

INDEPENDENCE HOLDING CO
Form 10-K
March 25, 2010

**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, 2009

COMMISSION FILE NUMBER 0-10306

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:
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 ___ 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. []

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 ___ Non-accelerated filer X

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, 2009 was \$37,779,000.

15,285,096 shares of common stock were outstanding as of March 23, 2010.

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 2009 annual meeting of stockholders to be held in June 2010 are incorporated by reference in response to Part III of this Report.

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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 of this report, Risk Factors.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, also 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. Our forward-looking statements speak only as of the date made, and we will not update these forward-looking statements unless the securities laws require us to do so. In light of these risks, uncertainties and assumptions, any forward-looking event discussed in this report may not occur.

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, 2009, we own a 49.7% equity interest in American Independence Corp. (NASDAQ:AMIC), which owns Independence American Insurance Company ("Independence American") several managing general underwriters ("MGUs") and controlling interests in two agencies. In March 2010, IHC acquired a controlling interest in AMIC by purchasing additional shares of AMIC common stock in the open market and thereby increasing the total number of shares owned by the Company to more than 50% of AMIC's outstanding common stock.

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 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 a dedicated controlled distribution.

Madison National Life and Standard Security Life 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 retains much of the risk that it underwrites, and focuses on the following lines of business:

.
Medical excess (or "stop-loss")

.
Multiple fully insured health lines

.
Group disability and life

.
Individual life, primarily through block acquisitions

Each of Standard Security Life, Madison National Life and our affiliate, Independence American, is 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 Guam, and is an accredited reinsurer in New York. Independence American is domiciled in Delaware and licensed to sell insurance products in 49 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 2009, our principal administrative companies were Insurers Administrative Corporation (IAC), Majestic Underwriters, LLC ("Majestic"), Health Plan Administrators, Inc. (HPA), GroupLink Inc. (GroupLink), and Actuarial Management Corporation ("AMC"). As described below, in January 2010, in order to improve efficiency and service to our clients, we combined the operations of GroupLink and HPA, along with the medical management and marketing services of IAC, into those of IHC Health Solutions, Inc., and the claims processing and administrative function of IAC was rebranded as IHC Administrative Services, Inc. In January 2010, we acquired interests in three additional administrative companies by: (i) buying the assets of Alliance Underwriters, LLC (AU), a stop-loss managing general underwriter; (ii) acquiring 51% of the stock of MedWatch, LLC; and (iii) acquiring 51% of the stock of Hospital Bill Analysis, LLC. AMIC's administrative companies are Risk Assessment Strategies, Inc., and Voorhees Risk Management, LLC, d.b.a. Marlton Risk Group (collectively, the "AMIC MGUs").

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. IHC s principal agency is IHC Health Solutions, Inc. (IHC Health Solutions). In addition, AMIC owns controlling interests in Independent Producers of America, LLC ("IPA") and Healthinsurance.org LLC. IPA is a national, career agent marketing organization. Healthinsurance.org LLC is an online marketing company that owns www.healthinsurance.org, a lead generation site for individual health insurance.

For information pertaining to the Company's business segments, reference is made to Note 22 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/or through distribution channels that enable us to access underserved markets or 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 and unique rewards programs. More recently, we have also begun to focus on alternative distribution sources, such as captive agencies and 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 transactions that will generate fee income and profit commissions for our administrative operating 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 expansion into the Fully Insured Health Segment and our increased control of distribution through corporate acquisitions, we are now better able to respond to market cycles in the health insurance sector by redeploying the focus of our insurance underwriting activity across a larger number of business lines. Most recently,

we have encouraged our owned and affiliated MGUs to be more selective in order to achieve better underwriting results. With respect to our medical stop-loss business, our results deteriorated for business written in 2006 and 2007 as a result of several MGUs being less selective in the business they wrote in these years. As a result, during 2008 and 2009, we terminated or reduced our retention on the business generated by several non-owned MGUs, and have been successful in improving our underwriting results. We expect the performance of business written in 2008 to be significantly better than that of business written in 2007, and we anticipate that business written in 2009 will deliver even better results. As a result of these changes, we have seen a decrease in our gross written stop-loss premiums. We have increased somewhat our fully insured health premiums both on a net-retained basis, which has offset the decrease in stop-loss premium. While we have benefitted from fee income generated by our administrative and sales companies, which is generally not subject to insurance

risk, we also saw an increase in administrative costs in our fully insured segment. This increase has been addressed through efficiency initiatives during 2009 and consolidation in January 2010.

DISTRIBUTION

Medical Stop-Loss

We market medical stop-loss primarily through MGUs which are non-salaried contractors that receive administrative fees. MGUs are responsible for underwriting accounts in accordance with guidelines formulated and approved by us, billing and collecting premiums, paying commissions to agents, third party administrators ("TPAs") and/or brokers, and processing claims. We are responsible for selecting MGUs, establishing underwriting guidelines, maintaining approved policy forms and overseeing claims for reimbursement, as well as for establishing appropriate accounting procedures and reserves. In order to accomplish this, we audit the MGUs' underwriting, claims and policy issuance practices to assure compliance with our guidelines, provide the MGUs with access to our medical management and cost containment expertise, and review cases that require referral based on our underwriting guidelines. MGUs receive fee income, generally 8% to 12% of gross premium produced by them on behalf of the insurance carriers they represent, and typically are entitled to additional income based on underwriting results.

During 2009, Standard Security Life and Madison National Life wrote approximately 59% of their medical stop-loss business through Majestic, the AMIC MGUs and TRU Services, LLC (TRU) (collectively, the "Affiliated MGUs"). During 2009, we terminated two unaffiliated MGUs and appointed AU as a new MGU. In January 2010, we acquired the net assets of AU and as a result, we expect that an even higher percentage of our medical stop-loss business will be written through Affiliated MGUs in 2010.

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

Fully Insured Health

The Fully Insured Health Segment includes six lines of business (major medical health plans for small groups, individuals and families, dental/vision, short-term medical ("STM"), limited medical, and student medical) that are sold in the majority of states through multiple and varied distribution strategies. The largest line of business in this segment continues to be major medical for small employer groups (defined as employers with between two and fifty employees), but the other lines are growing more rapidly. The majority of our business in this segment is written through general agents, agents and brokers. We also market (i) directly to agents through the IHC Health Solutions telesales unit, (ii) through private-label arrangements managed by IHC Health Solutions with non-affiliated carriers, and (iii) through AMIC's captive agency relationships.

We entered the Fully Insured Health Segment as a result of several strategic acquisitions and partnerships starting in 2005. We have built a controlled platform to write small-group major medical, major medical health plans for individuals and families, dental/vision, short-term medical, limited medical and student medical. Our senior management team has extensive experience in these lines of business and the majority of our current fully insured health block was previously administered (on behalf of other carriers) by the companies we have acquired. Much of this existing block has been transferred to our carriers so we now benefit from administrative fee income at a variety of levels, earn risk profits and receive profit commissions from our reinsurers. The acquisition in 2007 of AMC not only brought in-house the actuarial expertise necessary to maintain the profitability of our fully insured business, but also added another source of fee income and potential profit commissions. The acquisition of IHC Health Solutions, also in 2007, has provided us with a marketing company specializing in alternative distribution methods and strategic partnerships.

During 2009, the Fully Insured Health Segment was primarily composed of three third-party administrators (IAC, HPA and GroupLink) and IHC Health Solutions, a marketing company. In January 2010, in order to improve efficiency and service to our clients, we combined the operations of GroupLink and HPA, along with the medical management and marketing services of IAC, into those of IHC Health Solutions, Inc., and the claims processing and administrative function of IAC was rebranded as IHC Administrative Services, Inc. As a result of these changes, all marketing, sales and underwriting functions have been collected under IHC Health Solutions, Inc., and other policy-holder and transactional services now reside within IHC Administrative Services, Inc.

The two entities together have approximately 340 salaried employees performing all aspects of underwriting, policy administration and managing fully insured group and individual health insurance on behalf of IHC and other carriers, and manage approximately \$260 million of individual and group health and life premiums and premium equivalents for multiple insurers..

We anticipate that as a result of these combinations and other efficiency initiatives, our expenses will be reduced by approximately \$2 million in 2010.

The agents and brokers who produce the Fully Insured Health business are non-salaried contractors who receive commissions. IHC's gross earned premiums from this segment grew very quickly from 2005 to 2007, but decreased in 2008 and 2009. We anticipate modest growth in 2010.

Other Products

Our other products are primarily distributed by general agents, agents and brokers. Standard Security Life distributes group term life insurance products through MGUs (including its medical stop-loss MGUs), managed care organizations, general agents and brokers. It also markets specialized defined benefit and defined contribution service award programs with separate group life coverage to volunteer emergency services personnel and blanket accident insurance sold through two specialized general agents. 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. We also sell through independent general agents and agents.

For a number of years Madison National Life has sold a whole-life product with an annuity rider to military personnel and civil service employees. As a result of this experience, in 2008 Madison National Life formed a subsidiary, IHC Financial Group, Inc. (IHC Financial Group), to recruit 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.

We do not expect to earn significant income from this subsidiary in 2010, but do anticipate growth as we continue to recruit new agents. We anticipate that premiums from our whole-life and annuity rider product will be slightly higher in 2010.

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 ("Employer Medical Stop-Loss"). In 2009, we also wrote excess policies for providers, managed care organizations, including provider hospital organizations, hospital groups, physician groups and individual practice associations (collectively, "MCOs") that assumed risk and desired to reduce their claim volatility ("Provider Excess Loss") and for health maintenance organizations ("HMOs") that desired to reduce their claim volatility ("HMO Reinsurance"). Employer Medical Stop-Loss, Provider Excess Loss and HMO Reinsurance are collectively referred to as "Medical Stop-Loss."

Standard Security Life was one of the first carriers to market Employer 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. Employer 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 some reduction in premiums in the Medical Stop-Loss line of business in 2009 due to the termination of certain employer medical stop-loss MGUs, even more stringent underwriting guidelines, and the continuing consolidation of MCOs and reduced demand for Provider Excess Loss coverage. In 2010, we anticipate some further reductions in Employer Medical Stop-Loss and we do not expect to write any new Provider Excess Loss or HMO Reinsurance.

Fully Insured Health Products

Group Major Medical

The Company began selling group major medical insurance (including CDHPs) primarily to small employers (two to 50 covered lives) during 2005, and significantly expanded its book of business in 2006 in large part as a result of an acquisition of a block of approximately \$50 million. IHC markets this product in the majority of states. It is fully insured major medical coverage that is principally designed to work with health reimbursement accounts ("HRA") and health savings accounts ("HSA") which are implemented by employers that wish to provide this benefit as part of an employee welfare benefit plan. These plans are offered primarily as preferred provider organizations ("PPO") plans,

and provide a variety of cost-sharing options, including deductibles, coinsurance and co-payment. CDHPs are designed to provide participants with economic incentives to be informed consumers of healthcare.

In addition to small group, the Company offers a unique group medical plan to employers (small and 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.

The Company experienced a decrease in premiums in the small group line in 2009 primarily as a result of fewer groups purchasing major medical coverage and fewer participants in each group as a result of recessionary economic conditions, and stricter underwriting guidelines. We anticipate that premiums will continue to decline in 2010.

Short-Term Medical

IHC sells individual major medical products ("STM") in 45 states. STM is designed specifically for people with transient needs for health coverage. Typically, STM products are written as major medical coverage with a defined duration, which is normally twelve months or less. Among the typical purchasers of STM products are self-employed professionals, recent college graduates, persons between jobs, employed individuals not currently eligible for group insurance, and others who need insurance for a specified period of time.

IHC's premium declined in this line of business in 2008 and 2009 as a result of planned pricing increases which significantly improved profit margins. We anticipate modest growth in this line of business as a result of contemplated pricing actions that will make this product more competitive while maintaining profitability targets.

Dental/Vision

IHC sells group and individual dental products in the majority of 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 employee voluntary bases. As part of the distribution of our dental products, we typically also offer vision, group life and short-term disability benefits. Vision plans will offer a flat reimbursement amount for exams and materials. Life plans are available on scheduled or percentage of salary basis and short-term disability is offered as a percentage of salary or flat amount.

Standard Security Life writes vision policies in the State of New York on behalf of national vision providers. IHC does not control the distribution or underwriting of this product, and therefore it does not retain its normal share of the risk and does not earn administrative fee income, other than the carrier fee.

IHC experienced growth in this line of business in 2009, and we anticipate continued growth in future years.

Major Medical for Individuals and Families

The Company markets major medical plans for individuals and families that include CDHP products which are approved in the majority of states. The Company believes that the demand for individual medical products is growing steadily, due in large part, to employers reducing the number of employees eligible for group coverage, and to an increase in the number of self-employed individuals. Many of these plans are Federally Qualified High Deductible Health Plans that allow the policy or certificate holder to establish an HSA. For these products, each application is

individually underwritten for consideration of coverages.

The Company anticipates growth in this line of business in 2010 as a result of new distribution sources and more focus on individual products by the telesales unit of IHC Health Solutions.

Limited Medical

Standard Security Life insures a limited medical policy to offer affordable health coverage to hourly, part-time and/or seasonal employees, which is currently approved in a majority of states. Limited medical plans are a low cost alternative to major medical insurance for those uninsured Americans who cannot afford traditional health insurance. Employers are using these plans to recruit and retain employees, save costs and compete more effectively. These plans also permit employees who do not otherwise have health insurance to begin to participate in the healthcare system.

In 2009, the Company recorded \$6.0 million of gross premiums written and projects continued growth in 2010.

Student Medical

IHC sells student accident and student health insurance (collectively, Student Medical). The student accident product is primarily offered to sports, youth, recreational and educational markets. A number of states recommend, and some require, that school districts offer, or provide, student accident insurance to their pupils. The student health insurance product is primarily offered to students enrolled in college and higher education institutions, and often is mandatory for students who do not otherwise have health coverage. This product is comprehensive, major medical coverage, which often has a managed care component through the institutions' health facilities.

IHC experienced a decrease in this line of business to in 2009, due to the cancellation of two production sources. We expect this line of business to remain relatively flat in 2010.

Group Disability; Life, Annuities 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 experienced an increase in sales to school districts and municipalities in 2009 primarily as a result of the transfer of a block of business from another carrier and new business from the primary producer. We expect a slight increase in premiums in 2010.

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 declined in 2009 due to rate reductions on its large cases due to favorable loss experience as well as a decrease in case size due to the reduction in employees as a result of the current economic environment. The Company anticipates premiums will be relatively flat in 2010.

Group Term Life and Annuities

Madison National Life and Standard Security Life sell 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 and new distribution sources. Standard Security Life anticipates modest growth in its specialized defined benefit and defined contribution service award programs, with separate group life coverage, to Volunteer Emergency Services personnel.

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; (iv) blanket accident insurance sold through a specialized general agent; and (v) certain miscellaneous insurance products.

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.

LIFE INSURANCE IN-FORCE

The following table summarizes the aggregate life insurance in-force of the Insurance Group excluding the credit life and disability segment which is discontinued operations (in thousands):

	2009	2008	2007
LIFE INSURANCE IN-FORCE:			
Group	\$ 9,800,776	\$ 5,749,229	\$ 6,226,441
Individual term	531,854	495,075	582,009
Individual permanent	1,462,126	1,534,056	1,404,363
TOTAL LIFE INSURANCE IN-FORCE (1), (2)	\$ 11,794,756	\$ 7,778,360	\$ 8,212,813
NEW LIFE INSURANCE:			
Group	\$ 3,820,519	\$ 218,479	\$ 418,889
Individual term	26	482	7,000
Individual permanent	77,734	64,799	140,829
TOTAL NEW LIFE INSURANCE	\$ 3,898,279	\$ 283,760	\$ 566,718

NOTES:

(1)	Includes participating insurance	\$ 170,840	\$ 228,140	\$ 164,863
(2)	Before ceded reinsurance of:			
	Group	\$ 5,624,680	\$ 2,228,998	\$ 2,525,418
	Individual	548,879	97,942	232,666
	Total ceded reinsurance	\$ 6,173,559	\$ 2,326,940	\$ 2,758,084

In 2009, there was a large increase in group term life insurance in-force as a result of new distribution sources.

ACQUISITIONS OF POLICY BLOCKS

In addition to its core life and health lines of business distributed as described above, IHC formed an acquisition group over 10 years ago to acquire 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 did not record any significant policy block acquisitions in 2009 or in 2007.

During 2008, Madison National Life acquired a block of life insurance policies with approximately \$64.4 million of life reserves. The block consists of approximately \$32.2 million of older, traditional life reserves and \$32.2 million of annuity reserves.

During 2006, Madison National Life acquired a total of \$8.0 million of reserves in the following transactions: (i) effective January 1, 2006, entered into an agreement with an unaffiliated insurer to 100% coinsure dental policies totaling approximately \$0.1 million of reserves; (ii) effective October 1, 2006,

entered into an agreement with an unaffiliated insurer to 100% coinsure life insurance policies totaling approximately \$7.7 million of reserves; and (iii) effective October 1, 2006, entered into an agreement with an unaffiliated insurer to 100% coinsure life insurance policies totaling approximately \$0.2 million of reserves.

During 2005, Madison National Life acquired a total of \$168.7 million of reserves in the following transactions: (i) effective January 1, 2005, entered into an agreement with an unaffiliated insurer to 100% coinsure life insurance policies totaling approximately \$10.2 million of reserves; (ii) in January 2005, purchased certain credit policies totaling approximately \$0.6 million of reserves from an unaffiliated insurance company; (iii) in June 2005, entered into a reinsurance and assumption agreement with an unaffiliated insurance company to assume approximately \$120.0 million of life and annuity reserves; (iv) in September 2005, assumed approximately \$1.7 million of disability reserves from various state guaranty associations; and (v) in December 2005, entered into a reinsurance and assumption agreement to assume approximately \$36.2 million of life and annuity reserves from an unaffiliated insurance company.

As of January 1, 2005, Standard Security Life reinsured, on a 100% quota share basis, a \$50 million block of small group major medical business, and has received regulatory approval of the assumption certificates in each state.

REINSURANCE AND POLICY RETENTION LIMITS

The Company's average retention of Medical Stop-Loss exposure was 56.7% in 2009, 55.9% in 2008, and 52.8% in 2007. In 2009, 2008 and 2007, Standard Security Life and Madison National Life also ceded, on average, 23.0%, 22.9%, and 22.7%, respectively, of their Medical Stop-Loss business to their affiliate, Independence American. Standard Security Life retained 80% of DBL premium with the balance ceded, commencing July 1, 2004, to Independence American. Retentions on other lines of business remained relatively constant in 2009. 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. Maximum net retention limits for Standard Security Life at December 31, 2009 were: (i) \$210,000 per life on individual life and corresponding disability waiver of premium; (ii) no retention on accidental death benefits provided by rider to individual life policies; (iii) up to \$1,000,000 on any one medical stop-loss claim; (iv) \$2,500 of monthly benefits on disability income policies; (v) \$25,000 on its special disability business; and (vi) up to \$1,000,000 for fully insured medical in a calendar year. Standard Security Life also maintains catastrophe reinsurance in order to protect against particularly adverse mortality which might occur with respect to its overall life business.

At December 31, 2009, maximum net monthly retention limits on any one life for Madison National Life were: (i) \$6,000 per month on group long-term disability insurance; (ii) \$1,600 per week on group short-term disability

insurance; (iii) \$125,000 per individual on group term life, accidental death benefits, including supplemental life and accidental death and dismemberment; (iv) \$125,000 on substandard ordinary life, group family life and individual ordinary life; (v) up to \$1,000,000 on any one medical stop-loss claim; (vi) individual monthly benefits from \$1,000 to \$2,500 depending on recipient age and length of benefit period for individual accident and health insurance; and (vii) up to \$2,500,000 for fully insured medical in a calendar year.

In addition, Madison National Life entered into a reinsurance treaty with an unaffiliated reinsurer to cede \$48.8 million of life reserves, effective April 1, 2009.

The following reinsurers represent 83.2% of the total ceded premium for the year ended December 31, 2009:

Independence American Insurance Co.	24.3%
Munich Re America	17.0%
Everest Reinsurance Co.	11.9%
Fidelity Security Life Insurance Company	9.9%
ReliaStar Life Insurance Company	8.2%
Union Security Insurance Co of Mississippi	7.1%
Gerber Life Insurance Company	4.8%
	83.2%

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, 2009 and 2008, the Insurance Group's ceded reinsurance in-force (excluding the credit life and disability segment which is discontinued operations) was \$6.2 billion and \$2.3 billion, respectively.

For further information pertaining to reinsurance, reference is made to Note 21 of Notes to Consolidated Financial Statements included in Item 8.

INVESTMENTS AND RESERVES

More than 99% of 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. The remaining \$5.5 million is invested with independent investment managers. 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, 2009, approximately 96.3% of the fixed maturities were investment grade and continue to be rated on average AA. The internal investment group provides a summary of the investment portfolio and the performance thereof at the meetings of the Company's board of directors.

As required by insurance laws and regulations, the Insurance Group establishes reserves to meet obligations on policies in-force. These reserves are amounts 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 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. Standard Security Life and Madison National Life invest 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 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.

The following table reflects the asset value in dollars (in thousands) and as a percentage of total investments of the Company as of December 31, 2009:

INVESTMENTS BY TYPE	CARRYING VALUE	% OF TOTAL INVESTMENTS
Fixed maturities:		
United States Government and government agencies and authorities	\$ 46,701	5.6%
Government-sponsored enterprise States, municipalities and political subdivisions	15,147	1.8%
All other debt securities	353,093	42.5%
	274,922	33.1%
Total fixed maturities	689,863	83.0%
Equity securities:		
Common stocks	3,872	.5%
Non-redeemable preferred stocks	56,943	6.9%
Total equity securities	60,815	7.4%
Short-term investments	52	-
Securities purchased under agreements to resell	42,708	5.1%
Investment partnership interests	6,674	.8%

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Operating partnership interests	5,990	.7%
Policy loans	23,833	2.9%
Investment in trust subsidiaries	1,146	.1%
Total investments	\$ 831,081	100.0%

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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 stockholders' equity as accumulated other comprehensive income or loss (excluding the credit life and disability segment which is discontinued operations):

	2009	2008 (In thousands)	2007
Consolidated Statements of Operations			
Net investment income	\$ 43,520	\$ 44,044	\$ 46,122
Net realized investment gains (losses)	8,789	(12,401)	1,643
Other-than-temporary impairments	(29,991)	(38,247)	(385)
Consolidated Balance Sheets			
Net unrealized gains (losses)	87,488	(70,747)	(10,914)
Total pre-tax investment performance	\$ 109,806	\$ (77,351)	\$ 36,466

The above net unrealized gains (losses), which have been recognized in the Consolidated Balance Sheets, represent the net change in unrealized gains and losses on available-for-sale securities that occurred during the year, including the increase or decrease in fair value of securities that were previously impaired, prior to adjustments for deferred acquisition costs and deferred income taxes. The Company does not have any non-performing fixed maturity investments at December 31, 2009.

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; 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) and the Wisconsin Department of Insurance (Madison National Life's domestic regulator). Each of Standard Security Life and Madison National Life 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 and Wisconsin 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, the presumption is defined as to more than ten percent of the voting securities of another person. In both states, the acquisition of control of a domestic insurer needs to be approved in advance by the Commissioner of Insurance. See Note 23 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 and Madison National Life exceed such minimum ratios.

DISCONTINUED OPERATIONS

The Company sold its credit life and disability segment by entering into a 100% coinsurance agreement with an unaffiliated insurer effective December 31, 2007. The transaction closed in February 2008 with a payment of \$10.9 million, representing the net statutory unearned premium reserve as of December 31, 2007 less a ceding fee of \$8.8 million. As a result of the transaction, the Company recorded a gain in statutory surplus of \$4.8 million, net of tax, and a \$3.6 million loss on disposition of discontinued operations, net of \$1.9 million of tax benefits, in the Consolidated Statement of Operations for the year ended December 31, 2007. The loss was primarily the result of the write-off of deferred acquisition costs related to the credit segment.

For the years ended December 31, 2009, 2008 and 2007 the Company recorded income (loss) from discontinued operations of \$.3 million, \$.6 million and \$(.2) million, respectively, net of taxes, representing expenses and changes in claims and reserves related to the insurance liabilities for claims incurred prior to the aforementioned sale.

EMPLOYEES

At December 31, 2009, the Company and its direct and indirect majority or wholly owned subsidiaries, collectively, had 600 employees.

ITEM 1A.

RISK FACTORS

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 that make investment in our stock speculative or risky or that have special application to us. Additional risks and uncertainties that we do not know about, or that we deem less significant than those identified below, may also make investment in our stock speculative or risky. If any of the adverse events associated with the risks described below occurs, our business, financial condition or results of operations could be materially adversely affected. In such a case, the trading price of our stock could decline.

Federal health care reform legislation may adversely affect our business, cash flows, financial condition and results of operations.

The Patient Protection and Affordable Care Act (the Reform Act) was recently signed into law by President Obama. The Reform Act and its anticipated amendments contain many provisions that, depending on their implementation by various administrative agencies and regulatory bodies (including the U.S. Department of Health & Human Services, the Internal Revenue Service, the National Association

of Insurance Commissioners, and state insurance departments, among others), could have a material, adverse effect on our business, cash flows, financial conditions and/or results of operations. These provisions include the following:

.

A special assessment on health insurance providers.

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An excise tax on high cost employer-provided health coverage..

.

Health care exchanges to facilitate uninsured individuals access to health care coverage from private companies.

.

Elimination of certain caps on health care coverage.

.

The requirement that all citizens must carry health insurance or be subject to a penalty.

.

New regulations for health plan operations that greatly limit the ability of health plans to accurately price risk, require health plans to pay a certain percentage of every premium dollar as a medical claim and reduce the variety of product offerings.

.

Guaranteed coverage for individuals with pre-existing medical conditions.

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, 2009, fixed maturities represented \$689.9 million or 83.0% of our total investments of \$831.1 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 and/or cash flows. For mortgage-backed securities, credit risk exists if mortgagees default on the underlying mortgages. Although at December 31, 2009, approximately 96.3% of the fixed maturities were investment grade and continue to be rated on average AA, all of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst case scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

We regularly monitor our investment portfolio to ensure that investments that are other-than-temporarily impaired are identified in a timely fashion, properly valued and any impairment is charged against earnings in the proper period. Assessment factors include, but are not limited to, the length of time and the extent to which the market value has been less than cost, the financial condition and rating of the issuer, whether any collateral is held and our intent and ability to retain the investment for a period of time sufficient to allow for recovery. 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 \$48.9 million of our \$1.3 billion in total assets as of December 31, 2009. 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.

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

A number of states are contemplating significant reform of their health insurance markets. These proposals include provisions affecting both public programs and privately financed health insurance arrangements. We cannot assure you that, if enacted into law, any of these proposals would not have a material, adverse effect on our business, results of operations or financial condition.

Less-fundamental change in the regulatory requirements imposed on us may also harm our business or results of operations. For example, some states have imposed time limits for the payment of uncontested covered claims and required 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.

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 and Madison National Life are both 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 Standard Security Life and Madison National Life are subject to periodic review by Best. If Best reduces either or both Madison National Life's or Standard Security Life's ratings from its 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 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. Factors that affect the industry in general could also cause our results to fluctuate. The industry and our financial condition and results of operations may be affected significantly by:

.

Fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested capital;

.

Rising levels of actual costs that are not known by companies at the time they price their products;

.

Losses related to epidemics, terrorist activities, random acts of violence or declared or undeclared war;

.

Changes in reserves resulting from different types of claims that may arise and the 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 to adhere to underwriting guidelines as required by us in its MGU agreements.

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

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 (including our MGUs) require that each 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 (premiums earned less underwriting expenses)) for that producer and could have an adverse impact on our operating results.

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.

We are subject to extensive governmental regulation and supervision. Most insurance regulations are designed to protect the interests of policyholders rather than stockholders and other investors. This regulation, generally administered by a department of insurance in each state in which we do business, relates to, among other things:

.

Approval of policy forms and premium rates;

.

Standards of solvency, including risk-based capital measurements, which are a measure developed by the National Association of Insurance Commissioners and used by state insurance regulators to identify insurance companies that potentially are inadequately capitalized;

.

Licensing of insurers and their agents and regulation of their conduct in the market;

.

Restrictions on the nature, quality and concentration of investments;

.

Restrictions on transactions between insurance companies and their affiliates;

.

Restrictions on the size of risks insurable under a single policy;

·
Requiring deposits for the benefit of policyholders;

·
Requiring certain methods of accounting;

·
Prescribing the form and content of records of financial condition required to be filed; and

·
Requiring reserves for unearned premium, losses and other purposes.

State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies, holding company issues and other matters.

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, or revoke licenses and approvals. Regulatory authorities may deny or revoke licenses for various reasons, including the violation of regulations. 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.

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 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 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 and develop new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards and changing customer preferences. Our failure to maintain effective and efficient information 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.

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, and 3,000 square feet of office space in Farmington, New York for its DBL claims processing center.

Madison National Life

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

Majestic Underwriters

Majestic leases 4,495 square feet of office space in Troy, Michigan as its corporate headquarters.

IHC Health Solutions, Inc.

IHC Health Solutions, Inc. leases 9,167 square feet of office space in Indianapolis, Indiana, 7,424 square feet of office space in Bloomington, Minnesota and 7,947 square feet of office space in Tampa, Florida.

IHC Administrative Services, Inc.

IHC Administrative Services, Inc. leases 49,117 square feet of office space in Phoenix, Arizona as its corporate headquarters and 9,350 square feet in Rockford, Illinois.

Actuarial Management Corporation

AMC leases 6,408 square feet of office space in Lafayette, California as its corporate headquarters.

Alliance Underwriters, LLC

Alliance Underwriters, LLC, which shares office space with Hospital Bill Analysis, LLC and MedWatch, LLC, leases 8,496 square feet of office space in Lake Mary, Florida 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.

(REMOVED AND RESERVED)

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 the high and low sales prices for IHC's common stock.

		HIGH		LOW
QUARTER ENDED:				
	December 31, 2009	\$ 6.69	\$	4.75
	September 30, 2009	6.91		5.56
	June 30, 2009	7.97		4.63
	March 31, 2009	5.93		2.54
QUARTER ENDED:				
	December 31, 2008	\$ 11.54	\$	2.25
	September 30, 2008	13.53		9.55
	June 30, 2008	15.00		9.77
	March 31, 2008	13.89		10.49

IHC's stock price closed at \$5.80 on December 31, 2009.

Holders of Record

At March 23, 2010, the number of record holders of IHC's common stock was 1,740.

Dividends

IHC declared a cash dividend of \$.025 per share on its common stock on each of June 26, 2009 and December 23, 2009 for a total annual dividend of \$.05 per share.

IHC declared a cash dividend of \$.025 per share on its common stock on each of June 23, 2008 and December 23, 2008 for a total annual dividend of \$.05 per share.

IHC declared a cash dividend of \$.025 per share on its common stock on each of June 25, 2007 and December 21, 2007 for a total annual dividend of \$.05 per share.

Private Placements

In 2008 IHC issued 127,520 shares of common stock as private placements of unregistered securities under Section 4(2) of the Securities Act of 1933, as amended. Accordingly, the shares are "restricted securities", subject to a legend and will not be freely tradable in the United States until the shares are registered for resale under the Securities Act, or to the extent they are tradable under Rule 144 promulgated under the Securities Act or any other available exemption. Information pertaining to the Company's common stock is provided in Note 16 of Notes to Consolidated Financial Statements included in Item 8.

Share Repurchase Program

IHC has a program, initiated in 1991, under which it repurchases shares of its common stock. As of December 31, 2009, 108,642 shares were still authorized to be repurchased under the plan. There were no share repurchases during the quarter ended December 31, 2009.

In January 2010, the Board of Directors authorized the repurchase of up to 500,000 shares of IHC's common stock, inclusive of prior authorizations, under the 1991 plan.

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 SmallCap Life & Health Insurance. The graph assumes that dividends were reinvested and is based on a \$100 investment on December 31, 2004. 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.

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 excluding the credit life and disability segment, which is included in discontinued operations.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands, except per share data)				
Income Data:					
Total revenues	\$ 357,181	\$ 353,687	\$ 402,322	\$ 342,262	\$ 274,775
Income (loss) from continuing operations	(7,433)	(24,578)	1,565	14,896	17,884
Balance Sheet Data:					
Total investments	831,081	761,093	776,059	859,176	855,804
Total assets	1,304,476	1,273,894	1,306,955	1,267,643	1,165,187
Insurance liabilities	927,212	951,590	895,169	858,880	844,980
Debt and junior subordinated debt securities	47,146	48,146	50,646	53,146	50,646
IHC stockholders' equity	202,967	162,702	222,851	231,150	198,751
Per Share Data:					
Cash dividends declared per common share	.05	.05	.05	.05	.05
Basic income (loss) per common share from continuing operations	(.48)	(1.59)	.10	.97	1.24
Diluted income (loss) per common share from continuing operations	(.48)	(1.59)	.10	.95	1.22
Book value per common share	13.16	10.56	14.63	15.23	14.06

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 wholly owned insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life") (these companies are sometimes collectively referred to as the "Insurance Group"); and (ii) its marketing, administrative and actuarial companies, including Insurers Administrative Corporation (IAC), Majestic Underwriters LLC (Majestic), in which it owns a majority interest, Health Plan Administrators (HPA), GroupLink Inc. (GroupLink), in which it owns a majority interest, IHC Health Solutions, Inc. (IHC Health Solutions), and Actuarial Management Corporation ("AMC"). IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company." At December 31, 2009, the Company owned a 49.7% equity interest in American Independence Corp. (NASDAQ:AMIC) which owns Independence American Insurance Company (Independence American), three managing general underwriters ("MGU s"), and controlling interests in two agencies. In March 2010, IHC acquired a controlling interest in AMIC by purchasing additional shares of AMIC common stock in the open market and thereby increasing the total number of shares owned by the Company to more than 50% of AMIC's outstanding common stock.

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 large employer groups that self-insure their medical risks; in 2009 the Company's average case size was 500 covered lives. The small-group major medical 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 major medical coverage for individuals and families and persons with short-term medical needs. Standard Security Life's limited medical 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. The Company sells student major medical insurance to colleges and accident medical, disability and AD&D to K-12 programs. The student medical business and the student accident business is written through one MGU. IHC does not currently sell health products for the senior market. 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. The Company believes that the acquisition of AMC has further enabled it to make these assessments. 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 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, 2009, 2008 and 2007, are summarized as follows (in thousands):

	2009	2008	2007
Revenues	\$ 357,181	\$ 353,687	\$ 402,322
Expenses	375,283	394,664	400,329
Income (loss) from continuing operations before income taxes	(18,102)	(40,977)	1,993
Income taxes (benefits)	(10,669)	(16,399)	428
Income (loss) from continuing operations	(7,433)	(24,578)	1,565
Discontinued operations:			
Income (loss) from discontinued operations	301	644	(224)

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Loss on disposition of discontinued operations	-	-	(3,608)
Net loss	(7,132)	(23,934)	(2,267)
(Income) loss from noncontrolling interests in subsidiaries	10	94	(61)
Net loss attributable to IHC	\$ (7,122)	\$ (23,840)	\$ (2,328)

Loss from continuing operations of \$7.4 million, or \$.48 per share, diluted, for the year ended December 31, 2009 compared to a loss of \$24.6 million, or \$1.59 per share, diluted, for the year ended December 31, 2008. Included in 2009 is a \$29.2 million pre-tax loss resulting from an other-than-temporary impairment related to the Company's investment in AMIC due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC has been below IHC's carrying value. Included in 2008 results are \$38.2 million of pre-tax losses from other-than-temporary impairments due to the write down in value of investments in preferred stocks of certain financial institutions, fixed maturities (primarily Alt-A mortgage securities) and common stocks;

Consolidated investment yield (on an annualized basis) of 5.1% in 2009 as compared to 4.9% in 2008;

Revenues of \$357.2 million for the year ended December 31, 2009 compared to \$353.7 million for the year ended December 31, 2008;

Book value of \$13.16 per common share; a 24.6% increase from December 31, 2008, primarily reflecting net unrealized gains on securities offset by a net loss;

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

Income before taxes from the Medical Stop-Loss segment decreased \$.7 million for the year ended December 31, 2009 compared to the same period in 2008, as planned price increases, disciplined underwriting, and the cancellation of underperforming managing general underwriters in a competitive market led to lower sales and renewals in 2009;

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

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	2009	2008	2007
Premiums Earned	\$ 127,724	\$ 159,392	\$ 162,438
Insurance Benefits, Claims & Reserves Expenses	92,899	117,076	128,409
	34,069	40,918	41,987
Loss Ratio ^(A)	72.7%	73.4%	79.1%
Expense Ratio ^(B)	26.7%	25.7%	25.8%
Combined Ratio ^(C)	99.4%	99.1%	104.9%

(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.

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The Fully Insured Health segment reported a loss before taxes of \$7.8 million for the year ended December 31, 2009 as compared to income before taxes of \$.5 million for the year ended December 31, 2008.

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Fee and other income from this segment decreased by \$6.8 million for the year ended December 31, 2009 compared to 2008, primarily due to a decrease in both gross premiums written by The IHC Group and business administered by the Company on behalf of other carriers.

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In the fourth quarter of 2009, this segment wrote-off \$5.1 million of previously capitalized software. The Company had been working with a software developer on this project for a number of years in order to improve the Company's administrative efficiency as it sought in prior years to quickly expand its premiums under management. The software was delivered to the Company in the fourth quarter of 2009. During testing of the software, it was determined that the system was not capable of administering the Company's lines of business as is and it would take a substantial additional investment to implement. As a result of our decision to reduce the speed of our expansion in this segment, the Company determined not to continue to expend capital on this software. The termination of this project does not impact the Company's ability to service its business.

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The charge above was more than offset by decreases in other general expenses of \$6.6 million due to a reduction in work-force and related expenses in response to its lower volume of business.

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Underwriting experience as indicated by its GAAP Combined Ratios, for the Fully Insured segment is as follows (in thousands):

	2009	2008	2007
Premiums Earned	\$ 84,698	\$ 81,020	\$ 72,048
Insurance Benefits, Claims & Reserves Expenses	58,500	51,559	50,901
	25,634	24,351	17,828
Loss Ratio	69.1%	63.6%	70.6%
Expense Ratio	30.2%	30.1%	24.8%
Combined Ratio	99.3%	93.7%	95.4%

Income before taxes from the group disability, life, annuities and DBL segment decreased \$.3 million for the year ended December 31, 2009 compared to 2008, primarily from decreased profitability in DBL and group term life lines of business partially offset by an increase in the LTD business. The DBL business has experienced decreases in group sizes coupled with rate reductions as a result of the overall economic downturn while the group term life business has experienced higher loss ratios;

Income before taxes from the individual life, annuities and other segment decreased \$.5 million for the year ended December 31, 2009 compared to the prior year primarily as a result of a commutation of a block of policies in accordance with a reinsurance agreement in 2009 and the amortization of gain on a block of ordinary life and annuity policies ceded in 2009;

Loss before taxes from the corporate segment decreased \$2.2 million for the year ended December 31, 2009 compared to the prior year primarily as a result of income from partnership investments recorded in 2009 versus losses from partnerships investments recorded in 2008;

Net realized investment gains were \$8.8 million for the year ended December 31, 2009 compared to net realized investment losses of \$12.4 million in 2008. Other-than-temporary impairment losses for the years ended December 31, 2009 and 2008 were \$30.0 million and \$38.2 million, respectively. In 2009 the Company recorded a \$29.2 million pre-tax loss resulting from an other-than-temporary related to the Company's investment in AMIC due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC has been below IHC's carrying value. Other-than-temporary impairment losses in 2008 were primarily due to the write-down in value of investments in preferred stocks of certain financial institutions and fixed

maturities (primarily Alt-A mortgage securities) primarily due to the severity of the decrease in fair value and length of time that these securities were in a loss position; and

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

Gross Direct and Assumed

Earned Premiums:	2009	2008	2007
Medical Stop-Loss	\$ 202,056	\$ 253,886	\$ 275,756
Fully Insured Health	190,895	199,378	210,078
Group disability; life, annuities and DBL	103,499	78,517	79,438
Individual life, annuities and other	31,096	32,338	30,118
	\$ 527,546	\$ 564,119	\$ 595,390

Net Premiums Earned:

	2009	2008	2007
Medical Stop-Loss	\$ 127,724	\$ 159,392	\$ 162,438
Fully Insured Health	84,698	81,020	72,048
Group disability; life, annuities and DBL	54,896	46,957	45,220
Individual life, annuities and other	27,481	29,919	27,179
	\$ 294,799	\$ 317,288	\$ 306,885

Information pertaining to the Company's business segments is provided in Note 22 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 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

Life

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.

Health

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 cancel the annual contract or to revise the premium rates at the beginning 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.

Insurance Reserves

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 GAAP. The Company's estimate of loss reserves 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.

All of the Company's short-duration contracts are generated from its accident and health 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.

Management believes that the Company's methods of estimating the liabilities for insurance reserves provided appropriate levels of reserves at December 31, 2009. Changes in the Company's reserve estimates are recorded through a charge or credit to its earnings.

Life

For traditional life insurance products, the Company computes insurance reserves 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.

Policyholder funds represent interest-bearing liabilities arising from the sale 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

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.

Health

The Company believes that its recorded insurance reserves are 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, 2009, would increase reserves (in the case of a higher ratio) or decrease reserves (in the case of a lower ratio) by approximately \$2.6 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves in the Consolidated Statement of Operations. Depending on the circumstances surrounding a change in the Loss Ratio, other pre-tax amounts reported in the Consolidated Statement of Operations could also be affected, such as amortization of deferred acquisition costs and commission expense.

The Company's health reserves by segment are as follows (in thousands):

		December 31, 2009		
	Claim Reserves	Policy Claims		Total Health Reserves
Medical Stop-Loss	\$ 71,387	\$ 117	\$	71,504
Fully Insured Health	34,817	-		34,817
Group Disability	67,887	16,705		84,592
Individual Accident and Health and Other	10,055	1,833		11,888
	\$ 184,146	\$ 18,655	\$	202,801