

INDEPENDENCE HOLDING CO  
Form PRE 14A  
April 17, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.        )

Filed by the Registrant   
Filed by a Party other than the Registrant   
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**INDEPENDENCE HOLDING COMPANY**  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
- Fee paid previously with preliminary materials.

Edgar Filing: INDEPENDENCE HOLDING CO - Form PRE 14A

o

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- |     |   |
|-----|---|
| (1) | Amount Previously Paid:                       |
| (2) | Form, Schedule or Registration Statement No.: |
| (3) | Filing Party:                                 |
| (4) | Date Filed:                                   |

**INDEPENDENCE HOLDING COMPANY**

---

***NOTICE OF ANNUAL MEETING OF STOCKHOLDERS***

To Be Held June 15, 2012

---

Dear Stockholders:

We cordially invite you to attend the 2012 annual meeting of the stockholders of Independence Holding Company ( IHC or the Company ). The meeting will take place at the Omni Berkshire Place, located at 21<sup>st</sup> Street, New York, New York 10022 on Friday, June 15, 2012 at 10:00 a.m. local time.

Details regarding admission to the meeting and the business to be conducted are described in the Notice of Internet Availability of Proxy Materials (the Notice ) you received in the mail. We have also made available a copy of our 2011 Annual Report with this proxy statement. We encourage you to read our Annual Report. It includes our audited financial statements and provides information about our business and products.

The purpose of the meeting is to:

1. elect seven directors, each for a term of one year;
2. ratify the appointment of KPMG LLP as IHC 's independent registered public accounting firm for the fiscal year ending December 31, 2012;
3. further amend the certificate of incorporation, as amended (the Certificate ), to increase the (i) aggregate number of authorized shares of capital stock from 20,100,00 shares to 23,100,000 shares and (ii) number of authorized shares of common stock, par value \$1.00 per share, from 20,000,000 shares to 23,000,000 shares; and
4. transact any other business that may properly come before the meeting.

Only stockholders of record at the close of business on April 18, 2012 may vote at the meeting or any postponements or adjournments of the meeting.

By order of the Board of Directors,

Adam C. Vandervoort  
*Secretary*

April [ ], 2012

**HOW TO VOTE: Your vote is important. Whether or not you plan to attend the meeting, we hope you will vote as soon as possible. You may vote over the Internet, as well as by telephone or, if you requested to receive printed proxy materials, by mailing a proxy or voting instruction card or voting on the Internet. Please review the instructions on each of your voting options described in this proxy statement as well as in the Notice you received in the mail.**

**2012 PROXY STATEMENT****TABLE OF CONTENTS**

	<b>Page</b>
<b>INFORMATION ABOUT THE ANNUAL MEETING</b>	2
What is the purpose of the annual meeting?	2
Who is entitled to vote?	2
Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?	2
How do I vote by proxy?	2
Am I entitled to vote if my shares are held in street name ?	2
How many shares must be present to hold the meeting?	3
What if a quorum is not present at the meeting?	3
How can I vote my shares in person at the meeting?	3
How can I vote my shares without attending the meeting?	3
Can I revoke my proxy and change my vote?	3
Who can attend the meeting?	4
Will my vote be kept confidential?	4
Who will count the votes?	4
How does the Board of Directors recommend I vote on the proposals?	4
What if I do not specify how my shares are to be voted?	4
Will any other business be conducted at the meeting?	4
How many votes are required to elect the director nominees?	5
What happens if a nominee is unable to stand for election?	5
How many votes are required to ratify the appointment of IHC's independent registered public accounting firm for the fiscal year ended December 31, 2012?	5
How many votes are required to further amend the Certificate of Incorporation to increase the aggregate number of authorized shares of capital stock from 20,100,000 shares to 23,100,000 shares, and the number of authorized shares of common stock, par value \$1.00 per share, from 20,000,000 shares to 23,000,000 shares?	5
How will abstentions be treated?	5
How will broker non-votes be treated?	5
<b>STOCK OWNERSHIP</b>	6
Directors and Executive Officers	6
Section 16(a) Beneficial Ownership Reporting Compliance	6
Significant Stockholders	7
<b>CORPORATE GOVERNANCE MATTERS</b>	8
Corporate Governance Documents	8
Director Independence	8
Board Leadership Structure	8
Board Role in Risk Oversight	9
Audit Committee Financial Expert	9
Executive Sessions of Non-Management Directors	9
Communications with Directors	9
Nomination of Director Candidates	10
<b>MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS</b>	11

Meetings	11
Committees	11
Attendance at Annual Meeting of Stockholders	11
<b>EXECUTIVE OFFICERS</b>	12
<b>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</b>	14
Compensation Committee Interlocks and Insider Participation	14
Transactions with Management and Other Relationships	14
<b>PROPOSAL 1 - ELECTION OF DIRECTORS</b>	15
<b>DIRECTORS COMPENSATION</b>	19
Director Summary Compensation	19
<b>EXECUTIVE COMPENSATION</b>	20
Compensation Discussion and Analysis	20
Compensation Committee Report	23
Compensation Risk Assessment	24
Summary Compensation Table	24
Grants of Plan-Based Awards Table	26
Outstanding Equity Awards at Fiscal Year-End	27
Nonqualified Deferred Compensation	28
Potential Payments to Named Executive Officers	28
Stock Incentive Plans	30
Equity Compensation Plans	31
<b>REPORT OF THE AUDIT COMMITTEE</b>	32
<b>AUDIT AND NON-AUDIT FEES</b>	34
<b>PROPOSAL 2 - RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</b>	35
Appointment of Independent Registered Public Accounting Firm	35
Vote Required for Ratification	35
<b>PROPOSAL 3 AMENDMENT OF THE CERTIFICATE OF INCORPORATION TO INCREASE THE AGGREGATE NUMBER OF AUTHORIZED SHARES OF CAPITAL STOCK AND THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK</b>	36
<b>OTHER MATTERS</b>	38
<b>ADDITIONAL INFORMATION</b>	38
Proxy Solicitation	38
Stockholder Proposals for 2013 Annual Meeting	38

**Independence Holding Company**

**96 Cummings Point Road**

**Stamford, Connecticut 06902**

**(203) 358-8000**

**[www.ihcgroup.com](http://www.ihcgroup.com)**

**2012 PROXY STATEMENT**

IHC's Board of Directors (the Board) is furnishing you this proxy statement in connection with the solicitation of proxies on its behalf for the 2012 Annual Meeting of Stockholders. The meeting will take place at the Omni Berkshire Place, located at 21 E. 52<sup>nd</sup> Street, New York, New York 10022 on Friday, June 15, 2012 at 10:00 a.m. local time. At the meeting, stockholders will vote on the on the following proposals:

the election of the seven directors;

the ratification of the appointment of KPMG LLP as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2012; and

the further amendment of the certificate of incorporation, as amended (the Certificate), to increase the (i) aggregate number of authorized shares of capital stock from 20,100,00 shares to 23,100,000 shares and (ii) number of authorized shares of common stock, par value \$1.00 per share, from 20,000,000 shares to 23,000,000 shares.

Stockholders also will consider any other matter that may properly come before the meeting, although we know of no other business to be presented.

By submitting your proxy (via the Internet, telephone or mail), you authorize Mr. Adam C. Vandervoort, IHC's Corporate Vice President, General Counsel and Secretary, and Ms. Teresa A. Herbert, IHC's Chief Financial Officer and Senior Vice President, to represent you and vote your shares at the meeting in accordance with your instructions. They also may vote your shares to adjourn the meeting and will be authorized to vote your shares at any postponements or adjournments of the meeting.

IHC's 2011 Annual Report, which includes IHC's audited financial statements, is being made available to IHC's stockholders concurrent herewith. Although the Annual Report is being made available concurrent with this proxy statement, it does not constitute a part of the proxy solicitation materials and is not incorporated by reference into this proxy statement.

We are first making this proxy statement and accompanying materials available to stockholders on or about April 27, 2012.

***YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY VOTE YOUR SHARES OVER THE INTERNET, BY TELEPHONE OR BY MAIL.***



**INFORMATION ABOUT THE ANNUAL MEETING**

**What is the purpose of the annual meeting?**

At the annual meeting, the stockholders will be asked to:

elect seven directors, each for a term of one year;

ratify the appointment of KPMG LLP ( KPMG ) as IHC 's independent registered public accounting firm for the fiscal year ending December 31, 2012; and

further amend the certificate of incorporation, as amended (the Certificate ), to increase the (i) aggregate number of authorized shares of capital stock from 20,100,00 shares to 23,100,000 shares and (ii) number of authorized shares of common stock, par value \$1.00 per share, from 20,000,000 shares to 23,000,000 shares.

Stockholders also will transact any other business that may properly come before the meeting. Members of IHC 's management team will be present at the meeting to respond to appropriate questions from stockholders.

**Who is entitled to vote?**

The record date for the meeting is April 18, 2012. Only stockholders of record at the close of business on that date are entitled to vote at the meeting. The only class of stock entitled to be voted at the meeting is IHC common stock. Each outstanding share of common stock is entitled to one vote for all matters before the meeting. At the close of business on the record date, there were [\_\_\_\_\_] shares of IHC common stock outstanding.

**Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?**

In accordance with rules adopted by the Securities and Exchange Commission (the SEC), we may now furnish proxy materials, including this proxy statement and our 2011 Annual Report, to our stockholders by providing access to such documents on the Internet instead of mailing printed copies. If you received a Notice by mail, you will not receive a printed copy of the proxy materials. Most stockholders will not receive printed copies of the proxy materials unless they request them. Instead, the Notice, which was mailed to most of our stockholders, will instruct you as to how you may access and review all of the proxy materials on the Internet. The Notice also instructs you as to how you may submit your proxy on the Internet. If you would like to receive a paper copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice. If you vote by Internet or telephone, please do not mail your proxy card.

### **How do I vote by proxy?**

You may vote by proxy using the Internet or telephone by following the instructions on your Notice. If you requested a printed set of materials, you may also vote by mail by signing, dating and returning the proxy card.

Please note that there are separate telephone and Internet arrangements depending on whether you are a registered stockholder (that is, if you hold your stock in your own name) or you hold your shares in street name (that is, in the name of a brokerage firm or bank that holds your securities account). In either case, you must follow the procedures described on your Notice.

### **Am I entitled to vote if my shares are held in street name ?**

If your shares are held by a bank, brokerage firm or other nominee, you are considered the beneficial owner of shares held in street name. If your shares are held in street name, the proxy materials are being made available to you by your bank, brokerage firm or other nominee (the record holder), along with voting instructions. As the

beneficial owner, you have the right to direct your record holder how to vote your shares, and the record holder is required to vote your shares in accordance with your instructions. If you do not give instructions to your bank, brokerage firm or other nominee, it will nevertheless be entitled to vote your shares in its discretion on the ratification of the appointment of the independent registered public accounting firm (Proposal 2), but not on the election of directors (Proposal 1) or the amendment of the certificate of incorporation to increase the aggregate number of authorized shares of capital stock and the number of authorized shares of common stock (Proposal 3).

As the beneficial owner of shares, you are invited to attend the annual meeting. If you are a beneficial owner, however, you may not vote your shares in person at the meeting unless you obtain a legal proxy, executed in your favor, from the record holder of your shares.

### **How many shares must be present to hold the meeting?**

A quorum must be present at the meeting for any business to be conducted. The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the record date will constitute a quorum. Proxies received but marked as abstentions or treated as broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

### **What if a quorum is not present at the meeting?**

If a quorum is not present or represented at the meeting, the holders of a majority of the shares entitled to vote at the meeting who are present in person or represented by proxy, or the chairman of the meeting, may adjourn the meeting until a quorum is present or represented. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given.

### **How can I vote my shares in person at the meeting?**

Shares held in your name as the stockholder of record may be voted by you in person at the meeting. Shares held beneficially in street name may be voted by you in person at the meeting only if you obtain a legal proxy from the broker, bank, trustee or nominee that holds your shares giving you the right to vote the shares. Even if you plan to attend the meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the meeting.

### **How can I vote my shares without attending the meeting?**

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. If you are a stockholder of record, you may vote by proxy. You can vote by proxy over the Internet or telephone by following the instructions provided in the Notice, or, if you requested to receive printed proxy materials, you can also vote by mail pursuant to instructions provided on the proxy card. If you hold shares beneficially in street name, you may also vote by proxy over the Internet or telephone by following the instructions provided in the Notice, or, if you requested to receive printed proxy materials, you can also vote by mail by following the voting instruction card provided to you by your broker, bank, trustee or nominee.

**Can I revoke my proxy and change my vote?**

You may change your vote at any time prior to the taking of the vote at the meeting. If you are the stockholder of record, you may change your vote by (1) granting a new proxy bearing a later date (which automatically revokes the earlier proxy) using any of the methods described above (and until the applicable deadline for each method), (2) providing a written notice of revocation to IHC's Corporate Secretary at Independence Holding Company, 485 Madison Avenue, 14<sup>th</sup> Floor, New York, New York 10022 prior to your shares being voted, or (3) attending the meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, bank, trustee or nominee following the instructions they provided, or, if you have obtained a legal proxy from your broker, bank, trustee or nominee giving you the right to vote your

shares, by attending the meeting and voting in person.

**Who can attend the meeting?**

Only stockholders eligible to vote or their authorized representatives will be admitted to the meeting. If your shares are held in street name, you must bring the indicated portion of your voting instruction card. Alternatively, you may bring other proof of ownership, such as your most recent brokerage account statement, which clearly shows your ownership of IHC common stock as of the record date. In addition, you must bring valid government-issued photo identification, such as a driver's license or a passport, and a legal proxy from your broker, bank, trustee or nominee giving you the right to vote your shares in person at the meeting.

**Will my vote be kept confidential?**

Yes, your vote will be kept confidential and not disclosed to IHC unless:

required by law;

you expressly request disclosure on your proxy; or

there is a proxy contest.

**Who will count the votes?**

Broadridge Financial Solutions, an independent third party, will tabulate and certify the votes. A representative of Broadridge Financial Solutions will serve as the inspector of election.

**How does the Board of Directors recommend I vote on the proposals?**

Your Board recommends that you vote:

FOR the election of the seven nominees to the Board of Directors;

FOR the ratification of the appointment of KPMG as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2012; and

FOR the amendment of the certificate of incorporation to increase the aggregate number of authorized shares of capital stock and the number of authorized shares of common stock.

**What if I do not specify how my shares are to be voted?**

If you submit a proxy but do not indicate any voting instructions, your shares will be voted:

FOR the election of the seven nominees to the Board of Directors;

FOR the ratification of the appointment of KPMG as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2012; and

FOR the amendment of the certificate of incorporation to increase the aggregate number of authorized shares of capital stock and the number of authorized shares of common stock.

**Will any other business be conducted at the meeting?**

IHC's by-laws require stockholders to give advance notice of any proposal intended to be presented at the meeting. The deadline for this notice has passed and we have not received any such notices. If any other matter

properly comes before the stockholders for a vote at the meeting, however, the proxy holders will vote your shares in accordance with their best judgment.

**How many votes are required to elect the director nominees?**

The affirmative vote of a plurality of the votes cast at the meeting is required to elect the seven nominees as directors. This means that the seven nominees will be elected if they receive more affirmative votes than any other person. If you vote "Withheld" with respect to one or more nominees, your shares will not be voted with respect to the person or persons indicated.

**What happens if a nominee is unable to stand for election?**

If a nominee is unable to stand for election, the Board may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holders will vote your shares for the substitute nominee, unless you have withheld authority.

**How many votes are required to ratify the appointment of IHC's independent registered public accounting firm for the fiscal year ending December 31, 2012?**

The ratification of the appointment of KPMG as IHC's independent registered public accounting firm for the fiscal year ending December 31, 2012 requires the affirmative vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote.

**How many votes are required to further amend the Certificate of Incorporation to increase the aggregate number of authorized shares of capital stock from 20,100,000 shares to 23,100,000 shares, and the number of authorized shares of common stock, par value \$1.00 per share, from 20,000,000 shares to 23,000,000 shares?**

The further amendment of the certificate of incorporation to increase the aggregate number of authorized shares of capital stock and the number of authorized shares of common stock requires the affirmative vote of a majority of the shares entitled to vote thereon.

**How will abstentions be treated?**



Abstentions will be treated as shares present for quorum purposes and entitled to vote, and will have the same practical effect as votes against a proposal.

**How will broker non-votes be treated?**

Broker non-votes will be treated as shares present for quorum purposes. Your broker will be entitled to vote your shares in its discretion on the ratification of the appointment of the independent registered public accounting firm for the fiscal year ending December 31, 2012 (Proposal 2), without your voting instructions, but not on the other two proposals.

**STOCK OWNERSHIP****Directors and Executive Officers**

The following table sets forth the amount of IHC common stock, par value \$1.00 per share, beneficially owned by each director or nominee, each named executive officer included in the Summary Compensation Table on page 24, and all directors, nominees and executive officers as a group, as of March 31, 2012. The amounts set forth below include the ten percent stock dividend that IHC distributed to its stockholders on March 5, 2012. Unless otherwise indicated, beneficial ownership is direct and the person indicated has sole voting and investment power.

<u>Name</u>	<u>Number of Shares</u>	<u>Number of Option Shares</u>	<u>Percent of Class</u>	<u>(2)</u>
Mr. Bernon R. Erickson, Jr.	140,379	34,833	*	
Mr. Larry R. Graber	45,285	45,833	*	
Ms. Teresa A. Herbert	57,187	59,033	*	
Mr. David T. Kettig	77,504	62,700	*	
Mr. Allan C. Kirkman	17,226 (3)	3,267	*	
Mr. John L. Lahey	13,200 (3)	--	*	
Mr. Steven B. Lapin	122,162	--	*	
Mr. Jeffrey C. Smedsrud	86,414	53,167	*	
Mr. James G. Tatum	38,014 (3)	3,267	*	
Mr. Roy T.K. Thung	313,600	199,833	2.82%	
All directors, nominees for director and executive officers as a group (13 persons)	941,452	499,334	7.78%	

(1)

Reflects the number of shares that could be acquired on March 31, 2012 or within sixty days thereafter through the exercise of stock options. The shares are excluded from the column headed Number of Shares, but included in the ownership percentages reported in the column headed Percent of Class.

(2)

Based on 18,008,947 shares outstanding on March 31, 2012, and assuming the exercise and issuance of options reported in the table, as applicable to the calculation.

(3)

Includes 3,300 shares of unvested restricted stock.

\*

Represents less than 1% of the outstanding common stock.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires directors and certain officers of IHC and persons who own more than ten percent (10%) of IHC common stock to file with the U.S. Securities and Exchange Commission ( SEC ) initial reports of beneficial ownership (Form 3) and reports of subsequent changes in their beneficial ownership (Form 4 or Form 5) of IHC s common stock. Such directors, officers and greater-than-ten-percent stockholders are required to furnish IHC with copies of the Section 16(a) reports they file. The SEC has established specific due dates for these reports, and IHC is required to disclose in this proxy statement any late filings or failures to file.

Based solely upon a review of the copies of the Section 16(a) reports (and any amendments thereto) furnished to IHC and written representations from certain reporting persons that no additional reports were required, IHC believes that its directors, reporting officers and greater-than-ten-percent stockholders complied with all these filing requirements for the fiscal year ended December 31, 2011, except for the Form 4 that Mr. Tatum filed in December of 2011 that was late due to an administrative oversight.

**Significant Stockholders**

The following table lists certain persons known by IHC to own beneficially more than five percent of the outstanding shares of IHC common stock, par value \$1.00 per share, as of March 31, 2012. The amounts set forth below include the ten percent stock dividend that IHC distributed to its stockholders on March 5, 2012. Beneficial ownership is determined in accordance with applicable rules of the SEC. Except as set forth below, and to the best knowledge of IHC, no other person (or persons acting in concert) owns beneficially more than 5% of IHC's common stock.

	<u>Common Stock</u>	<u>Percentage of Outstanding Shares Beneficially Owned</u>
Geneve Holdings, Inc., 96 Cummings Point Road, Stamford, Connecticut 06902 (1)	9,137,892	50.74%
Dimensional Fund Advisors LP, Palisades West, Building 1, 6300 Bee Cave Road, Austin, Texas 78746 (2)	947,538	5.26%

(1)

According to (i) information disclosed in Amendment No. 35 to Schedule 13D dated May 9, 2001 of Geneve Holdings, Inc. ( GHI ), a private diversified holding company, supplemented by (ii) information provided to IHC by GHI in response to a questionnaire. GHI is a financial services holding company and is a member of a group consisting of itself and certain of its affiliates that together hold the shares of common stock of IHC.

(2)

According to information disclosed in Schedule 13G, reporting as of December 31, 2011. Dimensional Fund Advisors LP is an investment adviser registered under Section 203 of the Investment Advisors Act of 1940, as amended, that furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, as amended, and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the Funds ). In its role as investment advisor, sub-adviser and/or manager, neither Dimensional Fund Advisors LP nor its subsidiaries possess voting and/or investment power over the securities of IHC that are owned by the Funds. All the shares of IHC are owned by the Funds and Dimensional Fund Advisors LP disclaims beneficial ownership of such securities.



## CORPORATE GOVERNANCE MATTERS

### Corporate Governance Documents

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

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

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

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

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

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

### Director Independence

As a company listed on the New York Stock Exchange ( NYSE ), IHC uses as its definition of independence the independence standards prescribed in the NYSE Listed Company Manual (the Manual ). Each of Messrs. Kirkman, Tatum and Lahey met such independence requirements. The Board has affirmatively determined that none of them had any material relationship with IHC at all applicable times during 2011.

IHC qualifies as a controlled company, as defined in Section 303A.00 of the Manual, because more than 50% of IHC s voting power is held by Geneve Holdings, Inc. ( GHI ). Therefore, IHC is not subject to certain NYSE requirements that would otherwise require IHC to have: (i) a majority of independent directors on the Board (Manual Section 303A.01); (ii) compensation of IHC s executive officers determined by a compensation committee composed solely of independent directors (Manual Section 303A.04); or (iii) director nominees selected, or recommended for the Board s selection, by a nominating committee composed solely of independent directors (Manual Section 303A.05).

Of IHC s directors, none of Messrs. Lapin, Graber, Kettig and Thung is independent under the NYSE s standards.

For each independent director, after reasonable investigations and in reliance on representations by such independent director to IHC, IHC believes there is no transaction, relationship, or arrangement between each such director not disclosed under the caption Certain Relationships and Related Transactions.

### **Board Leadership Structure**

The Board understands that there is no single, generally accepted approach to providing Board leadership and that given the dynamic and competitive environment in which we operate, the right Board leadership structure may vary as circumstances warrant. To this end, the Board has no policy mandating the combination or separation of the roles of Chairman and CEO and believes the matter should be discussed and considered from time to time as

circumstances change. Currently, Mr. Roy T.K. Thung is both our CEO and Chairman.

### **Board Role in Risk Oversight**

The Board administers its risk oversight function directly and through its Audit Committee. The Board and the Audit Committee regularly discuss with management, and the Company's independent auditors and internal auditor, our major risk exposures, their potential financial impact on the Company, and the steps we take to manage these risks.

In general, management is responsible for the day-to-day management of the risks the Company faces, while the Board, acting as a whole and through the Audit Committee, has responsibility for the oversight of risk management. In its risk oversight role, the Board has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. Senior management attends the regular quarterly meetings of the Board and is available to address questions and concerns raised by the Board on risk management-related and other matters.

The Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to risk management in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements. In addition, the Audit Committee discusses policies with respect to risk assessment and risk management with management, internal audit and the independent auditors.

The Audit Committee assists the Board with oversight of risk management by reviewing the Company's financial statements and meeting with the Company's independent auditors and internal auditor at regularly scheduled meetings of the Audit Committee, to review their reports on the adequacy and effectiveness of our internal audit and internal control systems and discusses with management the Company's major financial risks and exposures and the steps management has taken to monitor and control such risks and exposures.

### **Audit Committee Financial Expert**

The Board has determined that at least one member of the Audit Committee, Mr. Tatum, is an audit committee financial expert as such term is defined in Item 401(h)(2) of Regulation S-K promulgated by the SEC.

### **Executive Sessions of Non-Management Directors**



Non-management Board members meet without management present at least twice annually, at regularly scheduled executive sessions. At least once a year, such meetings include only the independent members of the Board. Mr. Kirkman presides over meetings of the non-employee and independent directors.

### **Communications with Directors**

You may communicate directly with any member or committee of the Board by writing to: IHC Board of Directors, c/o Corporate Secretary, 485 Madison Avenue, 14<sup>th</sup> Floor, New York, New York 10022. Please specify to whom your letter should be directed. The Corporate Secretary of IHC will review all such correspondence and regularly forward to the Board a summary of all such correspondence and copies of all correspondence that, in his opinion, deals with the functions of the Board or its committees or that he otherwise determines requires the attention of any member, group or committee of the Board. Board members may, at any time, review a log of all correspondence received by IHC that is addressed to Board members and request copies of any such correspondence.

Interested parties who wish to communicate with non-management IHC directors, or with the presiding director of the Board's executive sessions, may do so by writing to IHC Board of Directors, c/o Corporate Secretary, Attn: Non-management Directors or the Presiding Director for executive sessions, as applicable, 485 Madison Avenue, 14<sup>th</sup> Floor, New York, New York 10022. All such mail received will first be opened and screened for security purposes.

## **Nomination of Director Candidates**

In light of GHI's majority voting power, the Board has determined that the Board, rather than a nominating committee, is the most appropriate body to identify director candidates and select nominees for presentation at the annual meeting of stockholders. In making nominations, the Board seeks candidates with outstanding business experience who will bring such experience to the management and direction of IHC. The minimum criteria employed by the Board in its selection of candidates is set forth in the Guidelines, along with certain other factors that inform the selection process. All directors serving on the Board participate in the consideration of director nominees. Furthermore, in light of GHI's voting power, the Board has determined that no policy with respect to consideration of candidates recommended by security holders other than GHI's would be appropriate.

The Board does not have a formal policy with respect to diversity. However, the Board seeks to have a Board that reflects an appropriate balance of knowledge, experience, skills, expertise and diversity, as applicable to our industry. The Board assesses its achievement of diversity through the review of Board composition as part of the Board's annual self-assessment process.

## MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

### Meetings

During 2011, the Board and its committees held nine formal meetings. Each director attended at least 75% of the aggregate of: (i) the total number of meetings of the Board; and (ii) the total number of meetings held by all committees of the Board on which he served, during the applicable period.

### Committees

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

#### Audit Committee

#### Compensation Committee

Mr. James G. Tatum (Chairman)

Mr. Allan C. Kirkman (Chairman)

Mr. Allan C. Kirkman

Mr. John L. Lahey

Mr. John L. Lahey

Mr. James G. Tatum

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

The Audit Committee met four times during 2011. Each of its members meets the independence requirements of the NYSE and applicable SEC rules and regulations. The Audit Committee and the Board have determined that each member of the Audit Committee is financially literate and that Mr. Tatum qualifies as an audit committee financial expert, as such term is defined in Item 401(h)(2) of Regulation S-K promulgated by the SEC.

**Compensation Committee.** The Compensation Committee assists the Board in fulfilling its responsibilities with regard to compensation matters, is responsible for determining or ratifying (as the case may be) the compensation of IHC's executive officers and administers IHC's 2006 Stock Incentive Plan. The Compensation Committee met one time during 2011. The Compensation Committee has sole authority to determine the compensation for IHC's Chief Executive Officer and President.

#### **Attendance at Annual Meeting of Stockholders**

Each IHC director is expected to be present at the Annual Meeting of Stockholders. Were an IHC director unable to attend the meeting, IHC would endeavor to arrange for the director's participation by teleconference. At last year's annual meeting, every IHC director attended in person.

## EXECUTIVE OFFICERS

Except for Messrs. Graber, Kettig and Thung, who serve as (and are nominated to continue as) IHC directors, set forth below is information about each executive officer of IHC, including such officer's name, age, all positions and offices held with IHC and its material affiliates and principal occupations and business experience during the past five years.

IHC's officers are elected by the Board, each to serve until his or her successor is elected and has qualified, or until his or her earlier resignation, removal from office or death.

### **Mr. Gary J. Balzofiore, 54**

*Corporate Vice President Accounting and Finance*

Since March 2012, Corporate Vice President Accounting and Finance; since March 2012, Corporate Vice President Accounting and Finance of American Independence Corp. ( AMIC ); for more than the past five years, Executive Vice President and Chief Financial Officer of Standard Security Life Insurance Company of New York, a wholly owned subsidiary of IHC ( Standard Security ); for more than the past five years, Chief Financial Officer and Senior Vice President of Independence American Insurance Company, a wholly owned subsidiary of AMIC ( Independence American ).

### **Mr. Bernon R. Erickson, Jr., 51**

*Chief Health Actuary and Senior Vice President*

For more than the past five years, Chief Health Actuary and Senior Vice President; since June 2007, Chief Health Actuary and Senior Vice President of AMIC; since April 2007, Chief Executive Officer of Actuarial Management Corporation, a wholly owned subsidiary of IHC; from April 2007 to March 2012, President of Actuarial Management Corporation; since March 2012, Chief Executive Officer and President of IHC Health Holdings Corp. ( IHC HH ) and IHC Health Solutions, Inc. ( IHC HS ), both wholly owned subsidiaries of IHC; from April 2009 to March 2012, Co-President of IHC HH.

### **Ms. Teresa A. Herbert, 50**

*Chief Financial Officer and Senior Vice President*

For more than the past five years, Chief Financial Officer and Senior Vice President; for more than the past five years, Vice President of Geneve Corporation ( Geneve ), a private company controlled by GHI; for more than the past five years, Chief Financial Officer and Senior Vice President of AMIC; since March 2011, a director of AMIC.

**Mr. Michael Kemp, 51**

*Chief Underwriting Officer and Senior Vice President*

Since March 2012, Chief Underwriting Officer and Senior Vice President; since March 2012, President of IHC Risk Solutions, LLC, a wholly owned subsidiary of IHC; for more than the last five years, President of ReAct Consulting International, Inc.

**Mr. Jeffrey C. Smedsrud, 53**

*Chief Marketing and Strategy Officer and Senior Vice President*

For more than the past five years, Chief Marketing and Strategy Officer and Senior Vice President; since March 2012, President of AMIC; from June 2007 until March 2012, Chief Marketing Officer and Senior Vice President of AMIC; for more than the past five years, a director of Independence American; since April 2008, Chief Executive Officer of Independent Producers of America, LLC, a wholly owned subsidiary of AMIC; since March 2012, Chief Executive Officer and President of IHC Specialty Benefits, Inc., a wholly owned subsidiary of AMIC; from January 2007 until March 2012, Chief Executive Officer and President of IHC HS; from April 2009 to March 2012, Co-President of IHC HH.

**Mr. Adam C. Vandervoort, 37**

*Corporate Vice President, General Counsel and Secretary*

Since March 2012, Corporate Vice President, General Counsel and Secretary; since March 2012, Corporate Vice President, General Counsel and Secretary of AMIC; for more than five years prior thereto, Vice President, General Counsel and Secretary of IHC and AMIC; for more than the past five years, Senior Vice President, General Counsel and Secretary of each of Standard Security, Independence American and Madison National Life Insurance Company, Inc., a wholly owned subsidiary of IHC; for more than the past five years, a director of Independence American. Mr. Vandervoort is licensed to practice law in the states of California, Connecticut, New York and Tennessee.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**Compensation Committee Interlocks and Insider Participation**

Messrs. Kirkman, Lahey and Tatum served on the Compensation Committee of the Board during fiscal year 2011.

**Transactions with Management and Other Relationships**

***With GHI***

IHC and GHI, IHC's controlling stockholder, operate under cost-sharing arrangements pursuant to which certain items are allocated between the two companies. During 2011, IHC paid GHI (or accrued for payment thereto) approximately \$482,000 under such arrangements, and paid or accrued approximately an additional \$131,000 for the first quarter of 2012. Such cost-sharing arrangements include GHI's providing IHC with the use of office space as IHC's corporate headquarters for annual consideration of \$162,000 in 2011. The foregoing arrangement is subject to the annual review and approval of the Audit Committee, and IHC's management believes that the terms thereof are no less favorable than could be obtained by IHC from unrelated parties on an arm's-length basis.

***With Southern Life and Health Insurance Company***

Southern Life and Health Insurance Company (Southern) is controlled by GHI. During 2011, IHC and its subsidiaries paid \$37,880 to Southern in connection with Southern's lease of real property to a subsidiary of IHC and provision of certain administrative services, and paid or accrued in respect thereof approximately an additional \$6,550 for the first quarter of 2012.

***Review, Approval, or Ratification of Transactions with Related Persons***

Section 5.7 of IHC's by-laws provide that no contract or transaction between IHC and one or more of its directors or officers (or their affiliates) is *per se* void (or voidable) if, among other things, the material facts as to the relevant relationships and interests were disclosed to the Board (or the relevant committee thereof) and the transaction in question was approved by a majority of the disinterested directors voting on the matter. The Audit Committee's charter requires the Audit Committee to review and approve all interested-party transactions, and IHC's other



governance documents specifically prohibit various conflicts of interest and impose disclosure requirements in connection with any potential conflict of interest.

The Audit Committee, with the assistance of IHC's Corporate Vice President, Secretary and General Counsel, has reviewed and approved each of the related-party transactions set forth above. IHC is not aware of any transaction reportable under paragraph (a) of Item 404 of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended, in respect of 2011, that was not so reviewed and approved.

**PROPOSAL 1 ELECTION OF DIRECTORS**

The Board currently consists of seven members. All of IHC's directors are elected at each annual meeting of stockholders and hold office until the next annual meeting of stockholders. The Board proposes that each of the seven current directors be reelected to the Board. Each of the directors elected at this annual meeting will hold office until the annual meeting of stockholders to be held in 2012 and until his successor is duly elected and qualified. The Company believes that its Board as a whole should encompass a range of talent, skill, diversity, and expertise enabling it to provide sound guidance with respect to the Company's operations and interests. In addition to considering a candidate's background and accomplishments, candidates are reviewed in the context of the current composition of the Board and the evolving needs of our businesses.

Each nominee has consented to being named in this proxy statement and has agreed to serve if elected. If a nominee is unable to stand for election, the Board may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holders will vote your shares for the substitute nominee, unless you have withheld authority.

The affirmative vote of a plurality of the votes cast at the meeting is required to elect the seven nominees as directors. This means that the seven nominees will be elected if they receive more affirmative votes than any other person.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH OF THE SEVEN NOMINEES.**

The following table sets forth, with respect to each nominee, his name, age, principal occupation, employment during at least the past five years, the year he was first elected an IHC director and directorships held in other public companies.

**NOMINEES FOR ELECTION TO THE BOARD**

<b><u>Director, Year First Elected as Director</u></b>	<b><u>Age</u></b>	<b><u>Principal Occupation, Business and Directorships and Qualifications</u></b>
Mr. Larry R. Graber	62	Since March 2012, Chief Life and Annuity Actuary and Senior Vice President of IHC; for more than five years, prior thereto, Senior Vice President Life and Annuities of IHC; for more than the past five years, a director and President of Madison National Life

2000 Insurance Company, Inc., a wholly owned subsidiary of IHC; for more than the past five years, a director and President of Southern Life and Health Insurance Company, an insurance company and wholly owned subsidiary of GHI with principal offices in Homewood, Alabama; for more than the past five years, a director of Standard Security Life Insurance Company of New York.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Graber should serve as one of IHC's directors are described as follows:

Mr. Graber has extensive experience in many facets of the insurance business, particularly relating to the acquisition and administration of blocks of life insurance.

Mr. Allan C. Kirkman 68 For more than the past five years, a member of each of the Audit Committee and the Compensation Committee; since March 2011, Chairman of the Audit Committee. For more than five years prior to his retirement in October 2005, Executive Vice President of Mellon Bank, N.A., a national bank.

1980

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Kirkman should serve as one of IHC's directors are described as follows:

Mr. Kirkman has extensive experience in diverse, complex businesses and transactions, including involving public companies in the financial services fields.

David T. Kettig 53 Since April 2009, Chief Operating Officer and Senior Vice President of IHC; from January 2006 to April 2009, Co-Chief Operating Officer and Senior Vice President of IHC; from April 2009 to March 2012, Chief Operating Officer and Senior Vice President of AMIC; from June 2007 to April 2008, Co-Chief Operating Officer and Senior Vice President of AMIC; from November 2002 to June 2007, Chief Operating Officer and Senior Vice President of AMIC; since March 2011, a director of AMIC; for more than the past five years, President of Independence American Insurance Company, a wholly owned subsidiary of AMIC; since March 2012, President of Standard Security Life Insurance Company of New York.

2011

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Kettig should serve as one of IHC's directors are described as follows:

Edgar Filing: INDEPENDENCE HOLDING CO - Form PRE 14A

Mr. Kettig has extensive experience in diverse, complex businesses and transactions, corporate governance, risk management and insurance. Mr. Kettig also previously served as the General Counsel of IHC.

Mr. John L. Lahey 65 For more than the past five years, a member of the Audit Committee; since March 2011, a member of the Compensation Committee; since March 1987, President of Quinnipiac University, a private university located in Hamden, Connecticut; since 1995, a member of the Board of Trustees of Yale-New Haven Hospital, a hospital located in New Haven, Connecticut; since 1994, a director of the UIL Holdings Corporation, a publicly held utility holding company with principal offices in New Haven, Connecticut; since 2004, a director of Alliance for Cancer Gene Therapy, the only national non-profit organization committed exclusively to cancer gene and cell therapy research; since June 2006, a director of Standard Security Life Insurance Company of New York. Mr. Lahey also serves as a director and Vice Chairman of the Board of the New York City St. Patrick's Day Parade, Inc.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Lahey should serve as one of IHC's directors are described as follows:

Mr. Lahey has extensive executive experience in major organizations and has valuable expertise in management and corporate governance.

Mr. Steven B. Lapin 66 For more than the past five years, Vice Chairman of IHC's Board; since March 2011, Chairman, Chief Executive Officer and President of Geneve; for more than five years prior to March 2011, President and Chief Operating Officer and a director of Geneve; for more than the past five years, a director of The Aristotle Corporation, a private company controlled by GHI (Aristotle); for more than the past five years prior to March 2011, President and Chief Operating Officer of Aristotle; since March 2011, Chairman, Chief Executive Officer and President of Aristotle; since March 2011, a director of AMIC; for more than the past five years, a director of Madison National Life Insurance Company, Inc.; for more than the past five years, a director of Standard Security Life Insurance Company of New York.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Lapin should serve as one of IHC's directors are described as follows:

Mr. Lapin has extensive experience in diverse, complex businesses and transactions, corporate governance of public companies, risk management and insurance.

James G. Tatum, C.F.A. 70 Since June 2002, Chairman of the Audit Committee; for more than the past five years, member of the Compensation Committee; for more than the past five years, a director of

2000

Standard Security Life Insurance Company of New York; for more than the past five years, sole proprietor of J. Tatum Capital, LLC, a registered investment advisor, located in Birmingham, Alabama, managing funds primarily for individual and trust clients; Chartered Financial Analyst for more than twenty-five years; since March 2011, a director of AMIC; since March 2011, a member of the Audit Committee of AMIC.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Tatum should serve as one of IHC's directors are described as follows:

Mr. Tatum has extensive executive experience in major organizations and has valuable expertise with financial issues, risk management and oversight

Roy T.K. Thung

68

1990

Since March 2011, Chief Executive Officer, President and Chairman of the Board of Directors of IHC; since January 2000, Chief Executive Officer of IHC; since July 1999, President of IHC; for more than five years prior to July 1999, Executive Vice President and Chief Financial Officer of IHC; for more than the past five years, Executive Vice President of Geneve; for more than the past five years, a director of Aristotle; since July 2002, a director of AMIC; from November 2002 until March 2012, Chief Executive Officer and President of AMIC; since March 2012, Chief Executive Officer of AMIC; for more than the past five years, Chief Executive Officer and Chairman of the Board of Standard Security Life Insurance Company of New York; for more than the past five years, Chairman of the Board of Madison National Life Insurance Company, Inc.

The experiences, qualifications, attributes or skills that led the Board to conclude that Mr. Thung should serve as one of IHC's directors are described as follows:

Mr. Thung has extensive experience in diverse, complex businesses and transactions, including involving public companies in the insurance industry.

**DIRECTORS COMPENSATION**

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

During 2012, each non-employee (outside) director will be paid:

an annual retainer of \$36,000;

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

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

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

The following table summarizes compensation paid to IHC's directors during 2011, except for Mr. Roy T.K. Thung, IHC's Chief Executive Officer and President, and Mr. David T. Kettig, Chief Operating Officer and Senior Vice President, for whom compensation is more fully described beginning on page 24 of this proxy statement.

**Director Summary Compensation**

Name	Fees Earned	Stock	Total
	or Paid	Awards	(\$)
	in Cash	\$(1)	
	(\$)		

Mr. Larry R. Graber (2)	--	--	--
Mr. Allan C. Kirkman	\$45,300	\$8,900	\$54,200
Mr. John L. Lahey	\$40,400	\$8,900	\$49,300
Mr. Steven B. Lapin (2)	--	--	--
Mr. James G. Tatum	\$47,800	\$8,900	\$56,700

(1)

Represents amounts expensed for financial statement reporting purposes. The grant date fair value of the stock awards during 2011 to Messrs. Kirkman, Lahey and Tatum was, in each case, \$24,344.

(2)

Messrs. Graber and Lapin received no compensation in connection with their service as IHC directors during 2011.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

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

The Compensation Committee considered the voting results of the advisory, non-binding say-on-pay vote at IHC's 2011 Annual Meeting of Stockholders in connection with the discharge of its responsibilities. IHC's stockholders expressed their support of the compensation for our CEO, CFO and the three other most-highly compensated officers in respect of 2010 (the 2010 named executive officers), with a substantial majority of the votes cast voting to approve the compensation of IHC's named executive officers described in IHC's 2011 proxy statement. Following the Compensation Committee's review and consideration of this stockholder support, as well as the other factors discussed in more detail below, we determined to make no changes to our approach to executive compensation.

At IHC's 2011 Annual Meeting of Stockholders, a majority of IHC's stockholders voted for say-on-pay proposals to occur every three years. In light of this voting result on the frequency of say-on-pay proposals, the Board decided that IHC will present say-on-pay proposals every three years until the next required vote on the frequency of stockholder votes on named executive officer compensation. Accordingly, we currently expect to hold the next say-on-pay vote at IHC's 2014 Annual Meeting of Stockholders. We currently expect the next stockholder vote on the frequency of stockholder votes on named executive officer compensation to occur at IHC's 2017 Annual Meeting of Stockholders.

#### *Compensation Objectives*

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

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

- attract and retain individuals of superior ability and managerial talent;
- ensure compensation is aligned with IHC's corporate strategies, business objectives and the long-term interests of IHC's stockholders; and
- enhance incentives to increase IHC's stock price and maximize stockholder value by providing a portion of total compensation in IHC equity and equity-related instruments.

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



results.

***Implementation of Objectives***

**Salaries**

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

compensation consultant or similar organization for assistance in reviewing or setting executive officer salaries or other compensation.

### Cash Bonuses

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

The salaries paid and annual bonuses awarded to IHC's named executive officers in respect of 2011 are set forth in the Summary Compensation Table on page 24.

### Equity Awards

IHC's 2006 Stock Incentive Plan (the Plan) provides the opportunity for the Compensation Committee to make equity incentive awards to, among others, IHC's executive officers. The types of equity awards that may be granted under the Plan are: (i) options; (ii) share appreciation rights (SARs); (iii) restricted shares, restricted share units (which are shares granted after certain vesting conditions are met) and unrestricted shares; (iv) deferred share units; and (v) performance awards. The Compensation Committee determines the type and amount of the award with reference to factors that include the present value of the award relative to the executive officer's salary and anticipated cash bonus, the anticipated importance of the executive's position to IHC's future results, and the size of the executive's total compensation relative both to other executives within IHC and to compensation levels at other companies.

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

### *Options*

Incentive stock options (ISOs) and non-incentive stock options (Non-ISOs) may be granted under the Plan. At the sole discretion of the Compensation Committee, any option may be exercisable, in whole or in part, immediately upon the grant thereof, or only after the occurrence of a specified event, or only in installments, which installments may vary.

The term of any option may not exceed ten years from the grant date; *provided, however*, that in the case of an ISO granted to an employee of IHC or any of its affiliates who owns stock representing more than ten percent (10%) of the voting stock on the grant date (Employee Ten Percent Holder), the term of the ISO shall not exceed five years from the grant date. The exercise price of an option is determined by the Compensation Committee in its sole discretion; *provided, however*, that if an ISO is granted to an Employee Ten Percent Holder (as defined in the Plan), the per share exercise price shall not be less than 110% of the closing price per share on the NYSE on the grant date (Fair Market Value); and *provided further* that for all other options, the per share exercise price shall not be less than 100% of the

Fair Market Value on the grant date. Neither IHC nor the Compensation Committee can allow for a repricing without stockholder approval.

Each of IHC's named executive officers holds stock options, having varying exercise prices and expiration

dates (based on the date granted). Please see the information set forth in the tables below for additional information. IHC does not have a target level of stock ownership applicable to any of its employees, including the named executive officers.

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

The Compensation Committee may grant SARs either concurrently with the grant of an option or with respect to an outstanding option (in which case the SAR will extend to all or a portion of the shares covered by the related option, the exercise price is the same as the exercise price of the related option, and the SAR is exercisable at such time or times, and to the extent, that the related option will be exercisable), or independent of any option. The Compensation Committee may also grant SARs that are exercisable only upon or in respect of a change in control (as defined in the Plan) or any other specified event. The per share exercise price of an SAR cannot be less than 100% of the Fair Market Value, and the SARs may only be exercised when the Fair Market Value of the shares underlying the SAR exceeds the exercise price of the SAR. Neither IHC nor the Compensation Committee can allow for a repricing without stockholder approval.

#### *Restricted Shares, Restricted Share Units and Unrestricted Shares*

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

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

#### *Deferred Share Units*

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

#### *Performance Awards*

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

A grantee will be eligible to receive payment in respect of a performance award only to the extent that the performance measure(s) for such award is achieved, and it is determined that all or some portion of such grantee's

award has been earned for the performance period. The Compensation Committee reviews whether, and to what extent, the performance measure(s) for a particular performance period (of not less than one fiscal year) have been achieved and, if so, determines the amount of the performance award to be paid. The Compensation Committee may

use negative discretion to decrease, but not increase, the amount of the award otherwise payable based upon such performance.

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

#### Termination, Rescission and Recapture of Awards

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

#### Tax Implications

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), limits IHC's deductions for compensation paid to the named executive officers to \$1 million unless certain requirements are met. The policy of the Compensation Committee with respect to Section 162(m) of the Code is to establish and maintain a compensation program which will optimize the deductibility of compensation for IHC. The Compensation Committee, however, reserves the right to use its judgment, where merited by the Compensation Committee's need to respond to changing business conditions or by an executive officer's individual performance, to authorize compensation which may not, in a specific case, be fully deductible to IHC. No named executive officer received taxable compensation in 2011 in excess of the \$1 million limitation provided by Section 162(m) of the Code.

#### **Compensation Committee Report**

The Compensation Committee assists the Board in fulfilling its responsibilities with regard to compensation matters, and is responsible for establishing and approving the compensation of IHC's executive officers. The Compensation Committee has sole authority to determine the compensation for IHC's Chief Executive Officer. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section of this proxy statement with management, including our Chief Executive Officer and our Chief Financial Officer. Based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis section be incorporated by reference in IHC's 2011 Annual Report on Form 10-K and included in this proxy statement.

#### Compensation Committee

Mr. Allan C. Kirkman (Chairman)

Mr. John L. Lahey

Mr. James G. Tatum



**Compensation Risk Assessment**

The Compensation Committee, at its meeting on March 16, 2011, considered the Company's compensation policies and practices and concluded that they are not reasonably likely to have a material adverse effect on the Company.

**Summary Compensation Table**

The following table lists the annual compensation for IHC's CEO, CFO and its three other most highly compensated executive officers in 2011 for the years 2011, 2010 and 2009. Amounts reported under the Option Awards column represent expense recorded for financial statement purposes.

Name and Principal  <u>Position</u>	<u>Year</u>	<u>Salary</u>  (\$)	<u>Bonus</u>  (\$)	Stock  <u>Awards</u>  (\$)	Option  <u>Awards</u>  (\$)	Change in Pension Value and Nonqualified Deferred Compensation <u>Earnings</u>  (\$)	All Other <u>Compensation</u>  (\$)	<u>Total</u>  (\$)
Mr. Roy T.K. Thung <i>Chief Executive Officer</i>	2011	421,601	308,000	73,536(1)	101,650	561,881(2)	18,932(3)	1,485,597
	2010	421,601	228,000	78,667(1)	169,733	105,548(2)	9,963(3)	1,013,512
	2009	421,601	228,000	(2,059)(1)	86,000	99,573(2)	9,868(3)	842,983
<i>and President</i>								
Ms. Teresa A. Herbert <i>Chief Financial Officer</i>	2011	256,134	135,000	17,912(1)	28,476	10,226(4)	21,422(5)	469,170
	2010	256,134	94,500	--	30,917	19,305(4)	19,475(5)	420,331
	2009	256,134	94,500	--	45,396	18,212(4)	18,973(5)	433,215
<i>and Senior Vice President</i>								
Mr. David T. Kettig <i>Chief Operating Officer</i>	2011	309,000	200,000	17,912(1)	31,092	3,598(4)	6,616(6)	568,218
	2010	309,000	150,000	--	31,179	15,627(4)	6,616(6)	512,422
	2009	309,000	140,000	--	50,972	14,743(4)	10,093(6)	524,808
<i>and Senior Vice President</i>								
Mr. Bernon R. Erickson, Jr. <i>Chief Health Actuary</i>	2011	319,712	200,000	17,912(1)	11,206	--	40,675(7)	589,505
	2010	319,712	15,000	--	33,900	--	43,302(7)	411,914



Edgar Filing: INDEPENDENCE HOLDING CO - Form PRE 14A

<i>and Senior Vice President</i>	2009	311,565	116,719	32,236(8)	28,667	--	41,075 (7)	530,262
Mr. Jeffrey C. Smedsrud	2011	319,712	150,000	17,912(1)	24,289	3,030(4)	67,875 (9)	582,818
<i>Chief Marketing and Strategy Officer</i>	2010	319,712	89,744	--	30,498	2,858 (4)	40,475 (9)	483,287
	2009	329,600	50,000	--	56,549	2,697 (4)	20,152 (9)	458,998

*and Senior Vice President*

(1)

Represents the expense (recovery) recorded for financial statement reporting purposes in connection with stock appreciation rights.

(2)

Represents the increase in the value of Mr. Thung's Retirement Benefits Agreement with IHC plus the vested severance portion of his Employment Agreement with IHC for the year indicated.

(3)

Of the amount shown for 2011, \$6,983 represents employer matching contributions to Mr. Thung's 401(k) account, \$4,465 represents reimbursements related to use of automobile and \$7,481 represents life insurance premiums paid by IHC; of the amount shown for 2010, \$6,983 represents employer matching contributions to Mr. Thung's 401(k) account, \$2,230 represents reimbursements related to use of automobile and \$750 represents life insurance premiums paid by IHC; of the amount shown for 2009, \$6,983 represents employer matching contributions to Mr. Thung's 401(k) account, \$2,116 represents reimbursements related to use of automobile and \$769 represents life insurance premiums paid by IHC.

(4)

Represents 100% of the annual earnings on nonqualified deferred compensation, not merely the portion attributable to an above-market rate of return.

(5)

Of the amount shown for 2011, \$12,766 represents reimbursements related to use of automobile, \$6,615 represents employer matching contributions to Ms. Herbert's 401(k) account and \$2,041 represents life insurance premiums paid

by IHC; of the amount shown for 2010, \$11,766 represents reimbursements related to use of automobile, \$6,615 represents employer matching contributions to Ms. Herbert's 401(k) account and \$1,094 represents life insurance premiums paid by IHC; of the amount shown for 2009, \$11,167 represents reimbursements related to use of automobile, \$6,615 represents employer matching contributions to Ms. Herbert's 401(k) account and \$1,191 represents life insurance premiums paid by IHC.

(6)

Of the amount shown for 2011, \$3,675 represents employer matching contributions to Mr. Kettig's 401(k) account, \$1,600 represents employer contributions to Mr. Kettig's health savings account, and \$1,341 represents life insurance premiums paid by IHC; of the amount shown for 2010, \$3,675 represents employer matching contributions to Mr. Kettig's 401(k) account, \$1,600 represents employer contributions to Mr. Kettig's health savings account and \$1,341 represents life insurance premiums paid by IHC; of the amount shown for 2009, \$5,607 represents employer matching contributions to Mr. Kettig's 401(k) account, \$1,600 represents employer contributions to Mr. Kettig's health savings account, \$3,250 represents reimbursement related to use of automobile and \$1,213 represents life insurance premiums paid by IHC.

(7)

Of the amount shown for 2011, \$25,000 represents reimbursements related to use of automobile, \$10,000 represents reimbursement for country club dues, \$3,675 represents employer matching contributions to Mr. Erickson's 401(k) account, and \$2,000 represents employer contributions to Mr. Erickson's health savings account; of the amount shown for 2010, \$25,000 represents reimbursements related to use of automobile, \$13,084 represents reimbursement for club dues, \$3,210 represents employer matching contributions to Mr. Erickson's 401(k) account, and \$2,000 represents employer contributions to Mr. Erickson's health savings account; of the amount shown for 2009, \$25,000 represents reimbursements related to use of automobile, \$10,000 represents reimbursement for country club dues, \$3,675 represents employer matching contributions to Mr. Erickson's 401(k) account, and \$2,400 represents employer contributions to Mr. Erickson's health savings account.

(8)

Represents amounts expensed for financial statement reporting purposes in connection with restricted stock award.

(9)

Of the amount shown for 2011, \$27,400 represents reimbursement related to use of apartment, \$16,400 represents reimbursement related to use of automobile, \$20,400 represents reimbursement for country club dues and \$3,675 represents employer matching contributions to Mr. Smedsrud's 401(k) account; of the amount shown for 2010, \$16,400 represents reimbursement related to use of automobile, \$20,400 represents reimbursement for country club dues and \$3,675 represents employer matching contributions to Mr. Smedsrud's 401(k) account; of the amount shown for 2009, \$7,452 represents reimbursement related to use of automobile, \$6,950 represents reimbursement for country club dues and \$5,750 represents employer matching contributions to Mr. Smedsrud's 401(k) account.

**Grants of Plan-Based Award**

The following table sets forth information regarding grants of plan-based awards made to the named executive officers during 2011.

<u>Name</u>	<u>Award Type</u> (1)	<u>Grant Date</u>	<u>Approval Date</u>	All Other Option Awards: Number of Securities Underlying <u>Options</u> (#)	Exercise or Base Price of <u>Option</u> <u>Awards</u> (\$/Sh)	Closing Price On <u>Grant Date</u> (\$/Sh)	Grant Date Fair Value of Stock and Option <u>Awards</u> (\$)
Mr. Roy T.K. Thung	Stock Appreciation Right	March 16, 2011	March 16, 2011	16,500	\$7.11	\$7.11	--
Ms. Teresa A. Herbert	Stock Appreciation Right	March 16, 2011	March 16, 2011	11,000	\$7.11	\$7.11	--
Mr. David T. Kettig	Stock Appreciation Right	March 16, 2011	March 16, 2011	11,000	\$7.11	\$7.11	--
Mr. Bernon R. Erickson, Jr.	Stock Appreciation Right	March 16, 2011	March 16, 2011	11,000	\$7.11	\$7.11	--
Mr. Jeffrey C. Smedsrud	Stock Appreciation Right	March 16, 2011	March 16, 2011	11,000	\$7.11	\$7.11	--

(1)

Stock appreciation rights granted to named executive officers become exercisable upon IHC's repurchase of an aggregate \$1.5 million equivalent value of IHC's common stock.

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

The following table sets forth for each named executive officer certain information about unexercised stock options and unvested shares of restricted stock held as of December 31, 2011.

<u>Name</u>	Number of Securities Underlying Unexercised Options  (#)	<u>Option Awards</u>		Option Expiration <u>Date</u>	<u>Stock Awards</u>		
		Number of Securities Underlying Unexercised Options  (#)	Option Exercise <u>Price</u>  (\$)		Number of Shares or Units of Stock That Have Not <u>Vested</u>  (#)	Market Value of Shares or Units of Stock That Have <u>Not</u> <u>Vested</u>  (\$)	
	<u>Exercisable</u>	<u>Unexercisable</u>					
Mr. Roy T.K. Thung	--	16,500 (1)		\$7.11	March 16, 2016		
	82,500	--		\$9.99	March 19, 2013	--	--
	117,333	58,667 (2)		\$9.09	January 4, 2015		
	73,370	36,630 (3)		\$9.09	January 4, 2015		
Ms. Teresa A. Herbert	--	11,000 (1)		\$7.11	March 16, 2016	--	--
	27,500	--		\$9.99	March 19, 2013		
	31,533	15,767 (2)		\$9.09	January 4, 2015		
Mr. David T. Kettig	--	11,000 (1)		\$7.11	March 16, 2016	--	--
	27,500	--		\$9.99	March 19, 2013		
	35,200	17,600 (2)		\$9.09	January 4, 2015		
Mr. Bernon R. Erickson, Jr.	--	11,000 (1)		\$7.11	March 16, 2016	--	--
	27,500	--		\$9.99	March 19, 2013		
	7,333	3,667 (2)		\$9.09	January 4, 2015		
Mr. Jeffrey C. Smedsrud	--	11,000 (1)		\$7.11	March 16, 2016	--	--
	27,500	--		\$9.99	March 19, 2013		
	25,667	12,833 (2)		\$9.09	January 4, 2015		

(1)

Stock appreciation rights granted on March 16, 2011 become exercisable upon IHC's repurchase of an aggregate \$1.5 million equivalent value of IHC's common stock.

(2)

Options granted on January 5, 2010 are exercisable in one-third annual increments beginning January 5, 2011.

(3)

Stock appreciation rights granted on January 5, 2010 are exercisable in one-third increments beginning on January 5, 2011.

### Nonqualified Deferred Compensation

The following table sets forth the non-qualified deferred compensation activity for each named executive officer during 2011. The amounts in the first column represent contributions to deferred compensation during the year 2011.

<u>Name</u>	<u>Executive Contributions in Last Fiscal Year</u>	<u>Aggregate Earnings in Last Fiscal Year</u>	<u>Aggregate Withdrawals/ Distributions</u>	<u>Aggregate Balance at Last Fiscal Year-End</u>
	(\$)	(\$)	(\$)	(\$)
Mr. Roy T.K. Thung	--	--	--	--
Ms. Teresa A. Herbert	--	\$10,226	\$170,623.76	\$180,660
Mr. David T. Kettig	--	\$3,598	\$216,123.43	\$63,566
Mr. Bernon R. Erickson, Jr.	--	--	--	--
Mr. Jeffrey C. Smedsrud	--	\$3,030	--	\$53,529

### Potential Payments to Named Executive Officers

#### *With Mr. Thung*

IHC is party to a Retirement Benefits Agreement with Mr. Roy T.K. Thung, dated as of September 30, 1991, and amended by amendments dated as of December 20, 2002, June 17, 2005 and December 31, 2008, respectively, pursuant to which Mr. Thung is entitled to a lump-sum cash payment upon a separation from service from IHC of \$1,659,556.96, increasing on a cumulative, compounding basis of 6% per annum from December 31, 2008.

Separation from service is as defined under U.S. Treasury Regulations 1.409A-1(h)(1), and would generally include Mr. Thung's death, retirement or any other termination of employment, including permanent disability. For example, had this provision been triggered on December 31, 2011, Mr. Thung would have been entitled to receive a payment in the amount of \$1,976,558.90.

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

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

In addition, under the agreement, Mr. Thung is entitled to an incentive payment upon the disposition of a strategic asset of IHC equal to 3% of the amount above which the consideration received by IHC for such disposition exceeds the book value of such asset as of March 31, 2011. Similarly, any termination of the agreement other than for cause triggers an incentive payment to Mr. Thung in respect such appreciation in book value of IHC overall. The initial term of Mr. Thung's employment agreement is

through December 31, 2014, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. For example, had the severance provisions in Mr. Thung's agreement been triggered on December 31, 2011, Mr. Thung would have been entitled to receive (i) a lump-sum payment of approximately \$450,000; and (ii) approximately \$56,000 per month for thirty-five months (approximately \$2,410,000 in the aggregate).

***With Ms. Herbert***

IHC is party to the Officer Employment Agreement, by and between IHC and Ms. Teresa A. Herbert, IHC's Chief Financial Officer and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Ms. Herbert's employment by IHC or its affiliate were to cease under certain circumstances, Ms. Herbert would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Ms. Herbert during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Ms. Herbert to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Ms. Herbert's employment by IHC being involuntarily terminated under circumstances that would not constitute cause (*i.e.*, Ms. Herbert's material failure to follow IHC's lawful directions, material failure to follow IHC's corporate policies, breach of the non-compete covenants in the employment agreement or her engaging in unlawful behavior that would damage IHC or its reputation), or such employment being voluntarily terminated under circumstances that would constitute good reason (*i.e.*, in connection with IHC's (or its successor's) material breach of its obligations under the employment agreement or upon IHC's non-renewal of the employment agreement). The initial term of Ms. Herbert's employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. For example, had the severance provision in Ms. Herbert's agreement been triggered on December 31, 2011, Ms. Herbert would have been entitled to receive approximately \$30,000 per month for twenty-three months (\$690,000 in the aggregate).

***With Mr. Kettig***

IHC is party to the Officer Employment Agreement, by and among IHC, Standard Security Life Insurance Company of New York (SSL), a wholly owned subsidiary of IHC, and Mr. David T. Kettig, IHC's Chief Operating Officer, Senior Vice President and director, dated as of April 18, 2011. Under this employment agreement, if Mr. Kettig's employment by SSL or its affiliate were to cease under certain circumstances, Mr. Kettig would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Kettig during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Kettig to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Kettig's employment by SSL being involuntarily terminated under circumstances that would not constitute cause (*i.e.*, Mr. Kettig's material failure to follow SSL's or IHC's lawful directions, material failure to follow SSL's or IHC's corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage SSL, IHC or their respective reputations), or such employment being voluntarily terminated under circumstances that would constitute good reason (*i.e.*, in connection with SSL's (or its successor's) material breach of its obligations under the employment agreement or upon SSL's non-renewal of the



employment agreement). The initial term of Mr. Kettig's employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days' prior notice of non-renewal is given by SSL. For example, had the severance provision in Mr. Kettig's agreement been triggered on December 31, 2011, Mr. Kettig would have been entitled to receive approximately \$39,000 per month for twenty-one months (\$819,000 in the aggregate).

**With Mr. Erickson**

IHC is party to the Officer Employment Agreement, by and among IHC, Actuarial Management Corporation. ( AMC ), a wholly owned subsidiary of IHC, and Mr. Bernon R. Erickson, Jr., IHC's Chief Health Actuary and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Mr. Erickson's employment by AMC or its affiliate were to cease under certain circumstances, Mr. Erickson would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Erickson during the preceding five years (under certain conditions), adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Erickson to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Erickson's employment by AMC being involuntarily terminated under circumstances that would not constitute cause (*i.e.*, Mr. Erickson's material failure to follow AMC's or IHC's lawful directions, material failure to follow AMC's or IHC's corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage AMC, IHC or their respective reputations), or such employment being voluntarily terminated under circumstances that would constitute good reason (*i.e.*, in connection with AMC's (or its successor's) material breach of its obligations under the employment agreement or upon AMC's non-renewal of the employment agreement). The initial term of Mr. Erickson's employment agreement is one year from the date it was entered into, but, by its terms, it will be automatically extended for successive one-year periods unless ninety days' prior notice of non-renewal is given by AMC. For example, had the severance provision in Mr. Erickson's agreement been triggered on December 31, 2011, Mr. Erickson would have been entitled to receive approximately \$36,000 per month for twelve months (\$432,000 in the aggregate).

**With Mr. Smedsrud**

IHC is party to the Officer Employment Agreement, by and among IHC, IHC Health Solutions, Inc. ( HS ), a wholly owned subsidiary of IHC, and Mr. Jeffrey C. Smedsrud, IHC's Chief Marketing and Strategy Officer and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Mr. Smedsrud's employment by HS or its affiliate were to cease under certain circumstances, Mr. Smedsrud would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Smedsrud during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Smedsrud to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Smedsrud's employment by HS being involuntarily terminated under circumstances that would not constitute cause (*i.e.*, Mr. Smedsrud's material failure to follow HS's or IHC's lawful directions, material failure to follow HS's or IHC's corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage HS, IHC or their respective reputations), or such employment being voluntarily terminated under circumstances that would constitute good reason (*i.e.*, in connection with HS's (or its successor's) material breach of its obligations under the employment agreement or upon HS's non-renewal of the employment agreement). The initial term of Mr. Smedsrud's employment agreement is one year from the date it was entered into, but, by its terms, it will be automatically extended for successive one-year periods unless ninety days' prior notice of non-renewal is given by HS. For example, had the severance provision in Mr. Smedsrud's agreement been triggered on December 31, 2011, Mr. Smedsrud would have been entitled to receive approximately \$38,000 per month for twelve months (\$456,000 in the aggregate).

**Stock Incentive Plans**

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

**Equity Compensation Plans**

The following table sets forth certain information as of March 31, 2012 with respect to compensation plans under which shares of IHC common stock may be issued.

**Equity Compensation Plan Information**

<u>Plan Category</u>	Number of Shares to be Issued Upon Exercise of <u>Outstanding Options</u>	Weighted-Average Exercise Price of <u>Outstanding Options</u>	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected <u>in the First Column</u> )
Equity compensation plans approved by stockholders	734,514	\$9.39	388,967

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee assists the Board in oversight of the financial reporting process, including the effectiveness of internal accounting and financial controls and procedures, and controls over the accounting, auditing and quality of financial reporting practices of IHC. The Audit Committee operates under a written charter adopted by the Board.

Management of IHC has primary responsibility for the financial reporting process, the preparation of financial statements in conformity with U.S. generally accepted accounting principles, the system of internal controls and the establishment of procedures designed to insure compliance with accounting standards and applicable laws and regulations. KPMG is responsible for auditing IHC's financial statements. The Audit Committee's responsibility is to monitor and review these processes and procedures. Audit Committee members are not professionally engaged in the practice of accounting or auditing. The Audit Committee relies on the information provided to it, including the representations of management that the financial statements have been prepared with integrity and objectivity, and the representations of management and the opinion of KPMG that such financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

The Audit Committee also reviewed the Report of Management on Internal Control over Financial Reporting contained in IHC's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 prior to filing such report with the SEC, as well as KPMG's Reports of Independent Registered Public Accounting Firm (also included in IHC's Annual Report on Form 10-K) and KPMG's reports related to the audit of IHC's consolidated financial statements. The Audit Committee continues to oversee IHC's efforts related to its internal control over financial reporting and management's preparations for the evaluation in 2012.

The Audit Committee met with management periodically during the year to consider the adequacy of IHC's internal controls and the objectivity of its financial reporting. The Audit Committee discussed these matters with appropriate IHC financial and internal audit personnel and with KPMG. The Audit Committee also discussed with IHC's senior management the process used for certifications by IHC's chief executive officer and chief financial officer which are required for certain filings with the SEC.

The Audit Committee appointed KPMG as IHC's independent registered public accounting firm after reviewing the firm's performance and independence from management.

The Audit Committee reviewed with management and KPMG, IHC's audited financial statements and met separately with both management and KPMG to discuss and review those financial statements and reports prior to issuance. Management has represented to the Audit Committee that the financial statements were prepared in conformity with U.S. generally accepted accounting principles. KPMG's report states the firm's opinion that such financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

The Audit Committee has reviewed and discussed with KPMG its independence from IHC and its management. The Audit Committee received from KPMG the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). This letter relates to that firm's independence from IHC. The Audit Committee also discussed with KPMG matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) to the extent applicable. The Audit Committee implemented a procedure to monitor auditor independence, reviewed audit and non-audit services performed by KPMG, and discussed with KPMG its independence.

Based on these reviews and discussions, the Audit Committee recommended to the Board that IHC's audited financial statements be included in IHC's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

*Audit Committee Members*

Mr. James G. Tatum (Chairman)

Mr. Allan C. Kirkman

Mr. John L. Lahey

**AUDIT AND NON-AUDIT FEES**

The following table sets forth fees for services KPMG provided to IHC during 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Audit fees	\$1,717,500	\$1,717,500
Audit-related fees	\$15,000	--
Tax fees	--	--
All other fees	--	--
Total	\$1,732,500	\$1,717,500

*Audit Fees.* Represents fees for professional services provided for the audit of IHC's annual financial statements, the review of IHC's quarterly financial statements and audit services provided in connection with other statutory or regulatory filings.

*Audit-Related Fees.* Represents fees relating to preparing and delivering one or more consents required in connection with IHC's Registration Statement on Form S-4, filed with the SEC on May 9, 2011.

The Audit Committee has determined that the provision of non-audit services by KPMG is compatible with maintaining KPMG's independence. Any such engagement of KPMG to provide non-audit services to IHC must be pre-approved by the Audit Committee. None of the non-audit services above was billed to IHC during 2011 or 2010 without such pre-approval.



**PROPOSAL 2 RATIFICATION OF THE APPOINTMENT OF  
THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Appointment of Independent Registered Public Accounting Firm**

KPMG audited IHC's annual financial statements for the year ended December 31, 2011. The Audit Committee has appointed KPMG to be IHC's independent registered public accounting firm for the year ending December 31, 2012. The stockholders are asked to ratify this appointment at the annual meeting. Representatives of KPMG will be present at the meeting to respond to appropriate questions and to make a statement if they so desire.

**Vote Required For Ratification**

The Audit Committee is responsible for selecting IHC's independent registered public accounting firm. Accordingly, stockholder approval is not required to appoint KPMG as IHC's independent registered public accounting firm for 2012. The Board believes, however, that submitting the appointment of KPMG to the stockholders for ratification is a matter of good corporate governance. If the stockholders do not ratify the appointment, the Audit Committee will review its future selection of the independent registered public accounting firm.

The ratification of the appointment of KPMG as IHC's independent registered public accounting firm requires the affirmative vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote.

**YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THIS PROPOSAL.**

**PROPOSAL 3 AMENDMENT OF THE CERTIFICATE OF INCORPORATION TO  
INCREASE THE AGGREGATE NUMBER OF AUTHORIZED SHARES OF CAPITAL STOCK AND  
THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK**

*General*

On March 15, 2012, the Board approved, declared it advisable and in IHC's best interest, and directed that there be submitted to the holders of a majority of IHC's voting stock for approval, the prospective amendment (the Amendment) to the Restated Certificate of Incorporation, as amended by a Certificate of Amendment (as amended, the Certificate), to increase the aggregate number of authorized shares of capital stock from 20,100,000 shares to 23,100,000 shares, and the number of authorized shares of common stock, par value \$1.00 per share (the Common Stock), from 20,000,000 shares to 23,000,000 shares. The Amendment will not increase the number of authorized shares of preferred stock, par value \$1.00 per share.

*Reasons for the Increase in Authorized Shares*

Currently, IHC is authorized to issue 20,000,000 shares of Common Stock. Of the 20,000,000 shares of Common Stock authorized, as of the record date, there were [\_\_\_\_\_] shares of Common Stock issued and outstanding, and up to [\_\_\_\_\_] shares of Common Stock reserved for issuance upon the exercise of outstanding options and other derivative securities, including, without limitation, under employee benefit plans of IHC. Consequently, IHC has limited shares of Common Stock available for general corporate purposes.

As a general matter, the Board does not believe the currently available number of unissued shares of Common Stock is an adequate number of shares to assure that there will be sufficient shares available for issuance in connection with possible future acquisitions, equity and equity-based financings, possible future awards under employee benefit plans, stock dividends, stock splits, and other corporate purposes. Therefore, the Board approved the increase in the number of authorized shares of Common Stock as a means of providing IHC with the flexibility to act with respect to the issuance of Common Stock or securities exercisable for, or convertible into, Common Stock in circumstances which it believes will advance the interests of IHC and its stockholders without the delay of seeking an amendment to the Certificate at that time. There are no specific actions under consideration at this time.

*Ability of the Board to Issue Stock; Certain Issuances Requiring Stockholder Approval*

The additional shares of Common Stock authorized by the Amendment may be issued for any proper purpose from time to time upon authorization by the Board, without further approval by the stockholders unless required by applicable law, rule or regulation. Shares may be issued for such consideration as the Board may determine and as may be permitted by applicable law.

***Interest of the Directors and Officers of IHC in the Amendment***

The current officers and directors of IHC and the officers and directors of IHC when the Amendment was approved by the Board do not have any substantial interest, direct or indirect, in the approval of the Amendment, other than as stockholders of IHC (to the extent that such officers and directors are stockholders of IHC).

***Effects of the Amendment***

The increase in the number of authorized shares of Common Stock was not approved as a means of preventing or dissuading a change in control or takeover of IHC. However, use of these shares for such a purpose is possible. Authorized but unissued or unreserved shares of Common Stock, for example, could be issued in an effort to dilute the stock ownership and voting power of persons seeking to obtain control of IHC or could be issued to purchasers who would support the Board in opposing a takeover proposal. In addition, they may have the effect of discouraging a challenge for control or make it less likely that such a challenge, if attempted, would be successful. The Board and executive officers of IHC have no knowledge of any current effort to obtain control of

IHC or to accumulate large amounts of Common Stock.

The holders of Common Stock are not entitled to preemptive rights with respect to the issuance of additional Common Stock or securities convertible into or exercisable for Common Stock. Accordingly, the issuance of additional shares of Common Stock or such other securities will dilute the ownership and voting rights of stockholders.

The holders of Common Stock will not realize any dilution in their percentage of ownership of IHC or their voting rights as a result of the Amendment. However, issuances of additional shares of Common Stock in the future (i) will dilute stockholders' percentage ownership of IHC and (ii) if such shares are issued at prices below what current stockholders paid for their shares, may dilute the value of current stockholders' shares.

The Amendment does not change the terms of the Common Stock. The additional Common Stock for which authorization is sought will have the same voting rights and liquidation rights, the same rights to dividends and distributions and will be identical in all other respects to the Common Stock now authorized.

#### *Amendment*

Article V of the Certificate states that the total number of shares of capital stock that IHC is authorized to issue is 20,100,000 shares, and the total number of authorized shares of Common Stock that IHC is authorized to issue is 20,000,000 shares. To increase the number of authorized shares of capital stock and the authorized number of shares of Common Stock, the Board would like to amend the Certificate by deleting the first paragraph of Article V of the Certificate in its entirety and replacing it with the following:

The total number of shares of stock which the Corporation shall have the authority to issue is Twenty-Three Million One Hundred Thousand (23,100,000) shares, consisting of Twenty-Three Million (23,000,000) shares of common stock, par value \$1.00 per share (the Common Stock), and One Hundred Thousand (100,000) shares of preferred stock, par value \$1.00 per share.

The increase in the number of Common Shares requires the affirmative vote of a majority of the shares entitled to vote thereon.

**YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THIS PROPOSAL.**



## **OTHER MATTERS**

IHC's by-laws require stockholders to give advance notice of any proposal intended to be presented at the annual meeting. The deadline for this notice has passed and IHC has not received any such notice. If any other matter properly comes before the stockholders for a vote at the meeting, however, the proxy holders will vote your shares in accordance with their best judgment.

## **ADDITIONAL INFORMATION**

### **Proxy Solicitation**

IHC will bear all costs of this proxy solicitation. In addition to soliciting proxies by this mailing, IHC expects that its directors, officers and regularly engaged employees may solicit proxies personally or by mail, telephone, facsimile or other electronic means, for which solicitation they will not receive any additional compensation. IHC will reimburse brokerage firms, custodians, fiduciaries and other nominees for their out-of-pocket expenses in forwarding solicitation materials to beneficial owners upon our request.

### **Stockholder Proposals for 2013 Annual Meeting**

Stockholder proposals intended to be presented at IHC's 2013 annual meeting must be received by IHC no later than January 1, 2013 to be eligible for inclusion in IHC's proxy statement and form of proxy for next year's meeting. Proposals should be addressed to Independence Holding Company, Attention: Corporate Secretary, 485 Madison Avenue, 14<sup>th</sup> Floor, New York, New York 10022.

For any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph), but is instead sought to be presented directly at the 2013 annual meeting, the federal securities laws require stockholders to give advance notice of such proposals. The required notice must be given no less than 45 days in advance of the one year anniversary date of the date on which IHC first sent its proxy materials for the immediately preceding annual meeting. Accordingly, with respect to IHC's 2013 annual meeting of stockholders, notice must be provided to Independence Holding Company, Attention: Corporate Secretary, 485 Madison Avenue, 14<sup>th</sup> Floor, New York, New York 10022 no later than March 13, 2013. If a stockholder fails to provide timely notice of a proposal to be presented at the 2013 annual meeting, the chairman of the meeting will declare it out of order and disregard any such matter.

By order of the Board of Directors,

Adam C. Vandervoort  
*Secretary*