INDEPENDENCE HOLDING CO
Form 10-K
March 16, 2015

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, 2014

COMMISSION FILE NUMBER 0-10306

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:
NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, $1.00 PAR VALUE PER SHARE
(Title of Class)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer __

Accelerated filer X Non-accelerated filer ___ Smaller reporting company __

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, 2014 was $107,255,000.

17,352,918 shares of common stock were outstanding as of March 6, 2015.

Documents Incorporated by Reference

Portions of the Registrant s definitive proxy statement to be delivered (or made available, pursuant to applicable regulations) to stockholders in connection with the 2014 annual meeting of stockholders to be held in May 2015 are incorporated by reference in response to Part III of this Report.

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, 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. At December 31, 2014, we owned a 90% controlling interest in American Independence Corp. (NASDAQ:AMIC), which owns Independence American Insurance Company ("Independence American"), IHC Risk Solutions LLC (Risk Solutions), IHC Specialty Benefits, Inc. (Specialty Benefits) and controlling interests in certain agencies and call centers.

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 SEC. 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.

IHC provides specialized life and health coverage and related services to commercial customers and individuals. We focus on niche products and/or narrowly defined distribution channels primarily in the United States. Our wholly owned insurance company subsidiaries, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life") market their products through independent and affiliated brokers, producers and agents. Independence American also distributes through these sources as well as to consumers through dedicated controlled distribution companies and through company-owned websites.

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".

In 2015 IHC will retain the vast majority of the risk that it underwrites, and will focus on the following lines of business:

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Medical excess (or "stop-loss")

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Multiple fully insured health lines

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Group disability and life

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Individual life

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, and is an accredited reinsurer in New York. 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 or profit slides. During 2014, our principal administrative companies were: (i) IHC Health Solutions, Inc. (Health Solutions), an administrative services company that administers various lines of health insurance for IHC and non-affiliated carriers; (ii) Risk Solutions, a full-service direct writer of medical stop-loss insurance for self-insured employer groups in the middle to larger employer markets; (iii) Specialty Benefits, a full-service marketing, and distribution company that focuses on small employer, individual and consumer products; and (iv) IHC Carrier Solutions LLC (Carrier Solutions), a program management, actuarial and regulatory compliance firm providing product development and valuation services for IHC s fully insured health segment.

In addition, AMIC owns controlling interests in IPA Family, LLC ("IPA"), IPA Direct LLC (IPAD), and Healthinsurance.org LLC (HIO). IPA is a consumer direct sales agency that sells IHC s ancillary health and life products and major medical products of national insurance companies. IPAD is a consumer direct sales call center that sells IHC s ancillary health and life products and major medical products of national insurance companies. HIO is an online marketing company that owns www.healthinsurance.org, a lead generation site for individual health insurance. Our general agencies earn commissions for selling life and health insurance products underwritten by IHC s owned and affiliated insurance companies and also by unaffiliated carriers.

For information pertaining to the Company's business segments, reference is made to Note 16 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

Our Philosophy

Our business strategy consists of maximizing underwriting profits through a variety of niche life and health insurance 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. A growing portion of our business comes from direct-to-consumer initiatives. 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. We seek relationships that will generate fee income and profit commissions for our administrative companies as well as risk income for our insurance carriers thereby permitting us to leverage IHC's vertically integrated organizational structure.

As a result of our increased control of distribution through corporate acquisitions, we have strengthened our ability to respond to market cycles in the health insurance sector by deploying our insurance underwriting activity across a larger number of business lines. In recent years, we have emphasized writing stop-loss business through Risk Solutions and two managing general underwriters (MGUs) with whom we have done business for many years, including TRU Services, LLC (TRU), in which we have a significant equity interest. This has allowed us to be more selective in order to achieve better stop-loss underwriting results by terminating all under-performing non-owned

programs. While a substantial portion of our book of business is with smaller self-funded groups, we have recently focused on developing stop-loss solutions for plans with 100 or fewer employees. These plans are increasingly looking for affordable health-financing alternatives as a result of federal health care reform.

As a result of the growth of Risk Solutions (including its captive and self-funded concept programs) and an expansion in the overall demand for stop-loss insurance, we have seen a significant increase in both our gross written and net earned stop-loss premiums. Our gross written and retained fully insured health premiums have decreased as a result of exiting the individual major medical line of

business and significantly reducing our small group major medical block. We have experienced decreases in administrative costs as a percentage of premiums in our Stop-Loss segments resulting from the efficiency initiatives implemented in the last several years. As we adjust our mix of business in the Fully Insured Health Segment from major medical to that of a specialty health insurance company, we have experienced a somewhat higher expense ratio concomitant with these types of products.

DISTRIBUTION

Medical Stop-Loss

Standard Security Life is the primary carrier for our employer medical stop-loss products although, in 2014, we also wrote business for Madison National Life, Independence American and unaffiliated carriers. IHC s carriers wrote approximately 91% of their medical stop-loss business through Risk Solutions and TRU with the balance written through two independent MGUs. During 2014, IHC owned two managing general underwriters, Majestic Underwriters, LLC ("Majestic") 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. Risk Solutions is 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 two MGUs with which we do business, we establish underwriting guidelines, maintain approved policy forms and oversee claims for reimbursement, as well as appropriate accounting procedures and reserves. In order to accomplish this, we audit their underwriting, claims and policy issuance practices to assure compliance with our guidelines, provide them with access to our medical management and cost containment expertise, and review cases that require 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 agents and brokers that produce this business are non-salaried contractors that receive commissions.

Fully Insured Health

The Fully Insured Health Segment is comprised of the following categories: (i) major medical coverage (comprised of small-group major medical (SGMM), major medical health plans for individuals and families in run-off and large-group major medical); (ii) ancillary benefits including dental, vision, short-term medical (STM), supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity) and small group stop-loss; (iii) pet insurance; and (iv) non-subscriber occupational accident. Health Solutions, Carrier Solutions and Specialty Benefits collectively perform marketing, sales, underwriting and administrative functions on the majority of our Fully Insured Health business. In addition, our carriers write a significant amount of Fully Insured Health business, which is distributed and/or administered by independent third party administrators. We have also established a relationship with a leading provider of international health, life and disability plans for specialized niche markets, and invested in a joint venture which has acquired two third party administrators of non-subscriber occupational accident coverage in

Texas and other accident-related coverages in states outside of Texas.

The Fully Insured Health Segment performs all aspects of underwriting, risk selection and pricing, policy administration and management of fully insured group and individual health insurance on behalf of IHC and other carriers, and management of approximately $241 million of gross individual and group health premiums for multiple insurers.

The agents and brokers who produce the Fully Insured Health business are non-salaried contractors who receive commissions.

Other Products

Our other products are primarily distributed by general agents, agents and brokers. The short-term statutory disability benefit product in New York State ("DBL") 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 Midwest to school districts, municipalities and hospital employer groups through a managing general agent that specializes in these target markets. Independence American also reinsures and will begin writing health products serving the needs of expatriates, third-party nationals and high net-worth local nationals.

Madison National Life sells a whole-life product with an annuity rider to military personnel and civil service employees. They also sell a final expense whole life product to the senior market. They had $17.7 million of premiums from the whole-life and annuity products in 2014 and expect to write about $18.0 million of premium in 2015. They had $2.7 million of final expense whole life premium in 2014 and expect to write about $4.9 million in 2015. Madison National Life s subsidiary, IHC Financial Group, Inc. (IHC Financial Group), recruits agents to sell life and annuity products to state and federal employees. Since these products are currently not available through IHC s carriers, IHC Financial Group has contracted with highly rated insurance companies to sell their life and annuity products to these individuals. The income for IHC Financial Group is derived completely from commissions on the sale of the products of these other companies. The agents and brokers who produce this business are non-salaried contractors who receive commissions. IHC Financial Group earned approximately $0.8 million of revenue in 2014 and we anticipate increased growth as we continue to recruit new agents.

PRINCIPAL PRODUCTS

Medical Stop-Loss

The Company is 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"). Standard Security Life was one of the first carriers to market Medical Stop-Loss insurance, starting in 1987, and the Insurance Group is now one of the largest writers of this product in the United States. 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 cover both specific and aggregate claims. Plans are 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).

IHC experienced an increase in premiums in the Medical Stop-Loss line of business in 2014 primarily from the marketing efforts of Risk Solutions. We expect this trend to continue throughout 2015.

Fully Insured Health Products

This line of business has the following categories: (i) major medical coverage (comprised of SGMM, major medical health plans for individuals and families and large-group major medical); (ii) ancillary benefits, including dental, vision, STM, supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity) and small group stop-loss; (iii) pet insurance; and (iv) non-subscriber occupational accident. The major medical category shrank in 2014 as the major medical health plans for individuals and families (IMM) business was in run-off. Our major medical business was adversely affected in 2014 by healthcare reform, and, as a result, we have since exited IMM in all states and significantly reduced our SGMM premiums. We increased ancillary benefit sales by 30%,

which somewhat offset the reduction in major medical premiums. We expect continued significant growth in the ancillary lines of business, but an overall reduction in premiums for the segment in 2015.

Major Medical Health Benefit Coverages

This category is primarily comprised of group major medical insurance and IMM policies. Both products are primarily consumer driven health plans (CDHP). IMM is in run-off; we have now exited that market entirely. It is our belief that we would not have been able to earn an acceptable profit margin in this line in the future as a result of direct and indirect changes brought about by healthcare reform. The group products were sold in many states in 2013, and the majority of the existing block was eligible for renewal in the fourth quarter of 2014. As the policies became eligible for renewal, under CMS guidance, in some states we offered small group pre-EHB plans the option to renew on their existing plan. The remaining policies were offered the option to renew onto an essential health benefits (EHB) or an Affordable Care Act (ACA) compliant large group policy. IHC has filed EHB and ACA compliant policies in the majority of states, although has not yet received approvals in all of these states. The Company has not yet determined whether these policies will be widely sold.

In addition to small group, the Company offers a unique group medical plan to employers (primarily large) who are contractors working on government-funded projects under the Davis-Bacon and Service Contract Acts (the Acts"), much of which is associated with current and future U.S. infrastructure improvements. This plan helps contractors meet the provisions of a "bona fide" fringe benefit for their hourly workers as required in the Acts. This category also includes reinsured international health plans and may include some domestic policies sold to expatriates in 2014.

Ancillary Products

This category is primarily comprised of dental, vision, STM, supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity) and small group stop-loss. These are sold through multiple distribution strategies.

IHC sells group and individual dental products in all 50 states. We administer the majority of IHC's dental business and are also the primary distribution source of this line of business. 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 bases. 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. Gross dental/vision premiums increased slightly in 2014 despite the run-off of our New York block of business. We expect the dental/vision business to grow modestly in 2015.

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 plan becomes effective, and others who need insurance for a specified period of time less than 365 days. IHC s gross premium increased significantly in this line of business in 2014. We anticipate continued growth in this line of business in 2015 in part due to increased demand for coverage and new distribution relationships.

The Company markets supplemental products to individuals and families. These lines of business are generally used as either a supplement to a major medical plan or in lieu of major medical coverage for persons that choose not to purchase such coverage. 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 (HIP), 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 not directly impacted by the ACA and are available through multiple distribution sources including Company owned direct-to-consumer websites, call center and career agents, general agents and on-line agencies.

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 major medical insurance that permit employees who do not otherwise have health insurance to begin to participate in the healthcare system. In 2014, the Company recorded an increase in gross premiums and projects continued growth in 2015 as employers use these products to create a benefit package to attract and retain part-time employees.

In 2013, the Company began marketing self-funded medical plans for employers between 10 and 50 employees. These plans, which are currently marketed in a limited number of states, appeal to employers that wish to participate in cost savings and wellness initiatives that will lower their claims costs. Sales of the small group self-funded plans grew significantly in 2014 as we increased distribution and made the product available in additional states. We anticipate continued growth in this line of business in 2015.

IHC entered into a reinsurance relationship with a leading producer of expatriate business, effective January 1, 2012, which provides employee benefit insurance, including medical, life, and disability, to expatriate employees of companies based in the United States. IHC, through its insurance subsidiaries, reinsured 15% of the health, life and disability risk on a quota share basis in 2014. In addition, IHC s carriers have filed these policies in the United States for employers that wish to purchase a domestic policy to cover their employees. In 2015, IHC reduced its quota share to 10% of health insurance and will not reinsure life and disability. Due to this change, IHC expects a reduction in reinsurance premiums in this line of business in 2015. The health premium is reported with the fully insured medical products and the life and disability is reported below.

Pet Insurance

The Company writes pet insurance through a marketing and administrative company that manages one of the largest blocks of this business in the United States. During 2012, the Company, through Independence American, began to renew premium that had been underwritten by another insurance company. These plans are marketed to dog and cat owners through veterinary offices, independent marketing organizations, its nationwide call center, and increasingly, direct-to-consumer through www.petsbest.com. In 2014, Independence American had $28.8 million of earned premium from pet insurance. We expect premiums levels to remain flat in 2015.

Occupational Accident

Independence American writes occupational accident insurance through marketing and administrative companies owned by Global Accident Facilities, LLC (GAF), a joint venture in which the AMIC currently has a 40% interest. The Company s interest in GAF increases to 60% upon the occurrence of certain events. 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 workers compensation system (non-subscribers). The product also gives the employer the option to purchase coverage for employer s liability. Employer s liability arises when an injured employee brings an action against the employer for occupational injuries and chooses not to accept the benefits provided for by the employer s occupational accident benefit plan. The employer is covered for damages and costs arising from the settlement of such action, subject to the terms and limits of the policy. On December 31, 2013, GAF acquired an entity that provides administrative services for occupational accident insurance as well as Injured on Duty coverage, a form of occupational accident

coverage. It is expected that synergies can be achieved through coordination of administrative services with other entities owned by GAF. It is also expected that GAF may be a production source of other products such as medical stop-loss insurance. In 2014, Independence American recorded approximately $12 million of occupational accident business and expects premiums to grow to approximately $16 million in 2015.

Group Disability; Life, Annuities and DBL

Group Long-Term and Short-Term Disability

In addition to its international business, 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. The Company increased revenue for these products 5%, driven in large part to a new distribution partnership which began midyear. In 2015, we expect a more significant increase driven by higher retention amounts and a full year of premiums generated by this new distribution partnership.

New York Short-Term Disability (DBL)

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 Insurance Department. Policies covering 50 or more employees are individually underwritten. Standard Security Life's DBL premiums increased significantly in 2013 due to increased marketing and a major competitor exiting the market. The Company anticipates moderate growth in 2015 due to its continued marketing efforts.

Group Term Life and Annuities

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.

Individual Life, Annuities and Other

This category includes: (i) insurance products that are in runoff as a result of the Insurance Group's decision to discontinue writing such products; (ii) blocks of business that were acquired from other insurance companies; (iii) individual life and annuities written through Madison National Life's military and civilian government employee division and through its final expense distribution agency; (iv) blanket accident insurance sold through a specialized general agent; and (v) certain miscellaneous insurance products.

The Company markets a whole life product commonly referred to as a final expense life policy. This whole life product is sold to people in the 50 to 85 years old range. The face amounts can range from $2,500 to $40,000. We are currently averaging about $10,400 per policy.

The following lines of Standard Security Life's in-force business are in runoff: individual accident and health, individual life, single premium immediate annuities, disability income, accidental medical, accidental death and AD&D insurance for athletes, executives and entertainers, and miscellaneous insurance business. Madison National Life's runoff in this category consists of existing blocks of individual life, including pre-need (i.e., funeral expense) coverage, traditional and interest-sensitive life blocks which were acquired in prior years, individual accident and health products, annual and single premium deferred annuity contracts and individual annuity contracts.

ACQUISITIONS OF POLICY BLOCKS

In addition to its core life and health lines of business distributed as described above, IHC s acquisition group has acquired blocks of existing life insurance, annuity and disability policies from other insurance companies, guaranty associations and liquidators. Most of the acquired blocks have been primarily life, annuities or disability policies. Not only have these transactions yielded a healthy rate of return on the investment, but the overall long-term nature of the policies acquired serves as a counterbalance to the bulk of the policies currently being written which are short-term in nature.

Madison National Life acquired a closed block of disability policies from a Receivership in 2013. The transferred reserves totaled approximately $15.4 million. The Company does not anticipate acquiring any significant blocks in 2015.

REINSURANCE AND POLICY RETENTIONS

The Company's average retention of gross and assumed Medical Stop-Loss exposure was 74% in 2014, 84% in 2013, and 83% in 2012.

In 2014, IHC retained approximately 91% of gross and assumed Fully Insured Health exposure, up from approximately 86% in 2013. Retentions on other lines of business remained relatively constant in 2012. 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.

Standard Security Life entered into a coinsurance agreement with an unaffiliated reinsurer effective January 26, 2012 and transferred approximately $143 million of group annuity reserves in the first quarter of 2012. During the third quarter of 2012, a significant portion of the reserves were assumed by the reinsurer.

Effective May 31, 2013, Madison National Life entered into a coinsurance agreement with an unaffiliated reinsurer, to cede approximately $218 million of life and annuity reserves. During 2014, a large portion of the reserves were transferred to the reinsurer in accordance with the terms of an assumption agreement.

The following reinsurers represent approximately 74% of the total ceded premium for the year ended December 31, 2014:

RGA Reinsurance Company	25%
Contrarian Re, LLC	17%
International Casualty Company	12%
Fidelity Security Life Insurance Company	8%
American Fidelity Assurance Company	6%
National Insurance Company of Wisconsin, Inc.	6%
	74%

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. Since the risks under the Insurance Group's business are primarily short-term, there would be limited exposure as a result of a change in a reinsurer's creditworthiness during the term of the reinsurance. At December 31, 2014 and 2013, the Insurance Group's ceded reinsurance in-force was $6.1 billion and $6.5 billion, respectively.

For further information pertaining to reinsurance, reference is made to Note 7 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, 2014, approximately 99.8% 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 which, 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 one person (other than a subsidiary and the United States government), or common stock of any corporation and its affiliates (other than a subsidiary).

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 three years is summarized below, including amounts recognized in net income and unrealized gains and losses recognized in other comprehensive income or loss:

	2014	2013	2012
		(In thousands)	
Consolidated Statements of Income:			
Net investment income	$ 21,692	$ 27,471	$ 33,356
Net realized investment gains	7,688	19,750	5,099
Other-than-temporary impairments	-	-	(704)
Consolidated Statements of Comprehensive Income (Loss):			
Net unrealized gains (losses) on available-for-sale securities	15,389	(38,439)	11,115
Other-than-temporary impairments	-	-	(288)
Total pre-tax investment performance	$ 44,769	$ 8,782	$ 48,578

Net 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. The Company does not have any non-performing fixed maturity investments at December 31, 2014.

COMPETITION AND REGULATION

We compete with many large insurance companies, small regional health insurers and managed care organizations. Although most life insurance companies are stock companies, mutual companies also write life insurance in the United States. 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, and excess products, such as medical stop-loss, tend to be more volatile than fully insured health products. 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 New York State Insurance Department (Standard Security Life's domestic regulator), the Wisconsin Department 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 15 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 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, 2014, the Company, including its direct and indirect majority or wholly owned subsidiaries, collectively had approximately 600 employees.

ITEM 1A.

RISK FACTORS

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. 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, 2014, fixed maturities represented $583.9 million or 89.7% of our total investments of $651.0 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, 2014, approximately 99.8% 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 $50.3 million of our $1.2 billion in total assets as of December 31, 2014. 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.

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. Standard Security Life, Madison National Life and Independence American are all rated "A-" (Excellent) by A.M. Best Company, Inc. 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 Best. If Best reduces the ratings of any of our carriers from current levels, our business would be adversely affected.

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 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. 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.

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 HMOs, 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 longer 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. We cannot assure you 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.

We rely on 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. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk with respect to our reinsurers. Our reinsurers may be unable or unwilling to pay the reinsurance recoverable owed to us now or in the future or on a timely basis. A reinsurer s insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement with us could have an adverse effect on our financial condition, results of operations and cash flows.

We may be required to accelerate the amortization of deferred acquisition costs, which would increase our expenses and reduce profitability.

Deferred acquisition costs, or DAC, represent certain costs which vary with and are primarily related to the successful sale and issuance of our insurance policies and investment contracts and are deferred and amortized over the estimated life of the related insurance policies and contracts. These costs include commissions in excess of ultimate renewal commissions and certain other sales incentives, solicitation and printing costs, sales material and other costs, such as underwriting and contract and policy issuance expenses. Under U.S. generally accepted accounting principles ("GAAP"), DAC is amortized through operations over the lives of the underlying contracts in relation to the anticipated recognition of premiums or gross profits.

Our amortization of DAC generally depends upon anticipated profits from investments, surrender and other policy and contract charges, mortality, morbidity and maintenance and expense margins. Unfavorable experience with regard to expected expenses, investment returns, mortality, morbidity, withdrawals or lapses may cause us to increase the amortization of DAC, resulting in higher expenses and lower profitability.

We regularly review our DAC asset balance to determine if it is recoverable from future income. The portion of the DAC balance deemed to be unrecoverable, if any, is charged to expense in the period in which we make this determination. For example, if we determine that we are unable to recover DAC from profits over the life of a book of business of insurance policies or annuity contracts, or if withdrawals or surrender charges associated with early withdrawals do not fully offset the unamortized

acquisition costs related to those policies or annuities, we would be required to recognize the additional DAC amortization as a current-period expense. In general, we limit our deferral of acquisition costs to costs assumed in our pricing assumptions.

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

Our business depends significantly on effective information systems, and we have different information systems for our various businesses. 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.

Moreover, our computer systems have been, and will continue to be, subject to computer viruses or other malicious codes, unauthorized access, cyber-attacks, hackers or other computer-related penetrations. To date, we are not aware of a material breach of cybersecurity. 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, additional regulatory scrutiny and litigation and reputational damage.

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, our systems may not be available to our customers or business partners for an extended period of time, which could hurt our relationships with our customers and business partners.

Our failure to maintain effective and efficient information systems and protect the security of such systems could have a material adverse effect on our financial condition and results of operations.

Failure to protect our policyholders' 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. For example, the collection and use of patient data in our health insurance operations is the subject of national and state legislation, including 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. 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. 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 loss of reputation and possible litigation.

Risks Related to our Industry

Our industry is highly regulated and changes in regulations affecting our businesses may reduce our profitability and limit our growth.

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;

.

approving policy forms and premium rates;

.

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 National Association of Insurance Commissioners (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, created a Federal Insurance Office. While the office will not directly regulate domestic insurance business, it will monitor all aspects of the insurance industry, including identifying gaps in the regulation of insurers that could contribute to a crisis in the insurance industry and/or the U.S. economy. Further, the Dodd-Frank Act authorizes the office to make recommendations that certain insurers be subject to more stringent regulation, and conduct a study on how to modernize and improve the system of insurance regulation in the United States. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (CFPB). While the CFPB does not have direct jurisdiction over insurance products, it is possible that regulations promulgated by the CFPB may extend its authority more broadly to cover certain insurance products and thereby may adversely affect our results of operations. 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 this 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.

Healthcare reform may further adversely affect our business, cash flows, financial condition and results of operations.

Although health insurance is generally regulated at the state level, legislative actions have been taken at the federal level that impose added restrictions on our business. The ACA was signed into law in March 2010. Provisions of the ACA and related reforms are causing sweeping and fundamental changes to the U.S. health care system that are expected to significantly affect the health insurance industry. The effects on our Company s business include, in particular, a requirement that we pay rebates to customers if the loss ratios for some of our product lines are less than specified percentages; the need to reduce commissions and the consequent risk that insurance producers may sell less of our products than they have in the past; limits on lifetime and annual benefit maximums; a prohibition from imposing any pre-existing condition exclusion; limits on our ability to rescind coverage except for intentional fraud; increased costs to modify and/or sell our products; the need to provide a minimum standard for coverage, so that all plans must cover at least 60 percent of the typical person s medical bills and include a set of essential health benefits from hospitalization to mental health to rehabilitative services to maternity care; intensified competitive pressures that limit our ability to increase rates; significant risk of customer loss; new and higher taxes and fees to generate the revenues to implement the ACA; additional administrative costs to implement the requirements of healthcare reform; and the need to operate with a lower expense structure at both the business segment and enterprise level.

We are unable to predict what additional legislation or regulation, if any, relating to the health care industry or third-party coverage and reimbursement may be enacted in the future or what effect such legislation or regulation would have on our business.

We will continue to monitor the implementation of 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 if there is less demand than we expect for our products in the new environment, our results could be adversely affected.

Changes in state regulations, or the application thereof, may adversely affect our business, financial condition and results of operations.

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.

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 thereof, 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 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.

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.

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 significant risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits and individual lawsuits relating, among other things, to sales or underwriting practices, payment of contingent or other sales commissions, claims payments and procedures, 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. 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. We are also subject to various regulatory inquiries, such as information requests, subpoenas, market conduct exams and books and record examinations, from state and federal regulators and other authorities, which may result in fines, recommendations for corrective action or other regulatory actions. Even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business.

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended liability for claims and coverage may emerge. These changing conditions may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until sometime after we have issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance or reinsurance contracts may not be known for a significant period after a contract is issued, and our financial position and results of operations may be materially adversely affected.

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:

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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 MGUs, 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. 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. 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 which 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.

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 28,060 square feet of space in Madison, Wisconsin as its corporate headquarters.

IHC Administrative Services

IHC Administrative Services leases 49,117 square feet of office space in Phoenix, Arizona 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.

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, 2014	$ 14.47	$ 12.71
September 30, 2014	14.88	12.41
June 30, 2014	14.48	12.50
March 31, 2014	14.50	11.36
QUARTER ENDED:		
December 31, 2013	$ 14.39	$ 12.34
September 30, 2013	14.95	11.67
June 30, 2013	11.90	9.78
March 31, 2013	10.36	9.00

IHC's stock price closed at $13.95 on December 31, 2014.

Holders of Record

At March 6, 2015, the number of record holders of IHC's common stock was 2,067. The number of record owners was determined from the Company s stockholder records maintained by the Company s transfer agent.

Dividends

IHC declared a cash dividend of $.035 per share on its common stock on each of June 26, 2014 and December 22, 2014 for a total annual dividend of $.07 per share.

IHC declared a cash dividend of $.035 per share on its common stock on each of June 6, 2013 and December 27, 2013 for a total annual dividend of $.07 per share.

IHC declared a cash dividend of $.035 per share on its common stock on each of May 22, 2012 and November 19, 2012 for a total annual dividend of $.07 per share.

Share Repurchase Program

IHC has a program, initiated in 1991, under which it repurchases shares of its common stock. In August 2014, the Board of Directors authorized the repurchase of up to 500,000 shares of IHC s common stock, in addition to prior authorizations, under the 1991 plan. At December 31, 2014, there were 468,218 shares still authorized to be repurchased under the plan. There were no share repurchases during the fourth quarter of 2014.

Performance Graph

Set forth below is a line graph comparing the five year cumulative total return of IHC s common stock with that of the Russell 2000 Index and the S & P 500 Life & Health Insurance index. The graph assumes that dividends were reinvested and is based on a $100 investment on December 31, 2009. Indices data was obtained from Research Data Group, Inc. The performance graph represents past performance and should not be considered to be an indication of future performance.

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ITEM 6.

SELECTED FINANCIAL DATA

The following is a summary of selected consolidated financial data of the Company for each of the last five years.

	Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Income Data:					
Total revenues	$ 533,933	$ 575,044	$ 428,061	$ 417,996	$ 435,368
Income from continuing operations	16,921	15,256	22,611	14,766	23,669
Balance Sheet Data:					
Total investments	650,961	608,982	811,356	932,945	919,727
Total assets	1,187,717	1,269,035	1,262,308	1,358,859	1,361,792
Insurance liabilities	728,883	837,581	793,628	927,746	920,581
Debt and junior subordinated debt securities	42,146	44,146	46,146	48,146	45,646
IHC stockholders' equity	291,177	268,791	285,684	261,077	230,628
Per Share Data:					
Cash dividends declared per common share	.07	.07	.07	.045	.045
Basic income (loss) per common share from continuing operations	.93	.78	1.09	.74	1.31
Diluted income (loss) per common share from continuing operations	.92	.77	1.09	.74	1.31
Book value per common share	16.76	15.22	15.93	14.46	13.76

The Selected Financial Data should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto included in Item 8 of this report.

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"), Independence American Insurance Company (Independence American); and (ii) its marketing and administrative companies, including IHC Risk Solutions, LLC (Risk Solutions), IHC Health Solutions, Inc., IHC Specialty Benefits, Inc. and IHC Carrier Solutions, Inc. IHC also owns a significant equity interest in a managing general underwriter (MGU) that writes Medical Stop-Loss. 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. Medical Stop-Loss is marketed to employer groups that self-insure their medical risks; in 2014 the Company s average case size was 228 covered employee lives. This niche is expected to grow as result of federal health care reform. The SGMM product is purchased by employers with between two and 50 covered lives. With regard to those persons in the growing individual market, IHC s products offer coverage for individuals and families with STM needs,

and fixed indemnity limited benefit and scheduled benefit plans through select distribution partners. We offer pet insurance for dogs and cats in all 50 states through a national distributor. 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.

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 medical stop-loss, fully insured medical, disability and DBL; 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 and profit commissions. Management has always focused on managing the costs of its operations and providing its insureds with the best cost-containment tools available.

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

The results of operations for the years ended December 31, 2014, 2013 and 2012, are summarized as follows (in thousands):

	2014	**2013**	**2012**
Revenues	$ 533,933	$ 575,044	$ 428,061
Expenses	510,621	551,390	403,447
Income before income taxes	23,312	23,654	24,614
Income taxes	6,391	8,398	2,003
Net income	16,921	15,256	22,611
Less: Income from noncontrolling interest in subsidiaries	(628)	(1,477)	(2,950)
Net income attributable to IHC	$ 16,293	$ 13,779	$ 19,661

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Net income of $.92 per share, diluted, for the year ended December 31, 2014, compared to $.77 per share, diluted, for the year ended December 31, 2013. The results for 2014 and 2012 include credits to federal income taxes of $2.5

million and $5.9 million, respectively, as a result of the reduction in AMIC s valuation allowance related to its net deferred tax asset at December 31, 2014 and 2012, respectively;

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Consolidated investment yield (on an annualized basis) of 3.3% in 2014 compared to 3.8% in 2013; and

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Book value of $16.76 per common share at December 31, 2014 compared to $15.22 at December 31, 2013.

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

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The Medical Stop-Loss segment reported income before taxes of $21.9 million and $12.7 million for the years ended December 31, 2014 and 2013, respectively. The increase is largely a result of lower combined loss and expense ratios in 2014;

o

Premiums earned increased $10.6 million for the year ended December 31, 2014 when compared to 2013. The increase in premiums earned is primarily due to increased volume of business produced by IHC Risk Solutions.

o

Underwriting experience for the Medical Stop-Loss segment, as indicated by its U.S. GAAP Combined Ratios, is as follows for the years indicated (in thousands):

	2014	2013	2012
Premiums Earned	$ 176,941	$ 166,302	$ 139,724
Insurance Benefits, Claims & Reserves	122,469	115,599	90,406
Expenses	37,710	42,164	38,350
Loss Ratio[(A)]	69.2%	69.5%	64.7%
Expense Ratio [(B)]	21.3%	25.4%	27.4%
Combined Ratio [(C)]	90.5%	94.9%	92.1%

(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.

o

The lower expense ratios in 2014 are primarily the result of lower commission expenses due to the mix of business.

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The Fully Insured Health segment reported a loss of $2.0 million before taxes for the year ended December 31, 2014 as compared to $0.8 million of income before taxes for the year ended December 31, 2013. The decrease is primarily due to lower fee income in 2014 as a result of the planned run-off of major medical health plans for individuals and families (IMM), which we exited in 2013, and higher expense ratios as we adjust our mix of business from major medical to specialty health insurance;

o

Premiums earned decreased $29.9 million for the year ended December 31, 2014 over the comparable period in 2013. Largely as a result of the strategic decision to focus on ancillary products instead of major medical, premiums decreased by $76.1 million. This decrease was partially offset by increases in the ancillary business largely as a result of new product launches and broader marketing of our STM, individual dental, gap plans, and fixed indemnity limited benefit plans, and by growth in pet insurance and occupational accident lines of business, which are relatively new products to IHC;

o

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

	2014	2013	2012
Premiums Earned	$ 218,949	$ 248,870	$ 141,546
Insurance Benefits, Claims & Reserves	146,431	177,290	94,700
Expenses	75,929	76,236	43,639
Loss Ratio	66.9%	71.2%	66.9%
Expense Ratio	34.7%	30.6%	30.8%
Combined Ratio	101.6%	101.8%	97.7%

o

The loss ratios are largely dependent on the mix of business in each year. In 2013 and 2014, loss ratios were generally favorable in the specialty health lines of business, which have an increasing premium base, but were unacceptably high in both years on the decreasing major medical premium base, which we are exiting. In 2013 and 2014, the Company recorded an increase in claims experience on major medical, which we attribute, in large part, to changes brought on by health care reform, and 2014 includes the new health insurance tax. The 2013 year was also adversely impacted by a reserve adjustment related to business written through an MGU that was previously terminated. As we adjust our mix of business from major medical to that of a specialty health insurance company, we anticipate loss ratios lower than 2014 (since we will have less major medical) and an expense ratio similar to that of 2014.

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Income before taxes from the Group disability, life, annuities and DBL segment in 2014 increased $3.6 million compared to prior year results. The increase is primarily the result of better loss ratios in the DBL and group term life lines;

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Losses before taxes from the Individual life, annuities and other segment decreased $3.8 million for the year ended December 31, 2014. While the results for 2014 reflect lower investment income and higher general expenses due to $3.5 million of amortization of deferred costs in correlation with the assumptions of certain ceded life and annuity policies, the results for 2013 include a $9.3 million write-off of deferred acquisition costs in connection with a coinsurance agreement;

.

Losses before tax from the Corporate segment increased $2.2 million for the year ended December 31, 2014 compared to the prior year primarily due to employee compensation expenses that vary with changes in IHC s stock price and book value;

.

Net realized investment gains were $7.7 million for the year ended December 31, 2014 compared to $19.8 million in 2013. A significant portion of the net realized investment gains in 2013 resulted from sales of invested assets in connection with the transfer of assets in accordance with the terms of a coinsurance agreement; and

.

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

Gross Direct and Assumed Earned Premiums:	**2014**	**2013**	**2012**
Medical Stop-Loss	$ 240,865	$ 199,064	$ 168,596
Fully Insured Health	241,486	288,809	224,377
Group disability; life, annuities and DBL	107,049	102,663	90,935
Individual life, annuities and other	26,186	28,342	31,728
	$ 615,586	$ 618,878	$ 515,636

Net Premiums Earned:	**2014**	**2013**	**2012**
Medical Stop-Loss	$ 176,941	$ 166,302	$ 139,724
Fully Insured Health	218,949	248,870	141,546
Group disability; life, annuities and DBL	64,260	60,004	49,315
Individual life, annuities and other	18,898	20,815	25,482
	$ 479,048	$ 495,991	$ 356,067

Information pertaining to the Company's business segments is provided in Note 16 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

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 and are maintained at levels that are in accordance with U.S. generally accepted accounting principles. 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.

Loss reserves differ for short-duration and long-duration insurance policies, including annuities. Reserves are based on approved actuarial methods, but necessarily include assumptions about expenses, mortality, morbidity, lapse rates and future yield on related investments.

Policy Benefits and Claims

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.

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, 2014, would increase reserves (in the case of a higher ratio) or decrease reserves (in the case of a lower ratio) by approximately $4.5 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 amortization of deferred acquisition costs and commission expense.

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

	December 31, 2014		
	Policy Benefits	Policy Claims	Policy Benefits and Claims
Medical Stop-Loss	$ 80,128	$ -	$ 80,128
Fully Insured Health	50,285	-	50,285
Group Disability	88,360	10,950	99,310
Individual Accident and Health and Other	6,881	199	7,080
	$ 225,654	$ 11,149	$ 236,803

	December 31, 2013		
	Policy Benefits	Policy Claims	Policy Benefits and Claims
Medical Stop-Loss	$ 72,307	$ -	$ 72,307
Fully Insured Health	56,848	-	56,848
Group Disability	90,606	10,976	101,582
Individual Accident and Health and Other	6,811	206	7,017
	$ 226,572	$ 11,182	$ 237,754

Medical Stop-Loss

All of the Company s Medical Stop-Loss policies are short-duration and are accounted for based on actuarial estimates of the amount of loss inherent in that period s claims or open claims from prior periods, including losses incurred for claims that have not been reported (IBNR). Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

The two primary assumptions underlying the calculation of policy benefits and claims for Medical Stop-Loss business are (i) projected Net Loss Ratio, and (ii) claim development patterns. The projected Net Loss Ratio is set at expected levels consistent with the underlying assumptions (Projected Net Loss Ratio). Claim development patterns are set quarterly as reserve estimates are developed and are based on recent claim development history (Claim Development

Patterns). The Company uses the Projected Net Loss Ratio to establish reserves until developing losses provide a better indication of ultimate results and it is feasible to set reserves based on Claim Development Patterns. The Company has concluded that a reasonably likely change in the Projected Net Loss Ratio assumption could have a material effect on the Company s financial condition, results of operations, or liquidity (Material Effect) but a reasonably likely change in the Claim Development Pattern would not have a Material Effect.

Projected Net Loss Ratio

Generally, during the first twelve months of an underwriting year, policy benefits and claims for Medical Stop-Loss are first set at the Projected Net Loss Ratio, which is set using assumptions developed using completed prior experience trended forward. The Projected Net Loss Ratio is the Company s best estimate of future performance until such time as developing losses provide a better indication of ultimate results.

While the Company establishes a best estimate of the Projected Net Loss Ratio, actual experience may deviate from this estimate. This was the case with the 2011, 2012 and 2013 underwriting years which deviated by 4.6, 0.3 and 1.7 Net Loss Ratio points, respectively. After the recorded reserve estimate, it is reasonably likely that the actual experience will fall within a range up to five Net Loss Ratio points above or below the expected Projected Net Loss Ratio for the 2014 underwriting year at December 31, 2014. The impact of these reasonably likely changes at December 31, 2014, would be an increase in net reserves (in the case of a higher ratio) or a decrease in net reserves (in the case of a lower ratio) of up to approximately $4.4 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves in the Consolidated Statement of Income.

Major factors that affect the Projected Net Loss Ratio assumption in reserving for Medical Stop-Loss relate to: (i) frequency and severity of claims; (ii) changes in medical trend resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, the impact of new medical technology and changes in medical treatment protocols; and (iii) the adherence to the Company s underwriting guidelines. Changes in these underlying factors are what determine the reasonably likely changes in the Projected Net Loss Ratio as discussed above.

Claim Development Patterns

Subsequent to the first twelve months of an underwriting year, the Company s developing losses provide a better indication of ultimate losses. At this point, claims have developed to a level where Claim Development Patterns can be applied to generate reasonably reliable estimates of ultimate claim levels. Development factors based on historical patterns are applied to paid and reported claims to estimate fully developed claims. Claim Development Patterns are reviewed quarterly as reserve estimates are developed and are based on recent claim development history. The Company must determine whether changes in development represent true indications of emerging experience or are simply due to random claim fluctuations.

The Company also establishes its best estimates of claim development factors to be applied to more developed treaty year experience. While these factors are based on historical Claim Development Patterns, actual claim development may vary from these estimates. The Company does not believe that reasonably likely changes in its actual claim development patterns would have a Material Effect.

Predicting ultimate claims and estimating reserves in Medical Stop-Loss is more complex than fully insured medical and disability business due to the excess of loss nature of these products with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. The level of these deductibles makes it more difficult to predict the amount and payment pattern of such claims. Fluctuations in results for specific coverage are primarily due to the severity and frequency of individual claims, whereas fluctuations in aggregate coverage are largely attributable to frequency of underlying claims rather than severity. Liabilities for first dollar medical reserves and disability coverages are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data.

Due to the short-term nature of Medical Stop-Loss, redundancies or deficiencies will typically emerge during the course of the following year rather than over a number of years. For Employer Stop-Loss, as noted above, the Company maintains its reserves based on underlying assumptions until it

determines that an adjustment is appropriate based on emerging experience from all of its MGUs for prior underwriting years.

Fully Insured Health

The liability for policy benefits and claims for fully insured medical and dental business is established using historical claim development patterns. Claim development by number of months elapsed from the incurred month is studied each month and development factors are calculated. These claim development factors are then applied to the amount of claims paid to date for each incurred month to estimate fully complete claims. The difference between fully complete claims and the claims paid to date is the estimated reserve. Total reserves are the sum of the reserves for all incurred months.

The primary assumption in the determination of fully insured policy benefits and claims is that historical claim development patterns tend to be representative of future claim development patterns. Factors which may affect this assumption include changes in claim payment processing times and procedures, changes in product design, changes in time delay in submission of claims, and the incidence of unusually large claims. 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 minimal. The time delay in submission of claims tends to be stable over time and not subject to significant volatility. 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.

Group Disability

The Company s Group Disability segment is comprised of Long Term Disability (LTD) and Disability Benefits Law (DBL). The two primary assumptions on which Group 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 LTD only, 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, 2014. 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 associated with 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, 2014. 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 comprised primarily 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. Amounts charged to operations (including interest credited and benefit claims incurred in excess of related policyholder account balances) are reported as insurance benefits, claims and reserves-life and annuity. 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.

Deferred Acquisition Costs

Costs that vary with and are primarily related to the successful acquisition of insurance policies and investment type contracts are deferred and recorded as deferred policy acquisition costs ("DAC"). These costs are principally broker

fees, agent commissions, and the purchase prices of the acquired blocks of insurance policies and investment type policies. DAC is amortized to expense and reported separately in the Consolidated Statements of Income. All DAC within a particular product type is amortized on the same basis using the following methods:

For traditional life insurance and other premium paying policies, amortization of DAC is charged to expense over the related premium revenue recognition period. Assumptions used in the amortization of DAC are determined based upon the conditions as of the date of policy issue or assumption and are not generally revised during the life of the policy.

For long duration type contracts, such as annuities and universal life business, amortization of DAC is charged to expense over the life of the underlying contracts based on the present value of the estimated gross profits ("EGPs") expected to be realized over the life of the book of contracts. EGPs consist of margins based on expected mortality rates, persistency rates, interest rate spreads, and other revenues and expenses. The Company regularly evaluates its EGPs to determine if actual experience or other evidence suggests that earlier estimates should be revised. If the Company determines that the current assumptions underlying the EGPs are no longer the best estimate for the future due to changes in

actual versus expected mortality rates, persistency rates, interest rate spreads, or other revenues and expenses, the future EGPs are updated using the new assumptions and prospective unlocking occurs. These updated EGPs are utilized for future amortization calculations. The total amortization recorded to date is adjusted through a current charge or credit to the Consolidated Statements of Income.

Internal replacements of insurance and investment contracts determined to result in a replacement contract that is substantially changed from the original contract will be accounted for as an extinguishment of the original contract, resulting in a release of the unamortized deferred acquisition costs, unearned revenue, and deferral of sales inducements associated with the replaced contract.

Investments

The Company has classified all of its investments as either available-for-sale or trading securities. These investments are carried at fair value with unrealized gains and losses reported through other comprehensive income (loss) for available-for-sale securities or as unrealized gains or losses in the Consolidated Statements of Income for trading securities. Available-for-sale securities totaled $597.8 million and $554.1 million at December 31, 2014 and 2013, 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. Net realized gains and losses on investments 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 securities 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.

Equity securities may experience other-than-temporary impairment in the future based on the prospects for full recovery in value in a reasonable period of time and the Company s ability and intent to hold the security to recovery. If a decline in fair value is judged by management to be other-than-temporary or management does not have the intent or ability to hold a security, a loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Income. 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.

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Goodwill and Other Intangible Assets

Goodwill carrying amounts are evaluated for impairment, at least annually, at the reporting unit level which 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 which 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 2014, 2013 or 2012.

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 2014, 2013 or 2012.

At December 31, 2014, the Company s market capitalization was less than its book value indicating a potential impairment of goodwill. As a result, the Company assessed the factors contributing to the performance of IHC stock in 2014. The Company does not believe that an impairment of goodwill exists at this time.

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.

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. 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 has certain tax-planning strategies that were used in determining that a valuation allowance was not necessary on its deferred taxes.

RESULTS OF OPERATIONS

Results of Operations for the Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

Information by business segment for the year ended December 31, 2014 and 2013 is as follows:

December 31, 2014 (In thousands)	Premiums Earned	Net Investment Income	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General and Administrative	Total
Medical Stop-Loss	$ 176,941	4,327	3,507	122,469	-	40,373	$ 21,933
Fully Insured Health	218,949	2,202	17,950	146,431	482	94,175	(1,987)
Group disability, life, annuities and DBL	64,260	3,156	225	37,537	-	17,936	12,168
Individual life, annuities and other	18,898	11,830	3,823	19,598	4,459	17,112	(6,618)
Corporate	-	177	-	-	-	8,252	(8,075)
Sub total	$ 479,048	$ 21,692	$ 25,505	$ 326,035	$ 4,941	$ 177,848	17,421
Net realized investment gains							7,688
Interest expense on debt							(1,797)
Income before income taxes							23,312
Income taxes							6,391
Net income							$ 16,921

December 31, 2013 (In thousands)	Premiums Earned	Net Investment Income	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General and Administrative	Total
Medical Stop-Loss	$ 166,302	5,055	606	115,599	-	43,687	$ 12,677
Fully Insured Health	248,870	2,711	26,524	177,290	22	99,961	832
Group disability,							

life, annuities and DBL	60,004	2,763	388	37,463	-	17,045	8,647
Individual life, annuities and other	20,815	16,837	4,314	24,438	15,110	12,814	(10,396)
Corporate	-	105	-	-	-	6,046	(5,941)
Sub total	$ 495,991	$ 27,471	$ 31,832	$ 354,790	$ 15,132	$ 179,553	5,819
Net realized investment gains							19,750
Interest expense on debt							(1,915)
Income before income taxes							23,654
Income taxes							8,398
Net income							$ 15,256

Premiums Earned

In 2014, premiums earned decreased $16.9 million over the comparable period of 2013. The decrease is primarily due to: (i) a decrease of $29.9 million from the Fully Insured Health segment primarily as a result of a $76.1 million decrease in premiums from exiting the IMM line and the New York vision block and from a decrease in the small group major medical line, partially offset by increases in the ancillary lines (primarily short-term medical ($7.0 million) and fixed indemnity limited benefit ($4.6 million)), pet insurance ($10.2 million), international ($4.9 million) and occupational accident ($11.7 million) lines of business as a result of higher volume; and (ii) a decrease of $1.9 million of earned premiums in the Individual life, annuities and other segment, primarily as a result of business ceded in connection with a coinsurance agreement during the second quarter of 2013; partially offset by (iii) a $10.6 million increase in earned premiums from the Medical Stop-Loss segment as a result of higher volume; and (iv) a $4.3 million increase in the Group disability, life, annuities and DBL segment primarily due to increased premiums from the DBL and LTD lines.

Net Investment Income

Total net investment income decreased $5.8 million. The overall annualized investment yields were 3.3% and 3.8% in 2014 and 2013, respectively. The overall decrease was primarily a result of a decrease in investment income on bonds, equities and short-term investments due to the transfer of $215.1 million of invested assets in the second quarter of 2013 related to a coinsurance treaty and lower income from partnerships. The annualized investment yields on bonds, equities and short-term investments were 3.2% and 3.5% in 2014 and 2013, respectively. IHC has approximately $149.4 million in highly rated shorter duration securities earning on average 1.4%. 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 Realized Investment Gains

The Company had net realized investment gains of $7.7 million in 2014 compared to $19.8 million in 2013. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale 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. A significant portion of the net realized investment gains in 2013 resulted from sales of invested assets in connection with the transfer of assets related to a coinsurance agreement.

Fee Income and Other Income

Fee income decreased $6.3 million for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily as a result of decreased volume in certain lines of the Fully Insured Health segment partially offset by increased volume in the Medical Stop-Loss segment.

There was no significant change in other income.

Insurance Benefits, Claims and Reserves

In 2014, insurance, benefits, claims and reserves decreased $28.8 million over the comparable period in 2013. The decrease is primarily attributable to: (i) a decrease of $30.9 million in the Fully Insured Health segment, primarily due to a decrease of $61.5 million in benefits, claims and reserves related to the run-off of the IMM and the New York vision block and from lower loss ratios in 2014; partially offset by increases in the volume of ancillary products ($6.9 million), pet insurance ($6.6 million), international ($3.5 million) and occupational accident business ($7.9 million);

and (ii) a decrease of $4.8 million in the Individual life, annuity and other segment, primarily as a result of business ceded in connection with a coinsurance agreement during the second quarter of 2013; partially offset by (iii) an increase of $6.9 million in benefits, claims and reserves in the Medical Stop-Loss segment as a result of an increase in premium volume; and (iv) no overall change in the group disability, life, annuities and DBL segment primarily due to increased volume in the LTD line and DBL lines which were offset by lower loss ratios in the group term life line in 2014.

Amortization of Deferred Acquisition Cos