interest-sensitive life contracts, such as universal life and interest sensitive whole life, are contracts whose terms are not fixed and guaranteed. Premiums from these policies are reported as funds on deposit. Policy charges consist of fees assessed against the policyholder for cost of insurance (mortality risk), policy administration and early surrender. These revenues are recognized when assessed against the policyholder account balance.

Policies that do not subject the Company to significant risk arising from mortality or morbidity are considered investment contracts. Deposits received for such contracts are reported as other policyholder funds. Policy charges for investment contracts consist of fees assessed against the policyholder account for maintenance, administration and surrender of the policy prior to contractually specified dates, and are recognized when assessed against the policyholder account balance.

(N) Fee Income Revenue Recognition

Fee income includes fees and commissions for various sales, marketing and administrative services provided by our marketing and administrative companies. Revenue is recognized as these services are performed. For these administrative service and other contracts, we have no material contract assets or contract liabilities on our consolidated balance sheet at December 31, 2018. Revenue recognized from performance obligations related to prior periods, and revenue expected to be recognized in future periods related to unfulfilled contractual performance obligations and contracts with variable consideration, is not material.

(O) Income Per Common Share

Income per common share is computed using the treasury stock method.

(P) Share-Based Compensation

Compensation costs for equity awards, such as stock options and non-vested restricted stock, are measured based on grant-date fair value and are recognized in the Consolidated Statements of Income over the requisite service period (which is usually the vesting period). For such awards with only service conditions, the Company recognizes the compensation cost on a straight-line basis over the requisite service period for the entire award.

Compensation costs for liability-classified awards, such as share appreciation rights (“SARs”), are measured and accrued each reporting period in the Consolidated Statements of Income as the requisite service or performance conditions are met.

(Q) Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In May 2017, the Financial Accounting Standards Board (the “FASB”) issued guidance to provide clarity and reduce both (i) diversity in practice; and (ii) cost and complexity when accounting for a change in the terms or conditions of a share-based payment award. The amendments in this guidance will be applied prospectively. The adoption of this guidance did not have a material effect on the Company’s consolidated financial statements.

In January 2017, the FASB issued guidance that clarifies the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The amendments in this guidance will be applied prospectively. The adoption of this guidance did not have a material effect on the Company’s consolidated financial statements.

In November 2016, the FASB issued guidance requiring entities to show the changes in the total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The amendments in this guidance were applied retrospectively. The adoption of this guidance did not have a material effect on the Company’s Statements of Cash Flows and had no effect on the Company’s consolidated financial position or results of operations.

In October 2016, the FASB issued guidance requiring an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this guidance were applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the January 1, 2018. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In August 2016, the FASB issued guidance that changes how certain cash receipts and cash payments are presented and classified in the cash flows statement. The Company has elected to classify distributions received from equity method investees using the cumulative earnings approach. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In January 2016, the FASB issued guidance that eliminates the requirement to classify equity securities with readily determinable fair values as trading or available-for-sale. The guidance requires equity securities, other than those that result in consolidation or are accounted for under the equity method (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies), to be measured at fair value with changes in the fair value recognized through net income, simplifies the impairment assessment of equity securities without readily determinable fair values and requires changes in disclosure requirements. The amendments in this guidance were applied by means of a cumulative-effect adjustment of $340,000 credit to retained earnings as of January 1, 2018. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) have been applied prospectively to equity investments that existed as of January 1, 2018.

In May 2014, the FASB issued revenue recognition guidance for entities that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards such as insurance contracts or lease contracts. The amendment provides specific steps that an entity should apply in order to achieve its main objective which is recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Substantially all of the Company's revenue sources are excluded from the scope of the standard. For those revenue sources within the scope of the standard (included in the Fee income line of the Consolidated Statement of Income), there were no material changes in the timing or measurement of revenues. The amendments in this guidance were applied retrospectively with a cumulative effect adjustment on January 1, 2018, and as such, the Company recorded $552,000 of contract assets and $1,094,000 of deferred revenues, which are included on the Consolidated Balance Sheet in other assets and accounts payable, accruals and other liabilities. The overall net impact on retained earnings was a charge of $306,000, after the effects of taxes and noncontrolling interests.

Recently Issued Accounting Standards Not Yet Adopted

In October 2018, the FASB issued guidance for determining whether a decision making fee is a variable interest and requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest. The amendments in this guidance are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments in this guidance should be applied retrospectively through a cumulative effect adjustment to retained earnings at the beginning of the earliest period presented. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In August 2018, the FASB issued guidance to improve existing measurements, presentation and disclosure requirements for long-duration contracts issued by insurance entities. The amendments in this guidance requires an entity to (1) review and update assumptions used to measure cash flows at least annually as well as update the discount rate assumption at each reporting date; (2) measure market risk benefits associated with deposit contracts at fair value; (3) disclose liability rollforwards and information about significant inputs, judgements assumptions, and methods used in measurement. Additionally, it simplifies the amortization of deferred acquisition costs and other balances on a constant level basis over the expected term of the related contracts. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods within that fiscal year. Upon adoption, the amendments in this guidance should be applied to contracts in-force as of the beginning of the earliest period presented with a cumulative adjustment to beginning retained earnings. Management is evaluating the requirements and potential impact that the adoption of this guidance will have on the Company's consolidated financial statements.

In August 2018, the FASB issued guidance to improve the effectiveness of disclosures in the notes to financial statements regarding fair value measurements. The amendments in this guidance are effective for all entities for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Certain amendments should be applied prospectively for the most recent interim or annual period presented in the initial fiscal year of adoption while other amendments should be applied retrospectively to all periods presented upon the effective date. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In July 2018, the FASB issued guidance to simplify several aspects of accounting for nonemployee share-based compensation. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In March 2017, the FASB issued guidance requiring premium amortization on callable debt securities to be amortized to the earliest call date to more closely align the amortization period with expectations incorporated in market pricing of the underlying securities. The amendments in this guidance should be applied using a modified retrospective approach for annual periods beginning after December 15, 2018, including interim periods within those periods. Additional disclosures are required in the period of adoption. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In January 2017, the FASB issued guidance to simplify the test for goodwill impairment by eliminating Step 2 in the goodwill impairment test. Instead, under the amendments in this guidance, an entity should perform its annual or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendments in this guidance are effective for public business entities for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued guidance requiring financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. An allowance for credit losses will be deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected with changes in the allowance recorded in earnings. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than the currently applied U.S. GAAP method of taking a permanent impairment of the security, which would be limited to the amount by which fair value is below the amortized cost. Certain existing requirements used to evaluate credit losses have been removed. For public entities that are SEC filers, the amendments in this guidance are effective for fiscal years beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted for fiscal years beginning after December 15, 2018. The amendments in this guidance should be applied through a cumulative effect adjustment to retained earnings upon adoption as of the beginning of the first reporting period in which the guidance is effective. Management is evaluating the requirements and potential impact that the adoption of this guidance will have on the Company's consolidated financial statements.

In February 2016, the FASB issued guidance that requires lessees to recognize the assets and liabilities that arise from leases, including operating leases, on the statement of financial position. The amendments in this guidance are effective for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years. In July 2018, the FASB issued additional guidance that allows entities the option to either recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption or to use a modified retrospective approach. The Company is in the process of analyzing its lease portfolio. This process includes the evaluation of policies, processes and internal controls that will be required to comply with this new guidance. The Company plans to elect the practical expedients permitted within the new standard, which among other things, allows us to carryforward the historical lease classification. In addition, the Company plans to select the new transition method and apply the new lease requirements in the period of adoption without adjustment to the financial statements for periods prior to adoption. The Company expects the adoption of this new standard to result in an increase on its consolidated balance sheet for right-of-use assets and corresponding lease liabilities. The adoption of this guidance is not expected to have a material effect on the Company's consolidated results of operations or cash flows.

Note 2. Income Per Common Share

Included in the diluted earnings per share calculation for 2018 and 2017 are 292,000, and 290,000 of incremental common shares, respectively, primarily from the dilutive effect of share-based payment awards.

Note 3. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Balance Sheets to the amounts shown in the Consolidated Statements of Cash Flows for the periods indicated (in thousands):

	December 31,	
	2018	**2017**
Cash and cash equivalents	$ 26,173	$ 26,465
Restricted cash included in other assets	4,634	5,732
Total cash, cash equivalents and restricted cash	$ 30,807	$ 32,197

Restricted cash includes insurance premiums collected from insureds that are pending remittance to insurance carriers and/or payment of insurance claims and commissions to third party administrators. These amounts are required to be set aside by contractual agreements with the insurance carriers and are included in other assets on the Consolidated Balance Sheets.

Note 4. Investment Securities

The cost (amortized cost with respect to certain fixed maturities), gross unrealized gains, gross unrealized losses and fair value of fixed maturities available-for-sale are as follows for the periods indicated (in thousands):

	December 31, 2018			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$ 202,194	$ 701	$ (5,406)	$ 197,489
CMOs – residential (1)	6,092	-	(252)	5,840
U.S. Government obligations	63,231	1	(423)	62,809
Agency MBS – residential (2)	3	-	-	3
GSEs (3)	6,596	-	(110)	6,486
States and political subdivisions	172,860	302	(5,228)	167,934
Foreign government obligations	7,039	51	(46)	7,044
Redeemable preferred stocks	5,970	-	(111)	5,859
Total fixed maturities	$ 463,985	$ 1,055	$ (11,576)	$ 453,464

	December 31, 2017			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$ 148,996	$ 298	$ (2,847)	$ 146,447
CMOs - residential (1)	6,857	-	(180)	6,677
U.S. Government obligations	85,510	-	(396)	85,114
Agency MBS - residential (2)	14	-	-	14
GSEs (3)	9,887	-	(205)	9,682
States and political subdivisions	182,664	598	(3,619)	179,643
Foreign government obligations	4,227	13	(90)	4,150
Redeemable preferred stocks	10,006	179	-	10,185
Total fixed maturities	$ 448,161	$ 1,088	$ (7,337)	$ 441,912

(1) Collateralized mortgage obligations ("CMOs").
(2) Mortgage-backed securities ("MBS").
(3) Government-sponsored enterprises ("GSEs") are private enterprises established and chartered by the Federal Government or its various insurance and lease programs which carry the full faith and credit obligation of the U.S. Government.

The amortized cost and fair value of fixed maturities available-for-sale at December 31, 2018, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 34,632	$ 34,550
Due after one year through five years	184,330	181,911
Due after five years through ten years	141,678	137,931
Due after ten years	90,654	86,743
Fixed maturities with no single maturity date	12,691	12,329
	$ 463,985	$ 453,464

The following tables summarize, for all fixed maturities available-for-sale in an unrealized loss position, the aggregate fair value and gross unrealized loss by length of time those securities that have continuously been in an unrealized loss position for the periods indicated (in thousands):

	December 31, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	$ 46,988	$ 1,045	$ 108,738	$ 4,361	$ 155,726	$ 5,406
CMOs - residential	847	37	4,993	215	5,840	252
U.S. Government obligations	6,138	15	31,693	408	37,831	423
GSEs	-	-	6,478	110	6,478	110
States and political subdivisions	33,021	522	113,297	4,706	146,318	5,228
Foreign government obligations	-	-	2,835	46	2,835	46
Redeemable preferred stocks	5,859	111	-	-	5,859	111
Fixed maturities in an unrealized loss position	$ 92,853	$ 1,730	$ 268,034	$ 9,846	$ 360,887	$ 11,576
Number of fixed maturities in an unrealized loss position	47		115		162	

	December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	$ 85,642	$ 1,250	$ 44,640	$ 1,597	$ 130,282	$ 2,847
CMOs - residential	1,381	45	5,237	135	6,618	180
U.S. Government obligations	75,811	198	9,302	198	85,113	396
GSEs	-	-	9,669	205	9,669	205
States and political subdivisions	83,682	1,348	66,617	2,271	150,299	3,619
Foreign government obligations	2,959	90	-	-	2,959	90
Fixed maturities in an unrealized loss position	$ 249,475	$ 2,931	$ 135,465	$ 4,406	$ 384,940	$ 7,337
Number of fixed maturities in an unrealized loss position	60		76		136	

Substantially all of the unrealized losses on fixed maturities available-for-sale at December 31, 2018 and 2017 relate to investment grade securities and are attributable to changes in market interest rates. Because the Company does not intend to sell, nor is it more likely than not that the Company will have to sell such investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2018.

The following table summarizes the Company's net investment income for the years indicated (in thousands):

	2018	2017
Fixed maturities	$ 13,826	$ 13,397
Equity securities	595	613
Cash, cash equivalents and other short-term investments	308	264
Other	420	221
Investment income, gross	15,149	14,495
Investment expenses	(128)	(65)
Net investment income	$ 15,021	$ 14,430

Net investment gains (losses) are as follows for years indicated (in thousands):

	2018	2017
Realized gains (losses):		
Fixed maturities available-for-sale	$ (775)	$ 2,640
Equity securities	(7)	-
Total realized gains (losses) on debt and equity securities	(782)	2,640
Unrealized gains (losses) on equity securities	(249)	(102)
Gains (losses) on debt and equity securities	(1,031)	2,538
Gains (losses) on other investments	(2)	1
Net investment gains (losses)	$ (1,033)	$ 2,539

For the years ended December 31, 2018 and 2017, the Company realized gross gains of $531,000 and $3,870,000, respectively, and gross losses of $1,306,000 and $1,230,000, respectively, from sales, maturities and prepayments of fixed maturities available-for-sale.

We recognize other-than-temporary impairment losses on fixed maturities available-for-sale in earnings in the period that we determine: 1) we intend to sell the security; 2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or 3) the security has a credit loss. Any non-credit portion of the other-than-temporary impairment loss is recognized in other comprehensive income (loss). The Company did not recognize any other-than-temporary impairments on available-for-sale securities in 2018 or 2017.

Note 5. Fair Value Disclosures

For all financial and non-financial assets and liabilities accounted for at fair value on a recurring basis, the Company utilizes valuation techniques based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market expectations. These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 - Instruments where significant value drivers are unobservable.

The following section describes the valuation methodologies we use to measure different assets and liabilities at fair value.

Investments in fixed maturities and equity securities:

Available-for-sale securities included in Level 1 are equities with quoted market prices. Level 2 is primarily comprised of our portfolio of government securities, agency mortgage-backed securities, corporate fixed income securities, foreign government obligations, collateralized mortgage obligations, municipals and GSEs that were priced with observable market inputs. Level 3 securities consist primarily of municipal tax credit strips. The valuation method used to determine the fair value of municipal tax credit strips is the present value of the remaining future tax credits (at the original issue discount rate) as presented in the redemption tables in the Municipal Prospectuses. This original issue discount is accreted into income on a constant yield basis over the term of the debt instrument. Further we retain independent pricing vendors to assist in valuing certain instruments.

Trading securities:

Trading securities included in Level 1 are equity securities with quoted market prices.

The following tables present our financial assets measured at fair value on a recurring basis for the periods indicated (in thousands):

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 197,489	$ -	$ 197,489
CMOs - residential	-	5,840	-	5,840
US Government obligations	-	62,809	-	62,809
Agency MBS - residential	-	3	-	3
GSEs	-	6,486	-	6,486
States and political subdivisions	-	166,225	1,709	167,934
Foreign government obligations	-	7,044	-	7,044
Redeemable preferred stocks	5,859	-	-	5,859
Total fixed maturities	5,859	445,896	1,709	453,464
Equity securities:				
Common stocks	2,366	-	-	2,366
Nonredeemable preferred stocks	2,800	-	-	2,800
Total equity securities	5,166	-	-	5,166
Total Financial Assets	$ 11,025	$ 445,896	$ 1,709	$ 458,630

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 146,447	$ -	$ 146,447
CMOs - residential	-	6,677	-	6,677
US Government obligations	-	85,114	-	85,114
Agency MBS - residential	-	14	-	14
GSEs	-	9,682	-	9,682
States and political subdivisions	-	177,767	1,876	179,643
Foreign government obligations	-	4,150	-	4,150
Redeemable preferred stocks	10,185	-	-	10,185
Total fixed maturities	10,185	429,851	1,876	441,912
Equity securities:				
Common stocks	2,490	-	-	2,490
Nonredeemable preferred stocks	3,630	-	-	3,630
Total equity securities	6,120	-	-	6,120
Total Financial Assets	$ 16,305	$ 429,851	$ 1,876	$ 448,032

It is the Company's policy to recognize transfers of assets and liabilities between levels of the fair value hierarchy at the end of a reporting period. The Company does not transfer out of Level 3 and into Level 2 until such time as observable inputs become available and reliable or the range of available independent prices narrow. The Company did not transfer any securities between Level 1, Level 2 or Level 3 in either 2018 or 2017.

The following table presents the changes in fair value of our Level 3 financial assets for the years indicated (in thousands):

	2018		2017	
	States and Political Subdivisions	Total Level 3 Assets	States and Political Subdivisions	Total Level 3 Assets
Beginning balance	$ 1,876	$ 1,876	$ 2,033	$ 2,033
Gains (losses) included in other comprehensive income (loss):				
Net unrealized gains (losses)	(30)	(30)	(35)	(35)
Repayments and amortization of fixed maturities	(137)	(137)	(122)	(122)
Balance at end of period	$ 1,709	$ 1,709	$ 1,876	$ 1,876

The following table provides carrying values, fair values and classification in the fair value hierarchy of the Company's financial instruments, that are not carried at fair value but are subject to fair value disclosure requirements, for the periods indicated (in thousands):

	December 31, 2018			December 31, 2017		
	Level 1 Fair Value	Level 2 Fair Value	Carrying Value	Level 1 Fair Value	Level 2 Fair Value	Carrying Value
FINANCIAL ASSETS:						
Short-term investments	$ 1,050	$ -	$ 1,050	$ 50	$ -	$ 50
FINANCIAL LIABILITIES:						
Funds on deposit	$ -	$ 141,662	$ 141,635	$ -	$ 143,702	$ 143,537
Other policyholders' funds	-	10,939	10,939	-	10,402	10,402

The following methods and assumptions were used to estimate the fair value of the financial instruments that are not carried at fair value in the Consolidated Financial Statements:

Short-term Investments

Investments with original maturities of 91 days to one year are considered short-term investments and are carried at cost, which approximates fair value.

Funds on Deposit

The Company has two types of funds on deposit. The first type is credited with a current market interest rate, resulting in a fair value which approximates the carrying amount. The second type carries fixed interest rates which are higher than current market interest rates. The fair value of these deposits was estimated by discounting the payments using current market interest rates. The Company's universal life policies are also credited with current market interest rates, resulting in a fair value which approximates the carrying amount. Both types of funds on deposit are included in Level 2 of the fair value hierarchy.

Other Policyholders' Funds

Other policyholders' funds are primarily credited with current market interest rates resulting in a fair value which approximates the carrying amount.

Note 6. Other Investments, Including Variable Interest Entities

Other investments consist of the following for the periods indicated (in thousands):

	December 31, 2018	December 31, 2017
Equity method investments	$ 12,308	$ 15,385
Equity investments carried at cost less impairments	850	3,125
Other investments and securities, at cost	34	37
	$ 13,192	$ 18,547

In the fourth quarter of 2018, the Company recorded an impairment loss amounting to $2,275,000 related to an equity investment, previously carried at cost, as a result of a bona fide offer to purchase the investment for less than the carrying amount. The impairment loss is included in other income on the Consolidated Statements of Income. In 2017, the Company received a $5,246,000 cash distribution from an equity method investment representing a return of capital.

Included in equity method investments above is our investment in Ebix Health Exchange. Ebix Health Exchange administers various lines of health insurance for IHC's insurance subsidiaries. The carrying value of the Company's equity investment in Ebix Health Exchange is $6,425,000 and $8,188,000 at December 31, 2018 and 2017, respectively, and the Company recorded $(1,763,000) and $629,000, respectively, of equity income (loss) from its investment for the years ended December 31, 2018 and 2017.

At December 31, 2018 and 2017, the Company's Consolidated Balance Sheets includes $1,842,000 and $1,859,000, respectively, of notes and other amounts receivable from Ebix Health Exchange, and include $910,000 and $1,139,000, respectively, of administrative fees and other expenses payable to Ebix Health Exchange, which are included in other assets and accounts payable, accruals and other liabilities, respectively. For the years ended December 31, 2018 and 2017, the Company's Consolidated Statements of Income include administrative fee expenses to Ebix Health Exchange, which are included in fee income and selling, general and administrative expenses, of $7,779,000 and $10,306,000, respectively.

Variable Interest Entities

Other investments at December 31, 2018 and 2017 include $2,874,000 and $3,993,000, respectively, of noncontrolling interests in certain limited partnerships that we have determined to be Variable Interest Entities ("VIEs"). The aforementioned VIEs are not required to be consolidated in the Company's consolidated financial statements as we are not the primary beneficiary since we do not have the power to direct the activities that most significantly impact the VIEs' economic performance.

The Company will periodically reassess whether it is the primary beneficiary in any of these investments. The reassessment process will consider whether it has acquired the power to direct the most significant activities of the VIEs through changes in governing documents or other circumstances. The Company's maximum loss exposure is limited to the combined $2,874,000 carrying value in these equity investments and the Company has no future funding obligations to them.

Note 7. Acquisition

PetPartners, Inc.

On March 24, 2017 (the "Acquisition Date"), the Company acquired 85% of the stock of PetPartners, a pet insurance marketing and administration company, for a purchase price of $12,713,000, subject to certain post-closing adjustments. The Company acquired PetPartners for the purpose of owning additional distribution and administration sources for its pet insurance. Any time after March 24, 2019, shares owned by the noncontrolling interest are putable to the Company at fair value and are therefore presented on the balance sheet as a redeemable noncontrolling interest.

Upon the acquisition, the Company consolidated the assets and liabilities of PetPartners. The following table presents the identifiable assets acquired and liabilities assumed in the acquisition of PetPartners on the Acquisition Date based on their respective fair values (in thousands):

Cash	$	390
Intangible assets		5,880
Other assets		567
Total identifiable assets		6,837
Other liabilities		174
Deferred tax liability		1,069
Total liabilities		1,243
Net identifiable assets acquired	$	5,594
Redeemable noncontrolling interest	$	2,005

In connection with the acquisition, the Company recorded $9,124,000 of goodwill and $5,880,000 of intangible assets (see Note 8). Goodwill reflects the synergies between PetPartners and Independence American as PetPartners will provide Independence American with increased distribution sources for its pet insurance business through its marketing relationship with the American Kennel Club. Goodwill was calculated as the excess of the sum of: (i) the acquisition date fair value of total cash consideration transferred of $12,713,000; and (ii) the fair value of the redeemable noncontrolling interest in PetPartners of $2,005,000 on the acquisition date; over (iii) the net identifiable assets of $5,594,000 that were acquired. The enterprise value of PetPartners was determined by an independent appraisal using a discounted cash flow model based upon the projected future earnings of PetPartners including a control premium. The fair value of the redeemable noncontrolling interest was determined based upon their percentage of the PetPartners enterprise value discounted for a lack of control. Acquisition-related costs, primarily legal and consulting fees, were expensed and are included in selling, general and administrative expenses in the Consolidated Statement of Income.

For the period from the Acquisition Date to December 31, 2017, the Company's Consolidated Statement of Income includes revenues and net income of $4,468,000 and $691,000, respectively, from PetPartners.

Note 8. Goodwill and Other Intangible Assets

The carrying amount of goodwill is $50,697,000 at both December 31, 2018 and December 31, 2017, all of which is attributable to the Specialty Health Segment.

The Company has net other intangible assets of $13,163,000 and $14,669,000 at December 31, 2018 and 2017, respectively, which are included in other assets in the Consolidated Balance Sheets. These intangible assets consist of: (i) finite-lived intangible assets, principally the fair value of acquired agent and broker relationships, which are subject to amortization; and (ii) indefinite-lived intangible assets which consist of the estimated fair value of insurance licenses that are not subject to amortization.

The gross carrying amounts of these other intangible assets are as follows for the periods indicated (in thousands):

	December 31, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived Intangible Assets:				
Agent and broker relationships	$ 17,253	$ 13,419	$ 17,253	$ 12,140
Domain	1,000	225	1,000	125
Software systems	780	203	780	76
Total finite-lived	$ 19,033	$ 13,847	$ 19,033	$ 12,341

	December 31,	
	2018	2017
Indefinite-lived Intangible Assets:		
Insurance licenses	$ 7,977	$ 7,977
Total indefinite-lived	$ 7,977	$ 7,977

As discussed in Note 7, in connection with the acquisition of PetPartners in 2017, the Company recorded $9,124,000 of goodwill and $5,880,000 of intangible assets associated with the Specialty Health segment. None of the goodwill is deductible for income tax purposes.

Amortization expense was $1,506,000 and $1,333,000 for the years ended December 31, 2018 and 2017, respectively. Estimated amortization expense for each of the next five years is as follows (in thousands):

Year	Amortization Expense
2019	$ 1,138
2020	862
2021	667
2022	579
2023	524

Note 9. Reinsurance

The Insurance Group reinsures portions of certain business in order to limit the assumption of disproportionate risks. Amounts not retained are ceded to other companies on an automatic or facultative basis. In addition, the Insurance Group participates in various coinsurance treaties on a quota share or excess basis. The Company is contingently liable with respect to reinsurance in the unlikely event that the assuming reinsurers are unable to meet their obligations. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured.

The effects of reinsurance on premiums earned and insurance benefits, claims and reserves are shown below for the periods indicated (in thousands).

	GROSS AMOUNT	ASSUMED FROM OTHER COMPANIES	CEDED TO OTHER COMPANIES	NET AMOUNT
Premiums Earned:				
December 31, 2018				
Accident and health	$ 281,787	$ 112	$ 20,632	$ 261,267
Life and annuity	55,303	577	37,360	18,520
Property and liability	41,846	-	385	41,461
	$ 378,936	$ 689	$ 58,377	$ 321,248
December 31, 2017				
Accident and health	$ 249,134	$ 7,574	$ 32,290	$ 224,418
Life and annuity	56,194	795	38,899	18,090
Property and liability	40,139	-	381	39,758
	$ 345,467	$ 8,369	$ 71,570	$ 282,266
Insurance benefits, claims and reserves:				
December 31, 2018	$ 188,319	$ 1,111	$ 45,224	$ 144,206
December 31, 2017	$ 199,063	$ 5,965	$ 69,974	$ 135,054

Note 10. Policy Benefits and Claims

Policy benefits and claims is the liability for unpaid loss and loss adjustment expenses. It is comprised of unpaid claims and estimated IBNR reserves. Summarized below are the changes in the total liability for policy benefits and claims for the periods indicated (in thousands).

	2018	2017
Balance at beginning of year	$ 168,683	$ 219,113
Less: reinsurance recoverable	42,136	88,853
Net balance at beginning of year	126,547	130,260
Amount incurred, related to:		
Current year	166,899	147,603
Prior years	(19,907)	(8,008)
Total incurred	146,992	139,595
Amount paid, related to:		
Current year	97,168	80,839
Prior years	54,378	62,469
Total paid	151,546	143,308
Net balance at end of year	121,993	126,547
Plus: reinsurance recoverable	38,122	42,136
Balance at end of year	$ 160,115	$ 168,683

Since unpaid loss and loss adjustment expenses are estimates, actual losses incurred may be more or less than the Company's previously developed estimates and is referred to as either unfavorable or favorable development, respectively. The overall net favorable development of $19,907,000 in 2018 related to prior years consists of favorable developments of $10,716,000 in the Specialty Health reserves, $6,332,000 in group disability reserves, $2,575,000 in the group term life, other life, annuities and other reserves, and $284,000 in Medical Stop-Loss reserves. Specialty Health had net favorable development primarily from: (i) the release of reserves due to emerging favorable experience on hospital indemnity plan business written in 2017 on increased sales volume of this product; (ii) short-term medical business as inventory levels decreased during 2018 and paid claim activity was below the levels anticipated; and, (iii) favorable development in other lines of Specialty Health business. The overall net favorable development of $8,008,000 in 2017 related to prior years consists of favorable developments of $3,742,000 in group disability reserves, $3,084,000 in the group term life, other life, annuities and other reserves, and $2,607,000 in Medical Stop-Loss reserves, partially offset by an unfavorable development of $1,425,000 in the Specialty Health reserves.

Specialty Health Segment

The following tables provide undiscounted information about net incurred and paid claims development by accident year for significant short-duration contract liabilities for policy benefits and claims in our Specialty Health segment. All amounts are shown net of reinsurance. In addition, the tables present the total IBNR plus expected development on reported claims by accident year and the cumulative number of reported claims (in thousands, except number of reported claims). Refer to Note 1 for information on the methods we use to estimate IBNR plus expected development, as well as changes to those methodologies and assumptions. Five years of claims development data is presented for lines that are included in our Specialty Health segment since a majority of the claims are fully developed in that time. Certain information about incurred and paid claims is presented as supplementary information and unaudited where indicated.

Specialty Health Segment –Claims Development

	Incurred Claims and Claim Adjustment Expenses, Net of Reinsurance For the years ended December 31,					December 31, 2018	
Accident Year	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	Incurred But Not Reported Plus Expected Development	Cumulative Number of Reported Claims
							(Actual)
2014	$ 146,060	140,139	141,869	142,110	$ 142,088	$ 606	477,729
2015		104,497	100,988	101,241	100,642	1,045	470,236
2016			85,426	86,446	86,244	3,261	522,215
2017				87,070	77,214	3,547	565,213
2018					74,652	28,078	550,406
				Total $	480,840		

Specialty Health Segment –Claims Development

	Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance For the years ended December 31,				
Accident Year	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2014	$ 103,064	134,557	139,162	140,371	$ 141,482
2015		70,090	94,757	97,603	99,364
2016			45,454	78,611	82,983
2017				49,289	73,667
2018					46,574
				Total $	444,070
Outstanding policy benefits and claims payable before 2014, net of reinsurance					258
Total policy benefits and claims, net of reinsurance				$	37,028

The claim frequency information consists of the count of claims submitted. Each claim was counted as one claim whether or not multiple claim lines were submitted with that claim, and each claim was counted whether or not it resulted in a liability. For those portions of business that did not have claim records readily available, a reasonable count assumption was made based on a comparison to the known records of a similar business type. Cumulative claim count information is not a precise tool for calculating claim severity. Factors, such as changes in provider billing practices, the mix of services, benefit designs or processing systems could impact this type of analysis. The Company does not necessarily use the cumulative number of reported claims disclosed above in its claims analysis but has provided this information to comply with accounting standards.

The following is supplementary information about the average historical policy claims duration for the Specialty Health segment as of December 31, 2018:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (unaudited)

	Year 1	Year 2	Year 3	Year 4	Year 5
Specialty Health Segment	64.2%	29.2%	3.7%	1.3%	0.8%

The liability for policy benefits and claims associated with the Company's health insurance lines are embedded within the Specialty Health segment. The table below summarizes the components of the change in the liability for policy benefits and claims that are specific to the health insurance claims that are included in our Specialty Health segment for the periods indicated (in thousands).

	Specialty Health Segment Health Insurance Claims	
	2018	2017
Balance at beginning of year	$ 32,904	$ 27,183
Less: reinsurance recoverable	762	1,179
Net balance at beginning of year	32,142	26,004
Amount incurred, related to:		
Current year	47,143	54,333
Prior years	(9,000)	158
Total incurred	38,143	54,491
Amount paid, related to:		
Current year	24,422	24,370
Prior years	20,646	23,983
Total paid	45,068	48,353
Net balance at end of year	25,217	32,142
Plus: reinsurance recoverable	851	762
Balance at end of year	$ 26,068	$ 32,904

The liability for the IBNR plus expected development on reported claims associated with the Company's health insurance claims was $25,217,000 at December 31, 2018.

Group Disability, Life, DBL and PFL Segment

The following tables provide undiscounted information about net incurred and paid claims development by accident year for significant short-duration contract liabilities for policy benefits and claims related to our DBL, PFL and group disability policy claims (in thousands). All amounts are shown net of reinsurance. Refer to Note 1 for information on the methods we use to estimate IBNR plus expected development, as well as changes to those methodologies.

One year of claims development data is presented for our DBL and PFL claim liabilities since claims are developed in less than six months to one year. The liability for IBNR plus expected development related to our DBL and PFL business was $20,361,000 at December 31, 2018, and it includes an accrual for a potential risk adjustment payment of $7,000,000 associated with the PFL rider due to expected better than industry claims experience. The cumulative number of reported claims was approximately 17,000 at December 31, 2018 and consists of the number of claims either paid or accrued.

Group disability, life, DBL and PFL Segment – DBL/PFL Claims Development
Incurred Claims and Claim Adjustment Expenses, Net of Reinsurance
For the year ended December 31,

Accident Year		**2018**
2018	Total	$ 50,613

Group disability, life, DBL and PFL Segment – DBL/PFL Claims Development
Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance
For the year ended December 31,

Accident Year		**2018**
2018	Total	$ 30,252
	Total policy benefits and claims, net of reinsurance	$ 20,361

Nine years of undiscounted claims development data is presented for our group disability contract liabilities (in thousands) and we will add one year going forward for each subsequent year until we reach ten years of disclosure. In addition, total IBNR plus expected development on reported claims by accident year is presented with the cumulative number of reported claims (in thousands, except number of reported claims). Certain information about incurred and paid claims is presented as supplementary information and unaudited where indicated.

Group disability. Life, DBL and PFL Segment – Group Disability Claims Development

Accident Year	Incurred Claims and Claim Adjustment Expenses, Net of Reinsurance For the years ended December 31, 2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	December 31, 2018 Incurred But Not Reported Plus Expected Development	December 31, 2018 Cumulative Number of Reported Claims *(Actual)*
2010	$ 11,990	10,561	6,263	4,245	3,965	3,030	6,599	7,239	$ 6,938	$ -	2,311
2011		18,558	16,948	16,166	15,271	15,730	16,672	16,712	16,516	-	2,337
2012			15,356	13,708	12,187	12,177	12,585	12,472	12,161	87	2,263
2013				32,952	30,832	29,893	32,070	31,664	31,378	234	2,629
2014					16,314	13,322	14,792	14,414	14,311	360	2,783
2015						25,335	19,247	16,630	14,705	474	3,252
2016							28,450	28,568	27,359	733	3,496
2017								29,897	26,021	1,655	3,765
2018									29,766	10,165	3,101
								Total	$ 179,155		

Group disability, life, DBL and PFL Segment – Group Disability Claims Development

Accident Year	Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance For the years ended December 31, 2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2010	$ 3,197	8,200	9,799	10,345	10,762	11,284	11,797	12,200	$ 12,565
2011		3,252	8,191	9,622	10,186	10,737	11,363	11,993	12,522
2012			3,069	7,003	8,033	8,591	8,997	9,509	9,924
2013				5,454	12,541	16,424	19,428	21,536	23,460
2014					3,663	8,466	9,919	10,623	11,142
2015						6,825	14,034	16,634	17,203
2016							8,333	16,379	19,269
2017								8,459	16,139
2018									8,417
								Total	$ 130,642
								Outstanding policy benefits and claims payable before 2010, net of reinsurance	19,761
								Total policy benefits and claims, net of reinsurance	$ 68,274

The incurred claims and claim adjustment expenses, net, for the 2013 accident year include the acquisition of $15,384,000 of disability policy benefits and claims liabilities from a Receivership.

Claim frequency information consists of the count of unique claims where a benefit has been paid, whether that benefit was paid for one month or multiple months. Any claims where a benefit has not been paid are not in the count. Cumulative claim count information is not a precise tool for calculating claim severity. Changes in reinsurance and other factors, such as those described in Note 1, could impact this type of analysis with regards to our group disability business. The Company does not necessarily use the cumulative number of reported claims disclosed above in its claims analysis but has provided this information to comply with accounting standards.

Unpaid claim liabilities related to our group disability policies is presented at present value. The following is additional information on unpaid claims liabilities presented at present value (in thousands):

	Carrying Value of Unpaid Claim Liabilities December 31,		Aggregate Amount of Discount December 31	
	2018	2017	2018	2017
Group disability	$ 57,510	$ 60,724	$ 10,764	$ 11,707

Discount rates for each of the years ended December 31, 2018 and 2017 ranged from 3% to 6%. Insurance benefits, claims and reserves on the Consolidated Statements of Income for the years ended December 31, 2018 and 2017 include the accretion of interest amounting to $1,617,000 and $1,706,000, respectively.

The following is supplementary information about the average historical claims duration for our group disability business as of December 31, 2018:

Group Disability

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (unaudited)

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
17.5%	22.4%	7.0%	3.2%	2.2%	2.1%	1.1%	0.7%	0.4%

The following table reconciles the above disclosures of undiscounted net incurred and paid claims development for significant short-duration contract liabilities to the liability for policy benefits and claims on the consolidated balance sheet (in thousands).

		December 31, 2018
Net outstanding balances:		
Specialty Health Segment	$	37,028
DBL/PFL		20,361
Group disability		68,274
Other short-duration insurance lines		6,986
Policy benefits and claims, net of reinsurance		132,649
Reinsurance recoverable on unpaid claims:		
Specialty Health Segment		1,335
DBL/PFL		719
Group disability		24,712
Other short-duration insurance lines		4,768
Reinsurance recoverable on unpaid claims		31,534
Insurance lines other than short-duration		6,696
Aggregate discount		(10,764)
Total policy benefit and claims	$	160,115

Note 11. Income Taxes

IHC and its subsidiaries file a consolidated Federal income tax return on a June 30 fiscal year.

The provision for income tax expense (benefit) attributable to income from continuing operations, as shown in the Consolidated Statements of Income, is as follows for the years indicated (in thousands):

		2018		2017
CURRENT:				
U.S. Federal	$	3,897	$	(4,077)
State and Local		528		29
		4,425		(4,048)
DEFERRED:				
U.S. Federal		4,077		(9,780)
State and Local		(14)		34
		4,063		(9,746)
	$	8,488	$	(13,794)

Taxes computed at the Federal statutory rates of 21% and 35% attributable to pretax income for the years ended December 31, 2018 and 2017, respectively, are reconciled to the Company's actual income tax expense (benefit) as follows for the years indicated (in thousands):

	2018	2017
Tax computed at the statutory rate	$ 7,884	$ 9,918
Dividends received deduction and tax exempt interest	(187)	(423)
State and local income taxes, net of Federal effect	406	42
Subsidiary stock basis write-off	-	(11,589)
Health insurer compensation limit	665	192
Impact of enacted tax reform	1,190	9,402
AMIC valuation allowance adjustment	-	(20,261)
Sharebased compensation	(844)	(867)
Other, net	(626)	(208)
Income tax expense (benefit)	$ 8,488	$ (13,794)

In 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted. The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to reducing the Federal corporate income tax rate from 35% to 21%. We are required to recognize the income tax effect of a change in tax rates in the period the tax rate change is enacted. As the result of IHC's June 30 fiscal tax year, the Tax Act subjected IHC to a blended tax rate of 28% for its fiscal tax year ended June 30, 2018 causing a difference of $1,190,000 in expected tax expense (calculated using a statutory rate of 21%) for the calendar year ended December 31, 2018. For the year ended December 31, 2017, there was no impact of the Tax Act's blended tax rate on current income tax expense due to IHC's NOL carryforward position at December 31, 2017. The Company did however record a one-time, non-cash charge to deferred income tax expense of $9,402,000 for the year ended December 31, 2017 as a result of the change in the enacted statutory tax rate.

As a result of the winding down of operations and dissolution of IHC Administrative Services, Inc. ("IHC AS"), a subsidiary of IHC, in 2017, the Company recognized an estimated $11,589,000 income tax benefit on a worthless stock deduction of $33,110,000 representing the Company's tax basis in its unrecovered investment in IHC AS.

Temporary differences between the Consolidated Financial Statement carrying amounts and tax bases of assets and liabilities that give rise to the deferred tax assets and liabilities at December 31, 2018 and 2017 are summarized below (in thousands). The net deferred tax asset or liability is included in Other Assets or Other Liabilities, as appropriate, in the Consolidated Balance Sheets. IHC and its subsidiaries, excluding AMIC and its subsidiaries, considered the reversal of deferred tax liabilities and projected future taxable income in determining that a valuation allowance was not necessary on their deferred tax assets at December 31, 2018 or 2017. The net deferred tax asset relative to AMIC and its subsidiaries included in other assets on IHC's Consolidated Balance Sheets at December 31, 2018 and 2017 was $14,191,000 and $18,602,000, respectively.

	2018	2017
DEFERRED TAX ASSETS:		
Unrealized losses on investment securities	$ 2,210	$ 1,222
Investment write-downs	48	48
Loss carryforwards	25,708	30,928
Other	2,005	1,938
Total gross deferred tax assets	29,971	34,136
Less AMIC valuation allowance	(9,394)	(9,394)
Net deferred tax assets	20,577	24,742
DEFERRED TAX LIABILITIES:		
Deferred insurance policy acquisition costs	(56)	(105)
Insurance reserves	(2,801)	(3,252)
Goodwill and intangible assets	(3,583)	(4,115)
Other	(1,508)	(1,625)
Total gross deferred tax liabilities	(7,948)	(9,097)
Net deferred tax asset	$ 12,629	$ 15,645

At December 31, 2018, AMIC and its subsidiaries had Federal SRLY NOL carryforwards of approximately $124,514,000, which expire in varying amounts through the year 2034, with a significant portion expiring in 2020.

AMIC's valuation allowance at December 31, 2018 and 2017 was primarily related to net operating loss carryforwards that, in the judgment of management, were not considered realizable. In 2017, the Company decreased AMIC's valuation allowance by $20,261,000 for an increase in projected income and associated utilization of Federal net operating losses allocated to operations and by $6,263,000 as a result of the change in enacted tax rates.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management believes that it is more likely than not that IHC and its subsidiaries, including AMIC and its subsidiaries, will realize the benefits of these net deferred tax assets recorded at December 31, 2018. As of December 31, 2018, IHC and its subsidiaries, and AMIC and its subsidiaries, believe there were no material uncertain tax positions that would require disclosure under U.S. GAAP.

Interest expense and penalties for the years ended December 31, 2018 and 2017 are insignificant. Tax years ending June 30, 2015 and forward are subject to examination by the Internal Revenue Service.

The Company's 2015 consolidated income tax return was selected for examination by the Internal Revenue Service.

Net cash payments (receipts) for income taxes were $1,303,000 and $397,000 in 2018 and 2017, respectively.

Note 12. Stockholders' Equity

Treasury Stock

In 1991, IHC initiated a program of repurchasing shares of its common stock. In August 2016, the Board of Directors increased the number of shares that can be repurchased to 3,000,000 shares of IHC common stock. At December 31, 2018, there were 1,855,747 shares still authorized to be repurchased under the plan authorized by the Board of Directors.

In 2018, the Company repurchased 135,311 shares of its common stock for an aggregate cost of $4,019,000. All of the shares were purchased in the open market. In 2017, the Company repurchased 2,289,502 shares of its common stock for an aggregate cost of $46,527,000. Of that amount, 703,000 shares were repurchased in private transactions for an aggregate cost of $13,975,000; 1,385,118 shares were repurchased for an aggregate cost of $27,702,000 pursuant to the terms of a tender offer; and the remaining shares were repurchased in the open market.

The Company issued 123,274 and 72,312 shares from treasury stock in 2018 and 2017, respectively, as a result of option exercises and the vesting of restricted stock units during the period.

Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes the after-tax net unrealized gains and losses on investment securities available-for-sale, including the subsequent increases and decreases in fair value of available-for-sale securities previously impaired and the non-credit related component of other-than-temporary impairments of fixed maturities. In 2018, investment securities available-for-sale consist of only fixed maturities. Prior to January 1, 2018, the Company classified certain equity securities as available-for-sale. Changes to the fair value of those equity securities classified as available-for-sale were recorded in other comprehensive income (loss) for the corresponding periods in 2017 and prior. Upon the adoption of new accounting guidance on January 1, 2018, the Company: (i) recorded a cumulative-effect adjustment to reclassify the existing amounts reported in accumulated other comprehensive income on that date for equity securities previously classified as available-for-sale, to retained earnings; and (ii) recorded the subsequent changes in the fair value of those equity securities in net income.

Changes in the balances for each component of accumulated other comprehensive income (loss), shown net of taxes, for the years indicated were as follows (in thousands):

	2018	2017
Beginning balance	$ (4,598)	$ (6,964)
Cumulative-effect of new accounting principles	(350)	-
Other comprehensive income (loss):		
Other comprehensive income (loss) before reclassifications	(3,974)	4,892
Amounts reclassified from accumulated OCI	612	(1,711)
Net other comprehensive income (loss)	(3,362)	3,181
Reclassification of the stranded tax effects in accumulated other comprehensive income	-	(815)
Ending balance	$ (8,310)	$ (4,598)

Presented below are the amounts reclassified out of accumulated other comprehensive income (loss) and recognized in earnings for each of the years indicated (in thousands):

	2018	2017
Unrealized gains (losses) on available-for-sale securities reclassified during the period to the following income statement line items:		
Net investment gains (losses)	$ 775	$ 2,640
Income (loss) before income tax	775	2,640
Tax effect	163	929
Net income (loss)	$ 612	$ 1,711

Note 13. Share-Based Compensation

In November 2016, the stockholders approved the Independence Holding Company 2016 Stock Incentive Plan (the “2016 Plan"). The 2016 Plan permits grants of options, SARs, restricted shares, restricted share units, unrestricted shares, deferred share units and performance awards. Under the terms of the 2016 Plan: (i) the exercise price of an option may not be less than the fair market value of an IHC share on the grant date and the terms of an option may not exceed 10 years from the grant date; and (ii) the exercise price of a SAR may not be less than the fair market value of an IHC share on the grant date and SAR terms may not exceed 10 years from the date of grant.

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. In general, the vesting period for an option grant is 3 years. Restricted share units are valued at the quoted market price of the shares at the date of grant and generally vest over 3 years. Compensation costs for options and restricted share units are recognized over the stated vesting periods on a straight-line basis. The fair value of a SAR is calculated using the Black-Scholes valuation model at the grant date and each subsequent reporting period until settlement. Compensation cost is based on the proportionate amount of the requisite service that has been rendered to date. Once fully vested, changes in the fair value of a SAR continue to be recognized as compensation expense in the period of the change until settlement. The Company accounts for forfeitures of share-based compensation awards in the period that they occur.

At December 31, 2018, there were 821,400 shares available for future stock-based compensation grants under the 2016 Plan. The following table summarizes share-based compensation expense, which is included in selling, general and administrative expenses on the Consolidated Statements of Income, applicable to the IHC plans (by award type) for each of the years indicated (in thousands):

	2018	2017
IHC's Share-based Compensation Plan:		
Stock options	$ 754	$ 224
Restricted stock units	184	116
SARs	253	454
Share-based compensation expense, pre-tax	1,191	794
Tax benefits	358	316
Share-based compensation expense, net	$ 833	$ 478

Stock Options

The Company's stock option activity during 2018 was as follows:

	Shares Under Option	Weighted- Average Exercise Price
December 31, 2017	692,380	$ 16.62
Granted	28,000	33.60
Exercised	(152,996)	9.42
December 31, 2018	567,384	$ 19.40

The weighted average grant-date fair-values of options granted during the years ended December 31, 2018 and 2017 were $9.05 and $8.66, respectively. The assumptions set forth in the table below were used to value the stock options granted during the periods indicated:

	2018	2017
Weighted-average risk-free interest rate	2.86%	2.02%
Expected annual dividend rate per share	1.04%	0.58%
Expected volatility factor of the Company's common stock	32.42%	37.44%
Weighted-average expected term of options	4.0 years	4.5 years

In 2018, IHC received $856,000 in cash from the exercise of stock options with an aggregate intrinsic value of $4,275,000 and recognized $810,000 of tax benefits. Cash outflows in 2018 to satisfy employees' income tax withholding obligations amounted to $905,000 for option exercises that were net settled in IHC shares. In 2017, IHC received no cash from the exercise of stock options, as all of the option exercises were net settled in IHC shares. Cash outflows to satisfy employees' income tax withholding obligations amounted to $1,659,000 for option exercises that were net settled in IHC shares. Stock options exercised in 2017 had an aggregate intrinsic value of $3,535,000 and IHC realized $834,000 of tax benefits.

The following table summarizes information regarding options outstanding and exercisable:

	December 31, 2018	
	Outstanding	Exercisable
Number of options	567,384	354,380
Weighted average exercise price per share	$ 19.40	$ 15.45
Aggregate intrinsic value for all options (in thousands)	$ 8,965	$ 6,997
Weighted average contractual term remaining	2.3 years	1.5 years

At December 31, 2018, the total unrecognized compensation cost related to IHC's non-vested stock options was $1,404,000 and it is expected to be recognized as compensation expense over a weighted average period of 1.5 years.

Restricted Stock

The Company's restricted stock activity during 2018 was as follows:

	No. of Non-vested Shares	Weighted-Average Grant-Date Fair Value
December 31, 2017	18,975	$ 22.91
Granted	9,900	38.49
Vested	(9,075)	20.43
December 31, 2018	19,800	$ 31.84

IHC granted 9,900 restricted stock units during each of the years ended December 31, 2018 and 2017 with weighted-average grant-date fair values of $38.49 and $28.20 per share, respectively. The total fair value of restricted stock units that vested in 2018 and 2017 was $350,000 and $187,000, respectively.

At December 31, 2018, the total unrecognized compensation cost related to non-vested restricted stock unit awards was $595,000 which is expected to be recognized as compensation expense over a weighted average period of 2.2 years.

SARs and Share-Based Performance Awards

IHC had 64,900 SAR awards outstanding at both December 31, 2018 and 2017. No SAR awards were granted or exercised in 2018. In 2017, 64,900 shares were granted, and 71,500 shares were exercised with an aggregate intrinsic value of $1,309,000. Included in Other Liabilities in the Company's Consolidated Balance Sheets at December 31, 2018 and December 31, 2017 are liabilities of $275,000 and $22,000, respectively, pertaining to SARs.

Note 14. Commitments and Contingencies

Certain subsidiaries of the Company are obligated under non-cancelable operating lease agreements for office space. Total rental expense for the years 2018 and 2017 for operating leases was $2,300,000, and $2,117,000, respectively.

The approximate minimum annual rental payments under operating leases that have remaining non-cancelable lease terms in excess of one year at December 31, 2018 are as follows (in thousands):

2019	$	2,305
2020		2,186
2021		1,617
2022		1,231
2023		248
2024 and thereafter		66
Total	$	7,653

We are involved in legal proceedings and claims that arise in the ordinary course of our businesses. We have established reserves that we believe are sufficient given information presently available relating to our outstanding legal proceedings and claims. We do not anticipate that the result of any pending legal proceeding or claim will have a material adverse effect on our financial condition or cash flows, although there could be such an effect on our results of operations for any particular period.

A third party administrator with whom we formerly did business ("Plaintiff" or "TPA")) filed a Complaint dated May 17, 2017 in the United States District Court, Northern District of Texas, Dallas Division, naming IHC, Madison National Life, Standard Security Life, and IHC Carrier Solutions, Inc. (collectively referred to as "Defendants"). "Plaintiff" and "Defendants" are collectively referred to herein as the "Parties". The Complaint concerns agreements entered into by Standard Security Life and Madison National Life with Plaintiff, as well as other allegations made by Plaintiff against Defendants. The Complaint seeks injunctive relief and damages in an amount exceeding $50,000,000, profit share payments allegedly owed to Plaintiff under the agreements totaling at least $3,082,000 through 2014, plus additional amounts for 2015 and 2016, and exemplary and punitive damages as allowed by law and fees and costs. Defendants believe these claims to be without merit. Defendants moved to Compel Arbitration and Dismiss or Stay the original Complaint. Plaintiff filed an Amended Complaint on August 18, 2017. Defendants filed a Motion to Compel Arbitration or Stay the Amended Complaint. The Parties agreed to enter into an Order staying the action filed in Texas. The Parties' disputed claims moved in part to arbitration.

Standard Security Life and Madison National Life demanded arbitration against this TPA. The Arbitration Panel issued an Order splitting the hearing into two phases. Standard Security Life and Madison National Life successfully presented their claims in Phase I on September 25 through September 28, 2018. The TPA's counterclaims were heard during Phase II held on February 11, 2019 through February 15, 2019. Standard Security Life and Madison National Life successfully opposed the counterclaims asserted by the TPA as the Arbitration Panel denied all claims against Standard Security Life and Madison National Life.

Note 15. Concentration of Credit Risk

At December 31, 2018, the Company had no investment securities of any one issuer or in any one industry which exceeded 10% of stockholders' equity, except for investments in obligations of the U.S. Government and its agencies and mortgage-backed securities issued by GSEs, as summarized in Note 4.

Fixed maturities with carrying values of $12,823,000 and $12,819,000 were on deposit with various state insurance departments at December 31, 2018 and 2017, respectively.

At December 31, 2018, the Company had reinsurance recoverable from the following reinsurers that individually exceed 10% of stockholders' equity (in thousands):

Reinsurer	AM Best Rating	Due from Reinsurer
National Guardian Life Insurance Company	A-	$ 219,058
Guggenheim Life and Annuity Company	B++	93,967

The Company believes that these receivables are fully collectible.

Note 16. Dividend Payment Restrictions and Statutory Information

Our insurance subsidiaries are restricted by state laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year. Any dividends in excess of limits are deemed "extraordinary" and require approval. Based on statutory results as of December 31, 2018, in accordance with applicable dividend restrictions, our insurance subsidiaries could pay dividends of approximately $41,275,000 in 2019 without obtaining regulatory approval. There are no regulatory restrictions on the ability of our holding company, IHC, to pay dividends. Under Delaware law, IHC is permitted to pay dividends from surplus or net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Dividends to shareholders are paid from funds available at the corporate holding company level.

Non-"extraordinary" dividend payments were as follows: (i) Madison National Life declared and paid cash dividends of $12,035,000 and $11,000,000 to its parent in 2018 and 2017, respectively; (ii) Standard Security Life declared and paid dividends of $3,000,000 and $7,000,000 to its parent in 2018, and 2017, respectively; and (iii) Independence American declared and paid $8,400,000 dividends to its parent in 2018 and $0 in 2017. IHC declared cash dividends of $4,468,000 in 2018 and $2,392,000 in 2017.

The Company's insurance subsidiaries are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of their state of domicile. Statutory accounting practices differ from U.S. GAAP in several respects causing differences in reported net income and stockholder's equity. The Company's insurance subsidiaries have no permitted accounting practices, which encompass all accounting practices not so prescribed that have been specifically allowed by the state insurance authorities.

The statutory net income and statutory capital and surplus for each of the Company's insurance subsidiaries are as follows for the periods indicated (in thousands):

	Years Ended December 31,	
	2018	2017
Statutory net income:		
Madison National Life	$ 16,050	$ 12,794
Standard Security Life	8,291	3,555
Independence American	18,015	8,728

	December 31,	
	2018	2017
Statutory capital and surplus:		
Madison National Life	$ 196,031	$ 179,648
Standard Security Life	70,792	65,600
Independence American	82,986	72,083

The insurance subsidiaries are also required to maintain certain minimum amounts of statutory surplus to satisfy their various state insurance departments of domicile. Risk-based capital ("RBC") requirements are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. At December 31, 2018 and 2017, the statutory capital of our insurance subsidiaries is significantly in excess of their regulatory RBC requirements.

Note 17. Segment Reporting

The Insurance Group principally engages in the life and health insurance business. Interest expense, taxes, and general expenses associated with parent company activities are included in Corporate. Identifiable assets by segment are those assets that are utilized in each segment and are allocated based upon the mean reserves and liabilities of each such segment. Corporate assets are composed principally of cash equivalents, resale agreements, fixed maturities, equity securities, partnership interests and certain other investments.

Information by business segment is presented below for the years indicated (in thousands).

	2018	2017
Revenues:		
Specialty Health	$ 202,938	$ 203,810
Group disability, life, DBL and PFL	144,629	106,927
Individual life, annuities and other (A)	1,932	2,139
Medical Stop-Loss (A)	40	2,607
Corporate	2,269	2,472
	351,808	317,955
Net investment gains (losses)	(1,033)	2,539
Total revenues	$ 350,775	$ 320,494
Income before income taxes		
Specialty Health (B)	$ 28,735	$ 13,207
Group disability, life, DBL and PFL	18,863	18,278
Individual life, annuities and other (A) (C)	(436)	(513)
Medical Stop-Loss (A)	177	2,839
Corporate	(8,765)	(8,014)
	38,574	25,797
Net investment gains (losses)	(1,033)	2,539
Income before income taxes	$ 37,541	$ 28,336

(A) Substantially all of the business in the segment is coinsured. Activity in this segment primarily reflects income or expenses related to the coinsurance and the run-off of any remaining blocks that were not coinsured.

(B) The Specialty Health segment includes amortization of intangible assets recorded as a result of purchase accounting for previous acquisitions. Total amortization expense was $1,506,000 and $1,333,000 for the years ended December 31, 2018 and 2017, respectively. There is no amortization expense attributable to the other segments.

(C) The Individual life, annuities and other segment includes amortization of deferred charges in connection with the assumptions of certain ceded life and annuity policies amounting to $888,000 and $1,196,000 for the years ended December 31, 2018 and 2017, respectively.

	December 31,	
	2018	2017
IDENTIFIABLE ASSETS AT YEAR END		
Specialty Health	$ 225,315	$ 223,896
Group disability, life, DBL and PFL	308,183	246,877
Individual life, annuities and other	348,036	363,693
Medical Stop-Loss	23,983	78,234
Corporate	131,999	127,923
	$ 1,037,516	$ 1,040,623

Note 18. Subsequent Events

(A) In January 2019, the Company acquired all of the outstanding common stock of My1HR, Inc., a web-based entity with state-of-the-art insurance quoting and cloud-based enrollment platform, for a purchase price of $4,565,000, subject to certain closing adjustments.

(B) At December 31, 2018, the Company had an equity investment in Pets Best that was carried at a cost of $500,000 in the Company Consolidated Balance Sheet. In March 2019, Pets Best was acquired by an unaffiliated entity and the Company received cash proceeds of $3,402,000, exclusive of amounts placed in escrow and a potential earn-out agreement pursuant to the terms of the sale.

SCHEDULE I

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
SUMMARY OF INVESTMENTS – OTHER THAN INVESTMENTS IN RELATED PARTIES
DECEMBER 31, 2018
(In thousands)

TYPE OF INVESTMENT	COST	VALUE	AMOUNT SHOWN IN BALANCE SHEET
FIXED MATURITIES - AVAILABLE-FOR-SALE:			
Bonds:			
United States Government and Government agencies and authorities	$ 69,830	$ 69,298	$ 69,298
States, municipalities and political subdivisions	172,860	167,934	167,934
Foreign governments	7,039	7,044	7,044
Public utilities	29,665	29,231	29,231
All other corporate bonds	178,621	174,098	174,098
Redeemable preferred stock	5,970	5,859	5,859
TOTAL FIXED MATURITIES	463,985	453,464	453,464
EQUITY SECURITIES:			
Common stocks:			
Industrial, miscellaneous and all other	2,612	2,366	2,366
Non-redeemable preferred stocks	2,884	2,800	2,800
TOTAL EQUITY SECURITIES	5,496	5,166	5,166
Short-term investments and resale agreements	13,113	13,113	13,113
Other long-term investments	15,467	13,192	13,192
TOTAL INVESTMENTS	$ 498,061	$ 484,935	$ 484,935

INDEPENDENCE HOLDING COMPANY
CONDENSED BALANCE SHEETS (In thousands, except share data)
(PARENT COMPANY ONLY)

	DECEMBER 31, 2018	DECEMBER 31, 2017
ASSETS:		
Cash and cash equivalents	$ 2,700	$ 2,304
Fixed maturities, available-for-sale	38,270	27,270
Investments in consolidated subsidiaries	456,304	445,697
Other assets	281	235
TOTAL ASSETS	$ 497,555	$ 475,506
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	$ 10,005	$ 8,886
Amounts due to consolidated subsidiaries, net	25,035	25,318
Income taxes payable	6,645	3,411
Dividends payable	2,256	1,583
TOTAL LIABILITIES	43,941	39,198
Redeemable noncontrolling interest	2,183	2,065
STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)(A)	-	-
Common stock (B)	18,625	18,625
Paid-in capital	124,395	124,538
Accumulated other comprehensive loss	(8,310)	(4,598)
Treasury stock, at cost (C)	(66,392)	(63,404)
Retained earnings	380,431	356,383
TOTAL IHC'S STOCKHOLDERS' EQUITY	448,749	431,544
NONREDEEMABLE NONCONTROLLING INTERESTS	2,682	2,699
TOTAL EQUITY	451,431	434,243
TOTAL LIABILITIES AND EQUITY	$ 497,555	$ 475,506

(A) Preferred stock $1.00 par value, 100,000 shares authorized; none issued or outstanding.
(B) Common stock $1.00 par value, 23,000,000 shares authorized; 18,625,458 shares issued 14,878,248 and 14,890,285 shares outstanding, respectively.
(C) Treasury stock, at cost; 3,747,210 and 3,735,173 shares, respectively, outstanding.

The financial information of Independence Holding Company (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

INDEPENDENCE HOLDING COMPANY
CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (In thousands)
(PARENT COMPANY ONLY)

	2018	2017
REVENUES:		
Net investment income	$ 547	$ 576
Net investment gains (losses)	(28)	189
Other income	1,598	1,533
	2,117	2,298
EXPENSES:		
General and administrative expenses	7,922	7,675
	7,922	7,675
Loss before income tax benefits and equity in net income of subsidiaries	(5,805)	(5,377)
Equity in net income of subsidiaries	32,459	44,854
Income before income tax benefits	26,654	39,477
Income tax (benefits)	(2,399)	(2,653)
Net income	29,053	42,130
Less income from noncontrolling interests in subsidiaries	(571)	(88)
Net income attributable to IHC	$ 28,482	$ 42,042
Comprehensive Income:		
Net income	$ 29,053	$ 42,130
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on available-for-sale securities	(130)	73
Equity in unrealized gains (losses) on available-for-sale securities of subsidiaries	(3,232)	3,108
Other comprehensive income (loss), net of tax	(3,362)	3,181
Comprehensive income, net of tax	25,691	45,311
Less: comprehensive income attributable to noncontrolling interests	(571)	(88)
Comprehensive income, net of tax, attributable to IHC	$ 25,120	$ 45,223

The financial information of Independence Holding Company (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

SCHEDULE II
(Continued)

INDEPENDENCE HOLDING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (In thousands)
(PARENT COMPANY ONLY)

	2018	2017
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income	$ 29,053	$ 42,130
Adjustments to net income:		
Equity in net income of subsidiaries	(32,459)	(44,854)
Other	2,465	2,521
Changes in other assets and liabilities	2,561	(3,121)
Net change in cash from operating activities	1,620	(3,324)
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:		
Change in investments in and advances to subsidiaries (A)	17,779	26,847
Net sales and maturities of short-term investments	-	3,499
Purchases of fixed maturities	(16,000)	(46,605)
Sales of fixed maturities	4,469	63,568
Maturities and other repayments of fixed maturities	429	4,640
Net change in cash from investing activities	6,677	51,949
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:		
Repurchases of common stock	(4,140)	(46,401)
Dividends paid	(3,712)	(1,928)
Proceeds from stock options exercised	856	-
Payments related to tax withholdings for sharebased compensation	(905)	(1,659)
Net change in cash from financing activities	(7,901)	(49,988)
Net change in cash and cash equivalents	396	(1,363)
Cash and cash equivalents, beginning of year (B)	2,304	3,667
Cash and cash equivalents, end of year (B)	$ 2,700	$ 2,304

(A) Includes $17,833,000 and $12,100,000 of cash dividends paid to parent company by consolidated subsidiaries for the years ended December 31, 2018 and 2017, respectively.
(B) The parent company has no restricted cash at December 31, 2018 and 2017.

The financial information of Independence Holding Company (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

SCHEDULE III

INDEPENDENCE HOLDING COMPANY
SUPPLEMENTARY INSURANCE INFORMATION
(in thousands)

	DEFERRED ACQUISITION COSTS (1)	FUTURE POLICY BENEFITS, LOSSES & CLAIMS	UNEARNED PREMIUMS	NET PREMIUMS EARNED	NET INVESTMENT INCOME (2)	INSURANCE BENEFITS, CLAIMS & RESERVES	AMORTIZATION OF DEFERRED ACQUISTION COSTS (1)	SELLING GENERAL & ADMINISTRATIVE EXPENSES (3)	NET PREMIUMS WRITTEN
December 31, 2018									
Specialty Health	$ -	38,154	3,635	184,512	4,386	60,749	-	113,454	$ 184,513
Group disability, life, DBL and PFL	-	148,012	1,737	136,709	7,029	82,948	-	42,818	135,662
Individual life, annuities and other	-	324,063	185	27	1,535	796	-	1,572	27
Medical Stop-Loss	-	431	-	-	39	(287)	-	150	-
Corporate	-	-	-	-	2,032	-	-	11,034	-
	$ -	510,660	5,557	321,248	15,021	144,206	-	169,028	$ 320,202
December 31, 2017									
Specialty Health	$ -	53,859	3,292	181,851	4,251	84,380	-	106,223	$ 179,164
Group disability, life, DBL and PFL	-	137,765	3,193	99,953	6,469	52,792	-	35,857	99,495
Individual life, annuities and other	-	333,105	181	210	1,536	241	-	2,411	209
Medical Stop-Loss	-	2,257	-	252	313	(2,359)	-	2,127	253
Corporate	-	-	-	-	1,861	-	-	10,486	-
	$ -	526,986	6,666	282,266	14,430	135,054	-	157,104	$ 279,121

(1) In 2015, the Company ceded substantially all of its individual life and annuity policy blocks in run-off and as a result, the remaining balance of deferred acquisition costs is not material at December 31, 2018 and 2017 and is included in other assets on the accompanying Consolidated Balance Sheets. Amortization of deferred acquisition costs was $982,000 and $340,000 for the years ended December 31, 2018 and 2017, respectively, and is included in selling, general and administrative expenses on the Consolidated Statements of Income for those periods.

(2) Net investment income is allocated between product lines based on the mean reserve method.

(3) Where possible, direct operating expenses are specifically identified and charged to product lines. Indirect expenses are allocated based on time studies; however, other acceptable methods of allocation might produce different results.

SCHEDULE IV

INDEPENDENCE HOLDING COMPANY
REINSURANCE
(In thousands)

	GROSS AMOUNT	ASSUMED FROM OTHER COMPANIES	CEDED TO OTHER COMPANIES	NET AMOUNT	PERCENTAGE OF AMOUNT ASSUMED TO NET
Life Insurance In-Force:					
December 31, 2018	$ 14,486,642	$ 6,546	$ 7,528,651	$ 6,964,537	0.1%
December 31, 2017	$ 13,770,999	$ 7,054	$ 6,878,689	$ 6,899,364	0.1%
Premiums Earned:					
December 31, 2018					
Accident and health	$ 281,787	$ 112	$ 20,632	$ 261,267	0.0%
Life and annuity	55,303	577	37,360	18,520	3.1%
Property and liability (1)	41,846	-	385	41,461	0.0%
	$ 378,936	$ 689	$ 58,377	$ 321,248	0.2%
December 31, 2017					
Accident and health	$ 249,134	$ 7,574	$ 32,290	$ 224,418	3.4%
Life and annuity	56,194	795	38,899	18,090	4.4%
Property and liability (1)	40,139	-	381	39,758	0.0%
	$ 345,467	$ 8,369	$ 71,570	$ 282,266	3.0%

(1) Property and liability products consist primarily of our pet and liability portion of our occupational accident insurance lines.

EXHIBIT INDEX

Exhibit Number	
3.1	Restated Certificate of Incorporation of Independence Holding Company (Filed as Exhibit 3(i) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).
3.2	Certificate of Amendment of Restated Certificate of Incorporation of Independence Holding Company (Filed as Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on July 29, 2004 and incorporated herein by reference).
3.3	By-Laws of Independence Holding Company (Filed as Exhibit 3.3 to our Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference), as amended by Amendment to By-Laws of Independence Holding Company (Filed as Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference).
10.1	Officer Employment Agreement, made as of April 18, 2011, by and among Independence Holding Company, Standard Security Life Insurance Company of New York and Mr. David T. Kettig (Filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference).
10.2	Officer Employment Agreement, made as of April 18, 2011, by and among Independence Holding Company, Madison National Life Insurance Company, Inc. and Mr. Larry R. Graber (Filed as Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference).
10.3	Officer Employment Agreement, made as of April 18, 2011, by and between Independence Holding Company and Ms. Teresa A. Herbert (Filed as Exhibit 10.5 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference).
10.4	Officer Employment Agreement, made as of May 11, 2011, by and between Independence Holding Company and Mr. Roy T.K. Thung (Filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the period ended March 31, 2011 filed with the SEC on May 12, 2011, and incorporated herein by reference).
10.5	Retirement Benefit Agreement, dated as of September 30, 1991, between Independence Holding Company and Mr. Roy T.K. Thung, as amended. (Filed as an Exhibit to our Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference; Amendment No. 1 filed as Exhibit 10(iii)(A)(4a) to our Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference; Amendment No. 2 filed as Exhibit 10(iii)(4)(b) to our Current Report on Form 8-K filed with the SEC on June 22, 2005 and incorporated herein by reference; Amendment No. 3 filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 7, 2009 and incorporated herein by reference.)
10.6	Purchase Agreement, made and entered into on June 15, 2015, by and among Madison National Life Insurance Company, Inc., Standard Security Life Insurance Company of New York and National Guardian Life Insurance Company (Filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on June 16, 2015, and incorporated herein by reference).

10.7	Sale Bonus Agreement, dated November 7, 2016, by and between Independence American Holdings Corp. and David T. Kettig (Filed as Exhibit 10.8 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 and incorporated herein by reference).
10.8	Officer Employment Agreement, made as of May 25, 2011, by and among Independence Holding Company, Standard Security Life and Mr. Gary J. Balzofiore (Filed as Exhibit 10.9 to our Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference).
10.9	Officer Employment Agreement, made as of June 22, 2015, by and among Independence Holding Company, Standard Security Life and Mr. Vincent Furfaro, as amended by the Assignment and Assumption with Novation and Amendment of Officer Employment Agreement dated January 1, 2017 by and among Standard Security Life, AMIC Holdings, Inc. and Mr. Vincent Furfaro. *
10.10	Sale Bonus Agreement, dated July 25, 2018, by and between Independence American Holdings Corp. and Vincent Furfaro. *
10.11	Assignment and Assumption with Novation and Amendment of Officer Employment Agreement dated January 1, 2017 by and among Standard Security Life, AMIC Holdings, Inc. and Mr. David T. Kettig. *
21	Subsidiaries of Independence Holding Company, as of December 31, 2018. *
23	Consent of RSM US LLP, independent registered public accounting firm. *
31.1	Certification of the Chief Executive Officer and President Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

101.INS	XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document. *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. *

* Filed herewith.

OFFICER EMPLOYMENT AGREEMENT

This Officer Employment Agreement (this "***Agreement***"), by and among Independence Holding Company, a Delaware corporation (the "***Guarantor***" or "***IHC***"), Standard Security Life Insurance Company of New York, a New York corporation (the "***Company***"), and Mr. Vincent Furfaro, an individual resident in the State of New York (the "***Employee***"), is made as of June 22, 2015.

Recitals

A. The Employee and the Company are parties to that certain Confidentiality and Proprietary Rights Agreement, dated as of June 22, 2015 (the "***Confidentiality Agreement***").

B. The Company wishes to employ the Employee, and the Employee wishes to be employed by the Company, in the capacity and on the terms and conditions set forth herein.

Terms and Conditions

In consideration of the mutual covenants contained herein, along with other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. **Employment**

1.1. Term of Employment. The initial term of the employment agreed to hereunder shall commence on the date hereof and shall end at 11:59 p.m., New York City local time, on June 22, 2016 (the "***Initial Term***"); provided, however, that such term of employment shall be automatically extended for successive one (1) year periods thereafter (each, a "***Renewal Period***"), unless the Company or the Employee shall, at least thirty (30) days prior to the expiration of the then-applicable term, have given written notice (a "***Non-Renewal Notice***") to the other party that such employment term shall not be so extended, in which case no such extension shall occur. The Initial Term together with each Renewal Period, if any, are collectively referred to herein as the "***Covered Employment Term***."

1.2. Term of Agreement. The term of this Agreement shall commence on the date hereof and shall continue until any and all obligations of any party hereto to any other party hereto shall have been performed in-full or validly waived pursuant to the applicable provisions hereof (the "***Agreement Term***").

1.3. Nature of Duties. The Employee shall be employed by the Company as its Vice President, Director of Information Technology. Except as provided herein, the Employee shall work exclusively for the Company and its corporate affiliates and shall, at each moment in time, have the actual authority, powers and duties (the "***Duties***") with the Company customarily associated with the officer position the Employee then holds. The Employee shall devote his full business time and effort to the performance of his duties for the Company and its corporate affiliates, which he shall perform faithfully and to the best of his ability. At all times during which the Employee remains an employee of the Company, the Employee shall, if elected, serve as a member of the Company's board of directors and, at the request of the Guarantor's Corporate Secretary, as an officer or director of any other affiliate or subsidiary of the Guarantor, in each case without additional remuneration therefor. The Employee shall be subject to the Company's policies, procedures and approval practices, as generally in effect and as the same may be modified from time-to-time.

1.4. Place of Performance. The Employee shall, at all times, be based only in the Company's offices maintained within seventy-five (75) miles of New York, New York, and shall be capable of performing all duties of the Employee that the Company shall require of him (in accordance with the other terms hereof) in such office, except for required travel in the ordinary course of business of frequency not greater than is reasonable, equitable and customary within the applicable industry for executives of similar responsibility, under the circumstances.

2. **Compensation**

2.1. Base Salary. The Company shall pay the Employee a base salary at the annual rate in effect as of the date hereof (as the same may be adjusted upward from time to time in the Company's sole and absolute discretion, the "***Base Salary***"). The Base Salary shall be paid in conformity with the Company's usual salary payment practices, as then generally in effect.

2.2. Bonus. In addition, the Employee may, in the Company's sole and absolute discretion, receive a periodic bonus. Any such bonus shall be payable pursuant to the Company's customary practice. For purposes of clarity: the bonus referenced in this Section 2.2 is purely discretionary, may or may not be paid in respect of any particular time period, and the payment of any such bonus shall not be construed or interpreted as guaranteeing or otherwise affecting the payment of any subsequent bonus.

2.3. Benefits. In addition, the Employee shall be entitled to participate in all employee benefit plans and programs, including paid vacations, to the same extent generally available to, and then in effect for, the Company's other officers, in accordance with the terms of those plans and programs, as the same may be modified, from time to time.

2.4. Expenses. In addition, the Employee shall be entitled to receive prompt reimbursement for all reasonable and customary travel and business expenses incurred in connection with his employment, but must incur and shall account for those expenses in accordance with the policies and procedures established by the Company.

2.5. Additional Compensation. In addition, the Employee shall continue to receive such perquisites incident to employment (if any) as have been provided to the Employee during the one (1) year preceding the entering into of this Agreement.

3. Termination; Change in Control

3.1. Rights and Duties. If the Employee's employment by the Company is terminated, he shall be entitled to the amounts or benefits shown below, subject to the balance of this Section 3. Any provision of Section 2 hereof to the contrary notwithstanding, in the event of such a termination, the Company and the Employee shall have no further obligations to each other under this Agreement, except (i) as set forth in this Section 3, (ii) the Employee's obligations under Section 4 and (iii) the rights and obligations set forth under Section 5, all of which shall survive any such termination.

3.2. Qualifying Terminations. Any of the following events resulting in a cessation of the Employee's employment by the Company during the Covered Employment Term shall constitute a "***Qualifying Termination***": (i) discharge by the Company without Cause (as hereinafter defined); or (ii) the Employee's resignation with Good Reason.

3.3. Disqualifying Terminations. Any of the following events resulting in a cessation of the Employee's employment by the Company during the Agreement Term shall constitute a "***Disqualifying Termination***": (i) discharge by the Company with Cause; (ii) the Employee's resignation without Good Reason; (iii) the Employee's death; or (iv) the Employee's Permanent Disability.

3.4. Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(A) "***Cause***" exists upon any of the following:

(i) the Employee's failure to perform the Duties, as the Duties exist as of the date hereof (other than by reason of physical or mental illness, injury, or condition), after the Employee has been given notice by the Company of such default and a reasonable opportunity to cure same, if susceptible to cure;

(ii) the Employee's material failure to comply with applicable, material Company policies in effect as of the date hereof, after the Employee has been given notice of such failure and a reasonable opportunity to cure same;

(iii) the Employee's breach of any of his obligations under Section 4 of this Agreement; or

(iv) the Employee's conviction of a felony or the Employee's commission of any crime involving financial or accounting fraud upon the Company, its corporate affiliates or their respective clients or policyholders.

(B) "***Change in Control***" means, with respect to an entity: (i) the purchase or other acquisition by any person, entity or group of persons, within the meaning of Section 13(d) or Section 14(d) of the Securities Exchange Act of 1934, as amended (or any comparable successor provision, the "***Exchange Act***"), other than the controlling stockholder (or affiliates thereof) of such entity as of the date hereof, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of either (A) the outstanding shares of common stock (on a fully diluted basis) of such entity or (B) the combined voting power of the entity's then-outstanding voting securities entitled to vote generally in the election of directors of such entity; (ii) the consummation of a reorganization, merger or consolidation of such entity, in each case, with respect to which persons who were stockholders of such entity immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than fifty percent (50%) of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated entity; (iii) a liquidation or dissolution of such entity; (iv) the sale of all or substantially all of such entity's assets; or (v) any other transaction, the intent of which may reasonably and equitably be construed to be to effect a result substantially equivalent to that of any of the foregoing (i) through (iv).

(C) "***Diminution in Responsibility***" means any of the following:

(i) a material diminution in the Employee's authority, duties and responsibilities or the assignation to the Employee of duties and responsibilities that are materially inconsistent with the Employee's apparent authority or title with the Company or with the Guarantor, considered equitably under the circumstances and with reference to officers with similar titles at companies within the Company's industry; or

(ii) other circumstances that would constitute "constructive termination" under applicable employment law.

(D) "***Good Reason***" means any of the following:

(i) the Company's or the Guarantor's breach of any material provision of this Agreement, after the Company or the Guarantor (as the case may be) has been given notice of such breach and a reasonable opportunity to cure such breach;

(ii) the occurrence of a Diminution of Responsibility;

(iii) the Employee's receipt of a Non-Renewal Notice; or

(iv) the occurrence of a Non-Qualifying Change in Control Event.

(E) "***Monthly Severance***" means an amount equal to the result of dividing (i) the then-applicable Base Salary of the Employee by (ii) twelve (12).

(F) "***Non-Qualifying Change in Control Event***" means the public announcement of, or the entering into of a binding agreement, by the Company or the Guarantor, in respect of, a Change in Control of the Company or the Guarantor (respectively) in which (i) the proposed or intended acquirer in such a Change in Control does not agree to assume this Agreement and continue the Employee's employment on the terms and conditions set forth herein, and (ii) the ultimate parent of such acquirer does not guarantee, on an unconditional and full-recourse basis, such obligations to the Employee.

(G) "***Permanent Disability***" means Employee's inability substantially to perform his duties and responsibilities under this Agreement by reason of any physical or mental incapacity for a period of one-hundred-eighty (180) consecutive days, or two or more periods of ninety (90) consecutive days each in any seven hundred twenty (720) day period.

(H) "***Severance Period***" means a number of months equal to twelve (12).

3.5. Severance Payments.

(A) Qualifying Termination. In the event of a Qualifying Termination, the Employee, subject to the Employee's continued and uninterrupted adherence to the provisions of Section 4 hereof (for such duration as stated in Section 4) and the Employee's execution of a release in form and substance reasonably acceptable to the Company, shall be entitled to receive the Monthly Severance for a duration equal to the Severance Period, in all cases payable (with respect to timing) in accordance with the Company's customary payroll practices. In addition, any provision hereof or in any other document to the contrary notwithstanding, immediately upon any Qualifying Termination, each and every equity or equity-based compensation award then held by the Employee shall be fully and completely vested and exercisable, and any condition or restriction upon the Employee's full right and title thereto (subject to the payment of any exercise price required pursuant to such award's terms) shall lapse and terminate.

(B) Disqualifying Termination. In the event of a Disqualifying Termination, the Employee shall not be entitled to any payments or benefits after the date of such termination, except for (i) payments or extensions of benefits required under applicable laws and (ii) payments of compensation and reimbursement of expenses (in accordance with the terms hereof and the Company's customary and reasonable practices) properly accrued as of such date.

4. **Covenants of Employee**

4.1. Non-Compete. The Employee agrees that, during the Covered Employment Term plus the longer of any Severance Period and one (1) year following any termination of the Employee's employment by the Company, the Employee (including any entity controlled by the Employee, and any agent or employee of the Employee) shall not, directly or indirectly, as an owner, employee or otherwise, compete with either the business of the Company or of the Guarantor as then conducted (collectively, the "***Prohibited Field***"), or, directly or indirectly, own, manage or control, or participate in the ownership, management, or control of any corporation, partnership, proprietorship, firm, association or other business entity which so competes. For purposes of clarity, this Section 4.1 prohibits actual competition with the Company and the Guarantor within the Prohibited Field and/or employment with a competitor of the Company or the Guarantor in any position or consulting arrangement in which the Employee's duties relate in any material way to business activities in competition with the Company or the Guarantor (as the case may be) in the Prohibited Field. The restrictions set forth in this paragraph extend to the entire United States of America.

4.2. Non-Solicit. The Employee agrees that, during the Covered Employment Term plus the longer of any Severance Period and one (1) year following any termination of the Employee's employment by the Company, the Employee shall not solicit for employment (or assist with such solicitation) any employee or former employee of the Company, the Guarantor or any of their respective subsidiaries. The restrictions set forth in the foregoing sentence apply to the solicitation of any person who is or, within one (1) year before the termination of the Employee's employment by the Company, was an employee of the Company or the Guarantor or either's subsidiary (as the case may be). Additionally, the Employee agrees, during any Severance Period, not to solicit (or assist with such solicitation) any customer or client of the Company or of the Guarantor or of any of their respective subsidiaries, if such solicitation or assistance could reasonably be expected to result in diversion of revenues from the business of the Company or of the Guarantor or either's subsidiary (as the case may be). For the purpose of the restrictions set forth in the foregoing sentence, the terms "customer" and "client" include any person, private entity or governmental entity (or employee or agent thereof), within or outside the United States of America, with whom the Company or the Guarantor or either's subsidiaries does or has done business within the one (1) year preceding the termination of the Employee's employment by the Company.

4.3. Confidentiality. During the Covered Employment Term and thereafter, (i) the Employee will not divulge, transmit or otherwise disclose (except as legally compelled by court order, and then only to the extent required, after prompt notice to the Company of any such order), directly or indirectly, other than in the regular and proper course of business of the Company, any confidential knowledge or information with respect to the operations, finances, organization or employees of the Company or its subsidiaries or affiliates, or with respect to confidential or secret processes, services, techniques, customers or plans with respect to the Company or its subsidiaries or its affiliates, including, but not limited to, producer lists, pricing information and customer lists; and (ii) the Employee will not use, directly or indirectly, any confidential information for the benefit of anyone other than the Company; provided, however, that the Employee has no obligation, express or implied, to refrain from using or disclosing to others any such knowledge or information which is or hereafter shall become available to the public other than through disclosure by the Employee. All new processes, techniques, know-how, inventions, plans, products, patents and devices developed, made or invented by the Employee, alone or with others, while an employee of the Company which are related to the business of the Company, shall be and become the sole property of the Company, unless released in writing by the Company, and the Employee hereby assigns any and all rights therein or thereto to the Company. This Section 4.3 is intended as a supplement to, and not a limitation of, the Confidentiality Agreement.

4.4. Proprietary Rights. All files, records, correspondence, memoranda, notes or other documents (including, without limitation, those in computer-readable form) or property relating or belonging to the Company or the Guarantor or their subsidiaries and affiliates, whether prepared by the Employee or otherwise coming into his possession in the course of the performance of his services under this Agreement, shall be the exclusive property of Company and shall be delivered to Company and not retained by the Employee (including, without limitations, any copies thereof) upon termination of the Employee's employment by the Company for any reason whatsoever. This Section 4.4 is intended as a supplement to, and not a limitation of, the Confidentiality Agreement.

4.5. Equitable Relief. The Employee acknowledges that a breach of the covenants contained in this Section 4 may cause irreparable damage to the Company and its subsidiaries and its affiliates, the exact amount of which will be difficult to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, the Employee agrees that if he breaches any of the covenants contained in this Section 4, in addition to any other remedy which may be available at law or in equity, the Company shall be entitled to specific performance and injunctive relief. The parties agree that venue and jurisdiction for any civil action seeking any of the remedies provided in this Section 4.5 shall be exclusively in the state or federal courts located in New York, New York, and that any such action shall be governed by and adjudicated under New York law.

4.6. Acknowledgements. The Company and the Employee further acknowledge that the time, scope, geographic area and other provisions of this Section 4 have been specifically negotiated by sophisticated commercial parties and agree that all such provisions are reasonable under the circumstances of the activities contemplated by this Agreement. In the event that the agreements in this Section 4 shall be determined by any court of competent jurisdiction to be unenforceable by reason of their extending for too great a period of time or over too great a geographical area or by reason of their being too extensive in any other respect, they shall be interpreted to extend only over the maximum period of time for which they may be enforceable and/or over the maximum geographical area as to which they may be enforceable and/or to the maximum extent in all other respects as to which they may be enforceable, all as determined by such court in such action.

4.7. Further Assurances. The Employee agrees to cooperate with the Company, during the Covered Employment Term and thereafter (including following the Employee's termination of employment for any reason), by making himself reasonably available to testify on behalf of the Company or any of its subsidiaries or affiliates in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to assist the Company or any affiliate or subsidiary thereof, in any such action, suit, or proceeding, by providing information and meeting and consulting with the Company's Board of Directors or its representatives or counsel, or representatives or counsel to the Company or any subsidiary or affiliate thereof as reasonably requested; provided, however that the same does not materially interfere with his then-current professional activities and is not contrary to the best interests of the Employee. The Company agrees to reimburse the Employee, on an after-tax basis, for all expenses actually incurred in connection with his provision of testimony or assistance.

4.8. Non-Disparagement. The Employee agrees that, during the Covered Employment Term and thereafter (including following the Employee's termination of employment for any reason) he will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage the Company or any of its subsidiaries or affiliates or their respective officers, directors, employees, advisors, businesses or reputations. Notwithstanding the foregoing, nothing in this Agreement shall preclude the Employee from making truthful statements or disclosures that are required by applicable law, regulation or legal process.

5. **General Provisions**

5.1. Governing Law. The laws of the State of New York (without giving effect to its conflict of laws principles) will govern all matters arising out of or relating to this Agreement and the transactions it contemplates, including, without limitation, its interpretation, construction, performance and enforcement.

5.2. Notices

(A) Requirement of a Writing; Permitted Methods of Delivery. Each party giving or making any notice, request, demand or other communication (each, a "***Notice***") pursuant to this Agreement shall give such Notice in writing and use one of the following methods of delivery: (i) personal delivery; (ii) registered or certified mail (in each case, return receipt requested and postage prepaid); (iii) nationally recognized overnight courier (with all fees prepaid); or (iv) facsimile.

(B) Addressees and Addresses. Any party giving a Notice shall address the Notice to the appropriate person at the receiving party (the "***Addressee***") at the address listed on the signature page of this Agreement or to another Addressee or another address as designated by a party in a Notice given pursuant to this Section 5.2.

(C) Effectiveness of a Notice. A Notice is effective only if the party giving the Notice has complied with Sections 5.2 (A) and (B) of this Agreement and if the Addressee has received the Notice. A Notice shall be deemed to have been received as follows:

(i) if a Notice is delivered in person, then upon delivery to the recipient's address;

(ii) if a Notice is sent by registered or certified U.S. Mail or nationally recognized overnight courier, three (3) business days after being mailed or delivered to such courier;

(iii) if a Notice is sent by facsimile, upon receipt by the party giving the Notice of an acknowledgment or transmission report generated by the machine from which the facsimile was sent indicating that the facsimile was sent in its entirety to the Addressee's facsimile number; or

(iv) if the Addressee rejects or otherwise refuses to accept the Notice, or if the Notice cannot be delivered because of a change in address for which no Notice was given, then upon the rejection, refusal or inability to deliver the Notice.

5.3. Submission to Jurisdiction and Venue. Any legal suit, action or proceeding arising out of relating to this Agreement or the transactions contemplated hereby shall be instituted in the federal courts of the United States of America or the courts of the State of New York in each case located in the City of New York and County of New York, and each party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or proceeding in such courts and irrevocably waive and agree not to plead or claim in any such court that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

5.4. Amendments. The parties hereto may amend this Agreement only by a written agreement of all the parties hereto that identifies itself as an amendment to this Agreement.

5.5. Waivers

(A) No Oral Waivers. The parties hereto may waive this Agreement or any part hereof only by a writing executed by the party or parties against whom the waiver is sought to be enforced.

(B) Effect of Failure, Delay or Course of Dealing. No failure or delay (i) in exercising any right or remedy, or (ii) in requiring the satisfaction of any condition, under this Agreement, and no act, omission or course of dealing between the parties shall operate as a waiver or estoppel of any right, remedy or condition.

(C) Each Waiver for a Specific Purpose. A waiver made in writing on one occasion shall be effective only in that instance and only for the purpose stated therein. A waiver once given shall not be construed as a waiver of any future occasion.

5.6. Severability. If any provision of this Agreement is determined to be invalid, illegal or unenforceable, the remaining provisions of this Agreement shall remain in full force and effect, so long as the essential terms and conditions of this Agreement for each party hereto remain valid, binding and enforceable.

5.7. Entire Agreement. Except as expressly stated in this Agreement and except for the provisions of the Confidentiality Agreement, which agreement remains in full force and effect: (i) this Agreement constitutes the final agreement among the parties hereto; (ii) it is the complete and exclusive expression of the parties' agreement on the matters contained in this Agreement; (iii) all prior and contemporaneous negotiations and agreements among and between the parties on the matters contained in this Agreement are hereby expressly merged into and superseded by this Agreement; (iv) the provisions of this Agreement may not be explained, supplemented or qualified through evidence of trade usage or a prior course of dealings; (v) in entering into this Agreement, neither party hereto has relied upon any statement, representation, warranty or agreement of the other party; and (vi) there are no conditions precedent to the effectiveness of this Agreement.

5.8. Counterparts. The parties hereto may execute this Agreement in multiple counterparts, each of which constitutes an original, and all of which, collectively, constitute only one agreement. The signatures of all of the parties need not appear on the same counterpart, and delivery of an executed counterpart signature page by facsimile is as effective as executing and delivering this Agreement in the presence of the other parties to this Agreement. This Agreement is effective upon delivery of one executed counterpart from each party hereto to each other party.

5.9. Third-Party Beneficiaries. Other than as expressly stated herein, this Agreement does not, and is not intended to, confer any rights or remedies upon any person other than the signatories.

5.10. Successors. This Agreement shall be binding upon, and shall inure to the benefit of, the Employee and the Employee's estate. The Employee may not assign or pledge this Agreement or any rights arising hereunder, except to the extent permitted under the terms of the benefit plans in which the Employee participates. The Company may assign this Agreement without the Employee's consent to any successor to its business that agrees in writing to be bound by this Agreement, after which assignment any reference to the "Company" in this Agreement shall be deemed to be a reference to such successor, and the Company thereafter shall have no further primary, secondary or other responsibilities, obligations or liabilities under this Agreement of any kind.

5.11. Additional Acknowledgements

(A) THE EMPLOYEE ACKNOWLEDGES THAT ALL UNDERSTANDINGS AND AGREEMENTS BETWEEN THE COMPANY AND THE EMPLOYEE RELATING TO THE SUBJECTS COVERED BY THIS AGREEMENT ARE CONTAINED IN IT AND THAT THE EMPLOYEE HAS ENTERED INTO THIS AGREEMENT VOLUNTARILY AND NOT IN RELIANCE ON ANY PROMISES OR REPRESENTATIONS BY THE COMPANY OTHER THAN THOSE CONTAINED IN THIS AGREEMENT.

(B) THE EMPLOYEE FURTHER ACKNOWLEDGES THAT THE EMPLOYEE HAS CAREFULLY READ THIS AGREEMENT, THAT THE EMPLOYEE UNDERSTANDS ALL OF IT, AND THAT THE EMPLOYEE HAS BEEN GIVEN THE OPPORTUNITY TO DISCUSS THIS AGREEMENT WITH THE EMPLOYEE'S PRIVATE LEGAL COUNSEL AND HAS AVAILED HIMSELF OF THAT OPPORTUNITY TO THE EXTENT THE EMPLOYEE WISHES TO DO SO. THE EMPLOYEE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT THE EMPLOYEE IS GIVING UP HIS RIGHT TO A JURY TRIAL AS TO CLAIMS ASSERTED PURSUANT TO SECTION 5.3.

5.12. 409A Tax Liability.

(A) This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("***Section 409A***") or an exemption thereunder and shall be construed and administered in accordance with Section 409A. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Employee on account of non-compliance with Section 409A.

(B) Notwithstanding any other provision of this Agreement, if at the time of the Employee's termination of employment, he is a "specified employee," determined in accordance with Section 409A, any payments and benefits provided under this Agreement that constitute "nonqualified deferred compensation" subject to Section 409A that are provided to the Employee on account of him or his separation from service shall be delayed for six (6) months. Any payments that would otherwise have been made during such six-month period shall be paid in a lump sum within fifteen (15) days after the end of such six-month period without interest. If the Employee dies during such six-month period, any delayed payment shall be paid to the Employee's estate in a lump sum within fifteen (15) days following the Employee's death.

(C) To the extent required by Section 409A, each reimbursement or in-kind benefit provided under this Agreement shall be provided in accordance with the following:

(i) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year;

(ii) any reimbursement of an eligible expense shall be paid to the Employee on or before the last day of the calendar year following the calendar year in which the expense was incurred; and

(iii) any right to reimbursements or in-kind benefits under this Agreement shall not be subject to liquidation or exchange for another benefit.

(D) Any tax gross-up payments provided under this Agreement shall be paid to the Employee on or before December 31st of the calendar year immediately following the calendar year in which the Employee remits the related taxes.

5.13. Guarantee. The Guarantor hereby unconditionally guarantees the Company's performance of its obligations hereunder and hereby agrees that the Guarantor shall be jointly and severally liable with the Company for same.

[Signature page follows.]

THE PARTIES HERETO, INTENDING TO BE LEGALLY BOUND, have executed this Agreement as of the date first set forth above.

Independence Holding Company, a Delaware corporation	**Mr. Vincent Furfaro**, an individual resident in the State of New York
By: /s/ Teresa A. Herbert Name: Mr. Teresa A. Herbert Title: Chief Financial Officer and Sr. VP	/s/ Vincent Furfaro
96 Cummings Point Road Stamford, Connecticut 06902	______________________ ______________________
Telephone No.: (203) 358-8000 Facsimile No.: _____________	

Standard Security Life Insurance Company of New York,
New York corporation

By: /s/ David T. Kettig
Name: Mr. David T. Kettig
Title: President

485 Madison Avenue, 14th Floor
New York, New York 10022
Attn: General Counsel

Telephone No.: (212) 355-4141
Facsimile No.: (212) 504-0894

ASSIGNMENT AND ASSUMPTION WITH NOVATION
AND AMENDMENT
OF
OFFICER EMPLOYMENT AGREEMENT

This Assignment and Assumption with Novation and Amendment of Officer Employment Agreement (this "***Agreement***"), by and among Standard Security Life Insurance Company of New York, a New York corporation ("***Assignor***"), AMIC Holdings, Inc., a Delaware corporation ("***Assignee***"), and Mr. Vincent Furfaro, an individual resident in the state of New Jersey (the "***Employee***"), is made as of January 1, 2017 (the "***Effective Date***"). Capitalized terms used herein but not otherwise defined herein shall have the meaning ascribed to such terms in the Employment Agreement (as defined below).

Recitals

A. Assignor and the Employee are parties to that certain Officer Employment Agreement, made as of June 22, 2015, by and among Independence Holding Company, a Delaware corporation, Assignor and Employee, attached hereto as Exhibit A (the "***Employment Agreement***");

B. The parties hereto desire for the Employment Agreement to be assigned by Assignor to Assignee, for Assignee to assume the Employment Agreement from Assignor, and for the Employee to acknowledge and consent to such assignment and assumption as provided in this Agreement; and

C. In connection with the assignment and assumption of the Employment Agreement, the parties hereto also desire to amend the Employment Agreement to the extent set forth herein.

Terms and Conditions

In consideration of the mutual covenants contained herein, along with other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Assignment and Assumption

1.1 Assignment. Assignor hereby assigns, grants, conveys and transfers to Assignee all of Assignor's rights, title and interest in and to the Employment Agreement, such assignment to become effective as of the Effective Date.

1.2 Assumption. Assignee accepts such assignment and assumes all of Assignor's duties, liabilities and obligations under the Employment Agreement, and agrees to pay, perform and discharge, as and when due, all of the obligations of Assignor under the Employment Agreement accruing on and after the Effective Date.

1.3 Consent. By execution hereof, the Employee hereby consents to the assignment by Assignor and assumption by Assignee of the Employment Agreement and agrees that he remains bound to his obligations set forth in the Employment Agreement, as amended herein.

2. Novation

2.1 Employee Release Despite anything to the contrary in the Employment Agreement, the Employee releases and forever discharges Assignor from all further obligations arising under the Employment Agreement; provided, however, that nothing herein affects any rights, liabilities, or obligations of the Employee or Assignor due to be performed before the Effective Date.

2.2 Assignor Release. Despite anything to the contrary in the Employment Agreement, Assignor releases and forever discharges the Employee from all further obligations Employee may have to Assignor arising under the Employment Agreement; provided, however, that nothing herein affects any rights, liabilities, or obligations of the Employee or Assignor due to be performed before the Effective Date; and provided, further, that Employee shall not be released or discharged from obligations in the Employment Agreement as assigned to Assignee, including in particular the obligations set forth in Section 4, which shall remain in effect, as amended herein, and inure to the benefit of the Assignee.

2.3 Substitution.

(A) The parties hereto intend that this Agreement is a novation and that Assignee be substituted for Assignor in the employment agreement. The Employee recognizes Assignee as Assignor's successor-in-interest in and to the Employment Agreement.

(B) Assignee by this Agreement becomes entitled to all right, title and interest of Assignor in and to the Employment Agreement and is the substituted party to the Employment Agreement as of and after the Effective Date. Assignee shall replace Assignor as the “Company” under the Employment Agreement and the Employee shall cease to be employed by Assignor and become an employee of Assignee from and after the Effective Date.

(C) The Employee and Assignee shall be bound by the terms of the Employment Agreement in every way as if Assignee is named in the novated Employment Agreement in place of Assignor as a party thereto and any obligations of Employee in the Employment Agreement to Assignor shall inure in every way to the benefit of Assignee. The parties hereto agree that from and after the Effective Date, Assignor shall have no further obligations to the Employee under the Employment Agreement, as amended by this Agreement, or otherwise.

(D) Notwithstanding anything in this Agreement or the Employment Agreement, the parties hereto hereby acknowledge and agree that the assignment of the Employee’s employment and Assignor’s rights and obligations under the Employment Agreement shall not cause a termination of the Employee’s employment for purposes of the Employment Agreement and that Employee shall in no way be entitled to severance or other benefits as a result of the assignment. Employee hereby acknowledges that he is not entitled to any severance under the Employment Agreement as a result of this assignment and agrees not to seek any such severance as a result of the assignment. Employee releases Assignor, and any of its present, former and future owners, parents, affiliates and subsidiaries, and its and their directors, officers, shareholders, employees, agents, servants, representatives, predecessors, successors, and assigns, from any and all claims he has against them relating to the assignment of the Employment Agreement to the Assignor, including, in particular, claims relating to any right to severance under the Employment Agreement. Employee agrees that he shall not file any claims against the Assignor seeking payment for any severance or other payments or benefits under the Employment Agreement because of the assignment; provided, however, that this Subsection (D) shall not preclude any claims for payment for severance or other payments or benefits under the Employment Agreement in the future per the terms of the Employment Agreement, as amended herein..

3. Amendments.

3.1 This Agreement shall operate as, and constitute an, amendment to the Employment Agreement. The parties hereto hereby consent to the amendments to the Employment Agreement contained in this Agreement.

3.2. As of the Effective Date, the Employment Agreement shall be amended as follows:

(A) All references to the "Company" in the Employment Agreement, as amended by this Agreement, shall be deemed from and after the Effective Date to refer to Assignee.

(B) The following paragraph shall be added to the end of Section 3.4(D):

"In order for the above to constitute "Good Reason," Employee shall provide the Company's Board of Directors with a written notice that an event which may constitute "Good Reason" has occurred within thirty (30) days after the date Employee had knowledge, or should have had knowledge, of the first occurrence of such circumstances, the Company (or Guarantor if applicable) must fail to cure the circumstances at issue within thirty (30) days of receiving notice, and the Employee must, and the Employee must actually terminate employment within thirty (30) days following the expiration of the Company's cure period as set forth above (in which cure does not occur). Otherwise, any claim of such circumstances as "Good Reason" shall be deemed irrevocably waived by Employee."

(C) The following sentences shall be added to the end of Section 3.5(A):

"Payment of the Monthly Severance and the accelerated vesting and exercisability of the equity awards is contingent upon the Employee's execution and delivery to the Company of such release no later than the forty-fifth day (or such shorter period determined by the Company) following the termination of the Employee's employment, if applicable, and the expiration of the seven (7) day revocation period described in such release. Any payments that would otherwise have been made during the Severance Period shall be paid on the first payroll date after the later of the effective date of the release or, if applicable, the expiration of the 7-day revocation period."

(D) The last sentence of Section 4.3 is deleted in its entirety and replaced with the following:

"This Section 4.3 is intended as a supplement to, and not a limitation of or in lieu of, the Confidentiality Agreement and any obligations or restrictions imposed upon Employee under any other law or statute including, but not limited to, any obligations Employee may owe under any law governing trade secrets, any common law duty of loyalty, or any fiduciary duty. The foregoing notwithstanding, nothing in this Agreement or the Confidentiality Agreement shall be construed to prevent Employee from communicating or cooperating with any government agency regarding matters that are within the agency's jurisdiction. Further, Employee may not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made: (a) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney, and provided that such disclosure is solely for the purpose of reporting or investigating a suspected violation of the law, or (b) in a complaint or other document filed in a lawsuit or other proceeding, provided that such filing is made under seal. Additionally, in the event Employee files a lawsuit against the Company for retaliation by the Company against Employee for reporting a suspected violation of law, Employee has the right to provide trade secret information to Employee's attorney and use the trade secret information in the court proceeding, although Employee must file any document containing the trade secret under seal and Employee may do not disclose the trade secret, except pursuant to court order."

(E) The following sentence is added to the beginning of Section 4.6:

"Employee acknowledges and agrees that in Employee's position, Employee will be performing services that are special, unique, and extraordinary for the Company, and that Employee will establish and develop relations and contacts on behalf of the Company and the Guarantor in the states in which the Company or the Guarantor has an office, all of which constitute valuable goodwill of, and could be used by the Employee to compete unfairly with, the Company or the Guarantor. Employee further acknowledges and agrees that (i) in the course of his employment with the Company, the Employee will obtain confidential and proprietary information and trade secrets concerning the business and operations of the Company and the Guarantor that could be used to compete unfairly with the Company and the Guarantor; (ii) the covenants and restrictions contained in this

Section 4 are intended to protect the legitimate interests of the Company and the Guarantor in their respective goodwill, trade secrets and other confidential and proprietary information; and (iii) the Employee desires to be bound by such covenants and restrictions."

3.3. Except as specifically set forth herein, all other provisions of the Employment Agreement are and will remain unchanged and are hereby ratified and confirmed.

4. Representations and Warranties. Each of Assignor and Assignee represents and warrants to the other party as follows: (i) it is duly organized, validly existing and in good standing under the laws of its state of incorporation, as applicable; (ii) it has the full right, corporate power and authority, or the right, power and capacity, as applicable, to enter into this Agreement and to perform its/his/her obligations hereunder, as applicable; (iii) it has taken all necessary corporate action to authorize the execution of this Agreement, as applicable; and (iv) when executed and delivered by it/him/her, this Agreement will constitute the legal, valid and binding obligation of such party, enforceable against it/him/her in accordance with its terms.

5. General Provisions

5.1 Governing Law. The laws of the State of New Jersey (without giving effect to its conflict of laws principles) will govern all matters arising out of or relating to this Agreement and the transactions it contemplates, including, without limitation, its interpretation, construction, performance and enforcement.

5.2. Amendments. The parties hereto may amend this Agreement only by a written agreement of all the parties hereto that identifies itself as an amendment to this Agreement. It is acknowledged and agreed upon that future amendments to the Employment Agreement, as amended hereby, need only be agreed upon between Assignee and the Employee.

5.3. Waivers

(A) No Oral Waivers. The parties hereto may waive this Agreement or any part hereof only by a writing executed by the party or parties against whom the waiver is sought to be enforced.

(B) Effect of Failure, Delay or Course of Dealing. No failure or delay (i) in exercising any right or remedy, or (ii) in requiring the satisfaction of any condition, under this Agreement, and no act, omission or course of dealing between the parties hereto shall operate as a waiver or estoppel of any right, remedy or condition.

(C) Each Waiver for a Specific Purpose. A waiver made in writing on one occasion shall be effective only in that instance and only for the purpose stated therein. A waiver once given shall not be construed as a waiver of any future occasion.

5.4. Severability. If any provision of this Agreement is determined to be invalid, illegal or unenforceable, the remaining provisions of this Agreement shall remain in full force and effect, so long as the essential terms and conditions of this Agreement for each party hereto remain valid, binding and enforceable.

5.5. Entire Agreement. This Agreement, together with the Employment Agreement and the Confidentiality Agreement, contains all the terms and conditions agreed upon by the parties hereto regarding the subject matter hereof and thereof. All prior agreements, promises, negotiations and representations, either oral or written, relating to the subject matter of this Agreement, the Employment Agreement or the Confidentiality Agreement not expressly set forth herein or therein are of no force or effect.

5.6. Counterparts. The parties hereto may execute this Agreement in multiple counterparts, each of which constitutes an original, and all of which, collectively, constitute only one agreement. The signatures of all of the parties hereto need not appear on the same counterpart, and delivery of an executed counterpart signature page by facsimile or email is as effective as executing and delivering this Agreement in the presence of the other parties to this Agreement. This Agreement is effective upon delivery of one executed counterpart from each party hereto to each other party.

5.7. Third-Party Beneficiaries. Other than as expressly stated herein, this Agreement does not, and is not intended to, confer any rights or remedies upon any person other than the signatories.

5.8 Waiver of Jury Trial. WAIVER OF JURY TRIAL. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT, INCLUDING EXHIBITS ATTACHED TO THIS AGREEMENT, IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY ABOUT ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT, INCLUDING ANY EXHIBITS ATTACHED TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED HEREBY.

5.9. Successors. This Agreement shall be binding upon, and shall inure to the benefit of, the Employee and the Employee’s estate. Assignee may assign this Agreement without the Employee’s consent to any successor to its business that agrees in writing to be bound by this Agreement, after which assignment any reference to the “Assignee” in this Agreement shall be deemed to be a reference to such successor, and Assignee thereafter shall have no further primary, secondary or other responsibilities, obligations or liabilities under this Agreement of any kind.

[Signature page follows]

THE PARTIES HERETO, INTENDING TO BE LEGALLY BOUND, have executed this Agreement as of the date first set forth above.

ASSIGNOR

Standard Security Life Insurance Company of New York,
a New York corporation

By: /s/ Gary Balzofiore
Name: Mr. Gary Balzofiore
Title: President

485 Madison Avenue, 14th Floor
New York, New York 10022
Attn: General Counsel

Telephone No.: (212) 355-4141
Facsimile No.: (212) 504-0894

ASSIGNEE

AMIC Holdings, Inc.,
a Delaware corporation

By: /s/ David T. Kettig
Name: Mr. David Kettig
Title: President

485 Madison Avenue, 14th Floor
New York, New York 10022
Attn: General Counsel

Telephone No.: (212) 355-4141
Facsimile No.: (212) 504-0894

EMPLOYEE

/s/ Vincent Furfaro
Vincent Furfaro

____
____

Telephone No.: _____________

ACKNOWLEDGED AND AGREED:

INDEPENDENCE HOLDING COMPANY

By: /s/ Teresa A. Herbert
Name: Teresa A. Herbert
Title: CFO and Sr. VP

Exhibit 10.9

EXHIBIT A

EMPLOYMENT AGREEMENT

SALE BONUS AGREEMENT

THIS SALE BONUS AGREEMENT (this "Agreement") is dated as of July 25, 2018 by and between Independence American Holdings Corp., a Delaware corporation ("IAHC"), and the undersigned executive (the "Executive").

BACKGROUND

A. IAHC is the sole parent of IHC SB Holdings, LLC, a Delaware limited liability company ("Holdings"), and sole indirect parent of Holdings' subsidiary, IHC Specialty Benefits, Inc., a Delaware corporation (the "Company").

B. IAHC, Holdings and the Company are all affiliated with IHC Carrier Solutions, Inc., a Delaware corporation (the "CS"), which provides certain actuarial, compliance, program management and administrative services in connection with some business sold by the Company.

C. IAHC desires to induce the Executive, as a key contributor to the success of the Company, to continue to provide services, enhance the Company's value, and assure the present and future continuity, objectivity and dedication of management in the event of any Sale (as defined herein) of the Company to maximize the value of the Company upon a Sale, by offering to pay, in accordance with the terms and conditions set forth herein, an incentive bonus in the event of a (i) Sale of the Company, (ii) Sale of Holdings, (iii) Sale of the Company and CS, or (iv) Sale of Holdings and CS.

AGREEMENT

The parties hereto, in consideration of the foregoing and the mutual covenants contained herein, along with other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, hereby agree as follows:

1. Incorporation of Recitals. The above Recitals are hereby incorporated by reference as if set forth hereinafter.

2. Sale Bonus. Subject to the terms and conditions set forth in this Agreement, the Company will pay to the Executive a cash bonus (the "Sale Bonus") upon a Sale of Holdings, the Company, the Company and CS, or Holdings and CS in an amount determined in accordance with Schedule A hereto, which shall be deemed a part of this Agreement.

3. Time of Payment. The Sale Bonus, less required withholding, will be paid to the Executive in a lump sum within 120 days of the date the Sale is consummated (the "Payment Date").

4. Definition of Sale. For purposes of this Agreement, a "Sale" is defined as any one of the following transactions:

(a) A sale or other disposition of equity securities representing more than 50% of the then-outstanding voting securities entitled to vote in the election of directors to any Person (as defined herein) that is then not an Affiliate (as defined herein) of the selling party;

(b) A merger, consolidation, reorganization or amalgamation;

(c) The direct or indirect sale, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the properties or assets to any Person that is not an Affiliate of the selling party; or

(d) Any other transaction the intent of which may reasonably and equitably be construed to effect a result substantially equivalent to that described in paragraphs (a), (b) or (c) above, as determined in the sole and absolute discretion of the Board of Directors of IAHC (the "IAHC Board").

For purposes of this Agreement, "Affiliate" means, with respect to any Person, any other Person controlling, controlled by or under common control with such Person, where "control" is defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. "Person" means any individual, corporation, partnership, firm, joint venture, association, limited liability company, limited liability partnership, joint-stock company, trust, unincorporated organization, governmental, judicial or regulatory body, business unit, division or other entity.

5. Conditions Precedent. The payment of the Sale Bonus is conditioned upon the Executive's continued employment with the Company or an Affiliate of the Company, as applicable, through the Payment Date. In addition, the Executive's right to receive and retain the Sale Bonus is expressly conditioned on the Executive's continued compliance in full with the Executive's obligations under any agreement between the Executive and the Company or an Affiliate of the Company (including, without limitation, any employment agreement), as applicable, and with all policies, programs and codes of conduct of the Company or an Affiliate of the Company applicable to the Executive.

6. Withholding. The Company shall have the right to withhold from any Sale Bonus, any federal, state or local income and/or payroll taxes required by law to be withheld and to take such other action as the Company may deem advisable to enable the Company and the Executive to satisfy obligations for the payment of withholding taxes and other tax obligations relating to the Sale Bonus.

7. 409A. It is intended that all payments hereunder shall comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder so as not to subject the Executive to payment of interest or any additional tax under Section 409A. All terms of this Agreement which are undefined or ambiguous must be interpreted in a manner that is consistent with Section 409A if necessary to comply with Section 409A. This Agreement will be construed and administered to preserve the exemption from Section 409A of payments that qualify as short-term deferrals pursuant to Treas. Reg. § 1.409A-1(b)(4). In furtherance thereof, if payment or provision of any amount or benefit hereunder that is subject to Section 409A at the time specified herein would subject such amount or benefit to any additional tax under Section 409A, the payment or provision of such amount or benefit will be postponed to the earliest commencement date on which the payment or provision of such amount or benefit could be made without incurring such additional tax. In addition, to the extent that any regulations or other guidance issued under Section 409A (after application of the previous provisions of this Section) would result in the Executive's being subject to the payment of interest or any additional tax under Section 409A of the Code, the parties hereto agree, to the extent reasonably possible, to amend this Agreement in order to avoid the imposition of any such interest or additional tax under Section 409A, which amendment shall have the minimum economic effect necessary and be reasonably determined in good faith by IAHC and the Executive. The right to a series of payments will be treated as a right to a series of separate payments. Executive acknowledges and agrees that none of IAHC, the Company or its other Affiliates has made any representation to Executive as to the tax treatment of the compensation provided pursuant to this Agreement and that Executive is solely responsible for all taxes due with respect to such compensation.

8. Section 280G.

8.1. Reduction. Notwithstanding any other provision of this Agreement or any plan, arrangement or agreement between the Executive and the Company or an Affiliate of the Company, as applicable, to the contrary, if any of the payments or benefits provided or to be provided by the Company or its Affiliate to the Executive or for the Executive's benefit pursuant to the terms of this Agreement or otherwise ("**Covered Payments**") constitute parachute payments ("**Parachute Payments**") within the meaning of Section 280G of the Code and would, but for this Section 8, be subject to the excise tax imposed under Section 4999 of the Code (or any successor provision thereto) or any similar tax imposed by state or local law or any interest or penalties with respect to such taxes (collectively, the "**Excise Tax**"), then the Covered Payments shall be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax (such amount, the "**Reduced Amount**"). Any such reduction in Covered Payments will be made by reducing the amount of the Sale Bonus.

8.2. Determinations. Any determination required under this Section 8, including whether any payments or benefits are Parachute Payments, shall be made by the IAHC Board in its sole and absolute discretion. The Executive shall provide the IAHC Board with such information and documents as the IAHC Board may reasonably request in order to make a determination under this Section 8. The IAHC Board's determination shall be final and binding on the Executive.

9. Termination. The term of this Agreement shall commence on the date hereof and end on the earlier of (i) the termination of the Executive by the Company or Affiliate of the Company, as applicable, or the last date of employment with the Company or Affiliate of the Company, as applicable, or (ii) November 7, 2021; *provided, however*, that such term shall be automatically extended for successive two (2) year periods unless IAHC shall, at least thirty (30) days prior to the expiration of the then-applicable term, have given written notice to the Executive that the term of the Agreement shall not be so extended, in which case no such extension shall occur.

10. Assignment; Third Party Beneficiaries. Neither IAHC nor the Executive may make any assignment of this Agreement, by operation of law or otherwise, without the prior written consent of the other. This Agreement shall inure to the benefit of and be binding upon IAHC and the Executive, and their respective successors, executors, administrators, heirs and permitted assigns. This Agreement shall not confer any rights or remedies upon any Person other than the parties hereto and their respective successors and permitted assigns, except for the Company, Holdings, and CS, which shall be third party beneficiaries of this Agreement.

11. Waiver. No waiver of any provision of this Agreement shall be effective unless made in writing and signed by the waiving party. The failure of either party hereto to require the performance of any term or obligation of this Agreement, or the waiver by either party of any breach of or non-performance under this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach or non-performance.

12. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto and supersedes and terminates all prior communications, agreements and understandings, written or oral, with respect to the transactions contemplated herein, including, without limitation, the terms and conditions of the Sale Bonus.

13. Notice. All written communications to a party under this Agreement shall be in writing and (a) delivered in person (to be effective when so delivered), (b) mailed by registered or certified mail, return receipt requested (to be effective four days after the date it is deposited in the U.S. Mail), (c) deposited with a nationally recognized overnight courier service (to be effective two business days after the

delivery to such courier service), or (d) sent by email transmission (to be effective upon receipt by the sender of electronic confirmation of delivery of the email), with confirmation sent by way of one of the above methods, to the party at the address given below for such party (or to such other address as such party shall designate in a writing complying with this Section 13, delivered to the other party):

If to IAHC:

c/o The IHC Group
485 Madison Avenue, 14th Floor
New York, NY 10022
Attn: Loan Nisser
Telephone: (212) 355-4141
Email: lnisser@sslicny.com

If to the Executive:

To the address then currently on file with the Company.

14. Headings. The headings and captions in this Agreement are for convenience only and do not define or describe the scope or content of any provision of this Agreement.

15. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.

16. Miscellaneous. This Agreement (a) may not be amended, modified or terminated orally or by any course of conduct pursued by IAHC or the Executive, but may be amended, modified or terminated only by a written agreement duly executed by IAHC and the Executive, and (b) shall be governed by, and interpreted and construed in accordance with, the laws of the State of New York, without regard to principles of conflicts of law.

[Signature page follows]

IN WITNESS WHEREOF, this Agreement has been executed by Independence American Holdings Corp., by its duly authorized representative, and by the Executive, as of the date first above written.

EXECUTIVE	**INDEPENDENCE AMERICAN HOLDINGS CORP.**
/s/ Vincent Furfaro	By: /s/ Teresa A. Herbert
Name: Vincent Furfaro	Name: Teresa A. Herbert
	Title: VP - Finance

ACKNOWLEDGED AND AGREED:

IHC Specialty Benefits, Inc.

By: /s/ David T. Kettig
Name: David T. Kettig
Title: President and CEO

IHC SB Holdings, LLC

By: /s/ Gary J. Balzofiore
Name: Gary J. Balzofiore
Title: VP - Finance

IHC Carrier Solutions, Inc.

By: /s/ Loan Nisser
Name: Loan Nisser
Title: Secretary

Schedule A

Sale Bonus Calculation

The amount of the Executive's Sale Bonus will be the product of (x) and (y), where (x) is the "Net Sale Price" and (y) is 0.75%.

For purposes of this calculation:

"Net Sale Price" means:

I. In the event of a Sale of the Company or Holdings only:

Net Sale Price = A−B−C− D

Where:

A = the proceeds on sale of the Company or Holdings, as the case may be, in the transaction constituting the Sale

B = the transaction expenses (including this Sale Bonus) incurred by the Company or Holdings, as the case may be, in connection with the Sale

C = the Book Value (defined below) of the Company or Holdings, as the case may be

D = taxes on the transaction determined using the Applicable Tax Rate (defined below)

"Book Value of the Company or Holdings" means $55,000,000 in the event of the Sale of only the Company or Holdings, subject to upward or downward adjustment, as appropriate, for any (i) acquisitions of either assets or equity by the Company or Holdings, as the case may be, (ii) merger with another Person where the Company or Holdings, as the case may be, is the surviving entity or (iii) sale or divestiture of equity or assets of the Company or Holdings, as the case may be, each made after September 30, 2016 that impact the book value of the Company or Holdings, as the case may be, with any such adjustment made by the IAHC Board in the good faith exercise of its reasonable discretion.

II. In the event that CS is also sold to the purchaser of the Company or Holdings, as the case may be, or an Affiliate of such purchaser:

Net Sale Price = E−F−G− H

Where:

E = the proceeds on sale of the Company or Holdings, as the case may be, and CS in the transaction constituting the Sale

F = the aggregate transaction expenses (including this Sale Bonus) incurred by the Company or Holdings, as the case may be, and CS in connection with the Sale

G = the aggregate Book Value of the Company or Holdings, as the case may be, and CS (defined below)

H = taxes on the transaction determined using the Applicable Tax Rate

"Book Value of the Company or Holdings, as the case may be, and CS" means $60,000,000 in the event of the Sale of the Company or Holdings, as the case may be, and CS, subject to upward or downward adjustment, as appropriate, for (i) acquisitions of either assets or equity by the Company or Holdings, as the case may be, and/or CS (ii) merger with another Person where the Company or Holdings, as the case may be, or CS is the surviving entity or (iii) sale or divestiture of equity or assets of the Company or Holdings, as the case may be, and/or CS, each made after September 30, 2016 that impact the book value of the Company or Holdings, as the case may be, and CS with any such adjustment made by the IAHC Board in the good faith exercise of its reasonable discretion

"Applicable Tax Rate" shall mean the federal and state tax rate payable by the seller, as the case may be, that is in effect as of the date that the Sale is consummated, but not less than 22.5% in each case unless otherwise determined by the IAHC Board in the good faith exercise of its reasonable discretion.

The IAHC Board shall calculate the Sale Bonus in good faith in compliance with the terms of this Agreement and in a manner designed to give effect to the purposes and intent of the parties hereto.

ASSIGNMENT AND ASSUMPTION WITH NOVATION AND AMENDMENT OF OFFICER EMPLOYMENT AGREEMENT

This Assignment and Assumption with Novation and Amendment of Officer Employment Agreement (this "***Agreement***"), by and among Standard Security Life Insurance Company of New York, a New York corporation ("***Assignor***"), AMIC Holdings, Inc., a Delaware corporation ("***Assignee***"), and Mr. David Kettig, an individual resident in the state of New York (the "***Employee***"), is made as of January 1, 2017 (the "***Effective Date***"). Capitalized terms used herein but not otherwise defined herein shall have the meaning ascribed to such terms in the Employment Agreement (as defined below).

Recitals

A. Assignor and the Employee are parties to that certain Officer Employment Agreement, made as of April 18, 2011, by and among Independence Holding Company, a Delaware corporation, Assignor and Employee, attached hereto as Exhibit A (the "***Employment Agreement***");

B. The parties hereto desire for the Employment Agreement to be assigned by Assignor to Assignee, for Assignee to assume the Employment Agreement from Assignor, and for the Employee to acknowledge and consent to such assignment and assumption as provided in this Agreement; and

C. In connection with the assignment and assumption of the Employment Agreement, the parties hereto also desire to amend the Employment Agreement to the extent set forth herein.

Terms and Conditions

In consideration of the mutual covenants contained herein, along with other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Assignment and Assumption

1.1 Assignment. Assignor hereby assigns, grants, conveys and transfers to Assignee all of Assignor's rights, title and interest in and to the Employment Agreement, such assignment to become effective as of the Effective Date.

1.2 Assumption. Assignee accepts such assignment and assumes all of Assignor's duties, liabilities and obligations under the Employment Agreement, and agrees to pay, perform and discharge, as and when due, all of the obligations of Assignor under the Employment Agreement accruing on and after the Effective Date.

1.3 Consent. By execution hereof, the Employee hereby consents to the assignment by Assignor and assumption by Assignee of the Employment Agreement and agrees that he remains bound to his obligations set forth in the Employment Agreement, as amended herein.

2. Novation

2.1 Employee Release Despite anything to the contrary in the Employment Agreement, the Employee releases and forever discharges Assignor from all further obligations arising under the Employment Agreement; provided, however, that nothing herein affects any rights, liabilities, or obligations of the Employee or Assignor due to be performed before the Effective Date.

2.2 Assignor Release. Despite anything to the contrary in the Employment Agreement, Assignor releases and forever discharges the Employee from all further obligations Employee may have to Assignor arising under the Employment Agreement; provided, however, that nothing herein affects any rights, liabilities, or obligations of the Employee or Assignor due to be performed before the Effective Date; and provided, further, that Employee shall not be released or discharged from obligations in the Employment Agreement as assigned to Assignee, including in particular the obligations set forth in Section 4, which shall remain in effect, as amended herein, and inure to the benefit of the Assignee.

2.3 Substitution.

(A) The parties hereto intend that this Agreement is a novation and that Assignee be substituted for Assignor in the Employment Agreement. The Employee recognizes Assignee as Assignor's successor-in-interest in and to the Employment Agreement.

(B) Assignee by this Agreement becomes entitled to all right, title and interest of Assignor in and to the Employment Agreement and is the substituted party to the Employment Agreement as of and after the Effective Date. Assignee shall replace Assignor as the "Company" under the Employment Agreement and the Employee shall cease to be employed by Assignor and become an employee of Assignee from and after the Effective Date.

(C) The Employee and Assignee shall be bound by the terms of the Employment Agreement in every way as if Assignee is named in the novated Employment Agreement in place of Assignor as a party thereto and any obligations of Employee in the Employment Agreement to Assignor shall inure in every way to the benefit of Assignee. The parties hereto agree that from and after the Effective Date, Assignor shall have no further obligations to the Employee under the Employment Agreement, as amended by this Agreement, or otherwise.

(D) Notwithstanding anything in this Agreement or the Employment Agreement, the parties hereto hereby acknowledge and agree that the assignment of the Employee's employment and Assignor's rights and obligations under the Employment Agreement shall not cause a termination of the Employee's employment for purposes of the Employment Agreement and that Employee shall in no way be entitled to severance or other benefits as a result of the assignment. Employee hereby acknowledges that he is not entitled to any severance under the Employment Agreement as a result of this assignment and agrees not to seek any such severance as a result of the assignment. Employee releases Assignor, and any of its present, former and future owners, parents, affiliates and subsidiaries, and its and their directors, officers, shareholders, employees, agents, servants, representatives, predecessors, successors, and assigns, from any and all claims he has against them relating to the assignment of the Employment Agreement to the Assignor, including, in particular, claims relating to any right to severance under the Employment Agreement. Employee agrees that he shall not file any claims against the Assignor seeking payment for any severance or other payments or benefits under the Employment Agreement because of the assignment; provided, however, that this Subsection (D) shall not preclude any claims for payment for severance or other payments or benefits under the Employment Agreement in the future per the terms of the Employment Agreement, as amended herein.

3. Amendments.

3.1 This Agreement shall operate as, and constitute an, amendment to the Employment Agreement. The parties hereto hereby consent to the amendments to the Employment Agreement contained in this Agreement.

3.2. As of the Effective Date, the Employment Agreement shall be amended as follows:

(A) All references to the "Company" in the Employment Agreement, as amended by this Agreement, shall be deemed from and after the Effective Date to refer to Assignee.

(B) The following paragraph shall be added to the end of Section 3.4(D):

"In order for the above to constitute "Good Reason," Employee shall provide the Company's Board of Directors with a written notice that an event which may constitute "Good Reason" has occurred within thirty (30) days after the date Employee had knowledge, or should have had knowledge, of the first occurrence of such circumstances, the Company (or Guarantor if applicable) must fail to cure the circumstances at issue within thirty (30) days of receiving notice, and the Employee must, and the Employee must actually terminate employment within thirty (30) days following the expiration of the Company's cure period as set forth above (in which cure does not occur). Otherwise, any claim of such circumstances as "Good Reason" shall be deemed irrevocably waived by Employee."

(C) The following sentences shall be added to the end of Section 3.5(A):

"Payment of the Monthly Severance and the accelerated vesting and exercisability of the equity awards is contingent upon the Employee's execution and delivery to the Company of such release no later than the forty-fifth day (or such shorter period determined by the Company) following the termination of the Employee's employment and, if applicable, the expiration of the seven (7) day revocation period described in such release. Any payments that would otherwise have been made during the Severance Period shall be paid on the first payroll date after the later of the effective date of the release or, if applicable, the expiration of the 7-day revocation period."

(D) The following sentences shall be added to the end of Section 4.3:

"This Section 4.3 is intended as a supplement to, and not a limitation of or in lieu of, any obligations or restrictions imposed upon Employee under any other law or statute including, but not limited to, any obligations Employee may owe under any law governing trade secrets, any common law duty of loyalty, or any fiduciary duty. The foregoing notwithstanding, nothing in this Agreement shall be construed to prevent Employee from communicating or cooperating with any government agency regarding matters that are within the agency's jurisdiction. Further, Employee may not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made: (a) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney, and provided that such disclosure is solely for the purpose of reporting or investigating a suspected violation of the law, or (b) in a complaint or other document filed in a lawsuit or other proceeding, provided that such filing is made under seal. Additionally, in the event Employee files a lawsuit against the Company for retaliation by the Company against Employee for reporting a suspected violation of law, Employee has the right to provide trade secret information to Employee's attorney and use the trade secret information in the court proceeding, although Employee must file any document containing the trade secret under seal and Employee may do not disclose the trade secret, except pursuant to court order."

(E) The following sentence is added to the beginning of Section 4.6:

"Employee acknowledges and agrees that in Employee's position, Employee will be performing services that are special, unique, and extraordinary for the Company, and that Employee will establish and develop relations and contacts on behalf of the Company and the Guarantor in the states in which the Company or the Guarantor has an office, all of which constitute valuable goodwill of, and could be used by the Employee to compete unfairly with, the Company or the Guarantor. Employee further acknowledges and agrees that (i) in the course of his employment with the Company, the Employee will obtain confidential and proprietary information and trade secrets concerning the business and operations of the Company and the Guarantor that could be used to compete unfairly with the Company and the Guarantor; (ii) the covenants and restrictions contained in this Section 4 are intended to protect the legitimate interests of the Company and the Guarantor in their respective goodwill, trade secrets and other confidential and proprietary information; and (iii) the Employee desires to be bound by such covenants and restrictions."

3.3. Except as specifically set forth herein, all other provisions of the Employment Agreement are and will remain unchanged and are hereby ratified and confirmed.

4. Representations and Warranties. Each of Assignor and Assignee represents and warrants to the other party as follows: (i) it is duly organized, validly existing and in good standing under the laws of its state of incorporation, as applicable; (ii) it has the full right, corporate power and authority, or the right, power and capacity, as applicable, to enter into this Agreement and to perform its/his/her obligations hereunder, as applicable; (iii) it has taken all necessary corporate action to authorize the execution of this Agreement, as applicable; and (iv) when executed and delivered by it/him/her, this Agreement will constitute the legal, valid and binding obligation of such party, enforceable against it/him/her in accordance with its terms.

5. General Provisions

5.1 Governing Law. The laws of the State of New York (without giving effect to its conflict of laws principles) will govern all matters arising out of or relating to this Agreement and the transactions it contemplates, including, without limitation, its interpretation, construction, performance and enforcement.

5.2. Amendments. The parties hereto may amend this Agreement only by a written agreement of all the parties hereto that identifies itself as an amendment to this Agreement. It is acknowledged and agreed upon that future amendments to the Employment Agreement, as amended hereby, need only be agreed upon between Assignee and the Employee.

5.3. Waivers

(A) No Oral Waivers. The parties hereto may waive this Agreement or any part hereof only by a writing executed by the party or parties against whom the waiver is sought to be enforced.

(B) Effect of Failure, Delay or Course of Dealing. No failure or delay (i) in exercising any right or remedy, or (ii) in requiring the satisfaction of any condition, under this Agreement, and no act, omission or course of dealing between the parties hereto shall operate as a waiver or estoppel of any right, remedy or condition.

(C) Each Waiver for a Specific Purpose. A waiver made in writing on one occasion shall be effective only in that instance and only for the purpose stated therein. A waiver once given shall not be construed as a waiver of any future occasion.

5.4. Severability. If any provision of this Agreement is determined to be invalid, illegal or unenforceable, the remaining provisions of this Agreement shall remain in full force and effect, so long as the essential terms and conditions of this Agreement for each party hereto remain valid, binding and enforceable.

5.5. Entire Agreement. This Agreement, together with the Employment Agreement and the Confidentiality Agreement, contains all the terms and conditions agreed upon by the parties hereto regarding the subject matter hereof and thereof. All prior agreements, promises, negotiations and representations, either oral or written, relating to the subject matter of this Agreement, the Employment Agreement or the Confidentiality Agreement not expressly set forth herein or therein are of no force or effect.

5.6. Counterparts. The parties hereto may execute this Agreement in multiple counterparts, each of which constitutes an original, and all of which, collectively, constitute only one agreement. The signatures of all of the parties hereto need not appear on the same counterpart, and delivery of an executed counterpart signature page by facsimile or email is as effective as executing and delivering this Agreement in the presence of the other parties to this Agreement. This Agreement is effective upon delivery of one executed counterpart from each party hereto to each other party.

5.7. Third-Party Beneficiaries. Other than as expressly stated herein, this Agreement does not, and is not intended to, confer any rights or remedies upon any person other than the signatories.

5.8 Waiver of Jury Trial. WAIVER OF JURY TRIAL. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT, INCLUDING EXHIBITS ATTACHED TO THIS AGREEMENT, IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY ABOUT ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT, INCLUDING ANY EXHIBITS ATTACHED TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED HEREBY.

5.9. Successors. This Agreement shall be binding upon, and shall inure to the benefit of, the Employee and the Employee's estate. Assignee may assign this Agreement without the Employee's consent to any successor to its business that agrees in writing to be bound by this Agreement, after which assignment any reference to the "Assignee" in this Agreement shall be deemed to be a reference to such successor, and Assignee thereafter shall have no further primary, secondary or other responsibilities, obligations or liabilities under this Agreement of any kind.

[The remainder of this page is intentionally left blank.]

THE PARTIES HERETO, INTENDING TO BE LEGALLY BOUND, have executed this Agreement as of the date first set forth above.

ASSIGNOR

Standard Security Life Insurance Company of New York,
a New York corporation

By: /s/ Gary Balzofiore
Name: Mr. Gary Balzofiore
Title: President

485 Madison Avenue, 14th Floor
New York, New York 10022
Attn: General Counsel

Telephone No.: (212) 355-4141
Facsimile No.: (212) 504-0894

ASSIGNEE

AMIC Holdings, Inc.,
a Delaware corporation

By: /s/ David T. Kettig
Name: Mr. David Kettig
Title: President

485 Madison Avenue, 14th Floor
New York, New York 10022
Attn: General Counsel

Telephone No.: (212) 355-4141
Facsimile No.: (212) 504-0894

EMPLOYEE

/s/ David T. Kettig
David T. Kettig

____
____

Telephone No.: _____________

ACKNOWLEDGED AND AGREED:

INDEPENDENCE HOLDING COMPANY

By: /s/ Teresa A. Herbert
Name: Teresa A. Herbert
Title: CFO and Sr. VP

EXHIBIT 21

INDEPENDENCE HOLDING COMPANY

Subsidiary	**Jurisdiction**
Independence Capital Corp.	Delaware
Standard Security Life Insurance Company of New York	New York
IHC Health Holdings Corp.	Delaware
IHC Carrier Solutions, Inc.	Delaware
Madison National Life Insurance Company, Inc.	Wisconsin
Madison Investors Corporation	Delaware
AMIC Holdings, Inc.	Delaware
Independence American Holdings Corp.	Delaware
Independence American Insurance Company	Delaware
IHC SB Holdings, LLC	Delaware
IHC Specialty Benefits, Inc.	Delaware
HealthInsurance.org, LLC	Delaware
PetPartners, Inc.	Delaware
Global Accident Facilities, LLC	Delaware
Cook & Company Insurance Services, Inc.	Massachusetts
Madison Standard Corp.	Wisconsin

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements on Form S-3 (No. 333-134424) and Forms S-8 (No. 333-218178, 333-117792, 333-118388, and 333-135070) of Independence Holding Company of our reports dated March 15, 2019, relating to the consolidated financial statements, and the financial statement schedules, and the effectiveness of internal control over financial reporting of Independence Holding Company, appearing in this Annual Report on Form 10-K of Independence Holding Company for the year ended December 31, 2018.

/s/ RSM US LLP

Jacksonville, Florida
March 15, 2019

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND PRESIDENT PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Roy T. K. Thung certify that:

1. I have reviewed this annual report on Form 10-K of Independence Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2019

/s/ Roy T. K. Thung
Roy T. K. Thung
Chief Executive Officer and Chairman of the Board of Directors

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Teresa A. Herbert, certify that:

1. I have reviewed this annual report on Form 10-K of Independence Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2019

/s/ Teresa A. Herbert
Teresa A Herbert
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Independence Holding Company (the "Company") on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), I, Roy T. K. Thung, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 15, 2019

/s/ Roy T. K. Thung *
Roy T. K. Thung
Chief Executive Officer and Chairman of the Board of Directors

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Independence Holding Company (the "Company") on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), I, Teresa A. Herbert, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 15, 2019

/s/ Teresa A. Herbert *
Teresa A. Herbert
Senior Vice President and Chief Financial Officer

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.