

INDEPENDENCE HOLDING CO
Form 10-K
May 22, 2017

**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, 2016

COMMISSION FILE NUMBER 001-32244

INDEPENDENCE HOLDING COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

58-1407235
(I.R.S. Employer Identification No.)

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT
(Address of Principal Executive Offices)

06902
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
COMMON STOCK, \$1.00 PAR VALUE **NEW YORK STOCK EXCHANGE**
PER SHARE
(Title of each class) (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: **NONE**

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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 ___ No X

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, 2016 was \$131,292,000.

16,377,756 shares of common stock were outstanding as of May 15, 2017.

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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.

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

IHC primarily provides specialized disability and health coverages 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"), Madison National Life Insurance Company, Inc. ("Madison National Life") and Independence American Insurance Company (Independence American) market their products through independent and affiliated brokers, producers and agents. Independence American also distributes 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 2017, IHC will retain the vast majority of the risk that it underwrites, and will focus on the following lines of business:

Multiple specialty health lines

.

Group disability, life and New York short-term disability (DBL)

.

Pet insurance

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. During 2016, our principal administrative companies were: (i) Specialty Benefits, a full-service marketing, technology and distribution company that focuses on small employer, individual and family products; and (ii) IHC Carrier Solutions LLC (Carrier Solutions), a program management, actuarial and regulatory compliance company providing product development and valuation services for IHC's specialty health segment. IHC owns controlling interests in Global Accident Facilities, LLC (GAF) and Healthinsurance.org LLC (HIO). GAF is a holding company for an agency that produces injured on duty business. HIO is an online marketing company that owns www.healthinsurance.org, a lead generation site for individual health insurance. Specialty Benefits, GAF and HIO are collectively referred to as our Agencies. Our Agencies earn commissions for selling life and health insurance products underwritten by IHC's owned and affiliated insurance companies and also by unaffiliated carriers. IHC also owns a significant equity interest in Ebix Health Exchange Holdings, LLC (Ebix Health Exchange), an administration exchange for health and pet insurance. Ebix Health Exchange administers various lines of health insurance for IHC and non-affiliated carriers through Ebix Health Administration Exchange, Inc. (EHAE).

On March 31, 2016, the Company sold IHC Risk Solutions, LLC (Risk Solutions), its managing general underwriter of excess or stop-loss insurance for self-insured employer groups that desire to manage the risk of large medical claims (Medical Stop-Loss) to Swiss Re Corporate Solutions, a division of Swiss Re (Swiss Re). In addition, under the purchase and sale agreement, all of the in-force stop-loss business of Standard Security Life and Independence American produced by Risk Solutions was co-insured by Westport Insurance Corporation (Westport), Swiss Re's largest US carrier, as of January 1, 2016. The aggregate purchase price was \$152,500,000 in cash, subject to adjustments and settlements. Approximately 89% of the purchase price was allocated to American Independence Corp. (AMIC). At the time of the transaction, IHC owned approximately 92% of AMIC. The balance of the purchase price was paid to Standard Security Life and other IHC subsidiaries. The aforementioned transaction is collectively referred to as the Risk Solutions Sale and Coinsurance Transaction . The Risk Solutions Sale and Coinsurance Transaction resulted in a gain on the sale estimated at approximately \$100 million. IHC's block of Medical Stop-Loss business is in run-off. The sale of Risk Solutions and exit from the medical stop-loss business represents a strategic shift that has had a major effect on the Company's operations and financial results. The disposal transaction is reported as discontinued operations.

For information pertaining to the Company's business segments, reference is made to Note 18 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 specialty health insurance, pet, and group disability and life products and through distribution channels that enable us to access specialized or underserved markets in which we believe we have a competitive advantage. Historically, our carriers have focused on establishing preferred relationships with producers who seek an alternative to larger, more bureaucratic health insurers, and on providing these producers with personalized service, competitive compensation and a broad array of products. More recently, larger health insurers have begun to market our ancillary health products to supplement their major medical 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.

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.

Our gross written and retained specialty health premiums have decreased as a result of exiting the individual and small group major medical blocks, however, our specialty health products have generated

meaningful growth in the last several years as a result of greater emphasis by IHC on these products, increased distribution (including as a result of equity investments) and greater market demand.

Prior to March 31, 2016, we emphasized writing stop-loss business through Risk Solutions and two managing general underwriters (MGUs) with whom we had done business for many years, including TRU Services, LLC (TRU), in which we still have a significant equity interest.

DISTRIBUTION

Specialty Health

The Specialty Health Segment is comprised of the following categories: (i) ancillary benefits including dental, vision, short-term medical (STM), supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity); (ii) pet insurance; and (iii) non-subscriber occupational accident and injured on duty. The segment had some run-off of discontinued major medical coverage and occupational accident from one producer. Carrier Solutions and our Agencies collectively perform marketing, sales, underwriting and certain administrative functions on the majority of our Specialty Health business. EHAE and other third party administrators perform claims and other administrative functions. In 2016, our pet insurance was marketed and administered by one independent agency, but IHC will expand its distribution and administration of this product in 2017. In 2016, we reinsured expatriate health business from a leading provider of international health, life and disability plans for specialized niche markets, however, this business is now in run-off. Our non-subscriber occupational accident coverage was largely marketed and administered by a subsidiary of GAF. This subsidiary was sold in 2016 and its business is in run-off.

During 2016, IHC made the following investments that will increase the distribution of our specialty health products: (1) in April 2016, IHC purchased 10% of the equity of American Insurance Agencies Direct Holding, Inc., which is a call center that is one of the leading producers of hospital indemnity (HIP) on Independence American's paper; (2) in July 2016, IHC purchased 10% of the equity of The iCan Group LLC, which is a call center that is one of our largest producers of individual limited medical and has begun to write HIP on Independence American's paper; (3) in October, 2016, we acquired a 44% interest in The Abacus Group LLC, which is a managing general underwriter specializing in worksite marketing of voluntary benefits that is producing disability business for Madison National Life and will begin selling group limited medical for that carrier; and (4) in October 2016, IHC acquired the domain name and assets of www.petplace.com (PetPlace), which was launched in 1999, including subscribers and its social media outlets. PetPlace attracts over 1 million visitors each month with more than 10,000 veterinarian-approved articles. IHC plans to make this domain the focal point of selling its pet insurance direct to consumers.

The Specialty Health Segment performs underwriting, risk selection and pricing, policy administration and management of the majority of our specialty health business, which totaled approximately \$164 million of gross individual and group health premiums in 2016. In addition, our Agencies produce Affordable Care Act and other coverages for multiple insurers and will continue to produce small group stop-loss. The Agencies total book of business in 2016 was approximately \$144 million.

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

Disability and Life Products

Our disability and life products are primarily distributed by general agents, agents and brokers. The short-term statutory disability benefit product in New York State is marketed primarily through independent general agents who are paid commissions based upon the amount of premiums produced. Madison National Life's disability and group life products are primarily sold in the Midwest to school districts, municipalities and hospital employer groups through a managing general agent that specializes in these target markets. Independence American also reinsured health products serving the needs of expatriates, third-party nationals and high net-worth local nationals.

Medical Stop-Loss

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

The agents and brokers that produce this business are non-salaried contractors that receive commissions.

PRINCIPAL PRODUCTS

Specialty Health Products

In 2016, this line of business had the following categories: (i) ancillary benefits, including dental, vision, STM, supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity); (ii) pet insurance; and (iii) non-subscriber occupational accident. This category also includes reinsured international health plans sold to expatriates in 2016. In 2015, IHC exited the major medical business as a result of healthcare reform which caused adverse underwriting results in 2013 and 2014. As a result of exiting this line of business, we focused our attention on growing our specialty health lines of business and significantly improved our bottom line performance. Earned premiums from specialty products increased by 6% in 2016. We expect continued growth in the specialty health lines of business in 2017.

Ancillary Products

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

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 basis. As part of the distribution of our dental products, we also offer vision benefits. Vision plans will offer a flat reimbursement amount for exams and materials. We expect the dental/vision business to be relatively flat in 2017.

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 2016, which continued the trend from prior years. We currently anticipate a decrease in this line of business in 2017 due to a federal regulation expected to be effective April 1, 2017 that limits the duration of an STM policy to less than three months.

The Company markets supplemental products to individuals and families. These lines of business are generally used as either a supplement or in lieu of an essential health benefit (EHB) plan. The main driver for growth in this line is that consumers are moving to higher-cost sharing on their individual major medical plans, and are looking for products to help them offset the additional risk of higher deductibles and out of pocket limits. The product lines included in this supplemental grouping are hospital indemnity plans, fixed indemnity limited benefit plans, critical illness and bundled packages of accident medical coverage, critical illness and life insurance. These products, which are available in most states, are available through multiple distribution sources including Company owned direct-to-consumer websites, call center and career agents, general agents and on-line agencies. We anticipate material growth in these lines of business in 2017 as a result of increased distribution and demand for these products.

IHC has medical benefit plans for employers that choose to offer non-EHB coverage to their employees. We offer a fixed indemnity limited benefit policy that offers affordable health coverage to hourly, part-time and/or seasonal employees, which is approved in a majority of states. Fixed indemnity limited benefit plans are a low cost alternative to EHB plans that permit employees who do not otherwise have health insurance to begin to participate in the healthcare system. The Company anticipates meaningful growth in this line of business in 2017 due to increased consumer demand, increased distribution channels, and the introduction of a new group gap plan.

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 10% of the health risk on a quota share basis in 2016. IHC expects this line of business to decrease in 2017 and beyond as a result on non-renewal of this treaty.

Pet Insurance

In 2016, the Company wrote pet insurance through a marketing and administrative company that manages one of the largest blocks of this business in the United States. These plans are marketed to dog and cat owners through veterinary offices, independent marketing organizations, its nationwide call

center, and increasingly, direct-to-consumer. In 2016, Independence American had \$38 million of earned premium from pet insurance, which represents 14% growth over 2015. In 2017, we expect to add other distribution (including as a result of our acquisition of PetPlace.com) and third party administrators, however, we will experience a decrease in sales from our historic distribution relationship as they have begun to place business with multiple carriers.

Occupational Accident

In 2016, most of IHC's occupational accident insurance was sold by Independence American through marketing and administrative companies owned by GAF, and other exclusive arrangements with independent entities. This occupational accident product provides accidental death, accident disability and accident medical benefits for occupational injuries to employees of companies that have elected to not participate in the Texas Worker's Compensation system (non-subscribers). The product also gives the employer the option to purchase coverage for employer's liability, which protects the employer from an action brought by an injured worker. The employer is covered for damages and costs arising from the settlement of such action, subject to the terms and limits of the policy.

In 2016, GAF sold the entity that provided administrative services for occupational accident insurance. Independence American still offers Injured on Duty coverage through another subsidiary of GAF and IHC continues to write a smaller block of occupational accident coverage through unaffiliated entities. As a result of the aforementioned sale, total premiums are expected to decrease significantly in 2017.

Major Medical Health Benefit Coverages

This category is primarily comprised of group major medical insurance and individual major medical policies, both of which are in run-off as we have exited that market. We were not able to earn an acceptable profit margin on EHB products under the Affordable Care Act (ACA). The Company will monitor healthcare reform under the Trump Administration.

Group Disability; Life and DBL

Group Long-Term and Short-Term Disability

The Company sells group long-term disability ("LTD") products to employers that wish to provide this benefit to their employees. Depending on an employer's requirements, LTD policies (i) cover between 40% and 90% of insurable salary; (ii) have elimination periods (i.e., the period between the commencement of the disability and the start of benefit payments) of between 30 and 730 days; and (iii) terminate after two, five, or ten years, or extend to age 65 or the employee's Social Security normal retirement date. Benefit payments are reduced by social security, workers compensation, pension benefits and other income replacement payments. Optional benefits are available to employees, including coverage for partial or residual disabilities, survivor benefits and cost of living adjustments. The

Company also markets short-term disability ("STD") policies that provide a weekly benefit to disabled employees until the earlier of: recovery from disability, eligibility for long-term disability benefits or the end of the STD benefit period. The Company anticipates moderate growth in 2017.

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 6% in 2016 and we anticipate moderate growth in 2017 due to continued marketing efforts.

Group Term Life

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

Medical Stop-Loss

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

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 2015 as we increased distribution and made the product available in additional states. During 2016, we began selling these plans through Westport paper. We expect that sales of the small group self-funded plans will be relatively flat in 2017.

IHC experienced an increase in premiums in the Medical Stop-Loss line of business in 2015 primarily from the marketing efforts of Risk Solutions. The Risk Solutions Sale and Coinsurance Transaction closed on March 31, 2016 and as a result, this line is in run-off and will have substantially reduced premiums in 2017.

Individual Life, Annuities and Other

Madison National Life ceded 100% of its remaining runoff life and annuity policies to National Guardian Life Insurance Company in 2015. In addition, Madison National Life ceased writing any life or annuity policies in the summer of 2015.

The following lines of Standard Security Life's in-force business are in runoff: individual accident and health, individual life (of which a significant portion was 100% ceded to National Guardian Life Insurance Company in 2015), single premium immediate annuities, disability income and miscellaneous insurance business.

ACQUISITIONS OF POLICY BLOCKS

Prior to reinsuring the life and annuity business in 2015 IHC's acquisition group acquired blocks of existing life insurance, annuity and disability policies from other insurance companies, guaranty associations and liquidators. Now the acquisition group's focus is on existing blocks of long-term and short-term disability policies, group life policies, and specialty health policies.

REINSURANCE AND POLICY RETENTIONS

The Company's average retention of gross and assumed Medical Stop-Loss exposure was 5% in 2016, 69% in 2015, and 74% in 2014. The reduction in 2016 was a result of closing the Risk Solutions Sale and Coinsurance Transaction, pursuant to which all of the in-force stop-loss business of Security Life and Independence American produced by Risk Solutions was co-insured as of January 1, 2016. IHC retained approximately 94% in 2016, 92% in 2015, and 91% in 2014, of gross and assumed Specialty Health exposure.

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.

In 2015, Madison National Life and Standard Security Life together entered into a coinsurance and sale agreement with an unaffiliated reinsurer to cede substantially all of their individual life and annuity policy blocks, which are currently in run-off.

The following reinsurers represent approximately 80% of the total ceded premium for the year ended December 31, 2016:

Westport Insurance Corporation	36%
GBG Insurance Ltd.	23%
Contrarian Re, LLC	13%
RGA Reinsurance Company	8%
	80%

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

2016 and 2015, the Insurance Group's ceded reinsurance in-force was \$6.3 billion and \$6.4 billion, respectively.

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

INVESTMENTS AND RESERVES

The Company's cash, cash equivalents and securities portfolio are managed by employees of IHC and its affiliates, and ultimate investment authority rests with IHC's in-house investment group. As a result of the nature of IHC's insurance liabilities, IHC endeavors to maintain a significant percentage of its assets in investment grade securities, cash and cash equivalents. At December 31, 2016, more than 99.9% of the fixed maturities were investment grade and continue to be rated on average AA. The internal investment group provides a summary of the investment portfolio and the performance thereof at the meetings of the Company's board of directors.

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

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

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

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

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

	2016		2015		2014
Consolidated Statements of Income:					
Net investment income	\$ 16,570	\$	17,237	\$	21,614
Net realized investment gains	4,502		3,094		7,688

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Other-than-temporary impairments	(1,475)	(228)	-
Consolidated Statements of Comprehensive Income (Loss):			
Net unrealized gains (losses) on available-for-sale securities	(5,424)	(5,475)	15,509
Total pre-tax investment performance	\$ 14,173	\$ 14,628	\$ 44,811

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, 2016.

COMPETITION AND REGULATION

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

The health insurance industry tends to be cyclical, and excess products, such as medical stop-loss, tend to be more volatile than specialty 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 17 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, 2016, the Company, including its direct and indirect majority or wholly owned subsidiaries, collectively had approximately 270 employees.

ITEM 1A.

RISK FACTORS

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

Risks related to our Business

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

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

In particular, at December 31, 2016, fixed maturities represented \$449.5 million or 87.3% of our total investments of \$514.8 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, 2016, more than 99.9% 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 \$41.6 million of our \$1.1 billion in total assets as of December 31, 2016. 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 signi