INDEPENDENCE HOLDING CO
Form 10-K
March 15, 2012

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, 2011

COMMISSION FILE NUMBER 0-10306

INDEPENDENCE HOLDING COMPANY

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Yes ___

No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ___ No X

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _X__ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer __

Accelerated filer ___ Non-accelerated filer X

Smaller reporting company __

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of June 30, 2011 was $70,618,000.

18,009,664 shares of common stock were outstanding as of March 9, 2012.

Documents Incorporated by Reference

Portions of the Registrant s definitive proxy statement to be delivered (or made available, pursuant to applicable regulations) to stockholders in connection with the 2011 annual meeting of stockholders to be held in June 2012 are incorporated by reference in response to Part III of this Report.

FORM 10-K CROSS REFERENCE INDEX

PART I			**PAGE**
	Item 1.	Business	4
	Item 1A.	Risk Factors	17
	Item 1B.	Unresolved Staff Comments	25
	Item 2.	Properties	25
	Item 3.	Legal Proceedings	25
	Item 4.	Mine Safety Disclosures	25
PART II			
	Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
	Item 6.	Selected Financial Data	29
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	29
	Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	54
	Item 8.	Financial Statements and Supplementary Data	55
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	55
	Item 9A.	Controls and Procedures	56
	Item 9B.	Other Information	57
PART III			
	Item 10.	Directors, Executive Officers and Corporate Governance	57
	Item 11.	Executive Compensation	57
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	57
	Item 13.	Certain Relationships, Related Transactions and Director Independence	57
	Item 14.	Principal Accounting Fees and Services	57
PART IV			
	Item 15.	Exhibits and Financial Statement Schedules	58

Forward-Looking Statements

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

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

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

PART I

ITEM 1. BUSINESS

Business Overview

Independence Holding Company is a Delaware corporation (NYSE: IHC) that was formed in 1980. We are a holding company principally engaged in the life and health insurance business with principal executive offices located at 96 Cummings Point Road, Stamford, Connecticut 06902. At December 31, 2011, we own a 78% controlling interest in American Independence Corp. (NASDAQ:AMIC), which owns Independence American Insurance Company ("Independence American"), IHC Risk Solutions LLC (Risk Solutions), its full service direct writer of medical stop-loss insurance for self-insured employer groups, and controlling interests in two agencies.

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

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

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".

IHC retains much of the risk that it underwrites, and focuses on the following lines of business:

.

Medical excess (or "stop-loss")

.

Multiple fully insured health lines, including pet insurance beginning in 2012

.

Group disability and life

.

Individual life, primarily through block acquisitions

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 Guam, and is an accredited reinsurer in New York. Independence American is domiciled in Delaware and licensed to sell insurance products in 49 states and the District of Columbia. We have been informed by Best that a Best rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial condition and operating performance and is also based upon factors relevant to policyholders, agents, and intermediaries, and is not directed toward protection of investors. Best ratings are not recommendations to buy, sell or hold any of our securities.

Our administrative companies underwrite, market, administer and/or price life and health insurance business for our owned and affiliated carriers, and, to a lesser extent, for non-affiliated insurance companies. They receive fees for these services and do not bear any of the insurance risk of the companies to which they provide services, other than through profit commissions or profit slides. In the second quarter of 2011, AMIC consolidated its wholly owned managing general underwriter (MGU) subsidiaries and changed the name of the merged entity to IHC Risk Solutions LLC (Risk Solutions). During 2011, our principal administrative companies were: (i) IHC Health Solutions Inc. (Health Solutions), a full-service marketing, management and administrative services company that operates in the individual and small employer markets; (ii) Risk Solutions, a full-service direct writer of medical stop-loss insurance for self-insured employer groups; and (iii) Actuarial Management Corporation ("AMC"), an actuarial consulting firm providing product development and valuation services to the small carrier marketplace.

In addition, AMIC owns controlling interests in Independent Producers of America, LLC ("IPA") and Healthinsurance.org LLC. IPA is a national, career agent marketing organization. Healthinsurance.org LLC is an online marketing company that owns www.healthinsurance.org, a lead generation site for individual health insurance, including in 2011 those over age 65. Our general agencies earn commissions for selling life and health insurance products underwritten by IHC s owned and affiliated insurance companies and also by unaffiliated carriers.

For information pertaining to the Company's business segments, reference is made to Note 22 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

Our Philosophy

Our business strategy consists of maximizing underwriting profits through a variety of niche life and health insurance products and 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 and unique rewards programs. A growing portion of our business comes from direct-to-consumer initiatives. While our management considers a wide range of factors in its strategic planning and decision-making, underwriting profit is consistently emphasized as the primary goal in all decisions. We seek relationships that will generate fee income and profit commissions for our administrative companies as well as risk income for our insurance carriers thereby permitting us to leverage IHC's vertically integrated organizational structure.

As a result of our increased control of distribution through corporate acquisitions, we have strengthened our ability to respond to market cycles in the health insurance sector by deploying our insurance underwriting activity across a larger number of business lines. In recent years, we have emphasized writing stop-loss business through Risk Solutions and only a few select managing general underwriters (MGUs) with whom we have done business for many years, including TRU Services, LLC (TRU), in which we have an equity interest. This has allowed us to be more selective in order to achieve better stop-loss underwriting results by terminating all under-performing non-owned programs. While we have always focused on smaller self-funded groups, we have recently focused on developing stop-loss solutions for plans with 100 or fewer employees. These plans are increasingly looking for affordable health-financing alternatives as a result of federal health care reform. We have a substantial minority ownership interest in an MGU that is led by executives who previously had built a large, profitable premium block in this niche for one of our competitors in several states whose health care laws were the models for federal health care reform.

As a result of focusing on the most profitable business niches and distribution partnerships, we have seen a decrease in our gross written stop-loss premiums and have marginally increased our gross written fully insured health premiums. Net earned premiums have increased primarily due to a reduction in reinsurance. While we have benefitted from fee income generated by our administrative and sales companies in recent years, which is generally not subject to insurance risk, we have seen a decrease in these fees in the current year as a result of a lower volume of premiums administered. At the same time, we expect to experience decreases in administrative costs in both our Fully Insured Health and Stop-Loss segments resulting from the consolidation and efficiency initiatives implemented in the last several years.

DISTRIBUTION

Medical Stop-Loss

We market medical stop-loss primarily through Risk Solutions and to a much less extent through independent MGUs. Standard Security Life is the primary carrier for our employer medical stop-loss products, although we also write business for Madison National Life, Independence American and for unaffiliated carriers. During 2011, IHC owned two managing general underwriters, Majestic Underwriters LLC ("Majestic") and Alliance Underwriters, LLC (AU), 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. MGUs are non-salaried contractors that receive administrative fees. They are responsible for underwriting accounts in accordance with guidelines formulated and approved by us, billing and collecting premiums, paying commissions to agents, third party administrators ("TPAs") and/or brokers, and processing claims. With respect to those select MGUs with which we do business, we establish underwriting guidelines, maintain approved policy forms and oversee claims for reimbursement, as well as appropriate accounting procedures and reserves. In order to accomplish this, we audit the MGUs' underwriting, claims and policy issuance practices to assure compliance with our guidelines, provide the MGUs with access to our medical management and cost containment expertise, and review cases that require referral based on our underwriting guidelines. MGUs receive fee income, generally 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, Madison National Life and Independence American write approximately 72% of their medical stop-loss business through Risk Solutions and TRU.

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

Fully Insured Health

The Fully Insured Health Segment includes the following lines of business (major medical health plans for small groups, individuals and families, dental/vision, short-term medical ("STM"), limited medical, pet insurance, and ancillary benefits, such as accident and critical illness plans) that are sold in the majority of states through multiple and varied distribution strategies. The largest line of business in this segment continues to be major medical for small employer groups (defined as employers with between two and fifty employees). The majority of our business in this segment is written (i) directly to agents through the Health Solutions telesales unit, (ii) through private-label arrangements managed by Health Solutions with non-affiliated carriers, (iii) through AMIC's captive agency relationships, and (iv) direct to consumers through company-owned websites. We also market through general agents, agents and brokers.

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

In January 2010, in order to improve efficiency and service to our clients, we combined the operations of GroupLink and HPA, along with the medical management and marketing services of Insurers Administrators Corporation (IAC), into those of Health Solutions, and the claims processing and administrative function of IAC was rebranded as IHC Administrative Services, Inc. (IHC Administrative Services). As a result of these changes, all marketing, sales, underwriting and administrative functions have been collected under Health Solutions.

The Fully Insured Health Segment has approximately 330 salaried employees performing all aspects of underwriting, risk selection and pricing, policy administration and management of fully insured group and individual health insurance on behalf of IHC and other carriers, and management of approximately $250 million of individual and group health and life premiums and premium equivalents for multiple insurers.

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

Other Products

Our other products are primarily distributed by general agents, agents and brokers. The short-term statutory disability benefit product in New York State ("DBL") is marketed primarily through independent general agents who are paid commissions based upon the amount of premiums produced. Madison National Life's disability and group life products are primarily sold in the Midwest to school districts, municipalities and hospital employer groups through a managing general agent that specializes in these target markets. Beginning in 2012, Madison National Life will also reinsure and begin writing life, disability and health products serving the needs of expatriates, third-country nationals and local nationals.

For a number of years Madison National Life has sold a whole-life product with an annuity rider to military personnel and civil service employees. As a result of this experience, in 2008 Madison National Life formed a subsidiary, IHC Financial Group, Inc. (IHC Financial Group), to recruit agents to sell life and annuity products to state and federal employees. Since these products are currently not available through IHC s carriers, IHC Financial Group has contracted with highly rated insurance companies to sell their life and annuity products to these individuals. The income for IHC Financial Group is derived completely from commissions on the sale of the products of these other companies. The agents and brokers who produce this business are non-salaried contractors who receive commissions. We did not earn significant income from this subsidiary in 2010, but earned approximately $140,000 in 2011 and we do anticipate increased growth as we continue to recruit new agents. We wrote about $5.7 million of annualized premiums from our whole-life and annuity products in 2011 and expect to write about $6.2 million of annualized premium in 2012. In the last quarter of 2010, Madison National Life began selling a final expense whole life product. It is expected to write about $3.7 million of annualized premium in 2012.

PRINCIPAL PRODUCTS

Medical Stop-Loss

The Company is a leading writer nationally of excess or stop-loss insurance for self-insured employer groups that desire to manage the risk of large medical claims ("Medical Stop-Loss"). Standard Security Life was one of the first carriers to market Medical Stop-Loss insurance, starting in 1987, and the Insurance Group is now one of the largest writers of this product in the United States. Medical Stop-Loss insurance provides coverage to public and private entities that elect to self-insure their employees' medical coverage for losses within specified ranges, which permits such groups to manage the risk of excessive health insurance costs by limiting specific and aggregate losses to predetermined amounts. This coverage is available on either a specific or a specific and aggregate basis, although the majority of the Insurance Group's policies cover both specific and aggregate claims. Plans are designed to fit the identified needs of the self-insured employer by offering a variety of deductibles (i.e., the level of claims after which the medical stop-loss benefits become payable).

IHC experienced a reduction in premiums in the Medical Stop-Loss line of business in 2011 due to the termination of several independent MGUs. As a result of the reorganization of Risk Solutions into a direct writer, we have seen significant increases in production in each of the past three months, and we expect this trend to continue throughout 2012.

Fully Insured Health Products

Group Major Medical

The Company began selling group major medical insurance (including CDHPs) primarily to small employers (two to 50 covered lives) during 2005, and significantly expanded its book of business in 2006-2007. IHC markets this product in the majority of states. It is fully insured major medical coverage that is principally designed to work with health reimbursement accounts ("HRA") and health savings accounts ("HSA") which are implemented by employers that wish to provide this benefit as part of an employee welfare benefit plan. These plans are offered primarily as preferred provider organizations ("PPO") plans, and provide a variety of cost-sharing options, including deductibles, coinsurance and co-payment. CDHPs are designed to provide participants with economic incentives to be informed consumers of healthcare.

In addition to small group, the Company offers a unique group medical plan to employers (small and large) who are contractors working on government-funded projects under the Davis-Bacon and Service Contract Acts (the Acts"), much of which is associated with current and future U.S. infrastructure improvements. This plan helps contractors meet the provisions of a "bona fide" fringe benefit for their hourly workers as required in the Acts.

The Company experienced a $14.0 million increase in net retained premiums in the small group line in 2011due to increased retentions. Gross premiums decreased primarily as a result of fewer groups purchasing major medical coverage and fewer participants in each group as a result of recessionary economic conditions, and stricter underwriting guidelines.

Short-Term Medical

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

IHC s gross premium declined in this line of business in 2011 due to the termination of several non-owned distributors. Underwriting profits increased significantly. We anticipate modest growth in this line of business.

Dental/Vision

IHC sells group and individual dental products in the majority of states. We administer the majority of IHC's dental business and are also the primary distribution source of this line of business. The dental portfolio includes indemnity and PPO plans for employer groups of two or more lives and for individuals within affinity groups. Beginning in 2012, we reached an agreement with Aetna to offer their network rates in many key states. Employer plans are offered on both employer paid and employee voluntary bases. As part of the distribution of our dental products, we also offer vision benefits. Vision plans will offer a flat reimbursement amount for exams and materials. Life plans are available on scheduled or percentage of salary basis and short-term disability is offered as a percentage of salary or flat amount.

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

Gross dental premiums declined in 2011 due to pricing action, but net premiums increased slightly due to higher retention. We would like to write more dental business in 2012 through new distribution relationships and possible block acquisitions. We experienced growth in the vision line of business in 2011 and anticipate modest growth in 2012

Major Medical for Individuals and Families

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

The Company anticipates growth in this line of business in 2012 as a result of new distribution sources and more focus on individual products by the telesales unit of Health Solutions.

Hospital Income Plans (HIP)

The Company began to market scheduled benefit HIP plans through its captive distribution in late 2010. The product is offered as both a supplement to a major medical and as a practical solution for uninsured consumers. In 2011, the Company recorded less than $1.5 million of gross written premium but expects to write about $4.0 million in 2012, through its own captive distribution and through other carefully selected distribution partners.

Limited Medical

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

In 2011, the Company recorded $14.1 million of gross premiums and projects continued growth in 2012. Beginning in 2011, the Company began to issue limited medical plans to uninsured consumers who pay for their own health insurance which are included in the above mentioned gross premiums. Less than $1.0 million was written in 2011. It is expected to grow to roughly $2.0 million in 2012 through carefully selected distribution sources.

Ancillary Benefits

In 2011, the Company recorded about $1.0 million of ancillary benefit premiums, mostly accident plans for the self-employed that are marketed through two national associations. In late 2011, the Company began to write critical illness plans for individuals. In 2012, it is expected that the Ancillary Benefits will record about $2.5 million in premium through carefully selected distribution partners.

Final Expense

In the last quarter of 2010, the Company began marketing a whole life product commonly referred to as a final expense life policy. This whole life product is sold to people in the 50 to 85 years old range. The face amounts can range from $2,500 to $50,000. We are currently averaging about $13,500 per policy. This product is marketed through an exclusive arrangement with a large national marketing company.

Group Disability; Life, Annuities and DBL

Group Long-Term and Short-Term Disability

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

The Company experienced a decrease in sales to school districts and municipalities in 2011 as compared to 2010. We expect a slight increase in premiums in 2012.

New York Short-Term Disability (DBL)

Standard Security Life markets DBL. All companies with more than one employee in New York State are required to provide DBL insurance for their employees. DBL coverage provides temporary cash payments to replace wages lost as a result of disability due to non-occupational injury or illness. The DBL policy provides for (i) payment of 50% of salary to a maximum of $170 per week; (ii) a maximum of 26 weeks in a consecutive 52 week period; and (iii) benefit commencement on the eighth consecutive day of disability. Policies covering fewer than 50 employees have fixed rates approved by the New York State Insurance Department. Policies covering 50 or more employees are individually underwritten. Standard Security Life's DBL premiums declined in 2011 due to rate reductions on its large cases due to favorable loss experience as well as a decrease in case size due to the reduction in employees as a result of the current economic environment. The Company anticipates premiums will be relatively flat in 2012.

Group Term Life and Annuities

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

Individual Life, Annuities and Other

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

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

LIFE INSURANCE IN-FORCE

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

	2011	2010	2009
LIFE INSURANCE IN-FORCE:			
Group	$ 9,690,436	$ 9,615,359	$ 9,800,776
Individual term	450,314	501,123	531,854

Individual permanent		1,418,437		1,428,283		1,462,126
TOTAL LIFE INSURANCE IN-FORCE (1), (2)	$	11,559,187	$	11,544,765		11,794,756
NEW LIFE INSURANCE:						
Group	$	446,640	$	1,070,815	$	3,820,519
Individual term		10,343		25,402		26
Individual permanent		153,394		83,463		77,734
TOTAL NEW LIFE INSURANCE	$	610,377	$	1,179,680	$	3,898,279

NOTES:

(1)	Includes participating insurance	$	153,492	$	157,651	$	170,840
(2)	Before ceded reinsurance of:						
	Group	$	5,692,074	$	5,248,587	$	5,624,680
	Individual		515,311		548,856		548,879
	Total ceded reinsurance	$	6,207,385	$	5,797,443	$	6,173,559

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

ACQUISITIONS OF POLICY BLOCKS

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

The Company did not acquire any significant policy blocks in 2011 or in 2009, and does not expect to in 2012. During 2010, Madison National Life acquired a block of life insurance policies with approximately $1.6 million of life reserves.

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

REINSURANCE AND POLICY RETENTION LIMITS

The Company's average retention of gross and assumed Medical Stop-Loss exposure was 78% in 2011 and 75% in 2010. In 2009, prior to the acquisition of AMIC, the Company s average retention of Medical Stop-Loss exposure was 56.7%. Standard Security Life and Madison National Life ceded, on average, 23.0% in 2009 of their Medical Stop-Loss business to their affiliate, Independence American. Standard Security Life retained 80% of DBL premium with the balance ceded to Independence American.

In 2011, IHC retained approximately 68% of gross and assumed Fully Insured Health exposure, up from approximately 58% in 2010. Retentions on other lines of business remained relatively constant in 2011. The Company purchases quota share reinsurance and excess reinsurance in amounts deemed appropriate by its risk committee. The Company monitors its retention amounts by product line, and has the ability to adjust its retention as appropriate.

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

Maximum net retention limits for Standard Security Life are: (i) $210,000 per life on individual life and corresponding disability waiver of premium; (ii) no retention on accidental death benefits provided by rider to individual life policies; (iii) up to $1,250,000 on any one medical stop-loss claim;

(iv) $5,000 of monthly benefits on disability income policies; and (v) up to $1,250,000 for fully insured medical in a calendar year. Standard Security Life also maintains catastrophe reinsurance in order to protect against particularly adverse mortality which might occur with respect to its overall life business. Maximum net monthly retention limits on any one life for Madison National Life are: (i) $8,600 per month on group long-term disability insurance; (ii) $1,500 per week on group short-term disability insurance; (iii) $125,000 per individual on group term life, accidental death benefits, including supplemental life and accidental death and dismemberment; (iv) $125,000 on substandard ordinary life, group family life and individual ordinary life; (v) up to $1,250,000 on any one medical stop-loss claim; (vi) individual monthly benefits from 1,000 to $2,500 depending on recipient age and length of benefit period for individual accident and health insurance; and (vii) up to 1,250,000 for fully insured medical in a calendar year. Maximum net retention limits for Independence American are: (i) up to $1,250,000 on any one medical stop-loss claim; and (ii) up to $1,250,000 for fully insured medical in a calendar year.

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

In the fourth quarter of 2011, Standard Security Life entered into a coinsurance agreement with an unaffiliated reinsurer effective January 26, 2012 and transferred approximately $143 million of group annuity reserves in the first quarter of 2012.

The following reinsurers represent approximately 85% of the total ceded premium for the year ended December 31, 2011:

Munich Re America, Inc.	28%
Union Security Insurance Company	22%
Fidelity Security Life Insurance Company	18%
National Insurance Company of Wisconsin, Inc.	6%
Gerber Life Insurance Company	6%
American Fidelity Assurance Company	5%
	85%

The Insurance Group remains liable with respect to the insurance in-force which has been reinsured in the unlikely event that the assuming reinsurers are unable to satisfy their obligations. The Insurance Group cedes business (i) to individual reinsurance companies that are rated "A-" or better by Best or (ii) upon provision of adequate security. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured. Since the risks under the Insurance Group's business are primarily short-term, there would be limited exposure as a result of a change in a reinsurer's creditworthiness during the term of the reinsurance. At December 31, 2011 and 2010, the Insurance Group's ceded reinsurance in-force (excluding the credit life and disability segment which is discontinued operations) was $6.2 billion and $5.8 billion, respectively.

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

INVESTMENTS AND RESERVES

More than 99% of the Company's cash, cash equivalents and securities portfolio are managed by employees of IHC and its affiliates, and ultimate investment authority rests with IHC's in-house investment group. The remaining $3.2 million is invested with independent investment managers. As a result of the nature of IHC's insurance liabilities, IHC endeavors to maintain a significant percentage of its assets in investment grade securities, cash and cash equivalents. At December 31, 2011, approximately 97.6% of the fixed maturities were investment grade and continue to be rated on average AA. The internal investment group provides a summary of the investment portfolio and the performance thereof at the meetings of the Company's board of directors.

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

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

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

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

The following table reflects the asset value in dollars (in thousands) and as a percentage of total investments of the Company as of December 31, 2011:

INVESTMENTS BY TYPE		CARRYING VALUE	% OF TOTAL INVESTMENTS
Fixed maturities:			
United States Government and government agencies and authorities	$	167,167	17.9%
Government-sponsored enterprise		59,851	6.4%
States, municipalities and political Subdivisions		255,402	27.4%
All other debt securities		360,453	38.6%
Total fixed maturities		842,873	90.3%
Equity securities:			
Common stocks		6,699	.7%
Non-redeemable preferred stocks		30,842	3.3%
Total equity securities		37,541	4.0%
Short-term investments		50	-
Securities purchased under agreements to resell		17,258	1.9%
Investment partnership interests		4,139	.5%
Operating partnership interests		6,829	.7%
Policy loans		23,109	2.5%
Investment in trust subsidiaries		1,146	.1%
Total investments	$	932,945	100.0%

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

	2011	2010 (In thousands)	2009
Consolidated Statements of Operations			
Net investment income	$ 39,788	$ 41,801	$ 43,520
Net realized investment gains	8,670	4,646	8,789
Other-than-temporary impairments in earnings	(1,523)	(3,819)	(29,991)
Consolidated Balance Sheets			
Net unrealized gains	14,029	15,107	87,488

Other-than-temporary impairments in other comprehensive income		(948)		-		-
Total pre-tax investment performance	$	60,016	$	57,735	$	109,806

The above net unrealized gains, which have been recognized in the Consolidated Balance Sheets, represent the net change in unrealized gains and losses on available-for-sale securities that occurred during the year, including the increase or decrease in fair value of securities that were previously impaired, but prior to adjustments for deferred acquisition costs and deferred income taxes. The Company does not have any non-performing fixed maturity investments at December 31, 2011.

COMPETITION AND REGULATION

We compete with many large insurance companies, small regional health insurers and managed care organizations. Although most life insurance companies are stock companies, mutual companies also write life insurance in the United States. Mutual companies may have certain competitive advantages since profits inure directly to the benefit of the policyholders.

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

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

Certain transactions within the IHC holding company system are also subject to regulation and supervision by such regulatory agencies. All such transactions must be fair and equitable. Notice to or prior approval by the applicable insurance department is required with respect to transactions affecting the ownership or control of an insurer and of certain material transactions, including dividend declarations, between an insurer and any person in its holding company system. Under New York, Wisconsin and Delaware insurance laws, "control" is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person. Under New York law, control is presumed to exist if any person, directly or indirectly, owns, controls or holds, with the power to vote ten percent or more of the voting securities of any other person. In Wisconsin, control is presumed if any person, directly or indirectly, owns, controls or holds with the power to vote more than ten percent of the voting securities of another person. In Delaware, control is presumed if any person, directly or indirectly, owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person. In all three states, the acquisition of control of a domestic insurer needs to be approved in advance by the Commissioner of Insurance. See Note 23 of Notes to Consolidated Financial Statements included in Item 8 for information as to restrictions on the ability of the Company's insurance subsidiaries to pay dividends.

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

DISCONTINUED OPERATIONS

Effective December 31, 2007, the Company sold its credit life and disability segment by entering into a 100% coinsurance agreement with an unaffiliated insurer. The Company recorded income (loss) from discontinued operations of $(.3) million and $.3 million for the years ended December 31, 2010 and 2009, respectively, net of taxes, representing expenses and changes in claims and reserves related to the insurance liabilities for claims incurred prior to the aforementioned sale. No income (loss) from discontinued operations was recorded during the year ended December 31, 2011.

EMPLOYEES

At December 31, 2011, the Company, including its direct and indirect majority or wholly owned subsidiaries, collectively had approximately 580 employees.

ITEM 1A.

RISK FACTORS

Many of the factors that affect our business and operations involve risk and uncertainty. The risks and uncertainties described below are not the only ones that we face, but are those that we have identified as being the most significant factors. Additional risks and uncertainties that we do not know about, or that we deem less significant than those identified below, may also materially and adversely affect our business, financial condition or results of operations and the trading price of our common stock.

Risks related to our Business

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

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

In particular, at December 31, 2011, fixed maturities represented $842.9 million or 90.3% of our total investments of $932.9 million. The fair value of fixed maturities and the related investment income fluctuates depending on general economic and market conditions. The fair value of these investments generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us will generally increase or decrease in line with changes in market interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. An investment has prepayment risk when there is a risk that the timing of cash flows that result from the repayment of principal might occur earlier than anticipated because of declining interest rates or later than anticipated because of rising interest rates. The impact of value fluctuations affects our Consolidated Financial Statements. Because all of our fixed maturities are classified as available for sale, changes in the fair value of our securities are reflected in our stockholders' equity (accumulated other comprehensive income or loss). No similar adjustment is made for liabilities to reflect a change in interest rates. Therefore, interest rate fluctuations and economic conditions could adversely affect our stockholders' equity, total comprehensive income and/or cash flows. For mortgage-backed securities, credit risk exists if mortgagees default on the underlying mortgages. Although at December 31, 2011, approximately 97.6% of the fixed maturities were investment grade and continue to be rated on average AA, all of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst case scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

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

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

Goodwill represented $50.3 million of our $1.4 billion in total assets as of December 31, 2011. We review our goodwill annually for impairment or more frequently if indicators of impairment exist. We regularly assess whether any indicators of impairment exist, which requires a significant amount of judgment. Such indicators may include: a sustained significant decline in our share price and market capitalization; a decline in our expected future cash flows; a significant adverse change in the business climate; and/or slower growth rates, among others. Any adverse change in one of these factors could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements. If we experience a sustained decline in our results of operations and cash flows, or other indicators of impairment exist, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

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

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. Standard Security Life and Madison National Life are both rated "A-" (Excellent) by A.M. Best Company, Inc. Best's ratings reflect its opinions of an insurance company's financial strength, operating performance, strategic position, and ability to meet its obligations to policyholders and are not evaluations directed to investors. The ratings of Standard Security Life and Madison National Life are subject to periodic review by Best. If Best reduces either or both Madison National Life's or Standard Security Life's ratings from its current levels, our business would be adversely affected.

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

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

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

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

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

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

We compete with a large number of other companies in our selected lines of business. We face competition from specialty insurance companies and HMOs, and from diversified financial services companies and insurance companies that are much larger than we are and that have far greater financial, marketing and other resources. Some of these competitors also have longer experience and more market recognition than we do in certain lines of business. In addition to competition in the operation of our business, we face competition from a variety of sources in attracting and retaining qualified employees. We cannot assure you that we will maintain our current competitive position in the markets in which we operate, or that we will be able to expand operations into new markets. If we fail to do so, our results of operations and cash flows could be materially adversely affected.

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

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

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

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

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

We regularly review our DAC asset balance to determine if it is recoverable from future income. The portion of the DAC balance deemed to be unrecoverable, if any, is charged to expense in the period in which we make this determination. For example, if we determine that we are unable to recover DAC from profits over the life of a book of business of insurance policies or annuity contracts, or if withdrawals or surrender charges associated with early withdrawals do not fully offset the unamortized acquisition costs related to those policies or annuities, we would be required to recognize the additional DAC amortization as a current-period expense. In general, we limit our deferral of acquisition costs to costs assumed in our pricing assumptions.

The failure to maintain effective and efficient information systems could adversely affect our business.

Our business depends significantly on effective information systems, and we have different information systems for our various businesses. We have committed and will continue to commit significant resources to develop, maintain and enhance our existing information systems and develop new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and changing customer preferences. Our failure to maintain effective and efficient information systems could have a material adverse effect on our financial condition and results of operations.

Failure to protect our policyholders' confidential information and privacy could adversely affect our business.

In the conduct of our business, we are subject to privacy regulations and to confidentiality obligations. For example, the collection and use of patient data in our health insurance operations is the subject of national and state legislation, including the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and certain other activities we conduct are subject to the privacy regulations of the Gramm-Leach-Bliley Act. We also have contractual obligations to protect certain confidential information we obtain from our existing vendors, partners and policyholders. These obligations generally include protecting such confidential information in the same manner and to the same extent as we protect our own confidential information. If we do not properly comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, such as penalties, fines and loss of license, as well as loss of reputation and possible litigation.

Risks Related to our Industry

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

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

- licensing companies and agents to transact business and regulating their respective conduct in the market;
- approving policy forms and premium rates;
- requiring certain methods of accounting and prescribing the form and content of records of financial condition required to be filed;
- calculating the value of assets to determine compliance with statutory requirements;
- establishing statutory capital and reserve requirements, such as for unearned premiums and losses;
- regulating certain premium rates and requiring deposits for the benefit of policyholders;
- establishing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies;
- establishing standards of solvency, including risk-based capital measurements, which are a measure developed by the National Association of Insurance Commissioners (NAIC) and used by state insurance regulators to identify insurance companies that potentially are inadequately capitalized;
- mandating certain insurance benefits and restricting the size of risks insurable under a single policy;
- regulating unfair trade and claims practices, including the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;
- requiring the filing of annual and other reports relating to the financial condition of insurance companies, holding company issues and other matters;
- approving changes in control of insurance companies;
- restricting transactions between insurance companies and their affiliates, including the payment of dividends to affiliates; and
- regulating the nature or types, concentration or amounts, quality and valuation of investments.

Currently, the U.S. federal government does not directly regulate the business of insurance. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law in July 2010 by President Obama, created a Federal Insurance Office. While the office will not directly regulate domestic insurance business, it is tasked with studying the potential efficiency and consequences of federal insurance regulation. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (CFPB). While the CFPB does not have direct jurisdiction over insurance products, it is possible that regulations promulgated by the CFPB may extend its authority more broadly to cover certain insurance products and thereby may adversely affect our results of operations. Additionally, federal legislation and administrative policies in other areas can significantly and adversely affect insurance companies, including general financial services regulation, securities regulation, privacy regulation, tort reform legislation, and taxation.

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.

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

Although health insurance is generally regulated at the state level, recent legislative actions were taken at the federal levels that impose added restrictions on our business. The Patient Protection and Affordable Care Act (PPACA) was signed into law by President Obama in March 2010. Provisions of the PPACA and related reforms have and will become effective at various dates over the next several years and will make sweeping and fundamental changes to the U.S. health care system that are expected to significantly affect the health insurance industry. Although we cannot predict or quantify the precise effects of the PPACA on our business, the effects on our Company will include, in particular, a requirement that we pay rebates to customers if the loss ratios for some of our products lines are less than specified percentages; the need to reduce commissions and the consequent risk that insurance producers may sell less of our products than they have in the past; limits on lifetime and annual benefit maximums; a prohibition from imposing any pre-existing condition exclusion; limits on our ability to rescind coverage except for intentional fraud; increased costs to modify and/or sell our products; intensified competitive pressures that limit our ability to increase rates due to state insurance exchanges; significant risk of customer loss; new and higher taxes and fees to generate the revenues to implement the PPACA; and the need to operate with a lower expense structure at both the business segment and enterprise level.

The consequences of these significant coverage expansions on the sales of our products are unknown and speculative at this point. A number of state governors have strenuously opposed certain of the PPACA' s provisions, and initiated lawsuits challenging its constitutionality. These challenges are pending final adjudication in several jurisdictions, including the U.S. Supreme Court. The U.S. Congress has also proposed a number of legislative initiatives, including possible repeal of the PPACA. At this time, it remains unclear whether there will be any changes made to the PPACA, whether to certain provisions or its entirety. We expect that the PPACA, as well as other federal or state health care reform measures that may be adopted in the future, could have a material adverse effect on our industry generally and our ability to successfully commercialize our products.

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

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

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

In addition, a number of states are contemplating significant reform of their health insurance markets affecting both public programs and privately financed health insurance arrangements. State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and thus could have an adverse effect on our business. We cannot predict what impact, if any, the results of these studies or other such proposals, if enacted, may have on our financial condition, results of operations and cash flows.

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

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

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

We face a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits and individual lawsuits relating, among other things, to sales or underwriting practices, payment of contingent or other sales commissions, claims payments and procedures, product design, disclosure, administration, additional premium charges for premiums paid on a periodic basis, interest crediting practices, denial or delay of benefits and breaches of fiduciary or other duties to customers. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time. We are also subject to various regulatory inquiries, such as information requests, subpoenas, market conduct exams and books and record examinations, from state and federal regulators and other authorities, which may result in fines, recommendations for corrective action or other regulatory actions. Even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business.

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

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

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

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

.

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

.

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

.

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

.

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

.

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

.

Greater than expected use of health care services by members;

.

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

.

Failure of MGUs to adhere to underwriting guidelines as required by us in our MGU agreements.

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

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

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

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

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

ITEM 1B.

UNRESOLVED STAFF COMMENTS

None.

ITEM 2.

PROPERTIES

IHC

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

Standard Security Life

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

Madison National Life

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

IHC Administrative Services

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

ITEM 3.

LEGAL PROCEEDINGS

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

ITEM 4.

MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED

STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

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

		HIGH		LOW
QUARTER ENDED:				
December 31, 2011	$	9.10	$	6.81
September 30, 2011		11.10		6.81
June 30, 2011		10.89		7.50
March 31, 2011		8.79		7.60
QUARTER ENDED:				
December 31, 2010	$	8.75	$	7.04
September 30, 2010		7.40		5.72
June 30, 2010		10.00		5.83
March 31, 2010		9.97		5.84

IHC's stock price closed at $8.13 on December 31, 2011.

Holders of Record

At March 9, 2012 the number of record holders of IHC's common stock was 1,847. 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 $.025 per share on its common stock on each of June 24, 2011 and December 27, 2011 for a total annual dividend of $.05 per share.

IHC declared a cash dividend of $.025 per share on its common stock on each of June 24, 2010 and December 28, 2010 for a total annual dividend of $.05 per share.

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

Private Placements

In 2011, IHC acquired an aggregate 900,325 shares of AMIC common stock from noncontrolling interests in exchange for the issuance of an aggregate 600,218 shares of IHC s common stock in various private placements of unregistered securities under Section 4(2) of the Securities Act of 1933, as amended (the Securities Act). Accordingly, the shares are "restricted securities", subject to a legend and will not be freely tradable in the United States until the shares are registered for resale under the Securities Act, or to the extent they are tradable under Rule 144 promulgated under the Securities Act or any other available exemption.

Share Repurchase Program

IHC has a program, initiated in 1991, under which it repurchases shares of its common stock. In January 2010, the Board of Directors authorized the repurchase of up to 500,000 shares of IHC's common stock, inclusive of prior authorizations, under the 1991 plan. As of December 31, 2011, 181,403 shares were still authorized to be repurchased under the plan. Share repurchases during the fourth quarter of 2011 are summarized as follows:

	2011		
Month of Repurchase	**Shares Repurchased**	**Average Price of Repurchased Shares**	**Maximum Number Of Shares Which Can be Repurchased**
October	49,200	$ 7.84	184,586
November	600	$ 8.23	183,986
December	2,583	$ 8.49	181,403

Performance Graph

Set forth below is a line graph comparing the five year cumulative total return of IHC s common stock with that of the Russell 2000 Index and the S & P SmallCap Life & Health Insurance index. The graph assumes that dividends were reinvested and is based on a $100 investment on December 31, 2006. 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.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
Income Data:					
Total revenues	$ 417,996	$ 435,368	$ 354,838	$ 353,687	$ 402,322
Income (loss) from continuing operations	14,766	23,669	(7,433)	(24,578)	1,565
Balance Sheet Data:					
Total investments	932,945	919,727	831,081	761,093	776,059
Total assets	1,358,859	1,361,792	1,304,476	1,273,894	1,306,955
Insurance liabilities	927,746	920,581	927,212	951,590	895,169
Debt and junior subordinated debt securities	48,146	45,646	47,146	48,146	50,646
IHC stockholders' equity	261,077	230,628	202,967	162,702	222,851
Per Share Data:					
Cash dividends declared per common share	.05	.05	.05	.05	.05
Basic income (loss) per common share from continuing operations	.81	1.44	(.48)	(1.59)	.10
Diluted income (loss) per common share from continuing operations	.81	1.44	(.48)	(1.59)	.10
Book value per common share	15.91	15.14	13.16	10.56	14.63

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

ITEM 7.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Independence Holding Company, a Delaware corporation (NYSE: IHC), is a holding company principally engaged in the life and health insurance business through: (i) its insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life"), Independence American Insurance Company (Independence American); and (iii) its marketing and administrative companies, including IHC Risk Solutions, LLC (Risk Solutions), IHC Health Solutions, Inc. (Health Solutions), and Actuarial Management Corporation ("AMC"). These companies are sometimes collectively referred to as the Insurance Group , and IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company." IHC also owns a significant equity interest in a managing general underwriter (MGU) that writes medical stop-loss for Standard Security Life.

IHC s health insurance products serve niche sectors of the commercial market through multiple classes of business and varied distribution channels. Medical Stop-Loss is marketed to large employer groups that self-insure their medical risks; in 2011 the Company s average case size was 250 covered employee lives. This niche is expected to grow as result of federal health care reform. The small-group major medical product is purchased by employers with between two and 50 covered lives. With regard to those persons in the growing individual market, IHC s products offer major medical coverage for individuals and families and persons with short-term medical needs, and limited medical and scheduled benefit plans through select distribution partners. Beginning in 2012, Independence American entered the pet insurance market through a national distributor with a long history in this niche. Standard Security Life s limited medical product is primarily purchased by hourly workers and others who are generally not eligible for coverage under their employer s group medical plan. Madison National Life and Independence American offer limited and scheduled benefit plans primarily to uninsured consumers. 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. The Company has a large, minority position in a MGU that specializes in marketing stop-loss plans to the fewer than 100 employee market. The leadership team of this MGU has years of experience in marketing similar plans for a competitor in certain states whose health care laws were a model for federal health reform.

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

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

On March 5, 2010, IHC acquired a controlling interest in AMIC. Upon achieving control AMIC s income and expense amounts became consolidated with IHC s results. Accordingly, the individual line items on the Consolidated Statement of Operations for 2011 and 2010 reflect the operations of AMIC with no corresponding amounts for 2009.

The results of operations for the years ended December 31, 2011, 2010 and 2009, are summarized as follows (in thousands):

	2011	**2010**	**2009**
Revenues	$ 417,996	$ 435,368	$ 354,838
Expenses	399,498	399,116	372,940
Income (loss) from continuing operations before income taxes	18,498	36,252	(18,102)
Income taxes (benefits)	3,732	12,583	(10,669)
Income (loss) from continuing operations	14,766	23,669	(7,433)

Discontinued operations:			
Income (loss) from discontinued operations	-	(256)	301
Net income (loss)	14,766	23,413	(7,132)
(Income) loss from noncontrolling interests in subsidiaries	(1,763)	(1,676)	10
Net income (loss) attributable to IHC	$ 13,003	$ 21,737	$ (7,122)

.

Income from continuing operations of $.81 per share, diluted, for the year ended December 31, 2011, compared to $1.44 per share, diluted, for the year ended December 31, 2010. Net income for 2010 includes a $16.7 million after-tax gain on the bargain purchase of AMIC;

.

Consolidated investment yield (on an annualized basis) of 4.3% in 2011 compared to 4.6% in 2010;

.

Released $2.3 million of deferred income taxes relative to its investment in AMIC based on the Company s intention to adopt tax planning strategies to recover its investment in AMIC in a tax-free manner;

.

Increased ownership interest in AMIC to 78.4%;

.

In the fourth quarter of 2011, Standard Security Life entered into a coinsurance agreement effective in January 2012 and transferred approximately $143 million of group annuity reserves in the first quarter of 2012. For the year ended December 31, 2011, net realized investment gains were $8.7 million of which a significant portion resulted from sales of invested assets in anticipation of the transfer of assets in accordance with the terms of such agreement in the first quarter of 2012. As a result of such agreement, the Company wrote-off $4.6 million of deferred acquisition costs at December 31, 2011, which was more than offset by these net realized investment gains.

.

Book value of $15.91 per common share, an increase of 5.1% per common share from December 31, 2010. The increase is primarily a result of current period net income, the buy-back of IHC shares, and the acquisition of noncontrolling interests in AMIC, offset by 1,302,520 shares of IHC common stock issued during the period, primarily in exchanges for shares of AMIC.

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

.

The Medical Stop-Loss segment reported income from continuing operations before taxes of $9.0 million and $1.9 million for the years ended December 31, 2011 and 2010, respectively. The increase is primarily due to improved underwriting results in 2011 despite decrease in premiums earned;

o

Premiums earned decreased $6.7 million for the year ended December 31, 2011 when compared to 2010. The decrease in premiums earned is due to the cancellation of certain non-owned managing general underwriters in 2010;

o

The Company recorded a decrease in the loss ratio in the medical stop-loss line of business for the year ended December 31, 2011. The medical stop-loss results for 2011 have begun to show improved profit margins primarily as a result of business written in 2010 and 2011 performing better than that written in the prior periods and the run-out of poorly performing business by non-owned MGUs which were previously cancelled;

o

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

		2011		2010		2009
Premiums Earned	$	114,478	$	121,156	$	127,724
Insurance Benefits, Claims & Reserves		75,490		89,968		92,899
Expenses		34,047		32,404		34,069
Loss Ratio(A)		65.9%		74.3%		72.7%
Expense Ratio (B)		29.8%		26.7%		26.7%
Combined Ratio (C)		95.7%		101.0%		99.4%

(A)

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

(B)

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

(C)

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

.

The Fully Insured Health segment reported $7.7 million of income from continuing operations before taxes for the year ended December 31, 2011 as compared to $3.1 million for the year ended December 31, 2010;

o

Premiums earned increased $20.5 million year ended December 31, 2011 over the comparable periods in 2010. The increase is primarily due to increased retentions in certain lines of this business;

o

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

o

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

	2011	2010	2009
Premiums Earned	$ 141,322	$ 120,818	$ 84,698
Insurance Benefits, Claims & Reserves	89,040	81,676	58,500
Expenses	44,535	35,192	25,634
Loss Ratio	63.0%	67.6%	69.1%
Expense Ratio	31.5%	29.1%	30.2%
Combined Ratio	94.5%	96.7%	99.3%

o

The decrease in the loss ratio was primarily attributable to improved underwriting results due to a shift to more limited plans, lower utilization and claims and less exposure to large groups.

o

The underwriting expense ratio increased primarily as a result of an increase in general expenses.

.

Income before taxes from the Group disability, life, annuities and DBL segment decreased $4.9 million for the year ended December 31, 2011 compared to 2010 primarily as a result of the write-off of deferred acquisition costs in connection with the sale of group annuity contracts, offset by better loss ratios in the group term life line;

.

Income before taxes from the Individual life, annuities and other segment decreased $1.8 million for the year ended December 31, 2011 compared to the prior year primarily due to lower investment income;

.

Income before taxes from the Corporate segment decreased $29.0 million for the year ended December 31, 2011 compared to the prior year primarily due to the inclusion, in 2010, of a $27.8 million pre-tax gain as a result of the March 2010 acquired controlling interest in AMIC;

.

Net realized investment gains were $8.7 million for the year ended December 31, 2011 compared to $4.6 million in 2010. A significant portion of the net realized investment gains in 2011 resulted from sales of invested assets in anticipation of a transfer of assets in the first quarter of 2012 in accordance with the terms of a coinsurance agreement at December 31, 2011.

.

Other-than-temporary impairment losses recognized in earnings for the years ended December 31, 2011 and 2010 were $1.5 million and $3.8 million, respectively. In 2009, the Company recorded a $29.2 million pre-tax loss resulting from an other-than-temporary related to the Company s investment in AMIC due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC has been below IHC s carrying value; and

.

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

Gross Direct and Assumed Earned Premiums:	**2011**	**2010**	**2009**

Medical Stop-Loss	$	146,209	$	161,530	$	202,056
Fully Insured Health		209,174		207,409		190,895
Group disability; life, annuities and DBL		94,688		102,986		103,499
Individual life, annuities and other		35,470		34,549		31,096
	$	485,541	$	506,474	$	527,546

Net Premiums Earned:		**2011**		**2010**		**2009**
Medical Stop-Loss	$	114,478	$	121,156	$	127,724
Fully Insured Health		141,322		120,818		84,698
Group disability; life, annuities and DBL		50,698		55,828		54,896
Individual life, annuities and other		29,916		28,344		27,481
	$	336,414	$	326,146	$	294,799

Information pertaining to the Company's business segments is provided in Note 22 of Notes to Consolidated Financial Statements included in Item 8.

CRITICAL ACCOUNTING POLICIES

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

Insurance Premium Revenue Recognition and Policy Charges

Life

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

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

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

Health

Premiums for short-duration medical insurance contracts are intended to cover expected claim costs resulting from insured events that occur during a fixed period of short duration. The Company has the ability to cancel the annual contract or to revise the premium rates at the beginning of each annual contract period to cover future insured events.

Insurance premiums from annual health contracts are collected monthly and are recognized as revenue evenly as insurance protection is provided.

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

Insurance Reserves

The Company maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, where material, (including legal, other fees, and costs not associated with specific claims but related to the claims payment function) for reported and unreported claims incurred as of the end of each accounting period. These loss reserves are based on actuarial assumptions and are maintained at levels that are in accordance with GAAP. The Company s estimate of loss reserves represents management s best estimate of the Company s liability at the balance sheet date.

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

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

Management believes that the Company's methods of estimating the liabilities for insurance reserves provided appropriate levels of reserves at December 31, 2011. Changes in the Company's reserve estimates are recorded through a charge or credit to its earnings.

Life

For traditional life insurance products, the Company computes insurance reserves primarily using the net premium method based on anticipated investment yield, mortality, and withdrawals. These methods are widely used in the life insurance industry to estimate the liabilities for insurance reserves. Inherent in these calculations are management and actuarial judgments and estimates that could significantly impact the ending reserve liabilities and, consequently, operating results. Actual results may differ, and these estimates are subject to interpretation and change.

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

Interest Credited

Interest credited to policyholder funds represents interest accrued or paid on interest-sensitive life policies and investment policies. Amounts charged to operations (including interest credited and benefit claims incurred in excess of related policyholder account balances) are reported as insurance benefits, claims and reserves-life and annuity. Credit rates for certain annuities and interest-sensitive life policies are adjusted periodically by the Company to reflect current market conditions, subject to contractually guaranteed minimum rates.

Health

The Company believes that its recorded insurance reserves are reasonable and adequate to satisfy its ultimate liability. The Company primarily uses its own loss development experience, but will also supplement that with data from its outside actuaries, reinsurers and industry loss experience as warranted. To illustrate the impact that Loss Ratios have on the Company s loss reserves and related expenses, each hypothetical 1% change in the Loss Ratio for the health business (i.e., the ratio of insurance benefits, claims and settlement expenses to earned health premiums) for the year ended December 31, 2011, would increase reserves (in the case of a higher ratio) or decrease reserves (in the case of a lower ratio) by approximately $3.0 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves in the Consolidated Statement of Operations. Depending on the circumstances surrounding a change in the Loss Ratio, other pre-tax amounts reported in the Consolidated Statement of Operations could also be affected, such as amortization of deferred acquisition costs and commission expense.

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

	December 31, 2011		
	Claim Reserves	Policy Claims	Total Health Reserves
Medical Stop-Loss	$ 58,741	$ -	$ 58,741
Fully Insured Health	32,508	-	32,508
Group Disability	79,571	13,707	93,278
Individual Accident and Health and Other	8,222	238	8,460
	$ 179,042	$ 13,945	$ 192,987

	December 31, 2010		
	Claim Reserves	Policy Claims	Total Health Reserves
Medical Stop-Loss	$ 64,221	$ 117	$ 64,338
Fully Insured Health	34,540	-	34,540
Group Disability	74,675	15,958	90,633
Individual Accident and Health and Other	8,011	446	8,457
	$ 181,447	$ 16,521	$ 197,968

Medical Stop-Loss

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

The two primary assumptions underlying the calculation of loss reserves 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, reserves for Medical Stop-Loss are first set at the Projected Net Loss Ratio, which is set using assumptions developed using completed prior experience trended forward. The Projected Net Loss Ratio is the Company s best estimate of future performance until such time as developing losses provide a better indication of ultimate results.

While the Company establishes a best estimate of the Projected Net Loss Ratio, actual experience may deviate from this estimate. This was the case with the 2008, 2009 and 2010 underwriting years which deviated by 2.6, 0.6 and 0.3 Net Loss Ratio points, respectively. After the recorded reserve increase, it is reasonably likely that the actual experience will fall within a range up to five Net Loss Ratio points above or below the expected Projected Net Loss Ratio for the 2011 underwriting year at December 31, 2011. The impact of these reasonably likely changes at December 31, 2011, would be an increase in net reserves (in the case of a higher ratio) or a decrease in net reserves (in the case of a lower ratio) of up to approximately $2.7 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves in the 2011 Consolidated Statement of Operations.

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 by the MGUs that produce and administer this business to the Company s underwriting guidelines. Changes in these underlying factors are what determine the reasonably likely changes in the Projected Net Loss Ratio as discussed above.

Claim Development Patterns

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

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

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

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

Fully Insured Health

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

The primary assumption in the determination of fully insured reserves is that historical claim development patterns tend to be representative of future claim development patterns. Factors which may affect this assumption include changes in claim payment processing times and procedures, changes in product design, changes in time delay in submission of claims, and the incidence of unusually large claims. The reserving analysis includes a review of claim processing statistical measures and large claim early notifications; the potential impacts of any changes in these factors are minimal. The time delay in submission of claims tends to be stable over time and not subject to significant volatility. Since our analysis considered a variety of outcomes related to these factors, the Company does not believe that any reasonably likely change in these factors will have a Material Effect.

Group Disability

The Company s Group Disability segment is comprised of Long Term Disability (LTD) and Disability Benefits Law (DBL). The two primary assumptions on which Group Disability reserves are based are: (i) morbidity levels; and (ii) recovery rates. If morbidity levels increase, for example due to an epidemic or a recessionary environment, the Company would increase reserves because there would be more new claims than expected. In regard to the assumed recovery rate, if disabled lives recover more quickly than anticipated then the existing claims reserves would be reduced; if less quickly, the existing claims reserves would be increased. Advancements in medical treatments could affect future recovery, termination, and mortality rates. With respect to LTD only, other assumptions are: (i) changes in market interest rates; (ii) changes in offsets; (iii) advancements in medical treatments; and (iv) cost of living. Changes in market interest rates could change reserve assumptions since the payout period could be as long as 40 years. Changes in offsets such as Social Security benefits, retirement plans and state disability plans also impact reserving. As a result of the forgoing assumptions, it is possible that the historical trend may not be an accurate predictor of the future development of the block. As with most long term insurance reserves that require judgment, the reserving process is subject to uncertainty and volatility and fluctuations may not be indicative of the claim development overall.

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

Individual Accident and Health and Other

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

Deferred Acquisition Costs

Costs that vary with and are primarily related to acquiring insurance policies and investment type contracts are deferred and recorded as deferred policy acquisition costs ("DAC"). These costs are principally broker fees, agent commissions, and the purchase prices of the acquired blocks of insurance policies and investment type contracts. DAC is amortized to expense and reported separately in the Consolidated Statements of Operations. All DAC within a particular product type is amortized on the same basis using the following methods:

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

For long duration type contracts, such as annuities and universal life business, amortization of DAC is charged to expense over the life of the underlying contracts based on the present value of the estimated gross profits ("EGPs") expected to be realized. EGPs consist of margins based on expected mortality rates, persistency rates, interest rate spreads, and other revenues and expenses. The Company regularly evaluates its EGPs to determine if actual experience or other evidence suggests that earlier estimates should be revised. If the Company determines that the current assumptions underlying the EGPs are no longer the best estimate for the future due to changes in actual versus expected mortality rates, persistency rates, interest rate spreads, or other revenues and expenses, the future EGPs are updated using the new assumptions and prospective unlocking occurs. These updated EGPs are utilized for future amortization calculations. The total amortization recorded to date is adjusted through a current charge or credit to the Consolidated Statement of Operations.

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

Investments

The Company has classified all of its investments as either available-for-sale or trading securities. These investments are carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets for available-for-sale securities or as unrealized gains or losses in the Consolidated Statements of Operations for trading securities. Fixed maturities and equity securities available-for-sale totaled $880.4 million and $841.7 million at December 31, 2011 and 2010, 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 Operations, 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 Operations.

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, primarily all the securities in our portfolio classified in Level 2 or Level 3 in 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; (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 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. For fixed maturities, if the Company intends to sell a security, or it is more likely than not that it will be required to sell the security prior to recovery of the security s amortized cost basis, the entire difference between the security s amortized cost basis and its fair value at the balance sheet date is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Operations. 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 Operations, 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 in the Consolidated Balance Sheet.

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 and ability to hold a security, a loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Operations. For the purpose of other-than-temporary impairment evaluations, preferred stocks with maturities are treated in a manner similar to debt securities. Declines in the creditworthiness of the issuer of debt securities with both debt and equity-like features require the use of the equity model in analyzing the security for other-than-temporary impairment.

Goodwill and Other Intangible Assets

Goodwill carrying amounts are evaluated for impairment, at least annually, at the reporting unit level which is equivalent to an operating segment. If the fair value of a reporting unit is less than its carrying amount, further evaluation is required to determine if a write-down of goodwill is required. In determining the fair value of each reporting unit, we used an income approach, applying a discounted cash flow method which included a residual value. Based on historical experience, we make assumptions as to: (i) expected future performance and future economic conditions, (ii) projected operating earnings, (iii) projected new and renewal business as well as profit margins on such business, and (iv) a discount rate that incorporated an appropriate risk level for the reporting unit. Any impairment of goodwill would be charged to expense. No impairment charge for goodwill was required in 2011 or 2010. At December 31, 2009, the Company wrote-off $4.2 million of goodwill in connection with an other-than-temporary impairment loss related to its then equity method investment in AMIC. During 2010, the Company obtained a controlling interest in AMIC. See Note 2 in the Notes to Consolidated Financial Statements included in Item 8 of this report for further information.

Other intangible assets are amortized to expense over their estimated useful lives and are subject to impairment testing. Any impairment write-down of other intangible assets would be charged to expense. For the year ended December 31, 2009, selling, general and administrative expenses include the write-off of $5.1 million of previously capitalized software. See Note 11 in the Notes to Consolidated Financial Statements included in Item 8 of this report for further information regarding the impairment loss in 2009. No impairment charges for intangible assets were required in 2011 or 2010.

At December 31, 2011, 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 2011. The Company does not believe that an impairment of goodwill exists at this time.

If we experience a sustained decline in our results of operations and cash flows, or other indicators of impairment exist, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

Deferred Income Taxes

The provision for deferred income taxes is based on the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized by applying enacted statutory tax rates to temporary differences between amounts reported in the Consolidated Financial Statements and the tax bases of existing assets and liabilities. A valuation allowance is recognized for the portion of deferred tax assets that, in management's judgment, is not likely to be realized. 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

Acquisition of AMIC

On March 5, 2010, IHC acquired a controlling interest in AMIC as a result of the purchase of AMIC common stock in the open market. In determining the bargain purchase gain with regard to the acquisition of the controlling interest in

AMIC, IHC first recognized a gain of $2.2 million as a result of re-measuring its equity interest in AMIC to its fair value of $22.0 million immediately before the acquisition based on the closing market price of AMIC's common stock. Then, upon the acquisition of a controlling interest on March 5, 2010, the Company consolidated the net assets of AMIC. Accordingly, the Company determined the fair value of the identifiable assets acquired and liabilities assumed from AMIC on such date. The fair value of the net assets acquired exceeded the sum of: (i) the fair value of the consideration paid; (ii) the fair value of IHC s equity investment prior to the acquisition; and (iii) the fair value of the noncontrolling interests in AMIC, resulting in a bargain purchase gain of $25.6 million. The total gain, amounting to $27.8 million pre-tax, is included in gain on bargain purchase of AMIC on the Company s Consolidated Statement of Operations. This gain is a result of the quoted market price of AMIC being significantly less than the fair value of the net assets of AMIC. This disparity is due to the low trading volume in AMIC shares, and a discount on the shares traded due to a lack of control by minority shareholders. The fair value of the noncontrolling interests in AMIC was based on the closing market price of AMIC s common stock.

Prior to obtaining control, IHC recorded its investment in AMIC using the equity method. IHC recorded changes in its investment in AMIC in the Equity income from AMIC line in the Consolidated Statements of Operations. Upon achieving control, on March 5, 2010, AMIC s income and expense amounts became consolidated with IHC s results. Accordingly, the individual line items on the Consolidated Statement of Operations for 2010 reflect approximately ten months of the operations of AMIC and no corresponding amounts for 2009.

Results of Operations for the Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Information by business segment for the year ended December 31, 2011 and 2010 is as follows:

December 31, 2011 (In thousands)	**Premiums Earned**	**Net Investment Income**	**Equity Income From AMIC**	**Fee and Other Income**	**Benefits, Claims and Reserves**	**Amortization of Deferred Acquisition Costs**	**Selling, General and Administrative**	**Total**
Medical stop-loss	$ 114,478	4,399	-	4,620	75,490	-	39,024	$ 8,983
Fully Insured	141,322	1,429	-	25,149	89,040	21	71,147	7,692
Group disability, life, annuities and DBL	50,698	9,495	-	183	37,946	5,099	15,598	1,733
Individual life, annuities and other	29,916	23,492	-	4,695	36,386	6,449	14,879	389
Corporate	-	973	-	-	-	-	6,454	(5,481)
Sub total	$ 336,414	$ 39,788	$ -	$ 34,647	$ 238,862	$ 11,569	$ 147,102	13,316
Net realized investment gains								8,670
Other-than-temporary impairment losses								(1,523)
Interest expense								(1,965)
Income from continuing operations before income taxes								18,498
Income taxes								3,732
Income from continuing operations								$ 14,766

December 31,		**Net**	**Equity Income**	**Fee and**	**Benefits, Claims**	**Amortization of Deferred**	**Selling, General**	

2010	Premiums	Investment	From	Other	and	Acquisition	and	
(In thousands)	Earned	Income	AMIC	Income	Reserves	Costs	Administrative	Total
Medical stop-loss	$ 121,156	4,080	14	5,404	89,968	-	38,808	$ 1,878
Fully Insured	120,818	1,454	244	28,168	81,676	28	65,854	3,126
Group disability, life, annuities and DBL	55,828	9,668	22	454	41,440	497	17,389	6,646
Individual life, annuities and other	28,344	25,839	-	4,458	38,234	5,718	12,472	2,217
Corporate	-	760	-	27,830	-	-	5,120	23,470
Sub total	$ 326,146	$ 41,801	$ 280	$ 66,314	$ 251,318	$ 6,243	$ 139,643	37,337
Net realized investment losses								4,646
Other-than-temporary impairment losses								(3,819)
Interest expense								(1,912)
Income from continuing operations before income taxes								36,252
Income taxes								12,583
Income from continuing operations								$ 23,669

Premiums Earned

Premiums in 2011 include twelve months of earned premiums from AMIC of $72.4 million compared to ten months of earned premiums from AMIC of $61.6 million in 2010. Excluding these amounts, earned premiums decreased $.5 million. The decrease is primarily due to: (i) a $15.6 million net increase of premiums earned in the Fully Insured Health segment in 2011 primarily as a result of increased retentions in the major medical business for groups and individuals, short term medical and limited medical lines of business and increased volume in the major medical business for groups and individuals and limited medical lines, partially offset by a decrease in the student accident line as a result of the cancellation of a producer of this product; (ii) an increase of $1.6 million of earned premiums in the Individual life, annuities and other segment primarily as a result of the ceding of certain ordinary life and annuity business during 2010, in part offset by reduced production of annuity contracts; more than offset by (iii) a $12.3 million decrease in the Medical Stop-Loss segment primarily due to the cancellation of non-owned managing general underwriters in 2010; and (iv) a $5.4 million decrease in the Group disability, life, annuities and DBL segment primarily due to lower production and reduced rates in the DBL line and the discontinuance of the point of service line.

Net Investment Income

Total net investment income decreased $2.0 million. The overall annualized investment yields were 4.3% and 4.6% (approximately 4.4% and 4.8%, on a tax advantaged basis) for 2011 and 2010, respectively. The overall decrease was primarily a result of a decrease in investment income on bonds, equities and short-term investments due to lower yields and the shorter duration of our portfolio. IHC has approximately $273.3 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.

Net Realized Investment Gains and Other-Than-Temporary Impairment Losses, Net

The Company had net realized investment gains of $8.7 million in 2011 compared to $4.6 million in 2010. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period. A significant portion of the net realized investment gains in 2011 resulted from sales of invested assets in anticipation of a transfer of assets in the first quarter of 2012 in accordance with the terms of a coinsurance agreement at December 31, 2011. Net realized investment gains in 2010 were reduced by an additional loss of $3.3 million resulting from discussions in the fourth quarter of 2010 with the trustee in bankruptcy pertaining to the resolution of claims related to the non-affiliate broker-dealer that managed the trading accounts of the Company in 2008. The $3.3 million pre-tax loss consisted of: (i) the reversal of $.5 million of anticipated SIPC recoveries initially recorded by a subsidiary of IHC; (ii) the reversal of $.5 million of anticipated SIPC recoveries initially recorded by AMIC; and (iii) an additional $2.3 million of withdrawals by IHC and AMIC deemed subject to return. See Note 8 in the Notes to Consolidated Financial Statements included in the Item 8 of this report for more information about net realized investment gains and losses.

For the year ended December 31, 2011 and 2010, the Company recorded $1.5 million and $3.8 million, respectively, of other-than-temporary impairment losses in earnings, pre-tax. In 2011, other-than-temporary impairment losses recognized in earnings consist of $1.3 million of credit losses resulting from expected cash flows of debt securities that are less than the debt securities amortized cost and $.2 million of losses resulting from the Company s intent to sell certain corporate debt securities prior to the recovery of their amortized cost bases. In 2010, other-than-temporary impairment losses recognized in earnings consist of $3.1million of credit losses resulting from expected cash flows of debt securities that are less than the debt securities amortized cost and $.7 million resulting from the Company s intent to sell certain municipal debt securities prior to the recovery of their amortized cost bases.

Fee Income and Other Income

Fee income decreased $4.1 million primarily as a result of the lower volume of business in the Medical Stop-Loss segment and certain lines of the Fully Insured Health segment.

Total other income for 2011 remained comparable to other income for 2010.

Insurance Benefits, Claims and Reserves

Benefits, claims and reserves in 2011 includes twelve months of benefits, claims and reserves from AMIC of $47.8 million compared to ten months of benefits, claims and reserves from AMIC of $42.0 million in 2010. Excluding these amounts, benefits, claims and reserves decreased $18.2 million. The decrease is primarily attributable to: (i) a decrease of $16.4 million in the Medical Stop-Loss segment, largely resulting from a decrease in premiums earned and improved loss ratios; (ii) a $3.7 million decrease in the Group disability, life, annuities and DBL segment largely as a result of lower loss ratios on the GTL line of business and a decrease in the point of service line which has been discontinued; and (iii) a $1.8 million decrease in the Individual life, annuity and other segment primarily resulting from a decrease in individual annuity contracts in 2011; partially offset by (iv) an increase of $3.7 million in the Fully Insured Health segment, principally due to the increase in premiums on the major medical business for groups and individuals and the limited medical line of business, partially offset by a decrease in short term medical business due to improved experience and a decrease in the student accident line resulting from a lower volume of business due to the cancellation of a producer of this product.

Amortization of Deferred Acquisition Costs

On December 31, 2011, the Company wrote-off $4.6 million of deferred acquisition costs in connection with a coinsurance agreement that is effective in the first quarter of 2012. Excluding this write-off, amortization of deferred acquisition costs increased $.8 million.

-

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2011 include twelve months of expenses from AMIC of $28.0 million compared to ten months of expenses from AMIC of $23.1 million in 2010. Excluding these amounts, selling, general and administrative expenses increased $2.6 million. The increase is primarily due to: (i) a $3.2 million decrease in commissions and other general expenses in the Medical Stop-Loss segment due to a decrease in volume as a result of reduced production; (ii) a $1.9 million decrease in the Group disability, life, annuities and DBL segment; more than offset by (iii) a $4.5 million increase in the Fully Insured Health segment largely due to an increase in commissions as a result of increased retentions in the major medical business for groups and individuals, short term medical and limited medical lines of business in 2011 combined with administrative expenses resulting from the increased volume of major medical business for groups and individuals and limited medical business; (iv) a $2.4 million increase in the Individual life, annuity and other segment related to the increase in premium volume of the ordinary life and annuity business; and (v) a net increase of $.8 million in corporate selling, general and administrative expenses.

Income Taxes

In 2011, IHC eliminated $2.3 million of previously recorded deferred income taxes due to management s intention to adopt tax planning strategies to recover its investment in AMIC in a tax-free manner. In addition, under the above assumptions, IHC did not record deferred taxes in 2011 relative to its share of earnings from its investment in AMIC, as it had in prior years, also resulting in a lower effective tax rate in the current year. Excluding this transaction, the effective tax rate for the year ended December 31, 2011 was 32.4% compared to 34.8% in 2010. The high effective tax rate in 2010 is primarily attributable to higher jurisdictional tax rates on the gain related to the AMIC acquisition in 2010.

Results of Operations for the Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

Information by business segment for the years ended December 31, 2010 and 2009 is as follows:

December 31, 2010 (In thousands)	Premiums Earned	Net Investment Income	Equity Income From AMIC	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General and Administrative	Total
Medical stop-loss	$ 121,156	4,080	14	5,404	89,968	-	38,808	$ 1,878
Fully Insured	120,818	1,454	244	28,168	81,676	28	65,854	3,126
Group disability, life, annuities and DBL	55,828	9,668	22	454	41,440	497	17,389	6,646
Individual life, annuities and other	28,344	25,839	-	4,458	38,234	5,718	12,472	2,217
Corporate	-	760	-	27,830	-	-	5,120	23,470
Sub total	$ 326,146	$ 41,801	$ 280	$ 66,314	$ 251,318	$ 6,243	$ 139,643	37,337
Net realized investment gains								4,646
Other-than-temporary impairment losses								(3,819)
Interest expense								(1,912)
Income from continuing operations before income taxes								36,252
Income taxes								12,583
Income from continuing operations								$ 23,669

December 31, 2009 (In thousands)	Premiums Earned	Net Investment Income	Equity Income From AMIC	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General and Administrative	Total
Medical stop-loss	$ 127,724	3,690	786	921	92,899	-	36,513	$ 3,709
Fully Insured	84,698	789	387	30,101	58,500	28	65,255	(7,808)
Group disability, life, annuities and DBL	54,896	9,657	116	323	39,270	364	18,251	7,107

Individual life, annuities and other	27,481	28,070	-	5,087	34,565	5,127	14,644	6,302
Corporate	-	1,314	-	-	-	-	4,707	(3,393)
Sub total	$ 294,799	$ 43,520	$ 1,289	$36,432	$225,234	$ 5,519	$ 139,370	5,917
Net realized investment gains								8,789
Other-than-temporary impairment losses								(29,991)
Interest expense								(2,817)
Loss from continuing operations before income tax benefits								(18,102)
Income tax benefits								(10,669)
Loss from continuing operations								$ (7,433)

<u>Premiums Earned</u>

Premiums earned in 2010 include $61.6 million of earned premiums related to the consolidation of AMIC with no comparable amounts in 2009. Excluding these amounts, earned premiums in 2010 decreased by $30.3 million compared to 2009. The decrease is primarily due to: (i) a $39.5 million decrease in the Medical Stop-Loss segment primarily due to reduced production from the termination of certain non-owned managing general underwriters and market conditions; and (ii) a $1.8 million decrease in the Group disability, life, annuities and DBL segment primarily resulting from a $1.3 million decrease in group term life business, a $1.8 million net decrease in point of service and other lines of this segment, offset by an increase of 1.3 million in the LTD line due to new business written; partially offset by (iii) a $10.1 million increase in premiums earned in the Fully Insured Health segment comprised primarily of a

$4.0 million increase in dental premiums and a $4.4 million increase in small group premiums as a result of both increased production and increased retention, and a $4.2 million net increase in other lines of this segment due to increased production, principally in the limited medical and vision lines, offset by a $2.5 million decrease in student accident premiums as a result of the cancellation of a producer of this product; and (iv) a $.9 million increase in premiums earned in the Individual life, annuities and other segment.

Net Investment Income

Total net investment income decreased $1.7 million. The overall annualized investment yields were 4.6% and 5.1% (approximately 4.8% and 5.3%, on a tax advantaged basis) for 2010 and 2009, respectively. The annualized investment yields on bonds, equities and short-term investments were 4.5% and 4.9% in 2010 and 2009, respectively. The decrease in investment income is due to a decrease in yields and the shorter duration of our portfolio. IHC has approximately $164.5 million in highly rated shorter duration securities earning on average 1.4%. A portfolio that is shorter in duration enables us, if we deem prudent, the flexibility to reinvest in higher yielding longer-term securities in an increasing interest rate environment.

Net Realized Investment Gains and Other-Than-Temporary Impairment Losses, Net

Net realized investment gains decreased $4.2 million in 2010. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale, trading securities and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period. Net realized investment gains in 2010 were reduced by an additional loss of $3.3 million resulting from discussions in the fourth quarter of 2010 with the trustee in bankruptcy pertaining to the resolution of claims related to the non-affiliate broker-dealer that managed the trading accounts of the Company in 2008. The $3.3 million pre-tax loss consisted of: (i) the reversal of $.5 million of anticipated SIPC recoveries initially recorded by a subsidiary of IHC; (ii) the reversal of $.5 million of anticipated SIPC recoveries initially recorded by AMIC; and (iii) an additional $2.3 million of withdrawals by IHC and AMIC deemed subject to return. A settlement agreement was entered into with the trustee in the first quarter of 2011 and payment by the Company is expected to be made on or before July, 15, 2011. See Note 8 in the Notes to Consolidated Financial Statements included in the Item 8 of this report for more information about net realized investment gains and losses.

Other-than-temporary impairment losses in 2010 consist of $3.1 million of credit losses resulting from expected cash flows of debt securities that are less than the debt securities amortized cost and $.7 million resulting from the Company s intent to sell certain municipal debt securities prior to the recovery of their amortized cost bases. Other-than-temporary impairment losses in 2009 consist of $29.2 million related to an other-than-temporary impairment of the Company s investment in AMIC due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC was below IHC s carrying value and $.8 million resulting from the Company s intent to sell certain securities prior to the recovery of their amortized cost bases. See the discussion above related to the offsetting bargain purchase gain related to the acquisition of AMIC in March 2010.

Fee Income and Other Income

Fee income in 2010 includes $5.8 million of fee income related to the consolidation of AMIC with no comparable amounts in 2009. Excluding these amounts, fee income in 2010 decreased by $2.4 million compared to 2009. The decrease is primarily a result of decreased profit commissions and a lower volume of other fully-insured business administered by IHC Administrative Services.

Excluding amounts generated by AMIC, other income in 2010 decreased by $1.4 million compared to 2009. In 2009, other income includes income resulting from the commutation of a block of business.

Insurance Benefits, Claims and Reserves

Benefits, claims and reserves in 2010 include $42.0 million of benefits, claims and reserves related to the consolidation of AMIC with no comparable amounts in 2009. Excluding these amounts, benefits, claims and reserves in 2010 decreased by $15.9 million compared to 2009. The decrease is primarily attributable to: (i) a $26.8 million decrease in the Medical Stop-Loss segment, largely resulting from a decrease in premiums earned; partially offset by (ii) an increase of $6.6 million in the Fully Insured Health segment, principally due to increases in claims and reserves on dental, small group, short term medical, limited medical and vision lines of business partially offset by a decrease in student accident reserves as a result of a lower volume of business; (iii) a $3.7 million increase in the Individual life, annuity and other segment primarily resulting from an increase in individual annuity contracts in 2010 and an increase in ordinary life and annuities over 2009 levels due to the commutation of reserves in 2009; and (iv) an increase of $.6 million in the Group disability, life, annuities and DBL segment largely as a result of higher claims on the group term life line of business offset by a decrease in the point of service line.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs increased $.7 million.

-

Interest Expense on Debt

Interest expense decreased $.9 million primarily as a result of principal repayments and lower interest rates.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2010 include $23.1 million of AMIC related expenses with no comparable amounts in 2009. Excluding AMIC expenses, total selling, general and administrative expenses in 2010 decreased by $22.9 million compared to 2009. The decrease is primarily due to: (i) an $8.6 million decrease in commissions and other general expenses in the Medical Stop-Loss segment due to a decrease in volume as a result of reduced production; (ii) an $9.6 million decrease in the Fully Insured Health segment largely due to a decrease in general expenses as a result of lower business volume and a reduction in work force, (iii) a $1.6 million decrease in the Group disability, life, annuities and DBL segment primarily due to decreased premiums in the group term life and point of service lines; (iv) a $2.2 million decrease in commission, other general and administrative expenses associated with the Individual life, annuities and other segment, partially related to the ceding of a block of life and annuity business in 2009; and (v) a $.9 million decrease in corporate general and administrative expenses.

Income Taxes

Income tax expense increased primarily as the result of the gain recorded on the acquisition of a controlling interest in AMIC in the first quarter of 2010. The effective tax rate was 34.8% for the year ended 2010 compared to (59.0%) for the year ended 2009. In 2009, the effective tax rate is the result of (i) tax expense on pre-tax income generated by the life companies; more than offset by (ii) tax benefits derived from tax exempt interest and dividend received deductions as a result of the Company's investments in both state and political subdivisions and preferred securities; and (iii) tax benefits on pre-tax losses from the non-life businesses which have higher effective rates due to state tax benefits.

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. In the fourth quarter of 2011, the Insurance Group was reorganized such that Madison National Life and Standard Security Life became sister companies under a common Corporate parent company, whereas prior Standard Security Life was a wholly owned subsidiary of Madison National Life. The Insurance Group declared and paid $2,000,000, $3,450,000 and $3,000,000 of cash dividends to Corporate in 2011, 2010 and 2009, respectively.

In 2011, the Company amended its amortizing term loan increasing it by $2.5 million to $10.0 million.

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

Cash Flows

As of December 31, 2011, the Company had $18.2 million of cash and cash equivalents compared with $11.4 million as of December 31, 2010.

For the year ended December 31, 2011, operating activities provided net cash of $27.9 million which was offset by the $24.2 million of net cash used by investing activities.

The Company has $458.7 million of insurance reserves that it expects to ultimately pay out of current assets and cash flows from future business. If necessary, the Company could utilize the cash received from maturities and repayments of its fixed maturity investments if the timing of claim payments associated with the Company's insurance resources does not coincide with future cash flows. For the year ended December 31, 2011, cash received from the maturities and other repayments of fixed maturities was $158.7 million.

Financing activities for the year ended December 31, 2011 provided $3.1 million, primarily consisting of proceeds from debt and investment-type insurance contracts, net of dividends paid, repurchases of common stock and cash used to purchase additional noncontrolling interests in majority-owned subsidiaries, among other items.

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

Total investments increased $13.2 million during the year ended December 31, 2011 largely due to $13.1 million in pre-tax unrealized gains on available-for-sale securities.

The Company had net receivables from reinsurers of $119.7 million at December 31, 2011. All of such reinsurance receivables are either due from highly rated companies or are adequately secured. No allowance for doubtful accounts was necessary at December 31, 2011.

On December 31, 2011, the Company wrote-off $4.6 million of deferred acquisition costs in connection with a coinsurance agreement effective in the first quarter of 2012.

Other assets decreased $11.2 million primarily as a result of a decrease in tax assets.

In 2011, the Company amended its amortizing term loan increasing it by $2.5 million to $10.0 million.

The increase in total equity is primarily the result of net income and the net change in unrealized gains on investment securities. In 2011, the Company acquired shares of AMIC, in multiple transactions, from noncontrolling interests with an aggregate value of $12.6 million, in exchange for the aggregate issuance of IHC common stock valued at $11.5 million and $1.0 million cash. These AMIC transactions, in addition to other less significant capital transactions, resulted in an increase to IHC s stockholders equity and a decrease in the equity attributable to noncontrolling interests.

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 $5.3 million at December 31, 2011, approximately 97.6% 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, 2011, approximately 2.4% (or $20.2 million) of the carrying value of fixed maturities was invested in non-investment grade fixed maturities (primarily mortgage securities) (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, 2011.

At December 31, 2011, the Company had $19,430,000 invested in whole loan CMOs backed by Alt-A mortgages. Of this amount, 44% were in CMOs that originated in 2005 or earlier and 56% were in CMOs that originated in 2006. The Company s mortgage security portfolio has no direct exposure to sub-prime mortgages. The unrealized losses for the equity securities was primarily due to wider spreads from preferred stocks issued by financial institutions following the disruption in credit markets since the time of their acquisition. Some of these financial institutions have exposure to sub-prime mortgages.

Approximately 1.9% of fixed maturities, primarily municipal obligations, in our investment portfolio are insured by financial guaranty insurance companies. The purpose of this insurance is to increase the credit quality of the fixed maturities and their credit ratings. If the obligations of these financial guarantors ceased to be valuable, either through a credit rating downgrade or default, these debt securities would likely receive lower credit ratings by the rating agencies that would reflect the creditworthiness of the various obligors as if the fixed maturities were uninsured. The following table summarizes the credit quality of our fixed maturity portfolio as rated, and as rated if the fixed maturities were uninsured, at December 31, 2011:

Bond Ratings	As Rated	As Rated If Uninsured
AAA	20.3%	19.7%
AA	55.6%	55.5%
A	19.6%	19.6%
BBB	2.1%	2.8%
Total Investment Grade	97.6%	97.6%
BB or lower	2.4%	2.4%
Total Fixed Maturities	100.0%	100.0%

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

The Company reviews its investments regularly and monitors its investments continually for impairments, as discussed in Note 1(E) (vi) of the Notes to Consolidated Financial Statements in Item 8 of this report. For the years ended December 31, 2011 and 2010 the Company recorded losses of $2.5 million and $3.8 million, respectively, for other-than-temporary impairments on available-for-sale securities. Of those impairment losses, $1.5 million and $3.8 million, respectively, were recognized in earnings for the years ended December 31, 2011 and 2010. In 2011, $.9 million of impairment losses were recognized in other comprehensive income. The following table summarizes the carrying value of securities with fair values less than 80% of their amortized cost at December 31, 2011 by the length of time the fair values of those securities were below 80% of their amortized cost (in thousands):

	Less than 3 months	Greater than 3 months, less than 6 months	Greater than 6 months, less than 12 months	Greater than 12 months	Total
Fixed maturities	$ -	$ -	$ 262	$ 910	$ 1,172
Equity securities	-	-	-	-	
Total	$ -	$ -	$ 262	$ 910	$ 1,172

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, 2011. In 2011, the Company experienced $13.1 million of unrealized gains (including $.9 million of other-than-temporary impairment losses recorded in other comprehensive income during the year), which was offset by $3.4 million of deferred taxes and $2.5 million of allocated deferred policy acquisition costs. 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, 2011, total goodwill was $50.3 million, of which $44.6 million was attributable to the Fully Insured Health segment and $5.7 million to the Medical Stop Loss segment.

Based upon the goodwill impairment testing performed at December 31, 2011, the fair value of each reporting unit exceeded its carrying value and no impairment charge was required. Fair value exceeded carrying value by 10% or more in both the Fully Insured Health and the Medical Stop Loss segments.

In determining the fair value of each reporting unit, we used an income approach, applying a discounted cash flow method which included a residual value. Based on historical experience, we 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. As a result of the global economic crisis that began in 2008, we experienced a significant decline in our stock price. Due to this significant decline, our market capitalization as of December 31, 2011 was significantly 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 2011, 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 56% 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. The Company will continue to monitor IHC s book value against market capitalization to determine whether an interim test of goodwill is warranted. 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.

Health Reserves

The following table summarizes the prior year net favorable amount incurred in 2011 according to the year to which it relates, together with the opening reserve balance (net of reinsurance recoverable) to which it relates (in thousands):

	Reserves at January 1, 2011	Prior Year Amount Incurred in 2011
Total Reserves		
2010	$ 82,841	$ (8,701)
2009	12,408	(1,193)
2008	4,628	125
2007 and Prior	15,367	2,277
Total	$ 115,244	$ (7,492)

The following sections describe, for each segment, the unfavorable (favorable) development experienced in 2011, together with the key assumptions and changes therein affecting the reserve estimates.

Medical Stop-Loss

The Company experienced net favorable development of $2.6 million in the Medical Stop-Loss segment. The favorable development was the result of on-going analysis of recent loss development trends primarily attributable to improvements on the direct written business in the 2009 treaty year and the business assumed from other carriers in the 2007 treaty year.

Fully Insured Health

The Fully Insured Health segment had a favorable development of $2.3 million. The Company experienced a $1.7 million favorable variance related to 2010 reserves primarily on the group major medical business.

Group Disability

The Group Disability segment had a favorable development of $2.4 million. This amount consists of a favorable development of $4.5 million on the 2010 reserves, primarily due to DBL ($.9 million) and LTD ($3.4 million), and a net unfavorable development of $.9 million for all other years.

Due to the long-term nature of LTD, in establishing loss reserves the Company must make estimates for case reserves, incurred but not reported 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 reserve estimates from year to year. However, there were no individual factors in 2011 that caused the favorable development in LTD. With respect to DBL, reserves for the most recent quarter of earned premium are 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. Reserves 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. The favorable development in the DBL line is due to lower than expected claims.

There were normal fluctuations to the Company's experience factor. The IBNR factors were updated to reflect the current experience. The reserving process used by management was consistent from 2010 to 2011.

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 November 2004, December 2003 and March 2003, the Company borrowed $15.0 million, $12.0 million and $10.0 million, respectively, through pooled trust preferred issuances by unconsolidated subsidiary trusts. In August 2009, the outstanding line of credit was cancelled and converted into an amortizing term loan. In 2011 the term loan was amended and increased from $7.5 million to $10.0 million. See Note 14 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, 2011 (in thousands):

	Debt	Junior Subordinated Debt	Interest On Debt	Leases	Insurance Reserves	Funds on Deposit	Total
2012	$ 2,000	$ -	$ 2,103	$ 3,237	$ 137,199	$ 35,129	$ 179,668
2013	2,000	-	2,004	2,620	39,471	33,241	79,336
2014	2,000	-	1,905	2,370	31,918	31,490	69,683
2015	2,000	-	1,806	2,313	28,053	29,606	63,778
2016	2,000	-	1,707	2,037	26,057	28,016	59,817
2017 and Thereafter	-	38,146	28,452	1,254	195,980	259,828	523,660
Totals	$ 10,000	$ 38,146	$ 37,977	$ 13,831	$ 458,678	$ 417,310	$ 975,942

OUTLOOK

For 2012, we will continue to emphasize:

.

Adapting to health care reform by continuing to proactively adjust our distribution strategies and mix of Fully Insured Health products to take advantage of changing market demands.

.

Leveraging our strategy of directly distributing our Medical Stop-Loss products through Risk Solutions to organically generate or acquire additional Medical Stop-Loss business while continuing to improve the profitability of the block. In addition, we will retain all the risk written by our carriers through Risk Solutions, subject to customary excess coverage. This increase in net retained premiums has been made possible by our increased capital base.

.

Closely monitoring the experience in our Group disability, life annuities and DBL business.

.

Continuing to increase the efficiency of our administrative companies.

The Company remained highly liquid in 2011 with a shorter duration portfolio. As a result, the yields on our investment portfolio were, and continue to remain, lower than in prior years and investment income may continue to be depressed for the balance of the year. IHC has approximately $273.3 million in highly rated shorter maturity securities 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. 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.

In the fourth quarter of 2011, Standard Security Life entered into a coinsurance agreement with an unaffiliated reinsurer effective January 26, 2012 and transferred approximately $143.4 million of group annuity reserves in the first quarter of 2012.

At December 31, 2011, IHC owned approximately 78% of the outstanding common stock of AMIC.

We will continue to focus on our strategic objectives, including expanding our distribution network. However, the success of a portion of our Fully Insured Health business may be affected by the passage of the Patient Protection and Affordable Care and Education Reconciliation Act of 2010 signed by President Obama in March 2010, and its subsequent interpretations by state and federal regulators and its possible revision by the newly-elected Congress. The National Association of Insurance Commissioners has now issued its proposed regulations. The regulations proposed to-date (including those mandating minimum loss ratios) seem to have validated our strategy of pursuing niche lines of business across many states utilizing multiple carriers. We have begun a comprehensive review of all the options for IHC and we are continuing a thorough evaluation of our options for those health insurance products that may be affected. Although the law will generally require insurers to operate with a lower expense structure for major medical plans in the small employer and individual markets, the law appears to make exceptions for carriers, such as ours, that have a minimal presence in any one state. Non-essential lines of business and Medical Stop-Loss have been impacted by health care reform minimally or not at all.

Our results depend on the adequacy of our product pricing, our underwriting and the accuracy of our reserving methodology, returns on our invested assets and our ability to manage expenses. Therefore, factors affecting these items, including 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 assuming immediate changes in interest rates at specified levels at December 31, 2011:

	Change in Interest Rates				
	200 basis point rise	**100 basis point rise**	**Base scenario**	**100 basis point decline**	**200 basis point decline**
Corporate securities	$ 293,734	$ 307,856	$ 323,140	$ 337,261	$ 346,115
CMO s	35,130	36,178	37,313	38,458	39,152
U.S. Government obligation	146,325	155,987	166,582	177,009	184,239
Agency MBS	554	569	585	596	596
GSE	52,340	55,853	59,851	64,406	69,583
State & Political Subdivision	219,288	236,579	255,402	270,880	276,831
Total Estimated fair value	$ 747,371	$ 793,022	$ 842,873	$ 888,610	$ 916,516
Estimated change in value	$ (95,502)	$ (49,851)		$ 45,737	$ 73,643

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 60.

ITEM 9.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON

ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

IHC's Chief Executive Officer and Chief Financial Officer supervised and participated in IHC's evaluation of its disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in IHC's periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based upon that evaluation, IHC's Chief Executive Officer and Chief Financial Officer concluded that IHC's disclosure controls and procedures are effective.

Management Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(b) and 15d-15(f) promulgated under the Securities Exchange Act as a process designed by, or under the supervision of IHC's principal executive and principal financial officers and effected by IHC's board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that:

.

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

.

provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and

.

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of human error and the circumvention or overriding of controls, material misstatements may not be prevented or detected on a timely basis. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes and conditions or that the degree of compliance with policies or procedures may deteriorate. Accordingly, even internal controls determined to be effective can provide only reasonable assurance that information required to be disclosed in and reports filed under the Securities Exchange Act is recorded, processed, summarized and represented within the time periods required.

This annual report does not include an attestation report of IHC's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by IHC's registered public accounting firm pursuant to rules of the SEC that permit IHC to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There has been no change in IHC's internal control over financial reporting during the year ended December 31, 2011 that materially affected, or is reasonably likely to materially affect, IHC's internal control over financial reporting.

The Report of Management on Internal Control Over Financial Reporting is included in Item 8 of this Form 10-K.

ITEM 9B.

OTHER INFORMATION

None.

PART III

ITEM 10.

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of IHC s stockholders to be held in June 2012, which definitive proxy statement will be filed with the Securities and Exchange Commission (SEC).

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

ITEM 11.

EXECUTIVE COMPENSATION

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of IHC s stockholders to be held in June 2012, which definitive proxy statement will be filed with the SEC.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of IHC s stockholders to be held in June 2012, which definitive proxy statement will be filed with the SEC.

ITEM 13.

CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of IHC s stockholders to be held in June 2012, which definitive proxy statement will be filed with the SEC.

ITEM 14.

PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of IHC s stockholders to be held in June 2012, which definitive proxy statement will be filed with the SEC.

PART IV

ITEM 15.

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2)

See Index to Consolidated Financial Statements and Schedules on page 60.

(a) (3) EXHIBITS

See Exhibit Index on page 119.

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 15, 2012.

INDEPENDENCE HOLDING COMPANY

REGISTRANT

By:

/s/ Roy T. K. Thung

Roy T.K. Thung

President and

Chief Executive Officer

(Principal Executive Officer)

By:

/s/ Teresa A. Herbert

Teresa A. Herbert

Senior Vice President and

Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the 15th day of March, 2012.

/s/ Larry R. Graber Larry R. Graber Director and Senior Vice President	/s/ Steven B. Lapin Steven B. Lapin Director and Vice Chairman
/s/ Allan C. Kirkman Allan C. Kirkman Director	/s/ James G. Tatum James G. Tatum Director
/s/ David T. Kettig David T. Kettig Director, Chief Operating Officer and Senior Vice President	/s/ Roy T.K. Thung Roy T.K. Thung Chief Executive Officer, President and Chairman (Principal Executive Officer)
/s/ John L. Lahey John L. Lahey Director	

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

	PAGE
Report of Management on Internal Control Over Financial Reporting	61
CONSOLIDATED FINANCIAL STATEMENTS:	
Report of Independent Registered Public Accounting Firm	62
Consolidated Balance Sheets at December 31, 2011 and 2010	63
Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009	64
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009	65
Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009	66
Notes to Consolidated Financial Statements	67
SCHEDULES:*	
Summary of investments - other than investments in related parties at December 31, 2011 (Schedule I)	114
Condensed financial information of parent company (Schedule II)	115
Supplementary insurance information (Schedule III)	118

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

60

Report of Management on Internal Control Over Financial Reporting

The Board of Directors and Stockholders

Independence Holding Company:

The management of Independence Holding Company ("IHC") is responsible for establishing and maintaining adequate internal control over financial reporting. IHC's internal control system is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and fair presentation of published financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

Management assessed the effectiveness of IHC's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework.* Based on our assessment we concluded that, as of December 31, 2011, IHC's internal control over financial reporting is effective.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Independence Holding Company:

We have audited the accompanying consolidated balance sheets of Independence Holding Company and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2011. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedules I to III. These consolidated financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independence Holding Company and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

New York, New York

March 15, 2012

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31,

	2011	2010
ASSETS:	(In thousands, except share data)	
Investments:		
Short-term investments	$ 50	$ 53
Securities purchased under agreements to resell	17,258	41,081
Fixed maturities, available-for-sale	842,873	793,656
Equity securities, available-for-sale	37,541	48,073
Other investments	35,223	36,864
Total investments	932,945	919,727
Cash and cash equivalents	18,227	11,426
Due from securities brokers	12,106	15,022
Deferred acquisition costs	37,101	43,465
Due and unpaid premiums	37,341	48,586
Due from reinsurers	159,729	154,243
Premium and claim funds	43,604	37,646
Notes and other receivables	15,500	16,766
Goodwill	50,318	51,713
Other assets	51,988	63,198
TOTAL ASSETS	$ 1,358,859	$ 1,361,792
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Insurance reserves-health	$ 179,042	$ 181,447
Insurance reserves-life and annuity	279,636	278,000
Funds on deposit	417,310	408,566
Unearned premiums	4,319	4,043
Policy claims-health	13,945	16,521
Policy claims-life	11,948	11,809
Other policyholders' funds	21,546	20,195
Due to securities brokers	383	32,469
Due to reinsurers	40,030	31,554
Accounts payable, accruals and other liabilities	66,410	70,497
Liabilities related to discontinued operations	-	771
Debt	10,000	7,500
Junior subordinated debt securities	38,146	38,146
TOTAL LIABILITIES	1,082,715	1,101,518
STOCKHOLDERS' EQUITY:		

Preferred stock (none issued)	-	-
Common stock $1.00 par value, 20,000,000 shares authorized; 16,774,540 and 15,472,020 shares issued, 16,412,488 and 15,232,865 shares outstanding	16,775	15,472
Paid-in capital	111,814	101,003
Accumulated other comprehensive income	7,853	633
Treasury stock, at cost; 362,052 and 239,155 shares	(2,928)	(1,917)
Retained earnings	127,563	115,437
TOTAL IHC STOCKHOLDERS EQUITY	261,077	230,628
NONCONTROLLING INTERESTS IN SUBSIDIARIES	15,067	29,646
TOTAL EQUITY	276,144	