

INDEPENDENCE HOLDING CO  
Form 10-K  
May 22, 2017

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

**COMMISSION FILE NUMBER 001-32244**

**INDEPENDENCE HOLDING COMPANY**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State of Incorporation)

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

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

**06902**  
(Zip Code)

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

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

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes \_\_\_

No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes \_\_\_ No

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 \_\_\_ 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of June 30, 2016 was \$131,292,000.

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

**FORM 10-K CROSS REFERENCE INDEX**

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**Forward-Looking Statements**

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

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

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

## PART I

### ITEM 1. BUSINESS

#### Business Overview

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

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

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

Madison National Life, Standard Security Life and Independence American are sometimes collectively referred to as the "Insurance Group." IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company", or "IHC", or are implicit in the terms "we", "us" and "our".

In 2017, IHC will retain the vast majority of the risk that it underwrites, and will focus on the following lines of business:

Multiple specialty health lines

.

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

.

Pet insurance

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

Our administrative companies underwrite, market, administer and/or price life and health insurance business for our owned and affiliated carriers, and, to a lesser extent, for non-affiliated insurance companies. They receive fees for these services and do not bear any of the insurance risk of the

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

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

For information pertaining to the Company's business segments, reference is made to Note 18 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

## **Our Philosophy**

Our business strategy consists of maximizing underwriting profits through a variety of niche specialty health insurance, pet, and group disability and life products and through distribution channels that enable us to access specialized or underserved markets in which we believe we have a competitive advantage. Historically, our carriers have focused on establishing preferred relationships with producers who seek an alternative to larger, more bureaucratic health insurers, and on providing these producers with personalized service, competitive compensation and a broad array of products. More recently, larger health insurers have begun to market our ancillary health products to supplement their major medical products. A growing portion of our business comes from direct-to-consumer initiatives. While our management considers a wide range of factors in its strategic planning and decision-making, underwriting profit is consistently emphasized as the primary goal in all decisions.



As a result of our increased control of distribution through corporate acquisitions, we have strengthened our ability to respond to market cycles in the health insurance sector by deploying our insurance underwriting activity across a larger number of business lines.

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

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

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

## DISTRIBUTION

### Specialty Health

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

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

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

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

### **Disability and Life Products**

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

### **Medical Stop-Loss**

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

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

## **PRINCIPAL PRODUCTS**

### **Specialty Health Products**

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

## Ancillary Products

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

IHC sells group and individual dental products in all 50 states. We administer the majority of IHC's dental business and are also the primary distribution source of this line of business. The dental portfolio includes indemnity and PPO plans for employer groups of two or more lives and for individuals within affinity groups. Employer plans are offered on both employer paid and voluntary basis. As part of the distribution of our dental products, we also offer vision benefits. Vision plans will offer a flat reimbursement amount for exams and materials. We expect the dental/vision business to be relatively flat in 2017.

IHC sells STM products in the majority of states. STM is designed specifically for people with temporary needs for health coverage. Typically, STM products are written for a defined duration of at least 30 days and less than twelve months. Among the typical purchasers of STM products are people who are in between open enrollment periods or need coverage for a limited duration until their ACA plan becomes effective, and others who need insurance for a specified period of time less than 365 days. IHC's gross premium increased significantly in this line of business in 2016, which continued the trend from prior years. We currently anticipate a decrease in this line of business in 2017 due to a federal regulation expected to be effective April 1, 2017 that limits the duration of an STM policy to less than three months.

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

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

IHC entered into a reinsurance relationship with a leading producer of expatriate business, effective January 1, 2012, which provides employee benefit insurance, including medical, life, and disability, to expatriate employees of companies based in the United States. IHC, through its insurance subsidiaries, reinsured 10% of the health risk on a quota share basis in 2016. IHC expects this line of business to decrease in 2017 and beyond as a result on non-renewal of this treaty.

### **Pet Insurance**

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

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

### **Occupational Accident**

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

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

### **Major Medical Health Benefit Coverages**

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

### **Group Disability; Life and DBL**

#### **Group Long-Term and Short-Term Disability**

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



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

#### **New York Short-Term Disability ( DBL )**

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

Standard Security Life's DBL premiums increased 6% in 2016 and we anticipate moderate growth in 2017 due to continued marketing efforts.

### **Group Term Life**

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

### **Medical Stop-Loss**

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

In 2013, the Company began marketing self-funded medical plans for employers between 10 and 50 employees. These plans, which are currently marketed in a limited number of states, appeal to employers that wish to participate in cost savings and wellness initiatives that will lower their claims costs. Sales of the small group self-funded plans grew significantly in 2015 as we increased distribution and made the product available in additional states. During 2016, we began selling these plans through Westport paper. We expect that sales of the small group self-funded plans will be relatively flat in 2017.

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

### **Individual Life, Annuities and Other**

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

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

### **ACQUISITIONS OF POLICY BLOCKS**

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

## REINSURANCE AND POLICY RETENTIONS

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

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

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

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

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

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

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

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

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

## **INVESTMENTS AND RESERVES**

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

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

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

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

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

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

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

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

Net unrealized gains (losses) on available-for-sale securities recognized through other comprehensive income (loss) represents the pre-tax change in unrealized gains and losses on available-for-sale securities arising during the year net of reclassification adjustments and includes the portion

attributable to noncontrolling interests. The Company does not have any non-performing fixed maturity investments at December 31, 2016.

## COMPETITION AND REGULATION

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

The health insurance industry tends to be cyclical, and excess products, such as medical stop-loss, tend to be more volatile than specialty health products. During a soft market cycle, a larger number of companies offer insurance on a certain line of business, which causes premiums in that line to trend downward. In a hard market cycle, insurance companies limit their writings in certain lines of business following periods of excessive losses and insurance and reinsurance companies redeploy their capital to lines that they believe will achieve higher margins.

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

Certain transactions within the IHC holding company system are also subject to regulation and supervision by such regulatory agencies. All such transactions must be fair and equitable. Notice to or prior approval by the applicable insurance department is required with respect to transactions affecting the ownership or control of an insurer and of certain material transactions, including dividend declarations, between an insurer and any person in its holding company system. Under New York, Wisconsin and Delaware insurance laws, "control" is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person. Under New York law, control is presumed to exist if any person, directly or indirectly, owns, controls or holds, with the power to vote ten percent or more of the voting securities of any other person. In Wisconsin, control is presumed if any person, directly or indirectly, owns, controls or holds with the power to vote more than ten percent of the voting securities of another person. In Delaware, control is presumed if any person, directly or indirectly, owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person. In all three states, the acquisition of control of a domestic insurer needs to be approved in advance by the Commissioner of Insurance. See Note 17 of Notes to Consolidated Financial Statements included in Item 8 for information as to restrictions on the ability of the Company's insurance subsidiaries to pay dividends.



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

## EMPLOYEES

At December 31, 2016, the Company, including its direct and indirect majority or wholly owned subsidiaries, collectively had approximately 270 employees.

### ITEM 1A.

#### RISK FACTORS

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

#### **Risks related to our Business**

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

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

In particular, at December 31, 2016, fixed maturities represented \$449.5 million or 87.3% of our total investments of \$514.8 million. The fair value of fixed maturities and the related investment income fluctuates depending on general economic and market conditions. The fair value of these investments generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us will generally increase or

decrease in line with changes in market interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. An investment has prepayment risk when there is a risk that the timing of cash flows that result from the repayment of principal might occur earlier than anticipated because of declining interest rates or later than anticipated because of rising interest rates. The impact of value fluctuations affects our Consolidated Financial Statements. Because all of our fixed maturities are classified as available for sale, changes in the fair value of our securities are reflected in our stockholders' equity (accumulated other comprehensive income or loss). No similar adjustment is made for liabilities to reflect a change in interest rates. Therefore, interest rate fluctuations and economic conditions could adversely affect our stockholders' equity, total comprehensive income (loss) and/or cash flows. For mortgage-backed securities, credit risk exists if mortgagees default on the underlying mortgages. Although, at December 31, 2016, more than 99.9% of the fixed maturities were investment grade and continue to be rated on average AA, all of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst case

scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

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

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

Goodwill represented \$41.6 million of our \$1.1 billion in total assets as of December 31, 2016. We review our goodwill annually for impairment or more frequently if indicators of impairment exist. We regularly assess whether any indicators of impairment exist, which requires a significant amount of judgment. Such indicators may include: a sustained significant decline in our share price and market capitalization; a decline in our expected future cash flows; a significant adverse change in the business climate; and/or slower growth rates, among others. Any adverse change in one of these factors could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements. If we experience a sustained decline in our results of operations and cash flows, or other indicators of impairment exist, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

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

We maintain loss reserves to cover our estimated liability for unpaid losses and loss adjustment expenses, where material, including legal and other fees, and costs not associated with specific claims but related to the claims payment functions for reported and unreported claims incurred as of the end of each accounting period. Because setting reserves is inherently uncertain, we cannot be sure that current reserves will prove adequate. If our reserves are insufficient to cover our actual losses and loss adjustment expenses, we would have to augment our reserves and incur a charge to our earnings, and these charges could be material. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what we expect the ultimate settlement and administration of claims will cost. These estimates, which generally involve actuarial projections, are based on our assessment of known facts and circumstances. Many factors could affect these reserves, including economic and social conditions, frequency and severity of claims, medical trends resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, and changes in doctrines of legal liability and damage awards in litigation. Many of these items are not directly quantifiable in advance. Additionally, there may be a significant

reporting lag between the occurrence of the insured event and the time it is reported to us. The inherent uncertainties of estimating reserves are greater for certain types of liabilities, particularly those in which the various considerations affecting the type of claim are subject to change and in which long periods of time may elapse before a definitive determination of liability is made. Reserve estimates are continually refined in a regular and ongoing process as experience develops and further claims are reported and settled and are reflected in the results of the periods in which such estimates are changed.

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

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

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

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

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

**As a holding company, we depend on the ability of our subsidiaries to transfer funds to us to meet our obligations and pay dividends.**

We are a holding company for our insurance companies and other subsidiaries with no significant operations of our own. Our principal sources of cash to meet our obligations and to pay dividends consist of dividends from our subsidiaries. State insurance regulatory authorities limit the amount of dividends that insurance companies can pay without regulatory approval. Additionally, competitive pressures or other regulatory requirements may require our insurance company subsidiaries to maintain certain levels of capital that could affect their ability to make dividend payments. Such limits could adversely affect our liquidity, including our ability to pay dividends to stockholders.

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

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

adversely affecting our relationships with distribution partners; (v) requiring us to reduce prices or increase crediting rates for many of our products and services to remain competitive; and (vi) adversely affecting our ability to obtain reinsurance or obtain reasonable pricing on reinsurance.

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

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

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

The Trump Administration has called for substantial change to fiscal and tax policies, which may include comprehensive tax reform. We cannot predict the impact, if any, of these changes to our business. However, it is possible that these changes could adversely affect our business. It is likely that some policies adopted by the new administration will benefit us and others will negatively affect us. Until we know what changes are enacted, we will not know whether in total we benefit from, or are negatively affected by, the changes.

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

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



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

We face a risk of litigation and regulatory investigations and actions in the ordinary course of operating our business, including the risk of class actions, regulatory actions and individual lawsuits relating, among other things, to sales or underwriting practices, payment of contingent or other sales commissions, claims payments and procedures, product design, disclosure, administration, additional premium charges for premiums paid on a periodic basis, interest crediting practices, denial or delay of benefits and breaches of fiduciary or other duties to customers. Adverse judgments in one or more of such lawsuits could require us to pay significant damage amounts or to change aspects of our operations. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time. Further, industry trends, such as increased litigation against the insurance industry and individual insurers, the willingness of courts to expand covered causes of loss and the size of awards, rising jury awards, escalating medical costs, and increasing loss severity may render the loss reserves of our insurance subsidiaries inadequate for current and future losses. The unpredictability of court decisions in

the insurance business could have a material adverse effect on our financial position, results of operation and cash flows. In addition, the political divisiveness leading, in some cases, to the stalling of the legislative process, may cause judicial activism and result in rulings concerning our products, the way we sell our products, and the profitability of our products, which may result in the states being divided in their approach to insurance.

We are also subject to various regulatory inquiries, such as information requests, subpoenas, market conduct exams and books and record examinations, from state and federal regulators and other authorities, which may result in fines, recommendations for corrective action or other regulatory actions. Increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal actions or precedents and industry-wide regulations or practices that could adversely affect our business. Even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business.

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

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

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

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

In connection with certain lines of business and insurance programs, we authorize third party administrators, managing general agents, general agents and other producers to write business and/or settle claims on our behalf within underwriting and claims settlement authorities prescribed by us. We have less control and supervision over these underwriters and claims staff than our own employees and rely on the controls of our agents to write business within the underwriting authorities and settle claims within guidelines provided by us. Although we monitor our business on an ongoing basis, our monitoring

efforts may not be adequate and our agents may exceed their underwriting authorities or otherwise breach their obligations owed to us. To the extent that our agents exceed their authorities, otherwise breach their obligations owed to us or commit fraud, this may result in a material adverse effect upon our financial condition and results of operations.

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

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

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

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

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

We rely on the continued service of key executives, members of our senior management team and highly-skilled personnel throughout all levels of our business. Our business could be harmed if we are unable to retain or motivate key personnel or hire qualified personnel. We believe that our future success depends in substantial part on our ability to recruit, hire, motivate, develop, and retain talented and highly-skilled personnel who are knowledgeable about our business. Doing so may be difficult due to many factors, including fluctuations in economic and industry conditions

and the effectiveness of our compensation programs and competition. If we do not succeed in retaining and motivating our existing key employees and in attracting new key personnel, our revenue growth and profitability may be materially adversely affected.

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

We compete with a large number of other companies in our selected lines of business. We face competition from specialty insurance companies, and from diversified financial services companies and insurance companies that are much larger than we are and that have far greater financial, marketing and

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

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

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

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

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

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

new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and changing customer preferences.

Moreover, our computer systems have been, and will continue to be, subject to computer viruses or other malicious codes, unauthorized access, cyber-attacks, hackers or other computer-related penetrations. To date, we are not aware of a material breach of cybersecurity. We commit significant resources to administrative and technical controls to prevent cyber incidents and protect our information technology, but our preventative actions to reduce the risk of cyber threats may be insufficient to prevent

physical and electronic break-ins, denial of service and other cyber-attacks or security breaches. Such an event could compromise our confidential information as well as that of our clients and third parties, with whom we interact, impede or interrupt business operations and may result in other negative consequences, including remediation costs, loss of revenue, disruption of our operations, additional regulatory scrutiny, sanctions (such as penalties, fines and loss of license) and litigation, and reputational damage.

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

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

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

**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.

**Our business depends on the uninterrupted operation of our information technology systems.**

We rely on various information technology systems and computer and telecommunications equipment in the normal course of business. The maintenance and security of our information systems are important to our operations. Our ability to effectively run our business depends on the reliability and

capacity of our information technology systems, including technology services and systems for which we contract from third parties. Advances in technology may render our current information technology systems obsolete and require upgrading and maintenance over time, which may require significant future commitments of resources and capital. If we upgrade or change systems, we may suffer interruptions in service, loss of data or reduced functionality. Despite any precautions we may take, such problems could result in, among other consequences, interruptions in our services, which could harm our reputation and financial results. If there is a material failure in our information technology systems, our business operations and profits could be negatively affected, and our systems may be inadequate to support our future growth strategies.

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

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

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

We exited the individual life and annuities business in July 2015 when our subsidiaries, Madison National Life and Standard Security Life, closed on an agreement to coinsure substantially all of their run-off blocks of individual life and annuities and sold Madison National Life's infrastructure related to those blocks, to National Guardian Life Insurance Company ( NGL ). Key risks associated with exiting the business include:

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our ability to identify and implement key customer, technology systems, and other transition actions to avoid or minimize negative effects on retained businesses;

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our ability to assess and manage any loss of synergies that the exited business had with our retained businesses; and

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our ability to manage capital, liquidity, and other challenges that may arise in the event of an exit that results in significant cash expenditures or a financial loss.

Further, if NGL defaults on its reinsurance commitments and/or its administration commitments, then the policies may come back to us. Since we have sold our infrastructure, we would not have the ability to administer the business because we no longer have the IT systems or staff to support the business. We may have to incur expenses to rebuild our capabilities and for regulatory and other legal actions, which could have an adverse effect on our financial condition, results of operations and cash flows.

### **Risks related to our Industry**

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

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

.  
licensing companies and agents to transact business and regulating their respective conduct in the market;

.  
restricting agreements with large revenue-producing agents;

.  
approving policy forms and premium rates;

.  
cancelling and non-renewal of policies;

.  
requiring certain methods of accounting and prescribing the form and content of records of financial condition required to be filed;

.  
calculating the value of assets to determine compliance with statutory requirements;

.  
establishing statutory capital and reserve requirements, such as for unearned premiums and losses;

.  
regulating certain premium rates and requiring deposits for the benefit of policyholders;

.  
establishing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies;

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

.  
mandating certain insurance benefits and restricting the size of risks insurable under a single policy;

regulating unfair trade and claims practices, including the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;

requiring the filing of annual and other reports relating to the financial condition of insurance companies, holding company issues and other matters;

approving changes in control of insurance companies;

restricting transactions between insurance companies and their affiliates, including the payment of dividends to affiliates; and

regulating the nature or types, concentration or amounts, quality and valuation of investments.

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

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

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



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

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

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

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

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

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

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

The Trump Administration will undoubtedly have an impact on the ACA, however we are unable to predict what additional legislation or regulation, if any, relating to the health insurance industry may be enacted in the future or what effect such legislation or regulation would have on our business.

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

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



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

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

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

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

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

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

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

.  
Development of judicial interpretations relating to the scope of insurers' liability;

.  
The overall level of economic activity and the competitive environment in the industry;

.  
Greater than expected use of health care services by members;

.  
New mandated benefits or other regulatory changes that change the scope of business or increase our costs; and

.  
Failure of managing general underwriters, agents, third-party administrators and producers to adhere to the underwriting guidelines, market-conduct practices and other requirements (as applicable) under their agreements with us.

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

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

The insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity, as well as periods when shortages of capacity permitted an increase in pricing and, thus, more favorable premium levels. An increase in premium levels is often, over time, offset by an increasing supply of insurance and reinsurance

capacity, either by capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms and fewer opportunities to underwrite insurance risks, which could have a material adverse effect on our results of operations and cash flows.

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

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

**ITEM 1B.**

**UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2.**

**PROPERTIES**

**IHC**

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

**Standard Security Life**

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

**Madison National Life**

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

**IHC Carrier Solutions**

IHC Carrier Solutions leases 11,297 square feet of office space in Phoenix, Arizona as its corporate headquarters.

**IHC Specialty Benefits**

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

**ITEM 3.**

**LEGAL PROCEEDINGS**

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

A third party administrator with whom we formerly did business ( Plaintiff ) filed a Complaint dated May 17, 2017 in the United States District Court, Northern District of Texas, Dallas Division, naming IHC, Madison National Life, Standard Security Life, and IHC Carrier Solutions, Inc. (collectively referred to as Defendants ). The Complaint concerns agreements entered into by Standard Security Life and Madison National Life with Plaintiff, as well as other allegations made by Plaintiff against the Defendants. The Complaint seeks injunctive relief and damages in an amount exceeding \$50,000,000, profit share payments allegedly owed to Plaintiff under the agreements totaling at least \$3,082,000 through 2014, plus additional amounts for 2015 and 2016, and exemplary and punitive damages as allowed by law and fees and costs. The Defendants have not yet been served, but if they are served they intend to vigorously contest the claims, which we believe to be without merit. The Defendants will file significant counterclaims against Plaintiff demanding reimbursement from the Plaintiff for damages and expenses.

**ITEM 4.**

**MINE SAFETY DISCLOSURES**

Not applicable.

**PART II****ITEM 5.****MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED****STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

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

		<b>HIGH</b>		<b>LOW</b>
<b>QUARTER ENDED:</b>				
	December 31, 2016	\$ 21.23	\$	17.03
	September 30, 2016	19.15		16.20
	June 30, 2016	17.97		15.05
	March 31, 2016	16.91		13.16
<b>QUARTER ENDED:</b>				
	December 31, 2015	\$ 15.81	\$	12.90
	September 30, 2015	13.80		11.76
	June 30, 2015	14.10		11.29
	March 31, 2015	14.05		11.63

IHC's stock price closed at \$19.55 on December 31, 2016.

**Holder of Record**

At May 15, 2017, the number of record holders of IHC's common stock was 1,845. The number of record owners was determined from the Company's stockholder records maintained by the Company's transfer agent.

**Dividends**

IHC declared a cash dividend of \$.045 per share on its common stock on June 20, 2016 and declared a cash dividend of \$.06 per share on its common stock on November 29, 2016, for a total annual dividend of \$.105 per share.

IHC declared a cash dividend of \$.045 per share on its common stock on each of June 22, 2015 and December 23, 2015 for a total annual dividend of \$.09 per share.

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

**Share Repurchase Program**

IHC has a program, initiated in 1991, under which it repurchases shares of its common stock. In August 2016, the Board of Directors increased the number of shares that can be repurchased to 3,000,000 shares of IHC common stock. As of December 31, 2016, 2,895,442 shares were still authorized to be repurchased.

There were no share repurchases during the fourth quarter of 2016.

**Performance Graph**

Set forth below is a line graph comparing the five year cumulative total return of IHC's common stock with that of the Russell 2000 Index and the S & P 500 Life & Health Insurance index. The graph assumes that dividends were reinvested and is based on a \$100 investment on December 31, 2011. 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.

	<b>Year Ended December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Income Data:</b>					
Total revenues	\$ 311,004	\$ 530,495	\$ 530,348	\$ 574,445	\$ 426,410
Income from continuing operations	22,510	27,974	15,021	15,472	21,685
<b>Balance Sheet Data:</b>					
Total investments	514,820	488,159	650,961	608,982	811,356
Total assets	1,134,464	1,197,963	1,196,227	1,277,545	1,270,818
Insurance liabilities	603,867	711,475	728,883	837,581	793,628
Debt and junior subordinated debt securities	-	43,335	42,146	44,146	46,146
IHC stockholders' equity	436,559	323,351	299,687	277,301	294,194
<b>Per Share Data:</b>					
Cash dividends declared per common share	.105	.09	.07	.07	.07
Basic income (loss) per common share					
from continuing operations	1.28	1.59	.83	.79	1.05
Diluted income (loss) per common share					
share from continuing operations	1.27	1.58	.82	.78	1.05
Book value per common share	25.53	18.73	17.25	15.70	16.41

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

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

## **OVERVIEW**

Independence Holding Company, a Delaware corporation (NYSE: IHC), is a holding company principally engaged in the life and health insurance business through: (i) its insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life"), and Independence American Insurance Company ( Independence American ); and (ii) its marketing and administrative companies, including IHC Specialty Benefits Inc. and IHC Carrier Solutions, Inc. IHC also owns a significant equity interest in: (i) Ebix Health Exchange Holdings, LLC ( Ebix Health Exchange ), an administration exchange for health insurance; and (ii) an equity interest in a managing general underwriter ( MGU ) that writes medical stop-loss. On March 31, 2016, the Company sold IHC Risk Solutions, LLC ( Risk Solutions ), an MGU that was its principal source of medical stop-loss business. In addition, all of the in-force medical stop-loss business of Standard Security Life and Independence American produced by Risk Solutions was 100% co-insured as of January 1, 2016 and IHC 's block of medical stop-loss business is in run-off. Standard Security Life, Madison National Life and Independence American are sometimes collectively referred to as the Insurance Group . IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company", or IHC , or are implicit in the terms we , us and our

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

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

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

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Revenues	\$ 311,004	\$ 530,495	\$ 530,348
Expenses	278,939	486,617	509,219
Income from continuing operations before income taxes	32,065	43,878	21,129
Income taxes	9,555	15,904	6,108
<b>Income from continuing operations</b>	<b>22,510</b>	<b>27,974</b>	<b>15,021</b>
Income from discontinued operations	110,804	2,548	1,900
<b>Net income</b>	<b>133,314</b>	<b>30,522</b>	<b>16,921</b>
Less: Income from noncontrolling interest in subsidiaries	(10,016)	(578)	(628)
<b>Net income attributable to IHC</b>	<b>\$ 123,298</b>	<b>\$ 29,944</b>	<b>\$ 16,293</b>

Income from continuing operations of \$1.27 per share, diluted, for the year ended December 31, 2016 compared to \$1.58 per share, diluted, for the same period in 2015.

o

Net income for the year ended December 31, 2015 includes a \$6.7 million gain, net of tax, resulting from the deconsolidation of a subsidiary and corresponding joint venture transaction. See discussion on Gain on Sale of Subsidiary to Joint Venture.

o

Net income for the year ended December 31, 2015 includes a gain of \$3.3 million, net of tax, on the sale of the infrastructure associated with the administration of substantially all of our individual life and annuity policies ceded. See discussion on Other Income.

Consolidated investment yield (on an annualized basis) of 2.7% in 2016 compared to 2.8% in 2015; and

Book value of \$25.53 per common share at December 31, 2016 compared to \$18.73 at December 31, 2015.

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

The Medical Stop-Loss segment reported income before taxes of \$16.7 million for the year ended December 31, 2016. Income from the Medical Stop-loss segment in 2016 is principally due to ceding commissions on coinsurance due to the sale of Risk Solutions and exit from the medical stop-loss business. Premiums earned and amounts recorded for benefits, claims and reserves in the Medical Stop-Loss segment during 2016 represent the activity of the remaining blocks of medical stop-loss business in run-off. In 2015, the Medical Stop-Loss segment reported income before taxes of \$18.8 million.

The Company has renamed its Fully Insured segment Specialty Health. Specialty Health more accurately reflects the niche nature of the products that IHC markets in this segment and continues to expand into since its exit from the major medical market. The Specialty Health segment reported \$7.2 million of income before taxes for the year ended December 31, 2016 compared to \$6.5 million for the comparable period in 2015. The increase was primarily the result of increases from broader marketing of our short-term medical, scheduled benefit and gap plans, and growth in the pet insurance line of business, partially offset by poor underwriting results in our occupational accident business.

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

		<b>2016</b>		<b>2015</b>		<b>2014</b>
Premiums Earned	\$	154,397	\$	171,912	\$	218,949
Insurance Benefits, Claims & Reserves		81,215		93,916		146,431
Expenses		68,891		71,641		75,929

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Loss Ratio	52.6%	54.6%	66.9%
Expense Ratio	44.6%	41.7%	34.7%
Combined Ratio	97.2%	96.3%	101.6%

(A)

Loss ratio represents insurance benefits claims and reserves divided by premiums earned.

(B)

Expense ratio represents net commissions, administrative fees, premium taxes and other underwriting expenses divided by premiums earned.

(C)

The combined ratio is equal to the sum of the loss ratio and the expenses ratio.

o

Although the loss ratio for the year ended December 31, 2016 was slightly lower than the same period in 2015, the loss ratio would have been significantly lower (48.0%) excluding the occupational accident line of business. Poor performance of the business underwritten by its occupational accident agency led to the Company's decision to sell such company and exit business produced by it. Expense ratios are higher for the year ended December 31, 2016 because of a change in the mix of business from major medical to specialty health products and a reallocation of certain fixed costs from the medical stop loss line to the specialty health segment.

Income before taxes from the Group disability, life and DBL segment increased \$2.1 million in 2016 compared to prior year results. The overall increase is primarily due to increased volume;

Loss before income taxes from the Individual life, annuities and other segment increased \$2.4 million for the year ended December 31, 2016, primarily due to the ceding of substantially all of the life and annuity blocks in the third quarter of 2015. Current year activity primarily consists of the amortization of the related reinsurance costs whereas prior year activity includes a \$5.1 million pre-tax gain recorded in connection with the sale of the infrastructure associated with the administration of the individual life and annuity policies ceded in 2015;

Loss before tax from the Corporate segment for the year ended December 31, 2016 increased \$0.6 million over the same period in 2015 primarily due to compensation costs and increased audit and consulting fees; and

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

<b>Gross Direct and Assumed Earned Premiums:</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Medical Stop-Loss	\$ 264,101	\$ 302,709	\$ 240,865
Specialty Health	163,810	186,716	241,486
Group disability; life and DBL	123,245	116,500	107,049
Individual life, annuities and other	30,285	23,552	26,186
	\$ 581,441	\$ 629,477	\$ 615,586
<b>Net Premiums Earned:</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Medical Stop-Loss	\$ 12,070	\$ 209,765	\$ 176,941
Specialty Health	154,397	171,912	218,949
Group disability; life and DBL	96,190	85,953	64,260
Individual life, annuities and other	47	11,904	18,898
	\$ 262,704	\$ 479,534	\$ 479,048



Information pertaining to the Company's business segments is provided in Note 18 of Notes to Consolidated Financial Statements included in Item 8.

### **CRITICAL ACCOUNTING POLICIES**

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

### **Insurance Premium Revenue Recognition and Policy Charges**

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

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

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

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

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

### **Insurance Liabilities**

#### **Policy Benefits and Claims**

The Company maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, where material, (including legal, other fees, and costs not associated with specific claims but related to the claims payment function) for reported and unreported claims incurred as of the end of each accounting period. These loss reserves are based on actuarial assumptions and are maintained at levels that are in accordance with U.S. GAAP accounting principles. Many factors could affect these reserves, including economic and social conditions, frequency and severity of claims, medical trend resulting from the influences of underlying cost inflation, changes in utilization

and demand for medical services, and changes in doctrines of legal liability and damage awards in litigation. Therefore, the Company's reserves are necessarily based on estimates, assumptions and analysis of historical experience. The Company's results depend upon the variation between actual claims experience and the assumptions used in determining reserves and pricing products. Reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. The Company cannot determine with precision the ultimate amounts that will be paid for actual claims or the timing of those payments. The Company's estimate of loss represents management's best estimate of the Company's liability at the balance sheet date.

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

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

The Company believes that its liability for policy benefits and claims is reasonable and adequate to satisfy its ultimate liability. The Company primarily uses its own loss development experience, but will also supplement that with data from its outside actuaries, reinsurers and industry loss experience as warranted. To illustrate the impact that Loss Ratios have on the Company's loss reserves and related expenses, each hypothetical 1% change in the Loss Ratio for the health business (i.e., the ratio of insurance benefits, claims and settlement expenses to earned health premiums) for the year ended December 31, 2016, would increase reserves (in the case of a higher ratio) or decrease reserves (in the case of a lower ratio) by approximately \$2.5 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves in the Consolidated Statement of Income. Depending on the circumstances surrounding a change in the Loss Ratio, other pre-tax amounts reported in the Consolidated Statement of Income could also be affected, such as amortization of deferred acquisition costs and commission expense.

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

		<b>December 31, 2016</b>		
	<b>Policy Benefits</b>	<b>Policy Claims</b>		<b>Policy Benefits and Claims</b>
Medical Stop-Loss	\$ 54,760	\$ -		\$ 54,760
Specialty Health	50,237	-		50,237
Group Disability	83,017	21,411		104,428
Individual Accident and Health and Other	6,391	3,297		9,688
	<b>\$ 194,405</b>	<b>\$ 24,708</b>		<b>\$ 219,113</b>
		<b>December 31, 2015</b>		
	<b>Policy Benefits</b>	<b>Policy Claims</b>		<b>Policy Benefits and Claims</b>
Medical Stop-Loss	\$ 100,088	\$ -		\$ 100,088
Specialty Health	41,477	-		41,477
Group Disability	85,416	12,570		97,986
Individual Accident and Health and Other	5,694	198		5,892
	<b>\$ 232,675</b>	<b>\$ 12,768</b>		<b>\$ 245,443</b>

### **Specialty Health**

For the Specialty Health business, incurred but not reported ( IBNR ) claims liabilities plus expected development on reported claims are calculated using standard actuarial methods and practices. The primary assumption in the determination of Specialty Health reserves is that historical Claim Development Patterns are representative of future Claim Development Patterns. Factors that may affect this assumption include changes in claim payment processing times and procedures, changes in time delay in submission of claims, and the incidence of unusually large claims. Liabilities for policy benefits and claims for specialty health medical and disability coverage are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data. The reserving analysis includes a review of claim processing statistical measures and large claim early

notifications; the potential impacts of any changes in these factors are not material. The Company has business that is serviced by third-party administrators. From time to time, there are changes in the timing of claims processing due to any number of factors including, but not limited to, system conversions and staffing changes during the year. These changes are monitored by the Company and the effects of these changes are taken into consideration during the claim reserving process. Other than these considerations, there have been no significant changes to methodologies and assumptions from the prior year.

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

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

## **Disability**

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

With respect to DBL, the liability for policy benefits and claims for the most recent quarter of earned premium is established using a Net Loss Ratio methodology. The Net Loss Ratio is determined by applying the completed prior four quarters of historical Net Loss Ratios to the last quarter of earned premium. Policy benefits and claims associated with the premium earned prior to the last quarter are established using a completion factor methodology. The completion factors are developed using the historical payment patterns for DBL.

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

and fluctuations may not be indicative of the claim development overall.

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

### **Medical Stop-Loss**

On March 31, 2016, the Company sold Risk Solutions, an MGU that was its principal source of medical stop-loss business. All of the in-force medical stop-loss business of Standard Security Life and Independence American produced by Risk Solutions was 100% co-insured as of January 1, 2016 and IHC's block of medical stop-loss business is in run-off.

Liabilities for policy benefits and claims on medical stop-loss coverage are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data. Policy benefits and claims for medical stop-loss insurance are more volatile in nature than those for specialty health medical insurance. This is primarily due to the excess nature of medical stop-loss, with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. The level of these deductibles makes it more difficult to predict the amount and payment pattern of such claims. Furthermore, these excess claims are highly sensitive to changes in factors such as medical trend, provider contracts and medical treatment protocols, adding to the difficulty in predicting claim values and estimating reserves. Also, because medical stop-loss is in excess of an underlying benefit plan, there is an additional layer of claim reporting and processing that can affect claim payment patterns. Finally, changes in the distribution of business by effective month can affect reserve estimates due to the timing of claim occurrences and the time required to accumulate claims against the stop-loss deductible.

The two primary or key assumptions underlying the calculation of policy benefits and claims for Medical Stop-Loss business are (i) projected Net Loss Ratio, and (ii) claim development patterns. The projected Net Loss Ratio is set at expected levels consistent with the underlying assumptions ( Projected Net Loss Ratio ). Claim development patterns are set quarterly as reserve estimates are developed and are based on recent claim development history ( Claim Development Patterns ). The Company uses the Projected Net Loss Ratio to establish reserves until developing losses provide a better indication of ultimate results and it is feasible to set reserves based on Claim Development Patterns. The Company has concluded that a reasonably likely change in the Projected Net Loss Ratio assumption could have a material effect on the Company's financial condition, results of operations, or liquidity ( Material Effect ) but a reasonably likely change in the Claim Development Pattern would not have a Material Effect.

### ***Projected Net Loss Ratio***

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

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

### ***Claim Development Patterns***



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

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

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

Due to the short-term nature of Medical Stop-Loss, redundancies or deficiencies will typically emerge during the course of the following year rather than over a number of years. For Medical Stop-Loss, as noted above, the Company maintains its reserves based on underlying assumptions until it determines that an adjustment is appropriate based on emerging experience from all of its prior underwriting years.

#### **Individual Accident and Health and Other**

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

Management believes that the Company's methods of estimating the liabilities for policy benefits and claims provided appropriate levels of reserves at December 31, 2016. Changes in the Company's policy benefits and claims estimates are recorded through a charge or credit to its earnings.

#### **Future Policy Benefits**

The liability for future policy benefits consists of the liabilities related to insured events for the Company's long-duration contracts, primarily its life and annuity products. For traditional life insurance products, the Company computes the liability for future policy benefits primarily using the net premium method based on anticipated investment yield, mortality, and withdrawals. These methods are widely used in the life insurance industry to estimate the liabilities for insurance reserves. Inherent in these calculations are management and actuarial judgments and

estimates that could significantly impact the ending reserve liabilities and, consequently, operating results. Actual results may differ, and these estimates are subject to interpretation and change.

Management believes that the Company's methods of estimating the liabilities for future policy benefits provided appropriate levels of reserves at December 31, 2016 and 2015. Changes in the Company's future policy benefits estimates are recorded through a charge or credit to its earnings.

**Other Policyholders Funds**

Other policyholders funds represent interest-bearing liabilities arising from the sales of products, such as universal life, interest-sensitive life and annuities. Policyholder funds are primarily comprised of

deposits received and interest credited to the benefit of the policyholder less surrenders and withdrawals, mortality charges and administrative expenses.

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

## **Investments**

The Company has classified all of its investments as either available-for-sale or trading securities. These investments are carried at fair value with unrealized gains and losses reported through other comprehensive income (loss) for available-for-sale securities or as unrealized gains or losses in the Consolidated Statements of Income for trading securities. Available-for-sale securities totaled \$454.8 million and \$437.0 million at December 31, 2016 and 2015, respectively. Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Income, using the constant yield method over the period to maturity. Net realized gains and losses on investments are computed using the specific identification method and are reported in the Consolidated Statements of Income on the trade date.

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

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

different vendor; (iii) a reasonableness review; and (iv) a change in price based on better information, such as an actual market trade, among other things. Management considers all facts and relevant information obtained during the above procedures to determine the proper classification of each security in the Fair Value Hierarchy.

Declines in value of securities available-for-sale that are judged to be other-than-temporary are determined based on the specific identification method. The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. The factors

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

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

Equity securities may experience other-than-temporary impairment in the future based on the prospects for full recovery in value in a reasonable period of time and the Company's ability and intent to hold the security to recovery. If a decline in fair value is judged by management to be other-than-temporary or management does not have the intent or ability to hold a security, a loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Income. For the purpose of other-than-temporary impairment evaluations, redeemable preferred stocks are evaluated in a manner similar to debt securities. Declines in the creditworthiness of the issuer of debt securities with both debt and equity-like features are evaluated using the equity model in consideration of other-than-temporary impairment.



### **Goodwill and Other Intangible Assets**

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

At December 31, 2016, the Company's market capitalization was less than its book value indicating a potential impairment of goodwill. As a result, the Company assessed the factors contributing to the performance of IHC stock in 2016, and concluded that the market capitalization does not represent the fair value of the Company. The Company noted several factors that have led to a difference between the market capitalization and the fair value of the Company, including (i) the Company's stock is thinly traded and a sale of even a small number of shares can have a large percentage impact on the price of the stock, (ii) Geneve Corporation and insiders own approximately 58% of the outstanding shares, which has had a significant adverse impact on the number of shares available for sale and therefore the trading potential of IHC stock, and (iii) lack of analyst coverage of the Company. 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. No impairment charge for goodwill was required in 2016, 2015 or 2014.

Other intangible assets are amortized to expense over their estimated useful lives and are subject to impairment testing. Any impairment of other intangible assets would be charged to expense. No impairment charges for intangible assets were required in 2016, 2015 or 2014.

### **Deferred Income Taxes**

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





**RESULTS OF OPERATIONS****Results of Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015**

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

<b><u>December 31, 2016</u></b>	<b><u>Premiums Earned</u></b>	<b><u>Net Investment Income</u></b>	<b><u>Fee and Other Income</u></b>	<b><u>Insurance Benefits, Claims and Reserves</u></b>	<b><u>Selling, General and Administrative</u></b>	<b><u>Total</u></b>
Medical Stop-Loss	\$ 12,070	\$ 1,700	\$ 11,844	\$ 10,427	(1,546)	\$ 16,733
Specialty Health	154,397	3,272	15,478	81,215	84,730	7,202
Group disability, life and DBL	96,190	6,469	876	52,245	33,386	17,904
Individual life, annuities and other	47	2,255	454	1,344	3,952	(2,540)
Corporate	-	2,874	51	-	11,652	(8,727)
Sub total	\$ 262,704	\$ 16,570	\$ 28,703	\$ 145,231	\$ 132,174	30,572
Net realized investment gains						4,502
Net impairment losses recognized in earnings						(1,475)
Interest expense on debt						(1,534)
Income from continuing operations before income taxes						32,065
Income taxes						9,555
Income from continuing operations						\$ 22,510

<b><u>December 31, 2015</u></b>	<b><u>Premiums Earned</u></b>	<b><u>Net Investment Income</u></b>	<b><u>Fee and Other Income</u></b>	<b><u>Insurance Benefits, Claims and Reserves</u></b>	<b><u>Selling, General And Administrative</u></b>	<b><u>Total</u></b>
Medical Stop-Loss	\$ 209,765	\$ 4,374	\$ -	\$ 153,919	\$ 41,392	\$ 18,828
Specialty Health	171,912	1,813	12,187	93,916	85,506	6,490
Group disability, life and DBL	85,953	3,699	662	47,646	26,857	15,811
Individual life, annuities and other	11,904	7,146	8,069	11,697	15,544	(122)
Corporate	-	205	-	-	8,342	(8,137)
Sub total	\$ 479,534	\$ 17,237	\$ 20,918	\$ 307,178	\$ 177,641	32,870

Gain on sale of subsidiary to joint venture	9,940
Net realized investment gains	3,094
Net impairment losses recognized in earnings	(228)
Interest expense on debt	(1,798)
Income from continuing operations before income taxes	43,878
Income taxes	15,904
Income from continuing operations	\$ 27,974

### **Premiums Earned**

In 2016, premiums earned decreased \$216.8 million over the comparable period of 2015. The decrease is primarily due to: (i) a decrease of \$197.7 million in the Stop Loss segment as a result of the sale of Risk Solutions and exit from the medical stop-loss business, further described in Note 3; (ii) a decrease of \$17.5 million in the Specialty Health segment principally as a result of a \$26.8 million decrease in premiums from exiting the Major Medical line, a \$11.9 million decrease in the fixed indemnity limited benefit line due to the cancellation of a distribution source, and a \$1.4 million decrease in international medical business premiums due to lower retention, partially offset by premium increases in the short-term medical, pet and occupational accident lines of business of \$17.7 million, \$4.7 million and \$1.6 million, respectively, as a result of higher volume; and (iii) a decrease of \$11.8 million in the Individual life, annuities and other segment as a result of this business being in run-off; partially offset by

(iv) a \$10.2 million increase in earned premiums from the Group disability, life, annuities and DBL segment primarily due to increased volume and retention in the LTD and group term life lines and increased volume in DBL business.

### **Net Investment Income**

Total net investment income decreased \$0.7 million. The overall annualized investment yields for the year ended December 31, 2016 and 2015 were 2.7% and 2.8%, respectively. The overall decrease was primarily the result of a decrease in investment income on bonds, equities and short-term investments due to cash transferred out in the third quarter of 2015 in connection with a coinsurance and sale transaction, partially offset by cash received in connection with the sale of Risk Solutions in the first quarter of 2016. Additionally, income from partnerships was lower in 2016.

The annualized investment yields on bonds, equities and short-term investments were 2.9% and 2.8% for 2016 and 2015, respectively. IHC has approximately \$168.7 million in highly rated shorter duration securities earning on average 1.5%. A portfolio that is shorter in duration enables us, if we deem prudent, the flexibility to reinvest in much higher yielding longer-term securities, which would significantly increase investment income.

### **Gain on Sale of Subsidiary to Joint Venture**

In the third quarter of 2015, the Company finalized a joint venture with Ebix, Inc. in which IHC sold its wholly owned administrative subsidiary, IHC Health Solutions (now known as Ebix Health Administration Exchange, Inc.), in exchange for a 60% ownership interest in Ebix Health Exchange and \$6.0 million in cash proceeds. The transaction resulted in a loss of control over the subsidiary (due to a lack of the majority of the voting interest on the Board of Managers) and therefore the subsidiary was deconsolidated from the Company's financial statements. The Company recognized a net gain of \$9.9 million, pre-tax, on the transaction (see Note 7). There was no comparable transaction in 2016.

### **Net Realized Investment Gains and Net Impairment Losses Recognized in Earnings**

The Company had net realized investment gains of \$4.5 million in 2016 compared to \$3.1 million in 2015. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period.

The Company recognized \$1.5 million of other-than-temporary impairment losses on certain fixed maturities available-for-sale during 2016. The Company determined that it is more likely than not that we will sell the securities

before recovery of their amortized cost basis. In 2015, the Company recognized \$0.2 million of other-than-temporary impairment losses on equity securities available-for-sale due to the length of time and extent an equity security was below cost.

**Fee Income and Other Income**

Fee income increased \$5.8 million in 2016 compared to 2015 primarily due to increased fee income from the Specialty Health segment partially offset by decreased fees due to the partial sale and deconsolidation of a previously wholly owned third party administrator.

Other income increased \$2.0 million. Other income in 2016 consists primarily of fees received in connection with the ceding of the Medical Stop Loss business; whereas, 2015 includes a gain recorded in connection with the ceding of individual life and annuity policies and sale of the related infrastructure.

**Insurance Benefits, Claims and Reserves**

In 2016, insurance benefits, claims and reserves decreased \$161.9 million over the comparable period in 2015. The decrease is primarily attributable to: (i) a decrease of \$143.5 million in the Medical Stop Loss segment primarily as a result of the sale of Risk Solutions and exit from the medical stop-loss business, further described in Note 3; (ii) a decrease of \$12.7 million in the Specialty Health segment, primarily due to a decrease of \$23.8 million in benefits, claims and reserves related to the run-off of the Major Medical business, a \$3.5 million decrease due to lower volume in the fixed indemnity business, and a \$2.1 million decrease due to lower retention in the international line; partially offset by increases of \$5.4 million in claims in the occupational accident lines due to higher claim activity and increases of \$9.3 million and \$2.3 million in the short term medical and pet, respectively, due to the increase in volume of both lines of business; and (iii) a decrease of \$10.3 million in the Individual life, annuity and other segment, primarily as a result of business in run-off; partially offset by (iv) an increase of \$4.6 million in benefits, claims and reserves in the group disability, life, annuities and DBL segment, primarily due to increased retention and higher loss ratios on LTD lines.

**Selling, General and Administrative Expenses**

Total selling, general and administrative expenses decreased \$45.5 million over the comparable period in 2015. The decrease is primarily attributable to: (i) a decrease of \$42.9 million in the Medical Stop Loss segment primarily as a result of the sale of Risk Solutions and exit from the medical stop-loss business, further described in Note 3, (ii) a decrease of \$0.8 million in the Specialty Health segment primarily due to decreased expenses from the run-off of Major Medical and lower volume of fixed indemnity business, partially offset by an increase in expenses due to increased volume in the short term medical line; and (iii) a decrease of \$11.6 million in the Individual life, annuity and other segment largely due to a decrease in amortization of deferred acquisition costs as a result of ceding life and annuity policies in 2015 and lower general expenses from business in run-off; partially offset by (iv) an increase of \$6.5 million in the group disability, life, annuities and DBL segment primarily due to increased commission and other expenses in the LTD line as a result of volume; and (v) an increase of \$3.3 million in Corporate principally from increased compensation costs in addition to higher audit and consulting fees in 2016.

**Income Taxes**

The effective tax rate was 29.8% in 2016 compared to 36.2% for the same period in 2015. The lower effective tax rate is primarily due to the liquidation of a subsidiary in 2016 that resulted in tax benefits of approximately \$3.9 million recognized for IHC's unrecovered investment in that subsidiary.



**Results of Operations for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014**

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

<u>December 31, 2015</u>	<u>Premiums Earned</u>	<u>Net Investment Income</u>	<u>Fee and Other Income</u>	<u>Insurance Benefits, Claims and Reserves</u>	<u>Selling, General And Administrative</u>	<u>Total</u>
Medical Stop-Loss	\$ 209,765	\$ 4,374	\$ -	\$ 153,919	\$ 41,392	\$ 18,828
Specialty Health	171,912	1,813	12,187	93,916	85,506	6,490
Group disability, life and DBL	85,953	3,699	662	47,646	26,857	15,811
Individual life, annuities and other	11,904	7,146	8,069	11,697	15,544	(122)
Corporate	-	205	-	-	8,342	(8,137)
Sub total	\$ 479,534	\$ 17,237	\$ 20,918	\$ 307,178	\$ 177,641	32,870
Gain on sale of subsidiary to joint venture						9,940
Net realized investment gains						3,094
Net impairment losses recognized in earnings						(228)
Interest expense on debt						(1,798)
Income from continuing operations before income taxes						43,878
Income taxes						15,904
Income from continuing operations						\$ 27,974

<u>December 31, 2014</u>	<u>Premiums Earned</u>	<u>Net Investment Income</u>	<u>Fee and Other Income</u>	<u>Insurance Benefits, Claims and Reserves</u>	<u>Selling, General And Administrative</u>	<u>Total</u>
Medical Stop-Loss	\$ 176,941	\$ 4,249	\$ -	\$ 122,469	\$ 38,971	\$ 19,750
Specialty Health	218,949	2,202	17,950	146,431	94,657	(1,987)
Group disability, life and DBL	64,260	3,156	225	37,537	17,936	12,168
Individual life, annuities and other	18,898	11,830	3,823	19,598	21,571	(6,618)
Corporate	-	177	-	-	8,252	(8,075)
Sub total	\$ 479,048	\$ 21,614	\$ 21,998	\$ 326,035	\$ 181,387	15,238



Net realized investment gains	7,688
Interest expense on debt	(1,797)
Income from continuing operations before income taxes	21,129
Income taxes	6,108
Income from continuing operations	\$ 15,021

**Premiums Earned**

In 2015, premiums earned increased \$0.5 million over the comparable period of 2014. The increase is primarily due to: (i) a \$32.8 million increase in earned premiums from the Medical Stop-Loss segment as a result of higher volume; (ii) a \$21.7 million increase in the Group disability, life and DBL segment primarily due to increased volume and retentions in the group term life and LTD lines; partially offset by (iii) a decrease of \$47.0 million in the Specialty Health segment as a result of a \$58.4 million decrease in premiums from exiting Major Medical, partially offset by premium increases in the ancillary lines (primarily short-term medical), fixed indemnity limited benefit products, pet, and occupational accident lines of business as a result of higher volume; and (iv) a decrease of \$7.0 million in the Individual life, annuities and other segment primarily as a result of a reinsurance transaction in the third quarter of 2015 whereby the Company ceded substantially all of its ordinary life and annuity business.

**Net Investment Income**

Total net investment income decreased \$4.4 million. The overall annualized investment yields were 2.8% and 3.3% in 2015 and 2014, respectively. The overall decrease was primarily a result of a decrease in investment income on bonds, equities and short-term investments as the Company transferred approximately \$208.0 million of cash to an unaffiliated reinsurer in connection with a coinsurance and sale transaction on July 31, 2015 (see Note 8). The annualized investment yields on bonds, equities and short-term investments were 2.8% and 3.2% in 2015 and 2014, respectively. In addition, there were decreases in income from partnerships and policy loans for the year ended December 31, 2015. IHC has approximately \$150.9 million in highly rated shorter duration securities earning on average 1.2% at December 31, 2015. A portfolio that is shorter in duration enables us, if we deem prudent, the flexibility to reinvest in much higher yielding longer-term securities, which would significantly increase investment income.

**Gain on Sale of Subsidiary to Joint Venture**

In the third quarter of 2015, the Company finalized a joint venture with Ebix, Inc. in which IHC sold its wholly owned administrative subsidiary, IHC Health Solutions (now known as Ebix Health Administration Exchange, Inc.), in exchange for a 60% ownership interest in Ebix Health Exchange and \$6.0 million in cash proceeds. The transaction resulted in a loss of control over the subsidiary (due to a lack of the majority of the voting interest on the Board of Managers) and therefore the subsidiary was deconsolidated from the Company's financial statements. The Company recognized a net gain of \$9.9 million, pre-tax, on the transaction (see Note 7).

**Net Realized Investment Gains and Net Impairment Losses Recognized in Earnings**

The Company had net realized investment gains of \$3.1 million in 2015 compared to \$7.7 million in 2014. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period.

The Company recognized \$0.2 million of other-than-temporary impairment losses on equity securities available-for-sale during 2015 due to the length of time and extent an equity security was below cost.

**Fee Income and Other Income**

Fee income decreased \$6.5 million in 2015 compared to 2014 primarily as a result of decreased Major Medical volume in the Specialty Health segment.

Other income increased in 2015 primarily as a result of a \$5.1 million pre-tax gain recorded in connection with a coinsurance and sale agreement. In the third quarter of 2015, Madison National Life and Standard Security Life together entered into the aforementioned coinsurance and sale agreement to cede substantially all of their individual life and annuity policy blocks and sell the related infrastructure associated with the administration of such policies (see Note 9). In addition, the Company recorded a \$0.5 million gain in 2015 on the acquisition of a controlling interest in GAF (see Note 7) and a gain of \$0.7 million in 2015 on the sale of Innovative Medical Risk Management (see Note 7).

**Insurance Benefits, Claims and Reserves**

In 2015, insurance benefits, claims and reserves decreased \$18.8 million over the comparable period in 2014. The decrease is primarily attributable to: (i) a decrease of \$52.5 million in the Specialty Health segment, primarily due to lower loss ratios in 2015 and a decrease of \$48.4 million in benefits, claims and reserves related to the run-off of the Major Medical; offset in part by increases in the volume of ancillary products, pet and occupational accident lines of business; (ii) a decrease of \$7.9 million in the Individual life, annuities and other segment primarily as a result of a reinsurance transaction in the third quarter of 2015 whereby the Company ceded substantially all of its ordinary life and annuity business; partially offset by (iii) an increase of \$31.5 million in benefits, claims and reserves in the Medical Stop-Loss segment as a result of an increase in premium volume and higher loss ratios; and (iv) an increase of \$10.1 million in the group disability, life and DBL segment, primarily due to increased volume and retention in the group term life and LTD lines partially offset by lower loss ratios.

**Selling, General and Administrative Expenses**

Total selling, general and administrative expenses decreased \$3.7 million over the comparable period in 2014. The decrease is primarily attributable to: (i) a decrease of \$9.1 million in the Specialty Health segment largely due to the run-off of the Major Medical and the deconsolidation of IHC Health Solutions, partially offset by increases in general expenses as a result of the higher volume of ancillary, pet and occupational accident business, which tends to have a higher expense structure than major medical; and (ii) a decrease of \$6.0 million in Individual life, annuity and other segment primarily due to lower amortization of deferred costs in correlation with the assumptions of certain ceded life and annuity policies; partially offset by; (iii) an increase of \$2.4 million in the Medical Stop-Loss segment primarily as a result of higher commission expenses; (iv) an increase of \$9.0 million in the group disability, life and DBL segment primarily due to increased commission expense in the group term life and LTD lines as a result of new business and changes in retention levels.

**Income Taxes**

The effective tax rate for 2015 was 36.2%. In 2014, the Company recorded a \$2.5 million credit to federal income taxes as a result of the reduction in AMIC's valuation allowance related to its deferred tax asset at December 31, 2014. Excluding this transaction, the effective tax rate for 2014 was 40.7%. The lower effective tax rate in 2015 was primarily due to: (i) a decrease in the amount of non-deductible expenses as a result of the Affordable Care Act as a percentage of income in 2015 compared to 2014; and (ii) a decrease in state taxes as a percentage of income in 2015; partially offset by (iii) a decrease in benefits from tax-advantaged securities as a percentage of income in 2015.

**LIQUIDITY**

**Insurance Group**

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

**Corporate**

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

Group. The Insurance Group declared and paid \$18.4 million, \$10.6 million and \$10.0 million of cash dividends to Corporate in 2016, 2015 and 2014, respectively.

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

### **Cash Flows**

Cash and cash equivalents, including discontinued operations, as of December 30, 2016 and December 31, 2015 was \$22.0 million and \$19.2 million, respectively.

For year ended December 31, 2016, operating activities of the Company utilized \$31.0 million of cash, \$98.9 million was provided by investment activities and \$65.0 million of cash was utilized for financing activities. The increase in cash from investing is primarily related to the proceeds from the sale of Risk Solutions net of amounts subsequently invested in short-term and available-for-sale securities. Financing activities include \$18.1 million for the acquisition of AMIC shares in connection with taking AMIC private, \$42.9 million utilized for the repayment of debt, \$1.6 million for the payment of dividends and \$3.5 million for treasury share purchases.

The Company has \$438.6 million of liabilities for future policy benefits and policy benefits and claims that it expects to ultimately pay out of current assets and cash flows from future business and from reinsurance. If the timing of claim payments associated with the Company's insurance resources does not coincide with future cash flows, the Company could utilize the cash received from maturities and repayments of its fixed maturity investments. For the year ended December 31, 2016, cash received from the maturities and other repayments of fixed maturities was \$47.3 million.

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

### **BALANCE SHEET**

The Company had receivables from reinsurers of \$440.3 million at December 31, 2016 compared to \$483.1 million at December 31, 2015. All of such reinsurance receivables are from highly rated companies or are adequately secured. No allowance for doubtful accounts was necessary at December 31, 2016.

Investments increased primarily as a result of the proceeds from the Risk Solutions Sale and Coinsurance Transaction.

The Company repaid \$42.9 million of debt during 2016.

The \$113.2 million increase in IHC's stockholders' equity in 2016 is primarily due to the \$123.3 million of net income attributable to IHC, partially offset by \$3.6 million of other comprehensive loss attributable to IHC, \$3.5 million of treasury stock purchases, a \$2.2 million decrease related to the purchase of AMIC shares from noncontrolling interests and \$1.8 million of common stock dividends. Noncontrolling interests in subsidiaries decreased primarily as a result of taking AMIC private in 2016.

### **Asset Quality and Investment Impairments**

The nature and quality of insurance company investments must comply with all applicable statutes and regulations, which have been promulgated primarily for the protection of policyholders. Although the Company's gross unrealized losses on available-for-sale securities totaled \$12.3 million at December 31, 2016, more than 99.9% of the Company's fixed maturities were investment grade and

continue to be rated on average AA. The Company marks all of its available-for-sale securities to fair value through accumulated other comprehensive income or loss. These investments tend to carry less default risk and, therefore, lower interest rates than other types of fixed maturity investments. At December 31, 2016, less than 0.1% (or \$0.1 million) of the carrying value of fixed maturities was invested in non-investment grade fixed maturities (a commercial mortgage obligation). Investments in such securities have different risks than investment grade securities, including greater risk of loss upon default, and thinner trading markets. The Company does not have any non-performing fixed maturity investments at December 31, 2016.

Certain fixed maturities, primarily municipal obligations, in our investment portfolio are insured by financial guaranty insurance companies. The insurance, however, does not enhance the credit ratings on these securities. The following table summarizes the credit quality of our fixed maturity portfolio, as rated, at December 31, 2016:

<u>Bond Ratings</u>	<u>As Rated</u>
AAA	15.3%
AA	55.7%
A	28.4%
BBB	0.6%
<b>Total Investment Grade</b>	<b>100.0%</b>

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

The Company reviews its investments regularly and monitors its investments continually for impairments, as discussed in Note 1(G) (iv) of the Notes to Consolidated Financial Statements in Item 8 of this report. The Company recognized \$1.5 million of other-than-temporary impairment losses on certain fixed maturities available-for-sale during 2016. The Company determined that it is more likely than not that we will sell the securities before recovery of their amortized cost basis. The Company recorded \$0.2 million of other-than-temporary impairment losses on equity securities available-for-sale during 2015 due to the length of time and extent an equity security was below cost. At December 31, 2016, there were no securities with fair values less than 80% of their amortized cost.

The unrealized losses on all available-for-sale securities have been evaluated in accordance with the Company's impairment policy and were determined to be temporary in nature at December 31, 2016. From time to time, as warranted, the Company may employ investment strategies to mitigate interest rate and other market exposures. Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalances in liquidity that exist in the marketplace, a



continuation or worsening of the current economic recession, or additional declines in real estate values may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods and the Company may incur additional write-downs.

## **Goodwill**

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

All goodwill carrying amounts are evaluated for impairment at the reporting unit level which is equivalent to an operating segment. Goodwill was allocated to each reporting unit or operating segment at the time of acquisition. At December 31, 2016, total goodwill was \$41.6 million, all of which was attributable to the Specialty Health segment.

Based upon the goodwill impairment testing performed at December 31, 2016, the fair value of each reporting unit exceeded its carrying value and no impairment charge was required. Fair value exceeded carrying value by more than 10% in the Specialty Health segment.

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

Management uses a significant amount of judgment in estimating the fair value of the Company's reporting units. The key assumptions underlying the fair value process are subject to uncertainty and change. The following represent some of the potential risks that could impact these assumptions and the related expected future cash flows: (i) increased competition; (ii) an adverse change in the insurance industry and overall business climate; (iii) changes in state and federal regulations; (iv) rating agency downgrades of our insurance companies; and (v) a sustained and significant decrease in our share price and market capitalization. Our market capitalization as of December 31, 2016 was below the sum of our reporting units' fair values. As a result, the Company assessed the factors contributing to the performance of IHC stock in 2016, and concluded that the market capitalization does not represent the fair value of the Company. The Company noted several factors that have led to a difference between the market capitalization and the fair value of the Company, including (i) the Company's stock is thinly traded and a sale of even a small number of shares can have a large percentage impact on the price of the stock, (ii) Geneve Corporation and insiders own approximately 58% of the outstanding shares, which has had a significant adverse impact on the number of shares available for sale and therefore the trading potential of IHC stock, and (iii) lack of analyst coverage of the Company. 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.



**Liability for Policy Benefits and Claims**

The following table summarizes the prior year net favorable amount of policy benefits and claims incurred in 2016 according to the year in which it relates, together with the opening balances of the corresponding liability for policy benefits and claims (net of reinsurance recoverable) (in thousands):

		<b>Policy Benefits and Claims at January 1, 2016</b>		<b>Prior Year Amount Incurred in 2016</b>
2015	\$	126,447	\$	(9,517)
2014		15,212		3,446
2013		14,562		1,267
2012 and Prior		23,860		(692)
Total	\$	180,081	\$	(5,496)

The following sections describe, for each segment, the unfavorable (favorable) development in the liability for policy benefits and claims experienced in 2016, together with the key assumptions and changes therein affecting the reserve estimates.

**Specialty Health**

The Specialty Health segment had a net favorable development of \$1.4 million related to prior years. Favorable development due to the run-off of the Major Medical business was \$4.6 million and \$1.0 million was due to the STM line; partially offset by unfavorable development of \$4.5 million in our occupational accident business. The Company has since sold the principal agency that produced this occupational accident business and exited this line.

**Group Disability**

The Group Disability segment had a net favorable development of \$2.7 million primarily related to benefits and claims experience related to the 2015 group disability business.

Due to the long-term nature of LTD, in establishing the liability for policy benefits and claims, the Company must make estimates for case reserves, IBNR, and reserves for Loss Adjustment Expenses ( LAE ). Case reserves generally equal the actuarial present value of the liability for future benefits to be paid on claims incurred as of the balance sheet date. The IBNR reserve is established based upon historical trends of existing incurred claims that were reported after the balance sheet date. The LAE reserve is calculated based on an actuarial expense study. Since the LTD block of policies is relatively small, with the potential for very large claims on individual policies, results can vary from year to

year. If a small number of claimants with large claim reserves were to recover or several very large claims were incurred, the results could distort the Company's policy benefits and claims estimates from year to year. With respect to DBL, the liability for policy benefits and claims for the most recent quarter of earned premium is established using a Net Loss Ratio methodology. The Net Loss Ratio is determined by applying the completed prior four quarters of historical Net Loss Ratios to the last quarter of earned premium. Policy benefits and claims associated with the premium earned prior to the last quarter are established using a completion factor methodology. The completion factors are developed using the historical payment patterns for DBL.

### **Medical Stop-Loss**

The Company experienced a net unfavorable development of \$0.3 million related to the Medical Stop-Loss segment. Our Medical Stop-Loss business is currently in run-off.

**Individual Life, Annuities and Other**

All other lines, primarily life and other individual health products, experienced favorable development of \$1.7 million primarily due to a change in reserve factors and release of IBNR reserves.

**CAPITAL RESOURCES**

Due to its strong capital ratios, broad licensing and excellent asset quality and credit-worthiness, the Insurance Group remains well positioned to increase or diversify its current activities. It is anticipated that future acquisitions or other expansion of operations will be funded internally from existing capital and surplus and parent company liquidity. In the event additional funds are required, it is expected that they would be borrowed or raised in the public or private capital markets to the extent determined to be necessary or desirable. In the fourth quarter of 2016, the Company redeemed all \$38.1 million of its junior subordinated debt securities and as a result the Company has no long-term debt at December 31, 2016. See Note 11 of the Notes to Consolidated Financial Statements in Item 8 of this report.

IHC enters into a variety of contractual obligations with third parties in the ordinary course of its operations, including liabilities for insurance reserves, funds on deposit, debt and operating lease obligations. However, IHC does not believe that its cash flow requirements can be fully assessed based solely upon an analysis of these obligations. Future cash outflows, whether they are contractual obligations or not, also will vary based upon IHC's future needs. Although some outflows are fixed, others depend on future events.

The chart below reflects the maturity distribution of IHC's contractual obligations at December 31, 2016 (in thousands):

	<b>Leases</b>	<b>Insurance Policy Benefits</b>	<b>Funds on Deposit</b>	<b>Total</b>
2016	\$ 2,168	\$ 154,385	\$ 14,962	\$ 171,515
2017	1,939	37,266	14,463	53,668
2018	957	29,737	13,897	44,591
2019	739	26,512	13,469	40,720
2020	372	24,673	12,849	37,894
2021 and Thereafter	63	141,282	76,109	217,454
Totals	\$ 6,238	\$ 413,855	\$ 145,749	\$ 565,842



**OUTLOOK**

For 2017, the Company anticipates that it will:

·  
Continue to experience an overall decrease in premiums and earnings due to exiting the medical stop-loss business as a result of the Risk Solutions Sale and Coinsurance Transaction.

·  
Continue to show significant increases in specialty health premiums (including hospital indemnity, group limited medical and group gap and other supplemental health products, such as dental, accident medical, gap and critical illness products), although we may see a decrease in short term medical as a result of a regulation expected to take effect April 1, 2017.

·  
Continue to increase IHC's emphasis on lead generation for its direct-to-consumer and career advisor distribution initiatives, as well as experiencing the accompanying start-up costs of expanding our controlled sales through our call center, career model and transactional websites as a result of the acquisition of PetPlace.com, IHC's ownership of HealtheDeals.com, and AspiraAmas and its investment in HealthInsurance.org.

·  
Expand sales of our specialty health products as a result of investments in two call center agencies and a worksite marketing company.

·  
Diversify the distribution and administration of our pet insurance as we bring on new relationships in 2017, although there will be a reduction in premium as our current distributor has added an additional carrier.



Experience continued increases in premiums from group long-term and short-term disability driven by higher retention amounts and a full year of premiums generated by a relatively new distribution partnership.

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

Continue to focus on administrative efficiencies, including reducing operating losses at Ebix Health Exchange.

On March 31, 2016, IHC and a subsidiary of AMIC sold the stock of Risk Solutions. In addition, under the purchase and sale agreement, all of the in-force stop-loss business of Standard Security Life and Independence American produced by Risk Solutions was co-insured by Westport as of January 1, 2016. The aggregate purchase price was \$152.5 million in cash, subject to adjustments and settlements. This transaction resulted in a gain of \$100.8 million, net of taxes and amounts attributable to noncontrolling interests. As a result, IHC is highly liquid and has excess capital; however its Medical Stop-Loss line of business is in run-off, which will have a negative impact on future earnings.

Subject to making additional repurchases, acquisitions and investments, the Company will remain highly liquid in 2017 as a result of the continuing shorter duration of the portfolio. IHC has approximately \$168.7 million in highly rated shorter maturity securities at December 31, 2016 earning on average 1.5%; our portfolio as a whole is rated, on average, AA. The low duration of our portfolio enables us, if we deem prudent, the flexibility to reinvest in much higher yielding longer-term securities, which would significantly increase investment income in the future. A low duration portfolio such as ours also mitigates the adverse impact of potential inflation. IHC will continue to monitor the financial markets and invest accordingly.

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

**ITEM 7A.****QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT****MARKET RISK**

The Company manages interest rate risk by seeking to maintain an investment portfolio with a duration and average life that falls within the band of the duration and average life of the applicable liabilities. Options may be utilized to modify the duration and average life of such assets.

The following summarizes the estimated pre-tax change in fair value (based upon hypothetical parallel shifts in the U.S. Treasury yield curve) of the fixed income portfolio (excluding redeemable preferred stocks) assuming immediate changes in interest rates at specified levels at December 31, 2016:

	<b>Change in Interest Rates</b>				
	<b>200 basis point rise</b>	<b>100 basis point rise</b>	<b>Base scenario</b>	<b>100 basis point decline</b>	<b>200 basis point decline</b>
Corporate securities	\$ 171,873	\$ 179,343	\$ 187,695	\$ 196,667	\$ 205,752
CMO s	5,387	5,638	5,913	6,212	6,541
U.S. Government obligations	41,229	42,152	43,109	44,101	44,777
Agency MBSs	22	23	23	23	23
GSEs	9,230	9,543	9,880	10,243	10,635
State & Political Subdivisions	164,039	174,313	186,811	199,664	211,601
Foreign governments	4,500	4,718	4,954	5,211	5,488
Total estimated fair value	\$ 396,280	\$ 415,730	\$ 438,385	\$ 462,121	\$ 484,817
Estimated change in value	\$ (42,105)	\$ (22,655)		\$ 23,736	\$ 46,432

The Company monitors its investment portfolio on a continuous basis and believes that the liquidity of the Insurance Group will not be adversely affected by its current investments. This monitoring includes the maintenance of an asset-liability model that matches current insurance liability cash flows with current investment cash flows. This is accomplished by first creating an insurance model of the Company's in-force policies using current assumptions on mortality, lapses and expenses. Then, current investments are assigned to specific insurance blocks in the model using appropriate prepayment schedules and future reinvestment patterns.

The results of the model specify whether the investments and their related cash flows can support the related current insurance cash flows. Additionally, various scenarios are developed changing interest rates and other related assumptions. These scenarios help evaluate the market risk due to changing interest rates in relation to the business of the Insurance Group.

In the Company's analysis of the asset-liability model, a 100 to 200 basis point change in interest rates on the Insurance Group's liabilities would not be expected to have a material adverse effect on the Company. With respect to its liabilities, if interest rates were to increase, the risk to the Company is that policies would be surrendered and assets would need to be sold. This is not a material exposure to the Company since a large portion of the Insurance Group's interest sensitive policies are burial policies that are not subject to the typical surrender patterns of other interest sensitive policies, and many of the Insurance Group's universal life and annuity policies were acquired from liquidated companies which tend to exhibit lower surrender rates than such policies of continuing companies. Additionally, there are charges to help offset the benefits being surrendered. If interest rates were to decrease substantially, the

risk to the Company is that some of its investment assets would be subject to early redemption. This is not a material exposure because the Company would have additional unrealized gains in its investment portfolio to help offset the future reduction of investment income. With respect to its investments, the Company employs (from time to time as warranted) investment strategies to mitigate interest rate and other market exposures.

**ITEM 8.**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Index to Consolidated Financial Statements and Schedules on page 80.

**ITEM 9.**

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON**

**ACCOUNTING AND FINANCIAL DISCLOSURE**

On October 6, 2016, the registrant filed a Form 8-K stating that the registrant has engaged RSM US LLP as its principal accountant to replace its former principal accountant KPMG LLP, effective September 13, 2016. The decision to change accountant was approved by the Audit Committee of the registrant. Neither of the reports of the former principal accountants on the financial statements for the periods ending December 31, 2015 and December 21, 2014, respectively, and through the subsequent interim periods ending September 13, 2016, contained an adverse opinion nor disclaimer of opinion, nor was either qualified or modified as to uncertainty, audit scope, or accounting principles.

During the audited period, there were no disagreements with the former principal accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of the former accountant, would have in connection with this report.

**ITEM 9A.**

**CONTROLS AND PROCEDURES**

**Management's Report on Internal Control Over Financial Reporting**

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

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

As previously disclosed in Item 9A of our Form 10-K for the year ended December 31, 2015, management concluded that there were material weaknesses in internal control over financial reporting for income taxes. Management determined that we did not maintain effective controls over the accounting for and disclosures of technical accounting matters as they relate to income taxes.

A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The Company has made significant progress in remediating its material weaknesses in internal control over financial reporting for income taxes, specifically (i) strengthening existing tax staff with consulting tax accounting resources. Additionally, financial reporting staff attended training related to the design and operation of tax related financial reporting and corresponding internal controls; (ii)

implementing enhanced risk assessment processes over accounting for income taxes, with a focus on tax accounting and disclosure for unusual and complex transactions; and (iii) improving existing or establishing new processes and controls to measure and record transactions related to tax accounting to enhance the effectiveness of the design and operation of those controls.

While the Company has made significant progress in implementing the remediation efforts described above; until those actions are fully implemented and the operational effectiveness of related internal controls validated through testing, the material weaknesses described above will continue to exist. Management anticipates that all remediation efforts will be fully implemented and validated by the fourth quarter of 2017.

### **Evaluation of Disclosure Controls and Procedures**

At the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer ( CEO ) and the Chief Financial Officer ( CFO ), of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, and the still unresolved material weaknesses in our internal control over financial reporting for income taxes, as discussed in Management's Report on Internal Control over Financial Reporting, our CEO and CFO have concluded our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act, as amended) were not effective.

### **Changes in Internal Control Over Financial Reporting**

Except as noted above, our Management, including the CEO and CFO, identified no change in our internal control over financial reporting that occurred during our fiscal quarter ended December 31, 2016, that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B.**

#### **OTHER INFORMATION**

In November 2016, certain executives of IHC's subsidiary, IHC Specialty Benefits, Inc. ( Specialty Benefits ) who are key contributors to the success of Specialty Benefits, were granted incentive sale bonuses. The bonuses are intended to induce such executives to continue to provide services to Specialty Benefits, and incentivize them to enhance Specialty Benefits' value and assure the present and future dedication to maximizing value in the event one of the following transactions involving one or more of Specialty Benefits, its parent IHC SB Holdings ("Holdings"), and its affiliate IHC Carrier Solutions ("Carrier Solutions") occur: (i) sale of more than 50% of the equity, (ii) a merger, (iii) of a sale of all or substantially all of the assets, and (iv) any other transaction the intent of which may reasonably and equitably be construed to effect a result substantially equivalent to the foregoing (any of the foregoing, a "Sale"). The only executive officer of IHC receiving a grant is David T. Kettig, Chief Operating Officer and Executive Vice President of IHC, and Chief Executive Officer and President of Specialty Benefits. IHC's Compensation Committee

ratified the grant to Mr. Kettig of an incentive bonus equal to 1.5% of the net sale price pursuant to a Sale Bonus Agreement, dated November 7, 2016, by and between Independence American Holdings Corp. ( IAHC ), a subsidiary of IHC and indirect parent of Specialty Benefits, and Mr. Kettig, attached to this Form 10-K as Exhibit 10.8 (the Sale Bonus Agreement ). The bonus will be paid in a lump sum within 120 days after the consummation of the Sale, and is payable only if Mr. Kettig is still employed by Specialty Benefits. The Sale Bonus Agreement terminates on the earlier of (i) the termination of Mr. Kettig by Specialty Benefits or the last date of employment with Specialty Benefits or Carrier Solutions, or (ii) the five-year anniversary the Sale Bonus Agreement; provided, however, that such term shall be automatically extended for successive two (2) year periods unless IAHC shall, at least thirty (30) days prior to the expiration of the then-applicable term, have given written notice to Mr. Kettig that the term of the Sale Bonus Agreement shall not be so extended, in which case no such extension shall occur.

**PART III****ITEM 10.****DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE****GOVERNANCE**

The names of our executive officers and directors and their age, title, and biography as of April 30, 2017 are set forth below:

<b>Name</b>	<b>Age</b>	<b>Title</b>
Larry R. Graber	67	Chief Life and Annuity Actuary, Senior Vice President and Director
Teresa A. Herbert	55	Chief Financial Officer, Senior Vice President and Director
David T. Kettig	58	Chief Operating Officer, Executive Vice President and Director
Allan C. Kirkman	73	Director
John L. Lahey	70	Director
Steven B. Lapin	71	Director
Ronald I. Simon	78	Director
James G. Tatum	75	Director
Roy T.K. Thung	73	Chief Executive Officer, President and Chairman

Directors are elected annually and hold office until the next annual meeting of the stockholders of the Company and until their successors are elected. Officers are elected annually and serve at the discretion of the Board of Directors.

***Larry R. Graber***

Since March 2012, Chief Life and Annuity Actuary and Senior Vice President of IHC; for more than five years prior thereto, Senior Vice President Life and Annuities of IHC; for more than the past five years, a director and President of Madison National Life Insurance Company, Inc., a wholly owned subsidiary of IHC ( Madison National Life ); for more than the past five years, a director and President of Southern Life and Health Insurance Company, an insurance company with principal offices in Homewood, Alabama and a wholly owned subsidiary of Geneve Holdings, Inc., a private diversified holding company that is the controlling stockholder of IHC ( GHI ); for more than the past five years, a director of Standard Security Life Insurance Company of New York, a wholly owned subsidiary of IHC( Standard Security Life ).



The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Graber should serve as one of IHC's directors are his extensive experience in many facets of the insurance business, particularly relating to the acquisition and administration of blocks of life insurance.

***Teresa A. Herbert***

Since November 2016, a director of IHC; for more than the past five years, Chief Financial Officer and Senior Vice President of IHC; for more than the past five years, Vice President of Geneve Corporation ( Geneve ), a private company controlled by GHI; for more than the past five years until August 2016, Chief Financial Officer and Senior Vice President of American Independence Corp., formerly a public company traded on Nasdaq and a majority-owned subsidiary of the Company that was merged out of existence on August 31, 2016 ( AMIC ); from March 2011 to August 2016, a director of AMIC.

The experiences, qualifications, attributes or skills that led the Board to conclude that Ms. Herbert should serve as one of IHC's directors are her extensive financial and accounting experience and her

experience with companies with complex organizational structures, intercompany transactions, diverse and complex business transactions, the insurance industry, and public companies.

***David T. Kettig***

Since April 1, 2016, Executive Vice President of IHC; since February 2015, Chief Operating Officer and Acting General Counsel of IHC; from April 2009 to April 1, 2016, Chief Operating Officer and Senior Vice President of IHC; from August 2013 to August 2016, President of AMIC; from April 2009 to March 2012, Chief Operating Officer and Senior Vice President of AMIC; from March 2011 to August 2016, a director of AMIC; for more than the past five years, President and a director of Independence American Insurance Company, an indirect wholly owned subsidiary of IHC ( IAIC ); from March 2012 to March 2016, President of Standard Security Life; since April 2016, Chairman and Chief Executive Officer of Standard Security Life; since May 2012, a director of Standard Security Life.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Kettig should serve as one of IHC's directors are his extensive experience in diverse, complex businesses and transactions, corporate governance, legal affairs, risk management, and insurance.

***Allan C. Kirkman***

For more than the past five years, a member of each of the Audit Committee and the Compensation Committee of IHC and Chairman of the Compensation Committee of IHC; for more than five years prior to his retirement in October 2005, Executive Vice President of Mellon Bank, N.A., a national bank.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Kirkman should serve as one of IHC's directors are his extensive experience in diverse, complex businesses and transactions, including that involving public companies in the financial services fields.

***John L. Lahey***

For more than the past five years, a member of the Audit Committee and the Compensation Committee of IHC; since March 1987, President of Quinnipiac University, a private university located in Hamden, Connecticut; since 1995, a member of the Board of Trustees of Yale-New Haven Hospital, a hospital located in New Haven, Connecticut; between 1994 and December 2015, a director of the UIL Holdings Corporation, a publicly-held utility holding company with principal offices in New Haven, Connecticut; since December 2015, a director, Audit and Compliance

Committee member, and Executive Committee member of Avangrid, Inc., a diversified energy and utility company with principal offices in New Haven, Connecticut that is the successor-in-interest by merger to UIL Holdings Corporation; since 2004, a director of Alliance for Cancer Gene Therapy, the only national non-profit organization committed exclusively to cancer gene and cell therapy research; since June 2006, a director of Standard Security Life Insurance. Mr. Lahey also serves as a director and Chairman of the Board of the New York City St. Patrick's Day Parade, Inc.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Lahey should serve as one of IHC's directors are his extensive executive experience in major organizations and valuable expertise in management and corporate governance.

***Steven B. Lapin***

For more than the past five years, Vice Chairman of the Board of Directors of IHC; for more than the past five years, Chairman, Chief Executive Officer, President and a director of GHI; for more than the past five years, Chairman, Chief Executive Officer, President and a director of Geneve; for more than five

years prior to August 2016, a director of AMIC; for more than the past five years, a director of Madison National Life; for more than the past five years, a director of Standard Security Life.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Lapin should serve as one of IHC's directors are his extensive experience in diverse, complex businesses and transactions, corporate governance of public companies, risk management and insurance.

***Ronald I. Simon***

Since November 2016, a director of IHC; from August 1997 until April 1999, Chairman of the Board of AMIC; from April 1999 to February 2001, Vice Chairman of the Board of AMIC; from February 2001 through May 2001, Acting Chairman of the Board, Chief Executive Officer and Chief Financial Officer of AMIC; from January 2003 to August 2016, Chairman of the Compensation Committee of AMIC; from January 2005 to August 2016, a member of the Audit Committee of AMIC; from 2011 to August 2016, Chairman of the Audit Committee of AMIC; from May 1997 through April 2000, Executive Vice President and Chief Financial Officer, and from September 1999 to September 2001, a director, of Western Water Company, which owned and developed water rights in the western United States; from May 1999 through July 2002, when the company was acquired by Schering, AG, a director of Collateral Therapeutics, Inc., a developer of non-surgical gene therapy procedures for the treatment of cardiovascular diseases; from January 2006 through January 2009, a director of Cardium Therapeutics, a company formed to acquire and further develop the procedures originally developed by Collateral Therapeutics; from August 2001 through June 2002, Chief Financial Officer of Wingcast, Inc., a joint venture of Ford Motor Company and Qualcomm, Inc.; from April 2003 through April 2005, director of BDI Investment Corp., a closely held regulated investment company; from March 2003 through February 2006, a director of WFS Financial, Inc., one of the nation's largest independent automobile finance companies; since August 2007, a director and member of the Audit and Compensation Committees, and Chairman of the Corporate Governance Committee, of Ellington Financial, LLC, a specialty finance company specializing in acquiring and managing mortgage-related assets; since May 2013, a director and member of the Audit and Compensation Committees, and Chairman of the Corporate Governance Committee, of Ellington Residential Mortgage REIT.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Simon should serve as one of IHC's directors are his extensive experience in finance and senior management, and in growing successful organizations with entrepreneurial company cultures.

***James G. Tatum***

Since June 2002, Chairman of the Audit Committee of IHC; for more than the past five years, member of the Compensation Committee of IHC; for more than the past five years, a director of Standard Security Life; for more than the past five years, sole proprietor of J. Tatum Capital, LLC, a registered investment advisor, located in Birmingham, Alabama, managing funds primarily for individual and trust clients; Chartered Financial Analyst for

more than twenty-five years; from March 2011 until August 2016, a director of AMIC; from March 2011 until August 2016, a member of the Audit Committee of AMIC.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Tatum should serve as one of IHC's directors are his extensive executive experience in major organizations and valuable expertise with financial issues, risk management and oversight.

***Roy T.K. Thung***

Since March 2011, Chief Executive Officer, President and Chairman of the Board of IHC; since January 2000, Chief Executive Officer of IHC; since July 1999, President of IHC; for more than five years prior to July 1999, Executive Vice President and Chief Financial Officer of IHC; for more than the

past five years, Executive Vice President of Geneve; from July 2002 until August 2016, a director of AMIC; from November 2002 until March 2012, Chief Executive Officer and President of AMIC; from March 2012 until August 2016, Chief Executive Officer of AMIC; for more than the past five years prior to April 2016, Chief Executive Officer and Chairman of the Board of Standard Security Life; for more than the past five years, director of Standard Security Life; for more than the past five years, Chairman of the Board of Madison National Life.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Thung should serve as one of IHC's directors are his extensive experience in diverse, complex businesses and transactions, including involving public companies in the insurance industry, and executive and management experience.

### **Family Relationships**

None.

### **Corporate Governance Documents**

In furtherance of its longstanding goals of providing effective governance of IHC's business and affairs for the long-term benefit of stockholders and promoting a culture and reputation of the highest ethics, integrity and reliability, the Board has adopted:

.  
a Code of Business Ethics that applies to IHC's Chief Executive Officer and President, Chief Operating Officer, Chief Financial Officer, controller and other IHC employees performing similar functions (the Code of Ethics );

.  
a Corporate Code of Conduct that applies to all employees, officers and directors of IHC and its subsidiaries and affiliates (the Code of Conduct );

.  
Corporate Governance Guidelines ( Guidelines ) to advance the functioning of the Board and its committees and set forth the Board's expectations as to how it should perform its functions; and

written charters for its Audit and Compensation Committees of the Board (collectively, the Charters ).

The Code of Ethics, Code of Conduct, Guidelines and Charters can be found on IHC's website at [www.ihcgroup.com](http://www.ihcgroup.com), and are also available in print to any stockholder who requests them. The information on IHC's website, however, is not incorporated by reference in, and does not form part of, this annual report. The Board does not anticipate modifying the Code of Ethics or the Code of Conduct, or granting any waivers to either, but were any such waiver or modification to occur, it would promptly be disclosed on IHC's website.

### **Audit Committee Financial Expert**

The Board has determined that at least one member of the Audit Committee, Mr. Tatum, is an audit committee financial expert as such term is defined in Item 407(d)(5)(ii) of Regulation S-K promulgated by the SEC.

### **Nomination of Director Candidates**

In light of GHI's majority voting power, the Board has determined that the Board, rather than a nominating committee, is the most appropriate body to identify director candidates and select nominees for presentation at the annual meeting of stockholders. In making nominations, the Board seeks candidates with outstanding business experience who will bring such experience to the management and

direction of IHC. The minimum criteria employed by the Board in its selection of candidates are set forth in the Guidelines, along with certain other factors that inform the selection process. All directors serving on the Board participate in the consideration of director nominees. Furthermore, in light of GHI's voting power, the Board has determined that no policy with respect to consideration of candidates recommended by security holders other than GHI's would be appropriate.

## Committees of the Board of Directors

### Committees

The Board has standing Audit and Compensation Committees. Committee memberships are as follows:

#### Audit Committee

Mr. James G. Tatum (Chairman)  
Mr. Allan C. Kirkman  
Mr. John L. Lahey

#### Compensation Committee

Mr. Allan C. Kirkman (Chairman)  
Mr. John L. Lahey  
Mr. James G. Tatum

**Audit Committee.** The principal functions of the Audit Committee are to: (i) select an independent registered public accounting firm; (ii) review and approve management's plan for engaging IHC's independent registered public accounting firm during the year to perform non-audit services and consider what effect these services will have on the independence of IHC's independent registered public accounting firm; (iii) review IHC's annual financial statements and other financial reports which require approval by the Board; (iv) oversee the integrity of IHC's financial statements, IHC's systems of disclosure controls and internal controls over financial reporting and IHC's compliance with legal and regulatory requirements; (v) review the scope of audit plans of IHC's internal audit function and independent registered public accounting firm and the results of their audits; and (vi) evaluate the performance of IHC's internal audit function and independent registered public accounting firm.

Each member of the Audit Committee meets the independence requirements of the NYSE and applicable SEC rules and regulations. The Audit Committee and the Board have determined that each member of the Audit Committee is financially literate and that Mr. Tatum qualifies as an audit committee financial expert, as such term is defined in Item 401(h)(2) of Regulation S-K promulgated by the SEC.

**Compensation Committee.** The Compensation Committee assists the Board in fulfilling its responsibilities with regard to compensation matters, is responsible for determining or ratifying (as the case may be) the compensation of IHC's executive officers, and administers IHC's 2016 Stock Incentive Plan and 2006 Stock Incentive Plan. The Compensation Committee has sole authority to determine the compensation for IHC's Chief Executive Officer and President.



**Involvement in Certain Legal Proceedings**

Our directors and executive officers have not been involved in any of the following events during the past ten years:

1.

any bankruptcy petition filed by or against such person or any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

2.

any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

3.

being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him or her from or otherwise limiting his or her involvement in any type of business, securities or banking activities or to be associated with any person practicing in banking or securities activities;

4.

being found by a court of competent jurisdiction in a civil action, the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;

5.

being subject of, or a party to, any federal or state judicial or administrative order, judgment decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

6.

being subject of or party to any sanction or order, not subsequently reversed, suspended, or vacated, of any self-regulatory organization, any registered entity or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

## **ITEM 11.**

### **EXECUTIVE COMPENSATION**

#### **Compensation Discussion and Analysis**

*Say-on-Pay and Say-on-Frequency*

The Compensation Committee considered the voting results of the advisory, non-binding say-on-pay vote at IHC's 2014 Annual Meeting of Stockholders in connection with the discharge of its responsibilities. IHC's stockholders expressed their support of the compensation for our CEO, CFO and the three other most-highly compensated officers in respect of 2013, with a substantial majority of the votes cast voting to approve the compensation of IHC's named executive officers described in IHC's 2014 proxy statement. Following the Compensation Committee's review and consideration of this stockholder support, as well as the other factors discussed in more detail below, we determined to make no changes to our approach to executive compensation. The next advisory, non-binding say-on-pay vote will occur at IHC's 2017 Annual Meeting of Stockholders.

At IHC's 2011 Annual Meeting of Stockholders, a majority of IHC's stockholders voted for say-on-pay proposals to occur every three years. In light of this voting result on the frequency of say-on-pay proposals, the Board decided that IHC will present say-on-pay proposals every three years until the next required vote on the frequency of stockholder votes on named executive officer compensation. Accordingly, we held a say on frequency of say-on-pay vote at our 2011 Annual Meeting of Stockholders. The next stockholder vote on the frequency of stockholder votes on named executive officer compensation will occur at IHC's 2017 Annual Meeting of Stockholders.

### ***Compensation Objectives***

Compensation of each of IHC's executive officers is intended to be based on performance of IHC and the executive. The Compensation Committee has responsibility for establishing and reviewing the compensation of IHC's CEO and for reviewing the compensation for all of IHC's executive officers.

In establishing executive officer compensation, the following are among the Compensation Committee's objectives:

.

attract and retain individuals of superior ability and managerial talent;

.

ensure compensation is aligned with IHC's corporate strategies, business objectives and the long-term interests of IHC's stockholders; and

.

enhance incentives to increase IHC's stock price and maximize stockholder value by providing a portion of total compensation in IHC equity and equity-related instruments.

IHC's overall compensation program is structured to attract, motivate and retain highly qualified executive officers by paying them competitively, consistent with IHC's success and their contributions to such success. To this end, base salary and bonus are designed to reward annual achievements and to be commensurate with an executive's scope of responsibilities, demonstrated leadership abilities and management experience and effectiveness. Other elements of compensation focus on motivating and challenging IHC's executive officers to achieve superior, long-term, sustained results.

### ***Implementation of Objectives***

#### **Salaries**

The salary of an IHC executive officer is based on his or her level of responsibility, experience and qualifications and recent performance. Adjustments to salary are made in response to changes in any of the foregoing factors and changes in market conditions. Executive officer salaries are typically reviewed by the Compensation Committee every twelve months. The Compensation Committee has sole authority to determine the compensation for IHC's Chief Executive Officer. Neither the Compensation Committee nor IHC has retained a compensation consultant or similar organization for assistance in reviewing or setting executive officer salaries or other compensation.

#### **Cash Bonuses**

Following the close of each fiscal year, IHC's Chief Executive Officer and President makes determinations that are communicated to the Compensation Committee as to cash bonuses for IHC's executive officers (excluding himself), based on an analysis of: (i) any contractual commitments set forth in an employment agreement; (ii) IHC's performance in the year ended versus IHC's plan for such year; and (iii) a subjective evaluation of a variety of factors as to each executive officer's individual contribution during the year. The Compensation Committee then convenes outside the presence of the Chief Executive Officer and President and, following appropriate deliberation, approves or ratifies bonuses for all IHC executive officers.

The salaries paid and annual bonuses awarded to IHC's named executive officers in respect of 2016 are set forth in the Summary Compensation Table.

Equity Awards

IHC's 2006 Stock Incentive Plan (the "2006 Plan") provided the opportunity for the Compensation Committee to make equity incentive awards to, among others, IHC's executive officers. While there are outstanding grants under the 2006 Plan, it has expired and no new grants may be made under it. The Board of Directors approved a 2016 Stock Incentive Plan (the "2016 Plan") on substantially the same terms as the 2006 Plan and submitted it for stockholder approval at the 2016 Annual Meeting of

Stockholders. A majority of the shares present at the meeting in person or by proxy approved the 2016 Plan. The following describes the 2016 Plan.

The types of equity awards that may be granted under the 2016 Plan are: (i) options; (ii) share appreciation rights ( SARs ); (iii) restricted shares, restricted share units (which are shares granted after certain vesting conditions are met) and unrestricted shares; (iv) deferred share units; and (v) performance awards. The Compensation Committee determines the type and amount of the award with reference to factors that include the present value of the award relative to the executive officer's salary and anticipated cash bonus, the anticipated importance of the executive's position to IHC's future results, and the size of the executive's total compensation relative both to other executives within IHC and to compensation levels at other companies.

Within the limitations of the 2016 Plan, the Compensation Committee may modify an award to: (i) accelerate the rate at which an option or SAR may be exercised (including, without limitation, permitting an option or SAR to be exercised in full without regard to the installment or vesting provisions or whether the option or SAR is at the time exercisable); (ii) accelerate the vesting of any award; (iii) extend or renew outstanding awards; or (iv) accept the cancellation of outstanding awards. However, the Compensation Committee may not, without stockholder approval, cancel an outstanding option that is underwater for the purpose of reissuing the option to a grantee within six months thereafter at a lower exercise price, or granting a replacement award of a different type. Notwithstanding the foregoing provision, no modification of an outstanding award can materially and adversely affect a grantee's rights thereunder, unless the grantee provides written consent, there is an express 2016 Plan provision permitting the Compensation Committee to act unilaterally to make the modification, or the Compensation Committee reasonably concludes that the modification is not materially adverse to the grantee.

#### *Options*

Incentive stock options ( ISOs ) and non-incentive stock options ( Non-ISOs ) may be granted under the 2016 Plan. At the sole discretion of the Compensation Committee, any option may be exercisable, in whole or in part, immediately upon the grant thereof, or only after the occurrence of a specified event, or only in installments, which installments may vary. The term of any option may not exceed ten years from the grant date; *provided, however*, that in the case of an ISO granted to an employee of IHC or any of its affiliates who owns stock representing more than ten percent (10%) of the voting stock on the grant date ( Employee Ten Percent Holder ), the term of the ISO shall not exceed five years from the grant date. The exercise price of an option is determined by the Compensation Committee in its sole discretion; *provided, however*, that if an ISO is granted to an Employee Ten Percent Holder (as defined in the Plan), the per share exercise price shall not be less than 110% of the closing price per share on the NYSE on the grant date ( Fair Market Value ); and *provided further* that for all other options, the per share exercise price shall not be less than 100% of the Fair Market Value on the grant date. Neither IHC nor the Compensation Committee can allow for a repricing without stockholder approval.

Each of IHC's named executive officers holds stock options, having varying exercise prices and expiration dates (based on the date granted). Please see the information set forth in the tables below for additional information. IHC does not have a target level of stock ownership applicable to any of its employees, including the named executive officers.

#### *Share Appreciation Rights (SARs)*

The Compensation Committee may grant SARs either concurrently with the grant of an option or with respect to an outstanding option (in which case the SAR will extend to all or a portion of the shares covered by the related option, the exercise price is the same as the exercise price of the related option, and the SAR is exercisable at such time or times, and to the extent, that the related option will be exercisable), or independent of any option. The Compensation Committee may also grant SARs that are exercisable only upon or in respect of a change in control (as defined in the 2016 Plan) or any other specified event.



The per share exercise price of a SAR cannot be less than 100% of the Fair Market Value, and the SARs may only be exercised when the Fair Market Value of the shares underlying the SAR exceeds the exercise price of the SAR. Neither IHC nor the Compensation Committee can allow for a repricing without stockholder approval.

*Restricted Shares, Restricted Share Units and Unrestricted Shares*

Subject to applicable law, an award of 2,475 restricted shares (or such other amount that the Board may determine on a prospective basis) will be granted to each non-employee director of IHC following each annual meeting of IHC's stockholders. One-third of those restricted shares will vest on each of the next three annual anniversaries of the date the restricted shares were awarded. In the event that a non-employee director terminates his or her membership on the Board for any reason, the director will immediately forfeit any unvested restricted shares.

At any time within the thirty-day period (or other shorter or longer period that the Compensation Committee selects in its sole discretion) in which a grantee who is a member of a select group of management or highly compensated employees receives an initial award of either restricted shares or restricted share units, the Compensation Committee may permit the grantee to irrevocably elect to defer the receipt of all or a percentage of the shares that would otherwise be transferred to the grantee upon the vesting of such award.

*Deferred Share Units*

The Compensation Committee may permit any director, consultant or member of a select group of management or highly compensated employees to irrevocably elect to forego the receipt of cash or other compensation (including shares), and in lieu thereof to have IHC credit to an internal 2016 Plan account a number of deferred share units having a Fair Market Value equal to the shares and other compensation deferred.

*Performance Awards*

The Compensation Committee may grant a performance award based on one or more of the following to measure IHC, affiliate, and/or business unit performance during a specified performance period: (i) gross or net premiums; (ii) profit margin; (iii) insured lives; (iv) basic, diluted, or adjusted earnings per share; (v) sales or revenue; (vi) earnings before interest, taxes, and other adjustments (in total or on a per share basis); (vii) basic or adjusted net income; (viii) returns on equity, assets, capital, revenue or similar measure; (ix) economic value added; (x) working capital; (xi) total stockholder return; and (xii) product development, product market share, research, licensing, litigation, human resources, information services, mergers, acquisitions, or sales of assets of affiliates or business units. Performance measures may vary from performance period to performance period and from grantee to grantee.

A grantee will be eligible to receive payment in respect of a performance award only to the extent that the performance measure(s) for such award is achieved, and it is determined that all or some portion of such grantee's award has been earned for the performance period. The Compensation Committee reviews whether, and to what extent, the performance measure(s) for a particular performance period (of not less than one fiscal year) have been achieved and, if so, determines the amount of the performance award to be paid. The Compensation Committee may use negative discretion to decrease, but not increase, the amount of the award otherwise payable based upon such performance.

At any time prior to the date that is at least six months before the close of a performance period (or shorter or longer period that the Compensation Committee selects), the Compensation Committee may permit a grantee who is a member of a select group of management or highly compensated employees to irrevocably elect to defer the receipt of all or a percentage of the cash or shares that would otherwise be transferred to the grantee upon the vesting of a performance award.





Termination, Rescission and Recapture of Awards

Each award under the 2016 Plan granted to an employee is intended to align such employee's long-term interest with those of IHC. Therefore, if the employee discloses confidential or proprietary information of IHC, provides services to a competitor of IHC, solicits a non-administrative employee of IHC, or has engaged in activities which conflict with IHC's interests (including any breaches of fiduciary duty or the duty of loyalty), the employee is acting contrary to IHC's long-term interests. Accordingly, except as otherwise expressly provided in an award agreement, IHC may terminate any outstanding, unexercised, unexpired, unpaid, or deferred awards, rescind any exercise, payment or delivery pursuant to the award, or recapture any common stock (whether restricted or unrestricted) or proceeds from the employee's sale of shares issued pursuant to the award. Notwithstanding the foregoing, IHC may, in its sole and absolute discretion, choose not to terminate, rescind or recapture upon the occurrence of any of the foregoing events.

Tax Implications

The Patient Protection and Affordable Care Act amended the Tax Code to add Section 162(m)(6), which limits the amount that certain health care insurers, including the Company, may deduct for tax years starting after 2012. Section 162(m)(6) limits the tax deduction to \$500,000 per individual, and makes no exception for performance-based compensation or commissions. In addition, the limit applies to compensation, including deferred compensation, paid to all current and former employees and most independent contractors, not just to compensation paid to a narrow group of current top executives. The rule became effective for employer tax years beginning after December 31, 2012. Consequently, the Company is limited to a \$500,000 deduction for compensation paid to each named executive officer.

Section 162(m)(1) of the Tax Code limits the amount a publicly-held corporation may deduct for compensation paid to the CEO and certain named executive officers to \$1 million per year per executive, makes an exception for performance-based compensation and commissions, and excludes the compensation paid to former covered executives once they are no longer covered. Since the Company is subject to Section 162(m)(6), the performance-based exclusion available under Section 162(m)(1) is not available to the Company.

**Compensation Committee Report**

The Compensation Committee assists the Board in fulfilling its responsibilities with regard to compensation matters, and is responsible for establishing and approving the compensation of IHC's executive officers. The Compensation Committee has sole authority to determine the compensation for IHC's Chief Executive Officer. The Compensation Committee has reviewed and discussed the "Compensation Discussion and Analysis" section of this Form 10-K with management, including our Chief Executive Officer and our Chief Financial Officer.

**Compensation Committee**

Mr. Allan C. Kirkman (Chairman)  
Mr. John L. Lahey  
Mr. James G. Tatum

**Compensation Risk Assessment**

The Compensation Committee considered the Company's compensation policies and practices and concluded that they did not need to be modified.

**Summary Compensation Table**

The following table lists the annual compensation for IHC's CEO, CFO and its three other most highly compensated executive officers in 2016 for the years 2016, 2015 and 2014.

Name and Principal  Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation		Total (\$)
							Earnings	All Other	
Mr. Roy T.K. Thung <i>Chief Executive Officer, President and Chairman</i>	2016	461,767	338,800	-	-	3,717,963 (2)	149,722 (3)	19,049 (4)	4,687,301
	2015	452,737	338,800	-	-	804,000 (2)	141,247 (3)	19,932	1,756,716
	2014	443,885	338,000	-	158,400 (1)	855,000 (2)	133,252 (3)	28,583	1,957,120
Ms. Teresa A. Herbert <i>Chief Financial Officer</i>	2016	291,571	623,250 (5)	-	51,193 (6)	-	-	21,456 (7)	987,470
	2015	275,821	173,250	-	-	-	-	22,252	471,323
	2014	270,436	157,500	-	42,570 (1)	-	-	23,871	494,377
Mr. David T. Kettig	2016	374,946	775,000 (5)	-	58,323 (6)	-	-	24,599 (8)	1,232,868
	2015	352,728	275,000	-	-	-	-	25,217	652,945

<i>Chief Operating Officer</i>	2014	345,456	250,000	-	47,520(1)	-	-	19,448	662,424
Mr. Larry R. Graber	2016	295,873	143,000	-	37,775(6)	-	-	32,122 (9)	508,770
<i>Chief Life and Annuity</i>	2015	279,091	293,120	-	-	-	-	31,863	604,074
<i>Actuary</i>	2014	273,619	130,000	-	24,750(1)	-	-	33,072	461,441
Mr. Gary J. Balzofiore (10)	2016	264,359	625,000(5)	-	44,540(6)	-	-	11,601 (11)	945,500
<i>Corporate Vice President Accounting and Finance</i>									
Mr. Michael Kemp	2016(12)	106,184	1,102,209(13)	-	-	-	-	609,550 (14)	1,817,943
<i>Chief Underwriting Officer</i>	2015	328,079	325,000	-	-	-	-	26,030	679,109
	2014	321,295	376,680	-	-	-	-	23,533	721,508

(1)

Represents the modification of fully vested options during 2014 to extend their expiration date. The amount reported is the incremental fair value of the modified award as of the modification date.

(2)

Represents strategic and long-term incentive earnings as a result of Mr. Thung's Employment Agreement with IHC for the year indicated. IHC is party to the Officer Employment Agreement by and between IHC and Mr. Roy T.K. Thung, IHC's Chief Executive Officer, President and Chairman of the Board of Directors, dated as of May 11, 2011. Under the agreement, Mr. Thung is entitled to an incentive payment upon the disposition of a strategic asset of IHC equal to 3% of the amount above which the consideration received by IHC for such disposition exceeds the book value of such asset as of March 31, 2011. In addition, any termination of the agreement other than for cause triggers an incentive payment to Mr. Thung in respect of such appreciation in the overall book value of IHC. The initial term of Mr. Thung's employment agreement was two years from the date it was entered into, but, by its terms, will be automatically extended for



successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. In accordance with the terms of the agreement, Mr. Thung received cash incentive payments of \$3,013,235 and \$288,728 in 2016 and 2015, respectively, as a result of the Risk Solutions sale and coinsurance transaction with Swiss Re in 2016 and the Madison National Life coinsurance and sale transaction with National Guardian Life Insurance Company in 2015. Had the strategic and long-term incentive provisions of Mr. Thung's agreement been triggered on December 31, 2016, Mr. Thung would have received \$3,075,000.

(3)

Represents the increase (decrease) in the value of Mr. Thung's Retirement Benefits Agreement with IHC for the year indicated. Refer to Potential Payments to Named Executive Officers for additional information regarding this agreement.

(4)

The amount shown for 2016 represents reimbursements related to the use of an automobile, employer-matching contributions to Mr. Thung's 401(k) account, and group life insurance premiums paid on Mr. Thung's behalf.

(5)

Includes the transactional bonus paid in connection with the sale of IHC Risk Solutions to Swiss Re.

(6)

Represents the grant date fair value of options granted during 2016 and the incremental fair value of fully vested option awards modified during 2016, as of the modification date.

(7)

The amount shown for 2016 represents reimbursements related to the use of an automobile, employer-matching contributions to Ms. Herbert's 401(k) account, group life insurance premiums paid on Ms. Herbert's behalf, and employer contributions to Ms. Herbert's disability insurance.

(8)

The amount shown for 2016 represents reimbursements related to the use of an automobile, employer-matching contributions to Mr. Kettig's 401(k) account, group life insurance premiums paid on Mr. Kettig's behalf, and employer contributions to Mr. Kettig's disability insurance.

(9)

The amount shown for 2016 represents reimbursements related to the use of an automobile, employer-matching contributions to Mr. Graber's 401(k) account, and group life insurance premiums paid on Mr. Graber's behalf.

(10)

Mr. Balzofiore was not a named executive officer during 2014 and 2015. Thus, compensation for Mr. Balzofiore in such years is not included in the table.

(11)

The amount shown for 2016 represents employer-matching contributions to Mr. Balzofiore's 401(k) account, group life insurance premiums paid on Mr. Balzofiore's behalf, and employer contributions to Mr. Balzofiore's disability insurance.

(12)

Mr. Kemp was not serving as an executive officer of IHC at the end of the last completed fiscal year. However, had he served as an executive officer at the end of the last fiscal year, he would have been one of the three most highly compensated executive officers. Therefore, pursuant to Item 402(a)(4) of Regulation S-K promulgated by the SEC, compensation for Mr. Kemp is provided for the full 2016 fiscal year.

(13)

Represents the transactional bonus paid in connection with the sale of IHC Risk Solutions to Swiss Re.

(14)

The amount shown for 2016 represents reimbursements related to the use of an automobile,

employer-matching contributions to Mr. Kemp's 401(k) account, group life insurance premiums paid on Mr. Kemp's behalf, employer contributions to Mr. Kemp's disability insurance, and a severance payment to Mr. Kemp.

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth for each named executive officer certain information about unexercised stock options and unvested shares of restricted stock held as of December 31, 2016.

Name	Option Awards			Stock Awards		
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Roy T.K. Thung	176,000	-	\$9.09	January 4, 2019	-	-
	16,500	-	\$7.11	March 16, 2018	-	-
	82,500	-	\$9.99	March 19, 2018	-	-
Teresa A. Herbert	47,300	-	\$9.09	January 4, 2019	-	-
	11,000	-	\$7.11	March 16, 2018	-	-
	27,500	-	\$9.99	March 19, 2018	-	-
David T. Kettig	-	12,000	\$19.95	December 1, 2021 (1)	-	-
	38,800	-	\$9.09	January 4, 2019	-	-
	11,000	-	\$7.11	March 16, 2018	-	-
	27,500	-	\$9.99	March 19, 2018	-	-
	-	15,000	\$19.95	December 1, 2021 (1)	-	-
Larry R. Graber	27,500	-	\$9.09	January 4, 2019	-	-
	11,000	-	\$7.11	March 16, 2018	-	-
	27,500	-	\$9.99	March 19, 2018	-	-
Gary J. Balzofiore	-	10,000	\$19.95	December 1, 2021 (1)	-	-
	44,000	-	\$9.09	January 4, 2019	-	-
	8,800	-	\$7.11	March 16, 2018	-	-
	-	10,000	\$19.95	December 1, 2021 (1)	-	-



Michael Kemp	-	-	-	-	-	-
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(1)

Stock options granted on December 1, 2016 vest in three equal installments beginning on December 1, 2017.

The following table sets forth information about the number and value of plan-based awards granted during the year 2016.

#### Grants of Plan-Based Awards

Name	Grant Date	Number of Stock Awards Granted (#)	Number of Option Awards Granted (#)	Exercise Price (\$)	Grant Date	Grant Fair Value (\$)
Roy T.K. Thung	December 1, 2016	-	-	-	-	-
Teresa A. Herbert	December 1, 2016	-	12,000	19.95	-	31,800
David T. Kettig	December 1, 2016	-	15,000	19.95	-	39,750
Larry R. Graber	December 1, 2016	-	10,000	19.95	-	26,500
Gary J. Balzofiore	December 1, 2016	-	10,000	19.95	-	26,500
Michael Kemp	December 1, 2016	-	-	-	-	-

The following table sets forth information about the number and value of option exercises and vested stock awards for each named executive officer during the year 2016.

Name	Option Exercises and Stock Vested Option Awards		Stock Awards	
	Number of shares acquired on exercise (#)	Value realized on exercise (\$)	Number of shares acquired on vesting (#)	Value realized on vesting (\$)
Roy T.K. Thung	-	-	-	-
Teresa A. Herbert	-	-	-	-
David T. Kettig	6,500	45,184	-	-
Larry R. Graber	-	-	-	-
Gary J. Balzofiore	-	-	-	-
Michael Kemp	-	382,564(1)	-	-

(1)

Mr. Kemp exercised 45,000 SARs that were payable in cash.

#### Potential Payments to Named Executive Officers

*With Mr. Thung*

IHC is party to a Retirement Benefits Agreement with Mr. Roy T.K. Thung, dated as of September 30, 1991, and amended by amendments dated as of December 20, 2002, June 17, 2005 and December 31, 2008, respectively, pursuant to which Mr. Thung is entitled to a lump-sum cash payment upon a separation from service from IHC of \$1,659,557, increasing on a cumulative, compounding basis of 6% per annum from December 31, 2008. Separation from service is as defined under U.S. Treasury Regulations 1.409A-1(h)(1), and would generally include Mr. Thung's death, retirement or any other termination of employment, including permanent disability. For example, had this provision been triggered on December 31, 2016, Mr. Thung would have been entitled to receive a payment of \$2,645,082.

IHC is party to the Officer Employment Agreement by and between IHC and Mr. Roy T.K. Thung, IHC's Chief Executive Officer, President and Chairman of the Board of Directors, dated as of May 11, 2011. Under this employment agreement, if Mr. Thung's employment by IHC or its affiliate were to cease under certain circumstances, Mr. Thung would be entitled to receive a lump-sum severance amount equal to the average annual aggregate total compensation received by Mr. Thung during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate

number of years of service of Mr. Thung to IHC and its affiliates. The circumstances under which such severance would be paid are: (i) Mr. Thung's employment by IHC being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Thung's material failure to follow IHC's lawful directions, material failure to follow IHC's corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage IHC or its reputation); (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with IHC's material breach of its obligations under the employment agreement, IHC's non-renewal of the employment agreement or change in control of IHC or its ultimate parent); or; (iii) upon Mr. Thung's death or permanent disability.

In addition, under the agreement, Mr. Thung is also entitled to strategic and long-term incentive payments which are included in the Summary Compensation Table above. The initial term of Mr. Thung's employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days' prior notice of non-renewal is given by IHC. For example, had the severance provisions of Mr. Thung's agreement been triggered on December 31, 2016, Mr. Thung would have been entitled to receive approximately \$66,146 per month for forty months (\$2,645,840 in the aggregate).

***With Ms. Herbert***

IHC is party to the Officer Employment Agreement, by and between IHC and Ms. Teresa A. Herbert, IHC's Chief Financial Officer and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Ms. Herbert's employment by IHC or its affiliate were to cease under certain circumstances, Ms. Herbert would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Ms. Herbert during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Ms. Herbert to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Ms. Herbert's employment by IHC being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Ms. Herbert's material failure to follow IHC's lawful directions, material failure to follow IHC's corporate policies, breach of the non-compete covenants in the employment agreement or her engaging in unlawful behavior that would damage IHC or its reputation), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with IHC's (or its successor's) material breach of its obligations under the employment agreement or upon IHC's non-renewal of the employment agreement). The initial term of Ms. Herbert's employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days' prior notice of non-renewal is given by IHC. For example, had the severance provision in Ms. Herbert's agreement been triggered on December 31, 2016, Ms. Herbert would have been entitled to receive approximately \$45,068 per month for twenty-four months (\$1,081,632 in the aggregate).

***With Mr. Kettig***

IHC is party to the Officer Employment Agreement, by and among IHC, Standard Security Life (which subsequently assigned the agreement to its affiliate AMIC Holdings, Inc.), and Mr. David T. Kettig, IHC's Chief Operating Officer, Executive Vice President and Acting General Counsel, dated as of April 18, 2011. Under this employment agreement, if Mr. Kettig's employment by Standard Security Life or its affiliate were to cease under certain circumstances, Mr.

Kettig would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Kettig during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Kettig to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Kettig's employment by Standard Security Life being involuntarily terminated under circumstances that would not constitute

cause (examples of cause being Mr. Kettig's material failure to follow Standard Security Life's or IHC's lawful directions, material failure to follow Standard Security Life's or IHC's corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage Standard Security Life, IHC or their respective reputations), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with Standard Security Life's (or its successor's) material breach of its obligations under the employment agreement or upon Standard Security Life's non-renewal of the employment agreement). The initial term of Mr. Kettig's employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days' prior notice of non-renewal is given by Standard Security Life. For example, had the severance provision in Mr. Kettig's agreement been triggered on December 31, 2016, Mr. Kettig would have been entitled to receive approximately \$59,330 per month for twenty-four months (\$1,423,920 in the aggregate).

***With Mr. Graber***

IHC is party to the Officer Employment Agreement, by and among IHC, Madison National Life, and Mr. Larry R. Graber, IHC's Chief Life and Annuity Actuary and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Mr. Graber's employment by Madison National Life or its affiliate were to cease under certain circumstances, Mr. Graber would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Graber during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Graber to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Graber's employment by Madison National Life being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Graber's material failure to follow Madison National Life's or IHC's lawful directions, material failure to follow Madison National Life's or IHC's corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage Madison National Life, IHC or their respective reputations), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with Madison National Life's (or its successor's) material breach of its obligations under the employment agreement or upon Madison National Life's non-renewal of the employment agreement). The initial term of Mr. Graber's employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days' prior notice of non-renewal is given by Madison National Life. For example, had the severance provision in Mr. Graber's agreement been triggered on December 31, 2016, Mr. Graber would have been entitled to receive approximately \$39,088 per month for twenty months (\$781,760 in the aggregate).

***With Mr. Balzofiore***

IHC is party to the Officer Employment Agreement, by and among IHC, Standard Security Life, and Mr. Gary J. Balzofiore, IHC's Corporate Vice President - Accounting and Finance, dated as of May 25, 2011. Under this employment agreement, if Mr. Balzofiore's employment by Standard Security Life or its affiliate were to cease under certain circumstances, Mr. Balzofiore would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Balzofiore during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a

number of months equal to the aggregate number of years of service of Mr. Balzofiore to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Balzofiore's employment by Standard Security Life being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Balzofiore's refusal to perform his duties, material failure to follow Standard Security Life's corporate policies, breach of the non-compete covenants in the

employment agreement or his committing a crime involving financial or accounting fraud), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with Standard Security Life's or IHC's material breach of its obligations under the employment agreement or upon Standard Security Life's non-renewal of the employment agreement). The initial term of Mr. Balzofiore's employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days' prior notice of non-renewal is given by Standard Security Life. For example, had the severance provision in Mr. Balzofiore's agreement been triggered on December 31, 2016, Mr. Balzofiore would have been entitled to receive approximately \$41,722 per month for twenty-four months (\$1,001,328 in the aggregate).

### Stock Incentive Plans

Under the terms of IHC's stock incentive plans, the Compensation Committee may make appropriate provision for the holders of awards thereunder in the event of a change in control of IHC or similar event. The specifics of such an occurrence cannot be anticipated, and thus the prospective effect upon IHC cannot reliably be quantified.

### Equity Compensation Plan Information

The following table sets forth certain information as of the end of the most recently completed fiscal year with respect to compensation plans under which shares of IHC common stock may be issued.

#### Equity Compensation Plan Information

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in the First Column)
Equity compensation plans approved by stockholders	697,180	\$11.75	1,133,100

### DIRECTORS' COMPENSATION



The general policy of the Board is that compensation for independent directors should be a mix of cash and equity. IHC does not pay management directors for board service in addition to their regular employee compensation. The Compensation Committee has the primary responsibility for reviewing and considering any revisions to director compensation.

During 2017, each non-employee (outside) director will be paid:

an annual retainer of \$36,000;

\$1,500 for each board or committee meeting attended;

\$9,000 for service as chairman of a board committee; and

2,475 restricted shares of IHC common stock, vesting ratably over the three annual anniversaries of the award, and contingent upon continuing service as a director.

The following table summarizes compensation paid to IHC's directors during 2016 except for Mr. Roy T.K. Thung, IHC's Chief Executive Officer and President, Mr. David T. Kettig, Chief Operating Officer, Executive Vice President and Acting General Counsel, Mr. Larry R. Graber, Chief Life and Annuity Actuary and Senior Vice President, and Teresa A. Herbert, Chief Financial Officer and Senior Vice President, for whom compensation was previously discussed.

**Director Summary Compensation**

Name	Fees Earned or Paid in		
	Cash	Stock Awards	Total
	(\$)	(\$)	(\$)
Mr. Allan C. Kirkman	78,000	47,396	125,396
Mr. John L. Lahey.	69,000	47,396	116,396
Mr. Steven B. Lapin (1)	-	-	-
Mr. Ronald I. Simon	11,300(2)	47,396	58,696
Mr. James G. Tatum.	76,500	47,396	123,896

(1)

Mr. Lapin received no compensation in connection with his service as an IHC director during 2016.

(2)

Mr. Simon was newly-elected at the 2016 Annual Meeting of Stockholders and thus was only paid fees for the fourth quarter of 2016.

**ITEM 12.**

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND**

**MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**Directors and Executive Officers**

The following table sets forth certain information concerning the number of shares of our common stock that is beneficially owned by each of our directors and each of our named executive officers based on 16,377,756 issued and outstanding shares of common stock as of April 30, 2017.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Other than as described in the notes to the table, we believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them. All share ownership figures include shares issuable upon exercise of options or warrants exercisable within 60 days of the date above, which are deemed outstanding and beneficially owned by such person for purposes of computing his or her percentage ownership, but not for purposes of computing the percentage ownership of any other person.

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The address of each individual named below is c/o IHC at 96 Cummings Point Road, Stamford, Connecticut 06902.

<u>Name of Beneficial Owner</u>	<u>Number of Shares</u>	<u>Percent of Class</u>
Mr. Gary J. Balzofiore	69,473 (1)	*
Mr. Larry R. Graber	100,285 (2)	*
Ms. Teresa A. Herbert	131,987 (3)	*
Mr. David T. Kettig	158,185 (4)	*
Mr. Allan C. Kirkman	26,301 (5)	*
Mr. John L. Lahey	22,275 (5)	*
Mr. Steven B. Lapin	122,162 (6)	*
Mr. Ronald I. Simon	40,000 (7)	*
Mr. James G. Tatum	38,301 (5)	*
Mr. Roy T. K. Thung	535,670 (8)	3.2%
All directors, nominees for director and executive officers as a group (10 persons)	1,244,639	7.4%

\*

Represents less than 1% of the outstanding common stock.

(1)

Includes 44,000 shares of common stock underlying stock options exercisable within sixty (60) days from the date above.

(2)

Includes 55,000 shares of common stock underlying stock options exercisable within sixty (60) days from the date above.

(3)

Includes 74,800 shares of common stock underlying stock options exercisable within sixty (60) days from the date above. Includes 410 shares of common stock held by Ms. Herbert's children of which shares Ms. Herbert disclaims beneficial ownership. Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

(4)

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Includes 66,300 shares of common stock underlying stock options exercisable within sixty (60) days from the date above. Includes 110 shares of common stock held by Mr. Kettig's children of which shares Mr. Kettig disclaims beneficial ownership.

(5)

Includes 1,650 shares of common stock underlying restricted share units vesting within sixty (60) days from the date above.

(6)

Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

(7)

Includes 30,000 shares of common stock held by the Simon Family Trust and 2,000 shares of common stock held in Mr. Simon's wife's IRA account, of which shares Mr. Simon disclaims beneficial ownership.

(8)

Includes 258,500 shares of common stock underlying stock options exercisable within sixty (60) days from the date above. Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

## **Significant Stockholders**

The following table sets forth certain information concerning the number of shares of our common stock that is beneficially owned by certain persons known by IHC to beneficially own more than five percent of the outstanding shares of IHC common stock, based on 16,377,756 issued and outstanding shares of common stock as of April 30, 2017.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Other than as described in the notes to the table, we believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them. All share ownership figures include shares issuable upon exercise of options or warrants exercisable within 60 days of the date above, which are deemed outs