INDEPENDENCE HOLDING CO
Form 10-K
March 16, 2009

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, 2008

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

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

Large accelerated filer __

Accelerated filer X

Non-accelerated filer __

Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ___ No X

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of June 30, 2008 was $63,638,000.

15,418,269 shares of common stock were outstanding as of March 13, 2009.

Documents Incorporated by Reference

Portions of the Registrant s definitive proxy statement to be delivered (or made available, pursuant to applicable regulations) to stockholders in connection with the 2009 annual meeting of stockholders to be held in June 2009 are incorporated by reference in response to Part III of this Report.

FORM 10-K CROSS REFERENCE INDEX

PART IV

Forward-Looking Statements

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

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

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, also the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements that are included in this report, our inclusion of this information is not a representation by us or any other person that our objectives and plans will be achieved. Our forward-looking statements speak only as of the date made, and we will not update these forward-looking statements unless the securities laws require us to do so. In light of these risks, uncertainties and assumptions, any forward-looking event discussed in this report may not occur.

PART I

ITEM 1. BUSINESS

Business Overview

Independence Holding Company is a Delaware corporation (NYSE: IHC) that was formed in 1980. We are a holding company principally engaged in the life and health insurance business with principal executive offices located at 96 Cummings Point Road, Stamford, Connecticut 06902. We currently own a 49.7% equity interest in American Independence Corp. (NASDAQ:AMIC), which owns Independence American Insurance Company ("Independence American") and several managing general underwriters ("MGUs").

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

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

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

- Medical excess (or "stop-loss")
- Multiple fully insured health lines
- Group disability and life
- Individual life, primarily through block acquisitions

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

Our administrative companies underwrite, market, administer and/or price life and health insurance business for our owned and affiliated carriers, and, to a lesser extent, for non-affiliated insurance companies. They receive fees for these services and do not bear any of the insurance risk of the companies to which they provide services, other than through profit commissions or profit slides. Our principal administrative companies are Insurers Administrative Corporation (IAC), Majestic Underwriters, LLC ("Majestic"), Health Plan Administrators, Inc. (HPA), GroupLink Inc. (GroupLink), and Actuarial Management Corporation ("AMC"). AMIC's administrative companies are IndependenceCare Underwriting Services, Risk Assessment Strategies, and Voorhees Risk Management, d.b.a. Marlton Risk Group (collectively, the "AMIC MGUs").

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

For information pertaining to the Company's business segments, reference is made to Note 21 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

Our Philosophy

Our business strategy consists of maximizing underwriting profits through a variety of niche life and health insurance products and/or through distribution channels that enable us to access underserved markets or markets in which we believe we have a competitive advantage. Standard Security Life and Madison National Life focus 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. Independence American focuses on alternative distribution sources, such as captive agencies and direct-to-consumer initiatives. While our management considers a wide range of factors in its strategic planning and decision-making, underwriting profit is consistently emphasized as the primary goal in all decisions. We seek transactions that will generate fee income and profit commissions for our administrative operating companies as well as risk income for our insurance carriers, thereby permitting us to leverage IHC's vertically integrated organizational structure.

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.

As a result of our expansion into the Fully Insured Health Segment and our increased control of distribution through corporate acquisitions, we are now better able to respond to market cycles by redeploying the focus of our insurance underwriting activity across a larger number of business lines. During the soft medical stop-loss market that has persisted for the past five years, we have encouraged our owned and affiliated MGUs to be more selective in order to achieve better underwriting results. While we had seen improvement in our 2005 results, we recognized during 2007 that several of our MGUs had been less selective in their 2006 and 2007 business. As a result we terminated several non-owned MGUs in 2008 and reduced our retention on the business generated by others, and have been successful in improving our underwriting results. While we expect to see some decrease in our gross written stop-loss premiums, we anticipate greater fully insured health premiums both on a gross- and a net-retained basis, as we selectively retain more risk on certain programs. We are also benefiting from fee income from our administrative and sales companies, which is generally not subject to insurance risk.

DISTRIBUTION

Medical Stop-Loss

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

During 2008, Standard Security Life and Madison National Life wrote approximately 53.9% of their medical stop-loss business through Majestic, the AMIC MGUs and TRU Services (TRU) (collectively, the "Affiliated MGUs"). During 2008, we terminated three MGUs and did not appoint any new ones.

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

Fully Insured Health

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

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

IAC is a marketing and administration organization that has been underwriting and administering individual and group health insurance (including high-deductible employer-sponsored consumer driven health plans (CDHPs)) since its formation in 1978. IAC has approximately 300 salaried employees performing all aspects of underwriting, policy administration and managing fully insured group and individual health insurance on behalf of IHC and other carriers. IAC manages approximately $230 million of individual and group health and life premiums and premium equivalents for multiple insurers, including the STM business it manages for HPA.

HPA manages and (together with IAC) administers all of the STM products sold by Standard Security Life, Madison National Life and Independence American. HPA, which has specialized in STM since 1990, distributes nationally through appointed general agents, agents and broker relationships. IHC has also begun cross-selling STM through its other distribution sources (including IAC, GroupLink and the MGUs).

GroupLink manages and administers all of the dental business sold by Standard Security Life and Madison National Life. GroupLink has distributed dental and vision products nationally, primarily through a brokerage distribution system utilizing general agents and brokers, since 1983. GroupLink also administers dental business for alternative distribution such as dental HMO's and other marketing organizations, all of which are independent contractors compensated on a commission-only basis.

IHC Health Solutions distributes our group major medical, individual medical, STM and dental products through strategic relationships with other insurance carriers and by private-labeling our product for large, national marketing organizations. In March 2006, IHC Health Solutions acquired a block of approximately $50 million of small-group major medical business (including CDHPs) and the key personnel of a marketing and administration company. IHC Health Solutions currently employs approximately 35 sales and administrative staff personnel who promote our products and manage our marketing relationships.

In 2006, Standard Security Life introduced a limited medical policy for hourly workers and other currently uninsured Americans who cannot afford traditional health insurance. This product is primarily distributed for us by an agency which has been in this line of business since 1990. We introduced major medical insurance plans for individuals and families in 2007 through multiple distribution channels, including IAC, IHC Health Solutions and several strategic relationships. IAC currently administers a block of approximately $75 million of such business. IHC s carriers now reinsure a portion of the business administered by IAC that is not on IHC paper and, in some cases, receive a fee for overseeing the program. Our main emphasis in 2008 was on increasing profit margins and distribution of existing products. In 2009, we will move a block of $15 million of major medical plans for individuals and families, which has been administered by IAC for many years, from an unaffiliated insurance company to Standard Security Life.

The agents and brokers who produce the Fully Insured Health business are non-salaried contractors who receive commissions. IHC s gross earned premiums from this segment grew very quickly from 2005 to 2007, but were relatively flat in 2008. We anticipate that the rate of growth will continue to be relatively flat in 2009.

Other Products

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

The short-term statutory disability benefit product in New York State ("DBL") is marketed primarily through independent general agents who are paid commissions based upon the amount of premiums produced. Madison National Life's disability and group life products are primarily sold in the Midwest to school districts, municipalities and hospital employer groups through a managing general agent that specializes in these target markets. We also sell through independent general agents and agents.

For a number of years Madison National Life has sold a whole-life product with an annuity rider to military personnel and civil service employees. As a result of this experience, in 2008 Madison National Life formed a subsidiary, IHC Financial Group, to recruit agents to sell life and annuity products to state and federal employees. Since these products are currently not available through IHC s carriers, IHC Financial Group has contracted with highly rated insurance companies to sell their life and annuity products to these individuals. The income for IHC Financial Group is derived completely from commissions on the sale of the products of these other companies. The agents and brokers who produce this business are non-salaried contractors who receive commissions. We do not expect to earn significant income from this subsidiary in 2009, but do anticipate growth as we continue to recruit new agents. We anticipate that premiums from our whole-life and annuity rider product will be relatively constant in 2009.

PRINCIPAL PRODUCTS

Medical Stop-Loss

The Company is a leading writer nationally of excess or stop-loss insurance for self-insured employer groups that desire to manage the risk of large medical claims ("Employer Medical Stop-Loss"). We also write excess policies for providers, managed care organizations, including provider hospital organizations, hospital groups, physician groups and individual practice associations (collectively, "MCOs") that have assumed risk and desire to reduce their claim volatility ("Provider Excess Loss") and for health maintenance organizations ("HMOs") that desire to reduce their claim volatility ("HMO Reinsurance"). Employer Medical Stop-Loss, Provider Excess Loss and HMO Reinsurance are collectively referred to as "Medical Stop-Loss."

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

IHC anticipates some reduction in premiums in the Medical Stop-Loss line of business in 2009 due to the termination of certain employer medical stop-loss MGUs and even more stringent underwriting guidelines and the continuing consolidation of MCOs and reduced demand for Provider Excess Loss coverage.

Fully Insured Health Products

Group Major Medical

The Company began selling group major medical insurance (including CDHPs) primarily to small employers (two to 50 covered lives) during 2005, and significantly expanded its book of business in

2006 in large part as a result of an acquisition of a block of approximately $50 million. IHC markets this product in the majority of states. It is fully insured major medical coverage that is principally designed to work with health reimbursement accounts ("HRA") and health savings accounts ("HSA") which are implemented by employers that wish to provide this benefit as part of an employee welfare benefit plan. These plans are offered primarily as preferred provider organizations ("PPO") plans, and provide a variety of cost-sharing options, including deductibles, coinsurance and co-payment. CDHPs are designed to provide participants with economic incentives to be informed consumers of healthcare.

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

The Company anticipates a decrease in premiums in the small group line in 2009, primarily as a result of stricter underwriting guidelines and fewer groups purchasing major medical coverage as a result of current economic conditions. We do expect growth in plans associated with government-funded projects, primarily as a result of the recently enacted federal stimulus legislation, which will immediately provide funds for infrastructure improvements.

Short-Term Medical

As a result of the acquisition of HPA, IHC began selling individual major medical STM products ("STM") in 2005. During 2006, Standard Security Life underwrote this product in 45 states. STM is designed specifically for people with transient needs for health coverage. Typically, STM products are written as major medical coverage with a defined duration, which is normally twelve months or less. Among the typical purchasers of STM products are self-employed professionals, recent college graduates, persons between jobs, employed individuals not currently eligible for group insurance, and others who need insurance for a specified period of time. HPA, founded in 1939, has specialized in STM since 1990 and has access to approximately 30,000 insurance agents and brokers nationally. The Company has also begun promoting STM through its other distribution sources.

IHC lost market share in this line of business in 2008 as a result of rating actions which significantly improved profit margins. We anticipate modest growth in this line of business as a result of contemplated rating actions that will make this product more competitive while maintaining profitability targets.

Dental/Vision

Standard Security Life and Madison National Life began selling group dental products in late 2005 in the majority of states. GroupLink administers the majority of IHC's dental business and is also the primary distribution source of this line of business. The dental portfolio includes indemnity and PPO plans for employer groups of two or more lives and for individuals within affinity groups. Employer plans are offered on both employer paid and employee voluntary basis. Vision, group life and short-term disability benefits will also be offered by GroupLink. 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.

In 2007, Standard Security Life began writing vision policies in the State of New York on behalf of national vision providers. IHC does not control the distribution or underwriting of this product, and therefore it does not retain its normal share of the risk and does not earn administrative fee income, other than the carrier fee.

IHC anticipates continued growth in this line of business in future years as a result of organic growth at GroupLink, our vision programs in New York, a new small group vision product and additional distribution relationships for both dental and vision.

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, 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, primarily related to the aforementioned transfer of a block of $15 million of major medical plans for individuals and families, which has been administered by IAC for many years, from an unaffiliated insurance company to Standard Security Life.

Limited Medical

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

The Company began writing this product in 2007 and recorded $2.1 million of gross premiums in that year. In 2008, the Company recorded $4.8 million of gross premiums written and projects continued growth in 2009.

Student Medical

Standard Security Life and Madison National Life began selling student accident and student health insurance (collectively, Student Medical) in late 2007. The student accident product is primarily offered to sports, youth, recreational and educational markets. A number of states recommend, and some require, that school districts offer, or provide, student accident insurance to their pupils. The student health insurance product is primarily offered to students enrolled in college and higher education institutions, and often is mandatory for students who do not otherwise have health coverage. This product is comprehensive, major medical coverage, which often has a managed care component through the institutions health facilities.

IHC anticipates this line of business to remain steady in 2009 due to the cancellation of one production source offset by an expected increase in premiums from the remaining producers.

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 anticipates an increase in sales to school districts and municipalities as a result of the transfer of a block of business from another carrier. The Company is actively exploring opportunities to leverage its underwriting and administrative expertise to distribute life and disability products through its existing, as well as new, marketing relationships.

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 2008 due to a mandatory rate reduction which took effect in the first quarter of 2008. The Company anticipates premiums will be relatively flat in 2009.

Group Term Life and Annuities

Madison National Life and Standard Security Life sell group term life products, including group term life, accidental death and dismemberment ("AD&D"), supplemental life and supplemental AD&D and dependent life. As with its group disability business, IHC anticipates modest growth in this line of business through expansion of its sales of these group term life products through existing and new distribution sources. Standard Security Life anticipates modest growth in its specialized defined benefit and defined contribution service award programs, with separate group life coverage, to Volunteer Emergency Services personnel.

Individual Life, Annuities and Other

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

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

LIFE INSURANCE IN-FORCE

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

	2008	2007	2006
LIFE INSURANCE IN-FORCE:			
Group	$ 5,749,229	$ 6,226,441	$ 6,301,171
Individual term	495,075	582,009	660,965
Individual permanent	1,534,056	1,404,363	1,454,043
TOTAL LIFE INSURANCE IN-FORCE (1), (2)	$ 7,778,360	$ 8,212,813	$ 8,416,179
NEW LIFE INSURANCE:			
Group	$ 218,479	$ 418,889	$ 371,416
Individual term	482	7,000	7,743
Individual permanent	64,799	140,829	155,770
TOTAL NEW LIFE INSURANCE	$ 283,760	$ 566,718	$ 534,929

NOTES:

(1)	Includes participating insurance	$ 228,140	$ 164,863	$ 181,796
(2)	Before ceded reinsurance of:			
	Group	$ 2,228,998	$ 2,525,418	$ 3,099,049
	Individual	97,942	232,666	97,015
	Total ceded reinsurance	$ 2,326,940	$ 2,758,084	$ 3,196,064

ACQUISITIONS OF POLICY BLOCKS

In addition to its core life and health lines of business distributed as described above, IHC formed an acquisition group over 10 years ago to acquire blocks of business from other insurance companies, guaranty associations and liquidators. Most of the acquired business has primarily been life, annuities or disability business. 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.

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.

Madison National Life did not record any significant acquisitions in 2007.

During 2006, Madison National Life acquired a total of $8.0 million of reserves in the following transactions: (i) effective January 1, 2006, entered into an agreement with an unaffiliated insurer to 100% coinsure dental policies totaling approximately $0.1 million of reserves; (ii) effective October 1, 2006, entered into an agreement with an unaffiliated insurer to 100% coinsure life insurance policies totaling approximately $7.7 million of reserves; and (iii) effective October 1, 2006, entered into an agreement with an unaffiliated insurer to 100% coinsure life insurance policies totaling approximately $0.2 million of reserves.

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

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

In June 2004, IHC acquired a block of individual annuity and supplementary contracts and life policies through an assumption reinsurance transaction. The block had reserves of $26.6 million. Madison National Life assumed responsibility for administration of the block on September 1, 2004.

REINSURANCE AND POLICY RETENTION LIMITS

The Company's average retention of Medical Stop-Loss exposure was 55.9% in 2008, 52.8% in 2007, and 51.2% in 2006. In 2008, 2007 and 2006, Standard Security Life and Madison National Life also ceded, on average, 22.9%, 22.7%, and 22.2%, respectively, of their Medical Stop-Loss business to their affiliate, Independence American. Standard Security Life retained 80% of DBL premium with the balance ceded, commencing July 1, 2004, to Independence American. Retentions on other lines of business remained relatively constant in 2008. The Company purchases quota share reinsurance and excess reinsurance in amounts deemed appropriate by its risk committee. The Company monitors its retention amounts by product line, and has the ability to adjust its retention as appropriate.

Reinsurance is used to reduce the potentially adverse financial impact of large individual or group risks, and to reduce the strain on statutory income and surplus related to new business. By using reinsurance, the Insurance Group is able to write policies in amounts larger than it could otherwise accept. The amount reinsured is the portion of each policy in excess of the retention limit on a particular policy. Maximum net retention limits for Standard Security Life at December 31, 2008 were: (i) $210,000 per life on individual life and corresponding disability waiver of premium; (ii) no retention on accidental death benefits provided by rider to individual life policies; (iii) up to $1,000,000 on any one medical stop-loss claim; (iv) $2,500 of monthly benefits on disability income policies; (v) $25,000 on its special disability business; and (vi) up to $1,000,000 for fully insured medical in a calendar year. Standard Security Life also maintains catastrophe reinsurance in order to protect against particularly adverse mortality which might occur with respect to its overall life business.

At December 31, 2008, maximum net monthly retention limits on any one life for Madison National Life were: (i) $6,000 per month on group long-term disability insurance; (ii) $1,600 per week on group short-term disability insurance; (iii) $125,000 per individual on group term life, accidental death benefits, including supplemental life and accidental death and dismemberment; (iv) $125,000 on substandard ordinary life, group family life and individual ordinary life; (v) up to $1,000,000 on any one medical stop-loss claim; (vi) individual monthly benefits from $1,000 to $2,500 depending on recipient age and length of benefit period for individual accident and health insurance; and (vii) up to $2,500,000 for fully insured medical in a calendar year.

The following reinsurers represent 83.8% of the total ceded premium for the year ended December 31, 2008:

Independence American Insurance Co.	27.1%
Munich Re America	21.6%
Everest Reinsurance Co.	12.3%
ReliaStar Life Insurance Company	10.0%
Fidelity Security Life Insurance Company	7.4%
Transatlantic Reinsurance Company	5.4%
	83.8%

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, 2008 and 2007, the Insurance Group's ceded reinsurance in-force (excluding the credit life and disability segment which is discontinued operations) was $2.3 billion and $2.8 billion, respectively.

For further information pertaining to reinsurance, reference is made to Note 20 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 $4.7 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, 2008, approximately 99.1% 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 and Madison National Life invest their respective assets, which support the reserves and other funds in accordance with applicable insurance law, under the supervision of their respective board of directors. The Company manages interest rate risk seeking to maintain a portfolio with a duration and average life that falls within the band of the duration and average life of the applicable liabilities. The Company utilizes options to modify the duration and average life of the assets.

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

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

The following table reflects the asset value in dollars (in thousands) and as a percentage of total investments of the Company as of December 31, 2008:

INVESTMENTS BY TYPE		CARRYING VALUE	% OF TOTAL INVESTMENTS
Fixed maturities:			
United States Government and			
government agencies and authorities	$	51,849	6.8%
Government-sponsored enterprise		9,573	1.2%
States, municipalities and political			
subdivisions		245,113	32.2%
All other corporate securities		301,952	39.7%
Total fixed maturities		608,487	79.9%
Equity securities:			
Non-redeemable preferred stocks		54,007	7.1%
Total equity securities		54,007	7.1%
Short-term investments		52	-
Securities purchased under agreements			
to resell		60,823	8.0%
Investment partnership interests		5,821	0.8%
Operating partnership interests		5,810	0.8%
Policy loans		24,947	3.3%
Investment in trust subsidiaries		1,146	0.1%
Total investments	$	761,093	100.0%

At December 31, 2008, 99.1% of the Company's fixed maturities were investment grade. The composition of the Company's fixed maturities at December 31, 2008, utilizing Standard and Poor's rating categories, was as follows:

GRADE	% INVESTED
AAA	45.2%
AA	24.9%
A	18.8%
BBB	10.2%
BB or lower	0.9%
	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 (excluding the credit life and disability segment which is discontinued operations):

	2008	2007	2006
		(In thousands)	
Consolidated Statements of Operations			
Net investment income	$ 44,044	$ 46,122	$ 47,676
Net realized investment gains (losses)	(50,648)	1,258	625
Consolidated Balance Sheets			
Net unrealized losses	(70,747)	(10,914)	(1,352)
Total pre-tax investment performance	$ (77,351)	$ 36,466	$ 46,949

The above net unrealized losses, which have been recognized in the Consolidated Balance Sheets, represent the net change in unrealized gains and losses that occurred during the year, prior to adjustments for deferred acquisition costs and deferred income taxes. At December 31, 2008, the Company only has one non-performing fixed maturity investment with a carrying value of $.7 million, or .1% of the total carrying value of fixed maturities.

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.

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

Certain transactions within the IHC holding company system are also subject to regulation and supervision by such regulatory agencies. All such transactions must be fair and equitable. Notice to or prior approval by the applicable insurance department is required with respect to transactions affecting the ownership or control of an insurer and of certain material transactions, including dividend declarations, between an insurer and any person in its holding company system. Under New York and Wisconsin insurance laws, "control" is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person. Under New York law, control is presumed to exist if any person, directly or indirectly, owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person; in Wisconsin, the presumption is defined as to more than ten percent of the voting securities of another person. In both states, the acquisition of control of a domestic insurer needs to be approved in advance by the Commissioner of Insurance. See

Note 22 of Notes to Consolidated Financial Statements included in Item 8 for information as to restrictions on the ability of the Company's insurance subsidiaries to pay dividends.

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

DISCONTINUED OPERATIONS

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

For the year ended December 31, 2008, the Company recorded income from discontinued operations of $.5 million, net of taxes, representing expenses and changes in claims and reserves related to the insurance liabilities for claims incurred prior to the aforementioned sale. The Company also recorded a gain on the disposition of discontinued operations amounting to $.1 million, net of taxes, representing an adjustment to the initial ceding fee.

EMPLOYEES

At December 31, 2008, the Company and its direct and indirect majority- or wholly owned subsidiaries, collectively, had 624 employees.

ITEM 1A.

RISK FACTORS

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

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, 2008, fixed maturities represented $608.5 million or 79.9% of our total investments of $761.1 million. The fair value of fixed maturities and the related investment income fluctuates depending on general economic and market conditions. The fair value of these investments generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us will generally increase or decrease in line with changes in market interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. An investment has prepayment risk when there is a risk that the timing of cash flows that result from the repayment of principal might occur earlier than anticipated because of declining interest rates or later than anticipated because of rising interest rates. The impact of value fluctuations affects our Consolidated Financial Statements. Because all of our fixed maturities are classified as available for sale, changes in the fair value of our securities are reflected in our stockholders' equity (accumulated other comprehensive income or loss). No similar adjustment is made for liabilities to reflect a change in interest rates. Therefore, interest rate fluctuations and economic conditions could adversely affect our stockholders' equity, total comprehensive income and/or cash flows. For mortgage-backed securities, credit risk exists if mortgagees default on the underlying mortgages. Although at December 31, 2008, approximately 99.1% of the fixed maturities were investment grade and continue to be rated on average AA, all of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst case scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

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

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

Goodwill represented $52,331,000 of our $1,273,894,000 in total assets as of December 31, 2008. 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. During 2008, we experienced a significant decline in our stock price. Due to this significant decline, our market capitalization as of December 31, 2008 was significantly below the sum of our reporting units fair values. If we experience a sustained decline in our results of operations and cash flows, or other indicators of impairment exist, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

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

Congress and state legislatures continue to focus on health care issues. In addition, the 2008 elections resulted in a renewed focus on health care and health insurance, and several key legislators and some of the newly appointed and elected officials, including in the executive branch, have proposed significant changes to the existing system. Potential reforms include, but are not limited to: mandating universal coverage; imposing more restrictive regulation of the underwriting and marketing of health insurance; making generally available a government-sponsored health plan as an alternative to private insurance; and changing the federal income tax laws relating to the deductibility of health insurance premiums. A number of states are contemplating significant reform of their health insurance markets. These proposals include provisions affecting both public programs and privately financed health insurance arrangements. We cannot assure you that, if enacted into law, any of these proposals would not have a material, adverse effect on our business, results of operations or financial condition.

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

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

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

Given the current economic and political climates, our stock may be increasingly subject to stock price and trading volume volatility. The price of our common stock could fluctuate or decline significantly and you could lose all or part of your investment.

During 2008, the stock markets experienced significant price and trading volume volatility. Company-specific issues and market developments generally in the insurance industry and in the regulatory environment may have caused this volatility. Our stock price declined significantly during 2008 and may continue to materially fluctuate in 2009 in response to a number of events and factors, including: quarterly variations in our reported results; operating and stock price performance of other companies that investors may deem comparable; sales of stock by insiders; and changes in our financial strength ratings. These factors could materially reduce our stock price. In addition, broad market and industry fluctuations may materially and adversely affect the trading price of our common stock, regardless of our actual operating performance.

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

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

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

The results of companies in the insurance and reinsurance industry historically have been subject to significant fluctuations and uncertainties. Factors that affect the industry in general could also cause our results to fluctuate. The industry and our financial condition and results of operations may be affected significantly by:

.

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

.

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

.

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

.

Changes in reserves resulting from different types of claims that may arise and the development of judicial interpretations relating to the scope of insurers' liability;

.

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

.

Greater than expected use of health care services by members;

.

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

.

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

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

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

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

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

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

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

.

Approval of policy forms and premium rates;

.

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

.

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

.

Restrictions on the nature, quality and concentration of investments;

.

Restrictions on transactions between insurance companies and their affiliates;

.

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

.

Requiring deposits for the benefit of policyholders;

.

Requiring certain methods of accounting;

.

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

.

Requiring reserves for unearned premium, losses and other purposes.

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

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

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

We compete with a large number of other companies in our selected lines of business. We face competition from specialty insurance companies and HMOs, and from diversified financial services companies and insurance companies that are much larger than we are and that have far greater financial, marketing and other resources. Some of these competitors also have longer experience and more market recognition than we do in certain lines of business. In addition to competition in the operation of our business, we face competition from a variety of sources in attracting and retaining qualified employees. There can be no assurance that we will maintain our current competitive position in the markets in which we operate, or that we will be able to expand operations into new markets. If we fail to do so, our results of operations and cash flows could be materially adversely affected.

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. 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 policyholder s confidential information and privacy could adversely affect our business.

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

ITEM 1B.

UNRESOLVED STAFF COMMENTS

None.

ITEM 2.

PROPERTIES

IHC

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

Standard Security Life

Standard Security Life leases 13,000 square feet of office space in New York, New York as its corporate headquarters, and 3,000 square feet of office space in Farmington, New York for its DBL claims processing center.

Madison National Life

Madison National Life leases 28,028 square feet of space in Madison, Wisconsin as its corporate headquarters. Madison National Life also leases 6,504 square feet in Birmingham, Alabama for its military and government individual life and annuity division.

Majestic Underwriters

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

Health Plan Administrators

HPA leases 7,947 square feet of office space in Tampa, Florida as its corporate headquarters.

GroupLink

GroupLink leases 9,167 square feet of office space in Indianapolis, Indiana as its corporate headquarters.

Insurers Administrative Corporation

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

IHC Health Solutions

IHC Health Solutions leases 7,424 square feet of office space in Bloomington, Minnesota as its corporate headquarters.

Actuarial Management Corporation

AMC leases 6,408 square feet of office space in Lafayette, California 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.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2008.

PART II

ITEM 5.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED

STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

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

		HIGH		LOW
QUARTER ENDED:				
December 31, 2008	$	11.54	$	2.25
September 30, 2008		13.53		9.55
June 30, 2008		15.00		9.77
March 31, 2008		13.89		10.49
QUARTER ENDED:				
December 31, 2007	$	21.00	$	11.10
September 30, 2007		21.50		15.43
September 30, 2007		22.69		19.50
March 31, 2007		24.66		20.25

IHC's stock price closed at $3.61 on December 31, 2008.

Holders of Record

At March 13, 2009, the number of record holders of IHC's common stock was 1,377.

Dividends

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

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

IHC declared a cash dividend of $.025 per share on its common stock on each of June 20, 2006 and December 20, 2006 for a total annual dividend of $.05 per share.

Private Placements

In 2008 and 2006, IHC issued 127,520 and 617,913 shares of common stock, respectively, as private placements of unregistered securities under Section 4(2) of the Securities Act of 1933, as amended. Accordingly, the shares are "restricted securities", subject to a legend and will not be freely tradable in the United States until the shares are registered for resale under the Securities Act, or to the extent they are tradable under Rule 144 promulgated under the Securities Act or any other available exemption. Information pertaining to the Company's common stock is provided in Note 15 of Notes to Consolidated Financial Statements included in Item 8.

Share Repurchase Program

IHC has a program, initiated in 1991, under which it repurchases shares of its common stock. As of December 31, 2008, 108,642 shares were still authorized to be repurchased under the plan. Share repurchases during the quarter ended December 31, 2008 are summarized as follows:

	2008		
Month of Repurchase	**Shares Repurchased**	**Average Price of Repurchased Shares**	**Maximum Number Of Shares Which Can be Repurchased**
October	16,300	5.96	115,357
November	6,715	5.36	108,642
December	-	-	108,642

Performance Graph

Set forth below is a line graph comparing the five year cumulative total return of IHC s common stock with that of the Russell 2000 Index and the S & P SmallCap Life & Health Insurance. The graph assumes that dividends were reinvested and is based on a $100 investment on December 31, 2003. Indices data was obtained from Research Data Group, Inc. The performance graph represents past performance and should not be considered to be an indication of future performance.

ITEM 6.

SELECTED FINANCIAL DATA

The following is a summary of selected consolidated financial data of the Company for each of the last five years excluding the credit life and disability segment, which is discontinued operations.

	Year Ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
	(In thousands, except per share data)				
Income Data:					
Total revenues	$ 353,687	$ 402,322	$ 342,262	$ 274,775	$ 205,171
Income (loss) from continuing operations	(24,484)	1,504	14,481	17,498	22,514
Balance Sheet Data:					
Total investments	761,093	776,059	859,176	855,804	720,700
Total assets	1,273,894	1,306,955	1,267,643	1,165,187	977,882
Insurance liabilities	951,590	895,169	858,880	844,980	673,408
Debt and junior subordinated debt securities	48,146	50,646	53,146	50,646	50,646
Common stockholders' equity	162,702	222,851	231,150	198,751	188,853
Per Share Data:					
Cash dividends declared per common share	.05	.05	.05	.05	.05
Basic income (loss) per common share from continuing operations	(1.59)	.10	.97	1.24	1.60
Diluted income (loss) per common	(1.59)	.10	.95	1.22	1.57

share from continuing operations					
Book value per common share	10.56	14.63	15.23	14.06	13.39

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

ITEM 7.

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

OVERVIEW

Independence Holding Company, a Delaware corporation (NYSE: IHC), is a holding company principally engaged in the life and health insurance business through: (i) its wholly owned insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life") (these companies are sometimes collectively referred to as the "Insurance Group"); and (ii) its marketing, administrative and actuarial companies, including Insurers Administrative Corporation (IAC), Majestic Underwriters LLC (Majestic), in which it owns a majority interest, Health Plan Administrators (HPA), GroupLink Inc. (GroupLink), in which it owns a majority interest, IHC Health Solutions, Inc. (IHC Health Solutions), and Actuarial Management Corporation ("AMC"). IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company." The Company currently owns a 49.7% equity interest in American Independence Corp. (NASDAQ:AMIC) which owns Independence American Insurance Company (Independence American), three managing general underwriters ("MGU s"), and controlling interests in two agencies.

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 2008 the Company s average case size was 600 covered lives. The small-group major medical product is purchased by employers with between two and 50 covered lives. With regard to those persons in the growing individual market, IHC s products offer major medical coverage for individuals and families and persons with short-term medical needs Standard Security Life s limited medical product is primarily purchased by hourly workers and others who are generally not eligible for coverage under their employer s group medical plan. The dental and vision products are marketed to large and small groups as well as individuals. The Company sells student major medical insurance to colleges and accident medical, disability and AD&D to K-12 programs. The student medical business is written through one MGU and the student accident business is written through the same MGU as well as a second MGU that specializes in accident business. IHC does not sell health products for the senior market. With respect to IHC s life and disability business, Madison National Life has historically sold almost all of this business through one distribution source specializing in serving school districts and municipalities. In 2008, IHC successfully began to diversify the marketing of these products through other channels, including its health insurance distribution, and expects to build upon this success in 2009.

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

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

The results of operations for the years ended December 31, 2008, 2007 and 2006, are summarized as follows (in thousands):

	2008	2007	2006
Revenues	$ 353,687	$ 402,322	$ 342,262
Expenses	394,570	400,390	321,149
Income (loss) from continuing operations before income taxes	(40,883)	1,932	21,113
Income taxes (benefits)	(16,399)	428	6,632

Income (loss) from continuing operations		(24,484)		1,504	14,481
Discontinued operations:					
Income (loss) from discontinued operations		524		(224)	(420)
Gain (loss) on disposition of discontinued operations		120		(3,608)	-
Net income (loss)	$	(23,840)	$	(2,328)	14,061

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Loss from continuing operations of $24.5 million, or $1.59 per share, diluted, for the year ended December 31, 2008 compared to income of $1.5 million, or $.10 per share, diluted, for the year ended December 31, 2007. The loss in 2008 is primarily attributed to $38.2 million of pre-tax losses from other-than-temporary impairments due to the write down in value of investments in preferred stocks of certain financial institutions and fixed maturities (primarily Alt-A mortgage securities). The income in 2007 includes charges for reserve strengthening of $11.9 million, before income taxes, in the Medical Stop-Loss segment as more fully described in the Reserve Strengthening discussion under Results of Operations for the Year Ended December 31, 2007;

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Consolidated investment yield of 4.9% in 2008 as compared to 5.3% in 2007 primarily due to losses in limited investment partnerships;

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Revenues of $353.7 million, a decrease of 12.1% from 2007; the result of realized losses from other-than-temporary impairments;

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Book value of $10.56 per common share; a 27.8% decrease from December 31, 2007, primarily reflecting net realized and unrealized losses on securities;

.

Effective April 1, 2008, 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. Under the terms of the acquisition, Madison National Life assumed administration of the policies on November 1, 2008.

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Effective April 1, 2008, increased the Company's controlling interest in Majestic Underwriters LLC ("Majestic"), a medical stop-loss MGU, to 77% with the purchase of an additional 14.7% interest from a retired senior officer;

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Income from discontinued operations of $.5 million, net of taxes, primarily a result of an adjustment to the credit claim reserve for claims prior to December 31, 2007; and

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Income from the disposition of discontinued operations of $.1 million, net of taxes, a result of the final settlement on the sale of the credit segment.

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

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Income (loss) before taxes from the Medical Stop-Loss segment increased $7.7 million for the year ended December 31, 2008 compared to the same period in 2007. The results for 2007 include an $11.9 million charge primarily related to reserve strengthening as more fully described in the Reserve Strengthening discussion under Results of Operations for the Year Ended December 31, 2007;

o

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

	2008	**2007**	**2006**
Premiums Earned	$ 159,392	$ 162,438	$ 153,087
Insurance Benefits, Claims & Reserves	117,076	128,409	107,864
Expenses	40,918	41,987	36,044
Loss Ratio (A)	73.4%	79.1%	70.5%
Expense Ratio (B)	25.7%	25.8%	23.5%
Combined Ratio (C)	99.1%	104.9%	94.0%

(A)

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

(B)

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

(C)

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

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The Fully Insured Health segment reported income before taxes of $.5 million for the year ended December 31, 2008 as compared to a loss of $.8 million for the year ended December 31, 2007. Included in the results for 2007 is $1.1 million of adverse development on premiums earned in 2006 on certain fully insured programs. The loss ratio on the fully insured business decreased due to an increase in the dental and student accident lines (which have higher profit margins), improved margins in our short term medical business, and improved margins in our small group major medical line. The expense ratio is higher due to a greater portion of higher commission lines of business.

o

Premiums earned from this segment have increased $9.0 million for the year ended December 31, 2008 compared to 2007, primarily due to increases in certain new lines of business.

o

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

		2008		**2007**		**2006**
Premiums Earned	$	81,020	$	72,048	$	32,590
Insurance Benefits, Claims & Reserves		51,559		50,901		19,128
Expenses		24,351		17,828		11,051
Loss Ratio		63.6%		70.6%		58.7%
Expense Ratio		30.1%		24.8%		33.9%
Combined Ratio		93.7%		95.4%		92.6%

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Income before taxes from the group disability, life, annuities and DBL segment increased $.5 million for the year ended December 31, 2008 compared to 2007, primarily due to improved loss ratios in the group term life business in 2008 offset by an increase in commissions and other expenses in the long-term disability ("LTD") business in 2008;

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Income before taxes from the individual life, annuities and other segment decreased $1.1 million for the year ended December 31, 2008 compared to the prior year. Prior year results include $.9 million of other income due to adjustments in settlement of a reinsurance agreement;

.

Loss before taxes from the corporate segment decreased $.4 million for the year ended December 31, 2008 compared to the prior year primarily due to lower expenses offset by losses from partnership investments;

.

Net realized investment losses were $50.6 million for the year ended December 31, 2008 compared to gains of $1.3 million in 2007. Included in realized losses for the year ended December 31, 2008 are $38.2 million of pre-tax losses from other-than-temporary impairments due to the write down in value of investments in preferred stocks of certain financial institutions and fixed maturities (primarily Alt-A mortgage securities) primarily due to the severity of the decrease in fair value and length of time that these securities were in a loss position; and

.

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

Gross Direct and Assumed Earned Premiums:	**2008**	**2007**	**2006**
Medical Stop-Loss	$ 253,886	$ 275,756	$ 272,260
Fully Insured Health	199,378	210,078	86,259
Group disability; life, annuities and DBL	78,517	79,438	82,540
Individual life, annuities and other	32,338	30,118	31,494
	$ 564,119	$ 595,390	$ 472,553

Net Premiums Earned:	**2008**	**2007**	**2006**
Medical Stop-Loss	$ 159,392	$ 162,438	$ 153,087
Fully Insured Health	81,020	72,048	32,590
Group disability; life, annuities and DBL	46,957	45,220	44,206
Individual life, annuities and other	29,919	27,179	28,787
	$ 317,288	$ 306,885	$ 258,670

Information pertaining to the Company's business segments is provided in Note 21 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. generally accepted accounting principles ("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, 2008. 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, 2008, would increase reserves (in the case of a higher ratio) or decrease reserves (in the case of a lower ratio) by approximately $2.8 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, 2008		
	Claim Reserves	**Policy Claims**	**Total Health Reserves**
Medical Stop-Loss	$ 89,558	$ 126	$ 89,684
Fully Insured Health	38,168	-	38,168
Group Disability	61,502	10,141	71,643
Individual Accident and Health and Other	9,932	1,891	11,823
	$ 199,160	$ 12,158	$ 211,318

	December 31, 2007		
	Claim Reserves	**Policy Claims**	**Total Health Reserves**
Medical Stop-Loss	$ 94,832	$ 457	$ 95,289
Fully Insured Health	40,999	-	40,999
Group Disability	58,202	9,604	67,806
Individual Accident and Health and Other	7,961	358	8,319
	$ 201,994	$ 10,419	$ 212,413

Medical Stop-Loss

The Company s Medical Stop-Loss segment is comprised of Employer Stop-Loss, HMO Reinsurance and Provider Excess. 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 2005, 2006 and 2007 underwriting years which deviated by 8.0, 12.7 and 2.7 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 2008 at December 31, 2008. The impact of these reasonably likely changes at December 31, 2008, 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 $3.2 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves in the 2008 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. Reserves for HMO Reinsurance and Provider Excess are adjusted on a policy by policy basis. Because of the small number of HMO Reinsurance and Provider Excess policies it writes, the Company is able to evaluate each policy individually for potential liability by reviewing open claims with each HMO or provider group and applying completion factors using historical data.

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 acquired blocks of business. 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:

Life

For traditional life insurance and other premium paying policies accounted for under Statement of Financial Accounting Standards ("SFAS") No. 60, 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 accounted for under SFAS No. 97, such as annuities and universal life business, amortization of DAC is charged to expense over the life of the book of such contracts based on the present value of the estimated gross profits ("EGPs") expected to be realized over the life of the book of contracts. EGPs consist of margins based on expected mortality rates, persistency rates, interest rate spreads, and other revenues and expenses. The Company regularly evaluates its EGPs to determine if actual experience or other evidence suggests that earlier estimates should be revised. If the Company determines that the current assumptions underlying the EGPs are no longer the best estimate for the future due to changes in actual versus expected mortality rates, persistency rates, interest rate spreads, or other revenues and expenses, the future EGPs are updated using the new assumptions and prospective unlocking occurs. These updated EGPs are utilized for future amortization calculations. The total amortization recorded to date is adjusted through a current charge or credit to the Consolidated Statement of Operations.

Health

For credit health insurance policies accounted for under SFAS No. 60, amortization of DAC is charged to expense in proportion to premium revenue recognized.

Investments

The Company accounts for its investments in debt and equity securities under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* The Company has classified all of its investments as available-for-sale or trading securities. These investments are carried at fair value with unrealized gains and losses reported in either 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 $662.5 million and $710.4 million at December 31, 2008 and 2007, 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.

Declines in value of securities available-for-sale that are judged to be other-than-temporary are determined based on the specific identification method and are reported in the Consolidated Statements of Operations as realized losses. The factors considered by management in determining when a decline is other than temporary include but are not limited to: the length of time and extent to which the fair value has been less than cost; 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, in the case of fixed maturities, the effect of changes in market interest rates); and the Company's intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value. For structured securities, such as mortgage-backed securities, an impairment loss is recognized when there has been a decrease in expected cash flows and/or a decline in the security's fair value below cost.

Goodwill and Other Intangible Assets

Goodwill related to the Company's equity method investment in AMIC is considered in the evaluation of whether there has been an other-than-temporary decline in value of the overall investment in AMIC. All other goodwill carrying amounts are evaluated for impairment at the reporting unit level, at least annually. 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. Other intangible assets are amortized to expense over their estimated useful lives and are subject to impairment testing. Any impairment write-down of goodwill and other intangible assets would be charged to expense. No impairment charge was required in 2008, 2007 or 2006. 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

Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Loss from continuing operations was $24.5 million, or $1.59 per share, diluted, for the year ended December 31, 2008, a decrease of $26.0 million compared to income from continuing operations of $1.5 million, or $.10 per share, diluted, for the year ended December 31, 2007. The Company's income from continuing operations before taxes decreased $42.7 million to a loss of $40.8 million for the year ended December 31, 2008 from income of $1.9 million for 2007. Income from discontinued operations, net of taxes, was $.5 million, or $.03 per share, diluted, for the year ended December 31, 2008 compared to a loss of $.2 million or $.01 per share, diluted, for the year ended December 31, 2007. The gain on the disposition of discontinued operations in 2008 was $.1 million, or $.01 per share, diluted, compared to a loss of $3.6 million, or $.24 per share, diluted, net of tax, in 2007.

Information by business segment for the years ended December 31, 2008 and 2007 is as follows:

December 31, 2008 (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	$ 159,392	4,273	338	1,282	117,076	-	43,778	$ 4,431
Fully Insured	81,020	895	96	39,184	51,559	80	69,008	548
Group disability, life, annuities and DBL	46,957	10,323	46	338	33,718	149	16,441	7,356
Individual life, annuities and other	29,919	31,306	-	1,716	38,184	6,116	11,824	6,817
Corporate	-	(2,753)	-	3	-	-	2,861	(5,611)
Sub total	$ 317,288	44,044	480	42,523	240,537	6,345	143,912	13,541

Net realized investment losses	(50,648)
Interest expense	(3,776)
Loss from continuing operations before income taxes	(40,883)
Income tax benefits	(16,399)
Loss from continuing operations	(24,484)
Income from discontinued operations	524
Gain on disposition of discontinued operations	120
Net loss	$ (23,840)

December 31, 2007 (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	$ 162,438	4,579	268	1,772	128,409	-	43,899	$ (3,251)
Fully Insured	72,048	651	218	42,573	50,901	234	65,148	(793)
Group disability, life, annuities and DBL	45,220	10,671	60	459	34,774	141	14,564	6,931
Individual life, annuities and other	27,179	30,226	-	2,707	36,621	5,736	9,811	7,944
Corporate	-	(5)	-	-	-	-	5,958	(5,963)
Sub total	$ 306,885	46,122	546	47,511	250,705	6,111	139,380	4,868

Net realized investment gains	1,258
Interest expense	(4,194)
Income from continuing operations before income taxes	1,932
Income taxes	428
Income from continuing operations	1,504
Loss from discontinued operations	(224)
Loss on disposition of discontinued operations	(3,608)
Net loss	$ (2,328)

Premiums Earned

Total premiums earned grew $10.4 million to $317.3 million from $306.9 million in 2007. The increase is primarily due to: (i) the Fully Insured Health segment which had a $9.0 million increase in premiums in 2008 compared to 2007, comprised primarily of: (a) a $6.7 million increase in student accident premiums as a result of a new program initiated in 2008, (b) a $6.2 million increase in dental premiums and $1.0 million increase in limited medical premiums as a result of continuing growth, offset by (c) a decrease of $4.1 million in short-term medical premiums primarily due to lower production caused in part by an increase in rates, and (d) a $1.0 million decrease in the small group line due to lower production caused in part by an increase in rates; (ii) a $1.7 million increase in group disability, life, annuities and DBL segment primarily due to increased retention in the LTD line; (iii) a $2.7 million increase in the individual life, annuities and other segment primarily as a result of the acquisition of a block of life and annuity business; offset by (iv) a decrease of $3.0 million in the Medical Stop-Loss segment primarily due to stricter underwriting guidelines and the termination of certain production sources in 2008.

Net Investment Income

Total net investment income decreased $2.1 million, primarily due to losses from limited investment partnerships in 2008 compared to income from limited investment partnerships recorded in 2007. The losses from investment partnerships were primarily the result of the continued disruption in the equity markets in 2008 and the primary cause of the decrease in the overall investment yield to 4.9% in 2008 from 5.3% in 2007. The decrease in the investment yield on bonds, equities and short-term investments to 5.2% in 2008 from 5.4% in 2007 is primarily due to a higher percentage of investments in states and political subdivisions in our investment portfolio which provide lower yields but result in tax-advantaged earnings.

Net Realized Investment Gains (Losses)

Net realized investment gains (losses) decreased $51.9 million to a net loss of $50.6 million in 2008 from a net gain of $1.3 million in 2007. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale, as well as 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. Included in net realized investment gains (losses) for years ended December 31, 2008 and 2007 are pre-tax losses of $38.2 million and $.4 million, respectively, from other-than-temporary impairments primarily due to the write-down in value of investments in preferred stocks of certain financial institutions and fixed maturities (primarily Alt-A mortgage securities) primarily due to the severity of the decrease in fair value and length of time that these securities were in a loss position. In addition, the Company has recently become aware of certain activities engaged in by the non-affiliate broker-dealer that managed the trading accounts of the Company. The Company reduced the value of the assets held in such accounts to their estimated recoverable amounts. As a result, the Company recorded a $6.8 million pre-tax loss, net of expected recoveries, in the fourth quarter of 2008 related to such accounts. See Note 7 in the Notes to Consolidated Financial Statements included in item 8 of this report for more information about net realized investment gains and losses.

Fee Income and Other Income

Fee income decreased $4.4 million to $39.7 million from $44.1 million in 2007, primarily due to a decrease in administrative fees in the Fully Insured Health segment primarily as a result of decreases in gross premiums from the short-term medical and small group lines of business.

Total other income decreased $.5 million to $2.9 million from $3.4 million in 2007, primarily due to adjustments in 2007 in settlement of a reinsurance agreement.

Insurance Benefits, Claims and Reserves

Benefits, claims and reserves decreased $10.2 million. The decrease is mainly due to: (i) a decrease of $11.3 million in the Medical Stop-Loss segment, primarily resulting from a $11.9 million charge, before income taxes, in 2007 for reserve strengthening, as described in further detail in the Results of Operations for the Year Ended December 31, 2007; (ii) a decrease of $1.1 million in the group disability, life, annuities and DBL segment primarily due to decreases in the DBL ($1.3 million) and group term life ($1.2 million) lines due to improved loss ratios and claims experience offset by an increase in the LTD line ($1.8 million) due to increased retention and higher loss ratios; offset by (iii) a $.6 million increase in the Fully Insured Health segment, primarily due to the increases in dental ($4.3 million) and student accident ($3.4 million) lines which correspond to premium growth, offset by decreases in the small group ($3.4 million) and short-term medical ($4.4 million) lines due to lower volumes of business and improved loss ratios; and (iv) a $1.6 million increase in the individual life, annuities and other segment primarily as a result of the acquisition of a block of life and annuity business.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs increased $.2 million in 2008 compared to 2007 partially as a result of the acquisition of a block of life and annuity policies in the second quarter of 2008.

Interest Expense on Debt

Interest expense decreased $.4 million primarily as a result of a lower average outstanding principal balance under a line of credit during 2008 compared to 2007 combined with lower variable interest rates on the junior subordinated debt securities in 2008 compared to 2007.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses increased $4.5 million in 2008 as compared to 2007. The increase is primarily due to (i) a $3.9 million increase in commission and administrative expenses associated with the operation of the Fully Insured Health segment, primarily due to (a) increases in commission and administrative expenses for the dental ($2.2 million) and student accident ($2.0 million) lines due to increased volume; (b) increase of $3.2 million primarily in commission expenses in the small group line due to higher profit commissions on 2007 business; offset by (c) a decrease of $.9 million in short-term medical expenses due to lower production; and (d) a decrease of $3.0

million primarily from administrative expenses at the third party administrators due in part to cost reductions; (ii) a $2.0 million increase in commission and administration expenses in the individual life, annuities and other segment as a result of increased volume from the recent acquisition of a block of life and annuity policies; (iii) a $1.8 million increase in the group disability, life, annuities and DBL segment primarily due to the increase in retention of the LTD business; and (iv) a $3.2 million decrease in corporate overhead expenses (primarily employee benefits, audit expenses, interest income on accrued income tax refunds and a higher allocation of expenses to the subsidiaries).

Income Taxes

Income tax expense decreased $16.8 million resulting in a tax benefit of $16.4 million for 2008 from an expense of $.4 million in 2007. The effective tax rates were 40.1% and 22.2% for 2008 and 2007, respectively. The difference in the effective tax rates is primarily attributable to tax benefits generated by a pre-tax loss in 2008 coupled with other tax benefits derived from dividend received deductions ("DRDs") and tax exempt interest compared to tax expense generated by pre-tax income in 2007. During 2007, and continuing in 2008, the Company increased its positions in both state and political subdivision investments and preferred securities that generate tax exempt interest and DRDs, creating a greater benefit in 2008 than in 2007.

RESULTS OF OPERATIONS

Results of Operations for the Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006

Income from continuing operations was $1.5 million, or $.10 per share, diluted, for the year ended December 31, 2007, a decrease of $13.0 million compared to income from continuing operations of $14.5 million, or $.95 per share, diluted, for the year ended December 31, 2006. The Company's income from continuing operations before taxes decreased $19.2 million to $1.9 million for the year ended December 31, 2007 from $21.1million for 2006. The loss from discontinued operations was $.2 million, or $.01 per share, diluted, for the year ended December 31, 2007 compared to $.4 million, or $.02 per share, diluted, for the year ended December 31, 2006. The loss on the disposition of discontinued operations in 2007 was $3.6 million, or $.24 per share, diluted, net of tax benefits of $1.9 million.

Information by business segment for the years ended December 31, 2007 and 2006 is as follows:

December 31, 2007 (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	$ 162,438	4,579	268	1,772	128,409	-	43,899	$ (3,251)
Fully Insured	72,048	651	218	42,573	50,901	234	65,148	(793)
Group disability, life, annuities and DBL	45,220	10,671	60	459	34,774	141	14,564	6,931
Individual life, annuities and other	27,179	30,226	-	2,707	36,621	5,736	9,811	7,944
Corporate	-	(5)	-	-	-	-	5,958	(5,963)
Sub total	$ 306,885	46,122	546	47,511	250,705	6,111	139,380	4,868

Net realized investment gains	1,258
Interest expense	(4,194)
Income from continuing operations before income taxes	1,932
Income taxes	428
Income from continuing operations	1,504
Loss from discontinued operations	(224)
Loss on disposition of discontinued operations	(3,608)
Net loss	$ (2,328)

December 31, 2006 (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	$ 153,087	3,950	699	3,169	107,864	-	40,417	$ 12,624
Fully Insured	32,590	192	-	29,938	19,128	102	42,399	1,091
Group disability, life, annuities and DBL	44,206	9,594	-	428	31,866	165	15,100	7,097
Individual life, annuities and other	28,787	31,761	-	1,057	39,034	5,103	9,428	8,040
Corporate	-	2,179	-	-	-	-	6,653	(4,474)
Sub total	$ 258,670	47,676	699	34,592	197,892	5,370	113,997	24,378

Net realized investment gains	625
Interest expense	(3,890)
Income from continuing operations before income taxes	21,113
Income taxes	6,632
Income from continuing operations	14,481
Loss from discontinued operations	(420)
Net income	$ 14,061

Premiums Earned

Total premiums earned grew $48.2 million to $306.9 million from $258.7 million in 2006. The increase is primarily due to: (i) the Fully Insured segment which had a $39.4 million increase in premiums (comprised of a $25.0 million increase in small group premiums as a result of the acquisition of a block of business which transitioned to the Company's paper in the third quarter of 2006, a $4.8 million increase in dental premiums primarily due to the continued transition of GroupLink premiums to MNL as a carrier, a $4.0 million increase in short-term medical premiums and a $5.6 million increase due to new vision, limited medical and student accident products in 2007); and (ii) the Medical Stop-Loss segment, which increased $9.3 million primarily due to an increase in assumed business.

Net Investment Income

Total net investment income decreased $1.6 million, primarily due to: (i) lower investable assets as a result of the acquisitions of CAM and AMC in 2007; (ii) lower investment income from limited partnerships due to the liquidation of certain partnership investments in 2007 and losses reported by certain partnerships in 2007 versus income reported in 2006; and (iii) a slightly lower investment yield. The overall investment yield was 5.3% for 2007 versus 5.5% for 2006.

Net Realized Investment Gains

Net realized investment gains increased $.7 million to $1.3 million in 2007 from $.6 million in 2006. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale, as well as 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. Also included in net realized investment gains for the years ended December 31, 2007 and 2006 are gains (losses) of $(683,000) and $114,000, respectively, representing the net change in fair value of a stock put issued by IHC in connection with the acquisition of IAC.

Equity Income from AMIC

Equity income from AMIC in 2007 was comparable to 2006.

Fee Income and Other Income

Fee income increased $11.6 million to $44.1 million from $32.5 million in 2006, primarily due to an increase in administrative fees in the Fully Insured Health segment including an increase of $6.7 million earned by IAC (acquired January 31, 2006) in addition to $4.9 million of fees earned by IHC Health Solutions, Inc (acquired January 1, 2007) and AMC (acquired April 1, 2007).

Total other income increased $1.3 million to $3.4 million from $2.1 million in 2006, primarily due to adjustments in 2007 in settlement of a reinsurance agreement.

Insurance Benefits, Claims and Reserves

Benefits, claims and reserves increased $52.8 million. The increase is mainly due to: (i) an increase of $20.5 million in the Medical Stop-Loss segment, primarily resulting from an increase in claims experience and reserve strengthening of $11.9 million related to 2006 business and $5.6 million due to an increase in the Projected Net Loss Ratio on 2007 business, as described in further detail below; and the remainder, as a result of the increase in assumed premiums, and (ii) an increase of $31.8 million in the Fully Insured Health segment, primarily due to the increase in volume and adverse development of $1.2 million related to the 2006 year, as described below in Reserve Strengthening.

Reserve Strengthening:

Medical Stop-Loss

In accordance with our reserving methodology, the Company initially establishes its medical stop-loss reserves based on its best estimate of the Projected Net Loss Ratio, which is set based on underlying assumptions developed using completed prior experience trended forward ("Projected Net Loss Ratio"). This use of projections reflects the fact that actual claims on medical stop-loss cases typically are not fully reported until after the end of the policy period. We use the Projected Net Loss Ratio to set reserves until developing losses provide a better indication of ultimate results and it is feasible to set reserves based on claim development patterns. IHC's typical practice is to then increase or decrease claims reserves once we know the actual claims experience. We then review quarterly the Projected Net Loss Ratios and claim development patterns as we develop reserve estimates based on recent claim development history ("Claim Development Patterns").

Medical stop-loss business is excess coverage with a short duration. Predicting ultimate claims and estimating reserves in medical stop-loss is especially complicated 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. Fluctuations in results for specific coverage are primarily due to the severity and frequency of individual claims. Due to the short-term nature of medical stop-loss, redundancies and deficiencies will typically emerge during the following year rather than over a number of years.

Consistent with our experience, the industry as a whole has succumbed to the pricing pressures caused by an unexpectedly long down cycle (or "soft" market) for medical stop-loss business. The medical stop-loss market has been soft for the past four years, including cases written in 2006 and 2007, which means that many of the Company s competitors have been willing to write business at little or no margin. We had been aware of these market conditions and had curtailed our growth in order to attempt to achieve higher profit margins. The Company believed that it had taken sufficient action to insure that business written in 2006 would produce better margins than that written in 2005 and formulated a Projected Net Loss Ratio reflecting such expectations. As is typical with medical stop-loss business, MGUs do have some discretion with in our underwriting guidelines to make pricing concessions on certain cases, particularly as it relates to maintaining their core renewal business and production sources.

In the third quarter of 2007, during our quarterly review of Claim Development Patterns, we identified a material increase in claims and reserves with respect to business written in 2006. Such adverse development was primarily driven by the frequency of claims relative to the business written in that year proving significantly higher than what would have been predicted by prior loss development patterns. This increased frequency of medical stop-loss claims was due, in part, to increased severity of primary claims. The Company determined that this increase in claims was an indication of a pattern of higher loss frequency. While claims related to business written in 2007 have not yet developed to a level where Claim Development Patterns would provide reliable estimates of ultimate claim levels, we determined that it was appropriate to re-estimate the 2007 Projected Net Loss ratio to take into account developing losses with respect to business written in 2006.

As a result of these actions, the Company increased the Projected Net Loss Ratio on the business written in 2007 by 9.8% and increased the Net Loss Ratio (defined as insurance benefits, claims and reserves divided by (premiums earned less underwriting expenses)) on the business written in 2006 by 11.4%. This resulted in a charge of $11.9 million, before income taxes, in 2007 primarily relating to the re-estimation of unpaid losses from the prior year. In addition, the Company booked higher reserves of $5.6 million related to the 2007 business due to the increase of 9.8% in the Projected Net Loss Ratio from the rate at which new business was reserved for in 2006. The Company recorded Net Loss Ratios for the medical stop-loss line of 108.9%, 95.2% and 93.2% for the years ended December 31, 2007, 2006 and

2005 respectively**.** The Net Loss Ratio equation primarily differs from the Combined Ratio in that it subtracts out expenses from the premiums prior to dividing by the insurance benefits, claims and reserves. We primarily use Net Loss Ratios from a reserving standpoint and as a management tool to measure the profitability of medical stop-loss with respect to each program. The Company primarily uses Combined Ratios as an accounting measurement for reporting purposes.

Fully Insured Health

The adverse development recorded in 2007 in the Fully Insured Health segment was largely related to: (i) overestimating the value of certain new initiatives started in 2006 that were intended to manage and reduce claims costs, including medical care management services to insureds, negotiation of out-of-network claims, and auditing provider bills ("Cost Containment Program"), and (ii) underestimating in 2006 the seasonality patterns that are a result of an increasing portion of the business having high deductible health plans (HDHPs). Although this Cost Containment Program did have a positive impact on the results of the small group major medical line, during 2007 the Company determined that the impact was not as large as it had anticipated when setting reserves in 2006. With respect to the seasonality patterns, HDHPs have fewer claims in the first quarter of a plan year and higher claims in the last quarter of the plan year. Primarily as a result of these two factors during 2006, the Company believed that its small-group major medical business had significantly better loss ratios than we later determined.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs increased $.7 million.

Interest Expense on Debt

Interest expense increased $.3 million primarily as a result of a higher average outstanding principal balance and a higher interest rate paid under a line of credit during 2007 compared to 2006 (an average of 6.7% in 2007 compared to 5.1% in 2006).

Selling, General and Administrative Expenses

Total selling, general and administrative expenses increased $25.4 million in 2007 as compared to 2006. The increase is primarily due to (i) a $22.7 million increase in commission and administrative expenses associated with the operation of the Fully Insured segment, primarily due to (a) $6.3 from the acquisitions of CAM and AMC, (b) an overall increase in costs of $15.0 million due to the increase in business (reported as SGA expenses, previously described), and (c) a $1.4 million increase in amortization expenses as a result of the purchase accounting for recent acquisitions; and (ii) a $3.5 million increase in commissions and other general expenses in the Medical Stop-Loss segment due to higher volume.

Income Taxes

Income tax expense decreased $6.2 million to $.4 million for 2007 from $6.6 million in 2006, primarily due to the decrease in pre-tax income in 2007. The decrease in the effective tax rate to 22.2% in 2007 from 31.4% in 2006 is primarily due to a higher ratio of dividend received deductions ("DRD") and tax exempt income to pre-tax income in 2007 compared to 2006. Although the amount of DRD and tax exempt income has not increased substantially, their proportion to pre-tax income has due to the decrease in operating income in 2007 resulting in a lower effective tax rate in 2007.

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.

Cash Flows

As of December 31, 2008, the Company had $7.8 million of cash and cash equivalents compared with $72.8 as of December 31, 2007. The decrease in cash and cash equivalents was primarily offset by an increase in securities purchased under agreements to resell of $47.1 million. Total investments, net of amounts due to and from brokers, were $763.7 million and $779.4 million at December 31, 2008 and 2007, respectively.

Net cash provided by operating activities of continuing operations for the year ended December 31, 2008 was $3.3 million. Net cash used by operating activities of discontinued operations for the year ended December 31, 2008 was $18.0 million primarily due to cash used for the settlement of the Credit Life and Disability segment.

Net cash used by investing activities of continuing operations for the year ended December 31, 2008 was $47.0 million primarily as a result of net purchases of $79.1 million of fixed maturities and $47.1 million of securities under resale and repurchase agreements, partially offset by $15.7 million in net proceeds on sales of equity securities in addition to $57.3 million received in connection with the acquisition of a block of life insurance and annuity policies.

The Company has $478.9 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, 2008, cash received from the maturities and other repayments of fixed maturities was $74.7 million.

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

BALANCE SHEET

Total investments, net of amounts due to and from brokers, decreased $15.7 million during 2008 largely due to: (i) a $69.2 million increase in unrealized losses on available for sale securities; (ii) $38.2 million of losses realized for other-than-temporary impairments; (iii) $6.8 million of other net trading account losses; (iv) a $4.9 million decrease in partnership investments; (v) offset by $107.2 million of net purchases of short-term investments, resale agreements, and fixed maturities and equity securities available-for-sale.

The Company had net receivables from reinsurers of $100.7 million at December 31, 2008. Substantially all of the business ceded to such reinsurers is of short duration. All of such receivables are either due from highly rated companies or are adequately secured. No allowance for doubtful accounts was necessary at December 31, 2008.

Other assets increased $39.8 million primarily due to a $39.0 million increase in net deferred tax assets recorded as a result of a $23.8 million net loss and $70.7 million of net unrealized losses on investment securities allocated to stockholders' equity.

The $60.1 million decrease in total stockholders' equity in 2008 is primarily due to a net loss of $23.8 million and a $38.2 million increase in after-tax net unrealized losses on investments.

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. Of the aggregate carrying value of the Insurance Group's cash and investment assets, approximately 91.2% was invested in investment grade fixed maturities, resale agreements, policy loans and cash and cash equivalents at December 31, 2008. The Company's gross unrealized losses on available-for-sale securities totaled $99.2 million at December 31, 2008. Also at such date, approximately 99.1% of the Insurance Group's fixed maturities were investment grade and continues 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, 2008, approximately .9% (or $5.7 million) of the carrying value of fixed maturities was invested in diversified non-investment grade fixed maturities (investments in such securities have different risks than investment grade securities, including greater risk of loss upon default, and thinner trading markets). The Company has only one non-performing fixed maturity at December 31, 2008 with a carrying value of $.7 million, or .1% of the total carrying value of fixed maturities.

At December 31, 2008, the Company had $28.8 million invested in whole loan collateralized mortgage obligations ("CMOs") backed by Alt-A mortgages. Of this amount, 39.8% were in CMOs that originated in 2005 or earlier and 60.2% were in CMOs that originated in 2006. While these mortgages have seen lower market values recently, we believe that the unrealized losses on these securities are not necessarily indicative of their ultimate performance. The Company s mortgage security portfolio has no direct exposure to sub-prime mortgages. The decline in fair value for the equity securities was primarily due to wider spreads for preferred stocks issued by financial institutions following the disruption in credit markets. Some of these financial institutions have exposure to sub-prime mortgages. The unrealized loss for CMO securities is primarily attributable to Alt-A mortgages as described above. The unrealized losses on corporate securities and state and political subdivision securities are due to wider spreads. Spreads have widened as investors shifted funds to U.S. Treasuries in response to the current market turmoil.

The Company reviews its investments regularly and monitors its investments continually for impairments, as discussed in Note 1(F)(vi) of the Notes to Consolidated Financial Statements in Item 8 of this report. For the years ended December 31, 2008 and 2007 the Company recorded losses of $38.2 million and $.4 million, respectively, for other-than-temporary impairments. The following table summarizes the carrying value of securities with fair values less than 80% of their amortized cost at December 31, 2008 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	$ 37,431	$ 8,119	$ 2,087	$ -	$ 47,637
Equity securities	3,292	10,083	-	-	13,375
Total	$ 40,723	$ 18,202	$ 2,087	$ -	$ 61,012

The unrealized losses on all remaining 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, 2008. In 2008, the Company experienced an increase in net unrealized losses of $70.7 million which, net of deferred tax benefits of $21.2 million and net of deferred policy acquisition costs of $11.3 million, decreased stockholders' equity by $38.2 million (reflecting net unrealized losses of $54.3 million at December 31, 2008 compared to net unrealized losses of $16.1 million at December 31, 2007). 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.

Health Reserves

The following table summarizes the prior year net unfavorable amount incurred in 2008 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, 2008	Prior Year Amount Incurred in 2008
Total Reserves		
2007	$ 77,214	$ (103)
2006	9,280	1,597
2005	5,342	(6)
2004 and Prior	11,641	89
Total	$ 103,477	$ 1,577

The following sections describe, for each segment, the deficiency - unfavorable development or redundancy - favorable development experienced in 2008, together with the key assumptions and changes therein affecting the reserve estimates.

Medical Stop-Loss

The Company experienced net unfavorable development of $3.3 million in the Medical Stop-Loss segment primarily related to $3.2 million of negative development on the 2007 reserves. With respect to the 2007 reserves, the deficiency was the result of on-going analysis of recent loss development trends with respect to 2007 primarily attributable to the increased frequency of claims and the severity of primary claims. In the third quarter of 2007, the Company identified a material increase in claims and reserves with respect to business written in 2006. Such adverse development was primarily driven by the frequency of claims relative to the business written in that year proving significantly higher than what would have been predicted by prior loss development patterns. This increased frequency of medical stop-loss claims was due, in part, to increased severity of primary claims.

Fully Insured Health

The Company experienced $1.2 million of favorable development in the Fully Insured Health segment primarily related to $1.0 million on the 2007 business. The favorable development in the Fully Insured Health segment in 2008 is related to overestimating the seasonality patterns of the business having HDHPs in 2007.

Group Disability

The Group Disability segment had an unfavorable development of $.2 million. This amount consists of a favorable development of $1.4 million on the 2007 reserves primarily due to DBL and a net unfavorable development of $1.6 million for all other years due to LTD.

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 Company s best estimate of the present value of the liability for future benefits to be paid on claims incurred as of the balance sheet date. The LAE reserve is calculated based on an actuarial expense study. Since the LTD block of policies is relatively small, results can vary from year to year solely on the basis of one or two policies. It is not uncommon for a reserve of several hundred thousand dollars to be associated with one policy. If a small number of claimants with large policy reserves were to recover or a few large claims were incurred, the results could distort the Company s reserve estimates from year to year. However, there were no individual factors in 2008 that caused the unfavorable 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 2007 to 2008.

Individual Accident and Health and Other

The Individual Accident and Health and Other segment had favorable development of $.7 million. The Company experienced $.5 million favorable variance related to 2007 reserves on our Blanket Accident and sickness product that is sold to volunteer fire districts, due to lower claims experience than historically experienced. The Company had $.2 million favorable variance on all other Individual A&H lines related to 2007 and prior reserves. The reserving process used by management was consistent from 2007 to 2008.

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 2006, the Company entered into a $15.0 million line of credit, all of which was drawn down at that time. At December 31, 2008, $10.0 million remains outstanding due to scheduled reductions of $2.5 million in this line of credit in both August 2007 and 2008. See Note 13 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, 2008 (in thousands):

	Debt	Junior Subordinated Debt	Interest On Debt	Leases	Insurance Reserves	Funds on Deposit	Total
2009	$ 10,000	$ -	$ 2,733	3,279	$ 173,141	$ 41,120	$ 230,273
2010		-	1,980	3,152	49,345	39,387	93,864
2011	-	-	1,980	3,088	40,089	36,204	81,361
2012	-	-	1,980	2,183	30,928	33,733	68,824
2013	-	-	1,980	1,623	28,927	31,658	64,188
2014 and Thereafter	-	38,146	39,935	5,560	156,461	229,086	469,188

Totals	$ 10,000	$ 38,146	$ 50,588	$ 18,885	$ 478,891	$ 411,188	$ 1,007,698

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OUTLOOK

For 2009 , IHC s business plan is to: (i) continue to maintain the profitability of our Fully Insured Health business, while selectively pursuing new opportunities that leverage our vertically integrated strategy of generating fee income at multiple levels of marketing and administration, as well as risk profit and profit commission income, (ii) expand the distribution and continue to improve the profitability of our Medical Stop-Loss business, (iii) proactively adjust our mix of business to take advantage of market conditions, and (iv) continue to expand the distribution of our life and disability products. IHC believes it will be successful in mitigating any impact from proposed federal health care reform legislation, if enacted, as well as the impact of the current economic downturn because of our reliance on controlled distribution and our mix of business.

The following summarizes what IHC has accomplish ed and the outlook for 2009 and beyond by segment.

Historic Core Lines of Business

IHC has historically been a life and health insurance holding company for two insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"), which relied on independent general agents, managing general underwriters ("MGUs") and administrators to perform the majority of all marketing, underwriting, claims and administrative functions for our two primary product segments (Medical Stop-Loss and group disability, life, annuities and DBL). While it is always our intent to emphasize underwriting profits and not top line growth , the medical stop-loss industry as a whole succumbed to pricing pressures caused by an unexpectedly long down cycle (or "soft" market) from 2004 through 2008. As a consequence of these market conditions, we made a decision to curtail our growth and our 2008 loss ratios are improved. Due to stricter underwriting guidelines and the termination of several MGUs in 2008, we expect a decline in stop-loss premiums in 2009. The Company expects its gross group life and disability premiums to increase in 2009 as a result of taking over an estimated $18 million block from an insurer that exited the market, of which we will retain approximately 20%.

With respect to distribution , Standard Security Life is approved to write Medical Stop-Loss in all 50 states and Madison National Life in 49 states. Standard Security Life is currently contacted to write this product through nine MGUs, and Madison National Life through one. T he Company has a significant ownership interest in five of these MGUs (including those owned by AMIC), which produced $ 99.8 million (53.9 %) of Medical Stop-Loss premium s written on IHC paper in 2008 ..

Fully Insured Health Segment

The Fully Insured Health market (estimated at $500 billion) in the U.S. is a much larger market than the Medical Stop-Loss market (estimated at $4 billion). The Company limited the amount of its growth in this segment in 2008 and expects to continue to do so in 2009. In the event we determine to accelerate our growth, we are optimistic that (as a result of its multiple product filings, distribution sources, and the sheer size of the market) our Fully Insured Health business could grow while maintaining profitable underwriting results.

Investments

Due to the continued turmoil in the capital markets, IHC, like many insurance and other companies in the financial sector, recognized a loss in 2008 for other-than-temporary impairments. These impairments were realized on certain investments in preferred stocks and fixed maturities (primarily Alt-A mortgage securities). These preferred stocks were investment-grade preferred stocks issued by well-known financial institutions and account for approximately 4% of our total investment portfolio. Our fixed maturity portfolio continues to be rated on average AA, and the Company considers all unrealized losses in this category to be temporary. We have no direct investments in sub-prime mortgages, although approximately 4% of our total investment portfolio is Alt-A mortgages. While these mortgages have seen lower market values recently, we believe that the unrealized losses on these securities are not necessarily indicative of their ultimate performance. Our book value per share decreased to $10.56 at December 31, 2008 from $14.63 at December 31, 2007 due to a net loss and changes in the fair value of our investment portfolio. To the extent that the capital markets remain unsettled, we may continue to see volatility in the market price of our equity and fixed maturity securities, which could have a negative impact on our net income and book value per share.

Summary

In summary, the Company anticipates improved operating performance in 2009 as a result of (i) increased profitability from its multiple F ully I nsured H ealth P roducts through varied distribution channels; (ii) continuing improvement in the profitability of its Medical Stop-Loss business; and (iii) reduced susceptibility to market cycles due to a better balance in our fully insured health business ..

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, 2008:

Change in Interest Rates	**Estimated Fair Value**		**Estimated Change In Fair Value**
		(In millions)	
200 basis point rise	$ 527.4		$ (81.1)
100 basis point rise	565.3		(43.2)
Base scenario	608.5		-
100 basis point decline	655.0		46.5
200 basis point decline	705.3		96.8

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 58.

ITEM 9.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON

ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A.

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, 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.

There was no change in IHC's internal control over financial reporting during the fourth quarter of 2008 that materially affected, or is reasonably likely to materially affect, IHC's internal control over financial reporting.

During the second quarter of 2008, the Company discovered irregularities relating to account reconciliations of certain other assets and other liabilities of a previously acquired subsidiary. The Audit Committee of the Company s Board of Directors and the Company s independent registered public accounting firm were promptly apprised of these irregularities. The Audit Committee performed a review of this matter, including engaging special, independent legal counsel.

The results of the Audit Committee s review which was conducted in the second and third quarters, concluded that the irregularities: (i) existed at the time the Company acquired the subsidiary in question; and (ii) related exclusively to activities at the subsidiary that occurred prior to its acquisition by the Company. The former shareholders of the subsidiary indemnified the Company in connection with all deficiencies in accounts and entered into an agreement further to indemnify the Company for: (i) any future undisclosed liability identified as having existed at the time the Company acquired such subsidiary, (ii) all costs incurred in connection with the Audit Committee s review of the matter and (iii) all other costs incurred, or to be incurred, by the Company in connection with the matter. The results of the review were shared with the Company s independent registered public accounting firm.

In addition, the following remedial actions have been taken by management: (i) all deficiencies in certain accounts controlled by the subsidiary identified as resulting from the irregularities were corrected; (ii) existing financial controls relating to the affected accounts were augmented; and (iii) certain appropriate changes in personnel were implemented. Although the Company believes that such remedial steps have been sufficient to address any financial impact of the matter, there can be no assurance that additional liabilities will not be identified or costs incurred. Sufficient work has been done to enable management to conclude that: (i) no restatement of previously reported financial statements is required; and (ii) the irregularities do not affect management s previous conclusion that, as of December 31, 2008, the Company s internal control over financial reporting was effective.

The Report of Management on Internal Control Over Financial Reporting and the related Report of Independent Registered Public Accounting Firm are 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 2009, which definitive proxy statement will be filed with the Securities and Exchange Commission.

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. Collectively, the two 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 2009, 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 2009, 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 2009, 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 2009, 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 58.

(a) (3) EXHIBITS

See Exhibit Index on page 115.

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 16, 2009.

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 16th day of March, 2009.

/s/ Larry R. Graber

Larry R. Graber

Director and Senior Vice President

/s/ Allan C. Kirkman

Allan C. Kirkman

Director

/s/ John L. Lahey

John L. Lahey

Director

/s/ Steven B. Lapin

Steven B. Lapin

Director and Vice Chairman

/s/ Edward Netter

Edward Netter

Director and Chairman

/s/ James G. Tatum

James G. Tatum

Director

/s/ Roy T.K. Thung

Roy T.K. Thung

Director, President, and

Chief Executive Officer

(Principal Executive Officer)

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

*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.

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, 2007. 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, 2008, IHC's internal control over financial reporting is effective.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements in this Annual Report, has issued an audit report on the effective operation of IHC's internal control over financial reporting as of December 31, 2008, which is included herein on page 60.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Independence Holding Company:

We have audited Independence Holding Company and subsidiaries (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Independence Holding Company and subsidiaries as of December 31, 2008 and 2007, 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, 2008, and our report dated March 16, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

March 16, 2009

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, 2008 and 2007, and the related consolidated statements of operations, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2008. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules I to III. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement 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. An audit 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008 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.

We also have audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Independence Holding Company s internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 16, 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

New York, New York

March 16, 2009

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31,

	2008	2007
	(In thousands, except share data)	
ASSETS:		
Investments:		
Short-term investments	$ 52	$ 9,001
Securities purchased under agreements to resell	60,823	13,757
Fixed maturities, available-for-sale	608,487	611,906
Equity securities, available-for-sale	54,007	98,496
Other investments	37,724	42,899
Total investments	761,093	776,059
Cash and cash equivalents	7,767	72,823
Due from securities brokers	2,598	5,188
Investment in American Independence Corp. ("AMIC")	41,217	40,475
Deferred acquisition costs	62,401	45,447
Due and unpaid premiums	55,663	64,444
Due from reinsurers	139,052	143,710
Premium and claim funds	52,171	49,468
Notes and other receivables	16,000	13,872
Goodwill	52,331	51,695
Other assets	83,601	43,774
TOTAL ASSETS	$ 1,273,894	$ 1,306,955
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Insurance reserves-health	$ 199,160	$ 201,994
Insurance reserves-life and annuity	279,731	248,253
Funds on deposit	411,188	383,711
Unearned premiums	16,727	22,415

Policy claims-health	12,158	10,419
Policy claims-life	10,738	10,639
Other policyholders' funds	21,888	17,738
Due to securities brokers	-	1,852
Due to reinsurers	38,406	43,571
Accounts payable, accruals and other liabilities	69,508	70,303
Liabilities related to discontinued operations	3,542	22,563
Debt	10,000	12,500
Junior subordinated debt securities	38,146	38,146
TOTAL LIABILITIES	1,111,192	1,084,104
STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)	-	-
Common stock $1.00 par value, 20,000,000 shares authorized; 15,434,891 and 15,366,281 shares issued, respectively; 15,402,136 and 15,228,521 shares out- standing, respectively	15,435	15,366
Paid-in capital	101,086	99,805
Accumulated other comprehensive loss	(54,291)	(16,125)
Treasury stock, at cost; 32,755 and 137,760 shares, respectively	(326)	(2,626)
Retained earnings	100,798	126,431
TOTAL STOCKHOLDERS' EQUITY	162,702	222,851
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,273,894	$ 1,306,955

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEAR ENDED DECEMBER 31,

	2008	2007	2006
	(In thousands, except per share data)		
REVENUES:			
Premiums earned:			
Health	$ 280,214	$ 272,748	$ 225,264
Life and annuity	37,074	34,137	33,406
Net investment income	44,044	46,122	47,676
Fee income	39,672	44,083	32,533
Net realized investment gains (losses)	(50,648)	1,258	625
Equity income from AMIC	480	546	699
Other income	2,851	3,428	2,059
	353,687	402,322	342,262
EXPENSES:			
Insurance benefits, claims and reserves:			
Health	192,504	203,511	149,878
Life and annuity	48,033	47,194	48,014
Selling, general and administrative expenses	143,912	139,380	113,997
Amortization of deferred acquisition costs	6,345	6,111	5,370
Interest expense on debt	3,776	4,194	3,890
	394,570	400,390	321,149
Income (loss) from continuing operations before income taxes (benefits)	(40,883)	1,932	21,113
Income taxes (benefits)	(16,399)	428	6,632
Income (loss) from continuing operations	(24,484)	1,504	14,481
Discontinued operations:			

Income (loss) from discontinued operations	524	(224)	(420)
Gain (loss) on disposition of discontinued operations	120	(3,608)	-
NET INCOME (LOSS)	$ (23,840)	$ (2,328)	$ 14,061
Basic income (loss) per common share:			
Income (loss) from continuing operations	$ (1.59)	$ .10	$ .97
Income (loss) from discontinued operations	.03	(.01)	(.02)
Gain (loss) on disposition of discontinued operations	.01	(.24)	-
Basic income (loss) per common share	$ (1.55)	$ (.15)	$ .95
WEIGHTED AVERAGE SHARES OUTSTANDING	15,387	15,196	14,872
Diluted income (loss) per common share:			
Income (loss) from continuing operations	$ (1.59)	$ .10	$ .95
Income (loss) from discontinued operations	.03	(.01)	(.02)
Gain (loss) on disposition of discontinued operations	.01	(.24)	-
Diluted income (loss) per common share	$ (1.55)	$ (.15)	$ .93
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	15,387	15,311	15,167

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK SHARES	TREASURY STOCK AMOUNT	RETAI EARNI
			(In thousands, except share data)				
BALANCE AT DECEMBER 31, 2005	14,235,066	$ 14,235	$ 78,554	$ (8,414)	(102,917)	$ (1,829)	$ 116
Adjustment to January 1, 2006 beginning balance for adoption of Staff Accounting Bulletin No. 108							
January 1, 2006 balance, as adjusted	14,235,066	14,235	78,554	(8,414)	(102,917)	(1,829)	116
Net income							14
Net change in unrealized gains (losses)				(888)			
Total comprehensive income							
Purchase of treasury stock					(58,315)	(1,180)	
Exercise of common stock options and related tax benefits	438,050	438	5,210		40,170	725	

Common stock dividend ($.05 per share)							
Purchase of IAC	446,663	447	9,175				
Purchase of CAIS	46,250	46	1,012				
Other stock issuances	127,833	128	2,438		1,417	25	
Share-based compensation expense			1,401		1,250	22	
Other capital transactions			83				
BALANCE AT DECEMBER 31, 2006	15,293,862	15,294	97,873	(9,302)	(118,395)	(2,237)	129
Net loss							(2
Net change in unrealized gains (losses)				(6,823)			
Total comprehensive loss							
Purchase of treasury stock					(19,865)	(398)	
Exercise of common stock options and related tax benefits	51,040	51	628				
Common stock dividend ($.05 per share)							
Share-based compensation expense and related tax benefits	21,384	21	1,311		500	9	
Other capital transactions	(5)		(7)				
BALANCE AT DECEMBER 31, 2007	15,366,281	15,366	99,805	(16,125)	(137,760)	$ (2,626)	126
Net loss							(23

Net change in unrealized gains (losses)				(38,166)			
Total comprehensive loss							
Stock issuance					127,520	2,422	(1
Purchase of treasury stock					(23,015)	(133)	
Exercise of common stock options and							
related tax benefits	45,094	45	73				
Common stock dividend ($.05 per share)							
Share-based compensation expense and							
related tax benefits	23,516	24	1,178		500	11	
Other capital transactions			30				
BALANCE AT DECEMBER 31, 2008	15,434,891	$ 15,435	$ 101,086	$ (54,291)	(32,755)	$ (326)	$ 10

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31,

	2008	2007	2006
		(In thousands)	
Cash Flows Provided By (Used By) Operating Activities:			
Net income (loss)	$ (23,840)	$ (2,328)	$ 14,061
Adjustments to net income (loss):			
(Gain) loss from discontinued operations	(524)	224	420
(Gain) loss on disposition of discontinued operations	(120)	3,608	-
Amortization of deferred acquisition costs	6,345	6,111	5,370
Net realized investment gains (losses)	50,648	(1,258)	(625)
Equity income from AMIC and other equity method investments	(1,143)	(972)	(1,518)
Depreciation and amortization	5,328	4,857	2,963
Share-based compensation expenses	1,180	1,325	1,567
Deferred tax expense (benefit)	(18,101)	(6,254)	3,045
Other	(2,199)	574	1,324
Changes in assets and liabilities:			
Net sales of trading securities	493	715	850
Change in insurance liabilities	(12,113)	34,252	(13,190)
Additions to deferred acquisition costs	(3,109)	(4,347)	932
Change in net amounts due from and to reinsurers	(507)	(9,443)	25,942
Change in premium and claim funds	(2,703)	1,776	(25,496)
Change in income tax liability	(1,531)	(547)	(5,310)
Change in due and unpaid premiums	8,842	(40,584)	1,643
Change in other assets	(1,902)	(4,404)	(1,681)
Change in other liabilities	(2,261)	12,262	7,200
Net change in cash from operating activities of continuing operations	2,783	(4,433)	17,497
	(18,030)	(543)	(462)

Net change in cash from operating activities of discontinued operations			
Net change in cash from operating activities	(15,247)	(4,976)	17,035
Cash Flows Provided By (Used By) Investing Activities:			
Change in net amount due from and to securities brokers	738		