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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number 001-38945

VERICITY, INC.
(Exact name of Registrant as specified in its Charter)

Delaware	**46-2348863**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
8700 W. Bryn Mawr Avenue, Suite 900S, Chicago Illinois	**60631**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (312) 288-0073

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name on each exchange on which registered
Common Stock, Par Value $0.001 per share	VERY	NASDAQ Capital Market

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES ☒ NO ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The number of shares of Registrant's Common Stock outstanding as of August 13, 2021 was 14,875,000.

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Part 1. Financial Information
Item I. Financial Statements
Vericity, Inc.
Interim Condensed Consolidated Balance Sheets
(dollars in thousands)

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Assets		
Investments:		
Fixed maturities – available-for-sale – at fair value (amortized cost; $330,467 and $328,263)	$ 360,223	$ 363,851
Equity securities – at fair value (cost; $6,783 and $6,530)	5,496	3,848
Mortgage loans (net of valuation allowances of $136 and $141)	47,760	50,427
Policyholder loans	6,303	6,414
Other invested assets	1,162	273
Total investments	420,944	424,813
Cash, cash equivalents and restricted cash	19,862	36,242
Accrued investment income	2,586	2,633
Reinsurance recoverables (net of allowances of $131 and $131)	168,467	158,015
Deferred policy acquisition costs	89,999	87,212
Commissions and agent balances (net of allowances of $886 and $749)	29,367	19,526
Intangible assets	1,635	1,635
Deferred income tax assets, net	12,484	10,926
Other assets	29,603	27,762
Total assets	774,947	768,764
Liabilities and Shareholders' Equity		
Liabilities		
Future policy benefits and claims	399,473	381,563
Policyholder account balances	82,197	83,869
Other policyholder liabilities	36,724	37,789
Policy dividend obligations	13,145	13,282
Reinsurance liabilities and payables	6,950	6,696
Long-term debt	23,462	24,933
Short-term debt	4,186	5,545
Other liabilities	24,122	19,854
Total liabilities	590,259	573,531
Commitments and Contingencies (Note 6)		
Shareholders' Equity		
Common stock, $.001 par value, 30,000,000 shares authorized, 14,875,000 shares, issued and outstanding	15	15
Additional paid-in capital	39,840	39,840
Retained earnings	131,547	138,777
Accumulated other comprehensive income (loss)	13,286	16,601
Total shareholders' equity	184,688	195,233
Total liabilities and shareholders' equity	$ 774,947	$ 768,764

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Operations
(dollars in thousands, except earnings per share)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues				
Net insurance premiums	$ 25,433	$ 26,313	$ 50,730	$ 56,369
Net investment income	3,610	3,456	6,864	7,028
Net realized investment gains (losses)	1,297	1,307	2,813	(1,750)
Other-than-temporary-impairments (OTTI)	(1)	—	(3)	(54)
Earned commissions	11,808	4,403	22,430	8,528
Insurance lead sales	1,758	1,061	3,232	2,649
Other income	63	117	137	200
Total revenues	43,968	36,657	86,203	72,970
Benefits and expenses				
Life, annuity, and health claim benefits	17,430	20,916	39,382	41,677
Interest credited to policyholder account balances	751	781	1,473	1,564
Operating costs and expenses	22,748	18,657	46,076	42,186
Amortization of deferred policy acquisition costs	3,938	3,791	7,178	4,767
Total benefits and expenses	44,867	44,145	94,109	90,194
(Loss) income before income tax	(899)	(7,488)	(7,906)	(17,224)
Income tax expense (benefit)	264	(716)	(676)	(1,874)
Net (loss) income	$ (1,163)	$ (6,772)	$ (7,230)	$ (15,350)

Earnings per share for the periods

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Weighted average shares outstanding, basic and diluted	14,875,000	14,875,000	14,875,000	14,875,000
Basic earnings per share	$ (0.08)	$ (0.46)	$ (0.49)	$ (1.03)
Diluted earnings per share	$ (0.08)	$ (0.46)	$ (0.49)	$ (1.03)

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
(dollars in thousands)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(Unaudited)		(Unaudited)	
Net (loss) income	$ (1,163)	$ (6,772)	$ (7,230)	$ (15,350)
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on investments	5,171	10,231	(3,315)	2,978
Total other comprehensive income (loss)	5,171	10,231	(3,315)	2,978
Total comprehensive income (loss)	$ 4,008	$ 3,459	$ (10,545)	$ (12,372)

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
(dollars in thousands)

	Six Months Ended June 30, 2021	2020
	(Unaudited)	
Common stock		
Balance – beginning of period	$ 15	$ 15
Balance – end of period	$ 15	$ 15
Additional paid-in capital		
Balance – beginning of period	$ 39,840	$ 39,840
Balance – end of period	$ 39,840	$ 39,840
Retained earnings		
Balance – beginning of period	$ 138,777	$ 163,805
Net (loss) income	(7,230)	(15,350)
Balance – end of period	$ 131,547	$ 148,455
Accumulated other comprehensive income (loss)		
Balance – beginning of period	$ 16,601	$ 8,757
Other comprehensive (loss) income	(3,315)	2,978
Balance – end of period	$ 13,286	$ 11,735
Total shareholders' equity	$ 184,688	$ 200,045

See notes to interim condensed consolidated financial statements

Vericity, Inc.
Interim Condensed Consolidated Statements of Cash Flows
(dollars in thousands)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(Unaudited)	
Cash flows from operating activities		
Net (loss) income	$ (7,230)	$ (15,350)
Adjustments to reconcile net (loss)income to net cash provided (used) by operating activities:		
Depreciation and amortization and other non-cash items	1,603	1,263
Interest credited to policyholder account balances	1,473	1,564
Deferred income tax	(677)	(1,874)
Net realized investment gains (losses)	(2,813)	1,750
Other-than-temporary-impairments	3	54
Interest expense	784	638
Change in:		
Equity securities	(245)	(390)
Accrued investment income	47	198
Reinsurance recoverables	(10,452)	(12,951)
Deferred policy acquisition costs	(2,786)	(3,742)
Commissions and agent balances	(9,841)	(3,483)
Other assets	(472)	8,388
Insurance liabilities	18,324	29,023
Other liabilities	4,523	348
Net cash (used) provided by operating activities	(7,759)	5,436
Cash flows from investing activities		
Sales, maturities and repayments of:		
Fixed maturities	35,659	36,225
Short-term investments	—	29,800
Mortgage loans	3,181	1,187
Other invested assets	94	-
Purchases of:		
Fixed maturities	(37,296)	(48,253)
Short-term investments	—	(250)
Mortgage loans	(465)	(1,541)
Other invested assets	(90)	(11)
Change in policyholder loans, net	111	(165)
Other, net	(3,145)	(3,179)
Net cash (used) provided by investing activities	(1,951)	13,813
Cash flows from financing activities		
Debt issued	1,234	7,671
Debt repaid	(4,849)	(3,850)
Deposits to policyholder account balances	257	228
Withdrawals from policyholder account balances	(3,312)	(4,176)
Net cash (used) by financing activities	(6,670)	(127)
Net (decrease) increase in cash, cash equivalents and restricted cash	(16,380)	19,122
Cash, cash equivalents and restricted cash – beginning of period	36,242	37,842
Cash, cash equivalents and restricted cash – end of period	$ 19,862	$ 56,964
Supplemental cash flow information		
Non-cash transactions:	—	—

See notes to interim condensed consolidated financial statements

Note 1 – Summary of Significant Accounting Policies

Description of Business

Vericity, Inc. (the Company) is a Delaware corporation organized to be the stock holding company for Members Holding Company (Members) and its subsidiaries. On August 7, 2019, the Company completed the initial public offering of 14,875,000 shares of its common stock at a price of $10.00 per share (the IPO). The IPO was conducted in connection with the conversion of Members Mutual Holding Company from mutual to stock form and the acquisition by the Company of all of the capital stock of Members following its conversion to stock form after its plan of conversion and amended and restated articles of incorporation were approved at a special meeting of eligible members on August 6, 2019 (the Conversion). As a result of the Conversion, the Company became the holding company for converted Members Mutual Holding Company and its indirect subsidiaries, including Fidelity Life Association (Fidelity Life) and Efinancial, LLC (Efinancial).

The Company operates as a holding company and currently has no other business operations. Fidelity Life is an Illinois-domiciled life insurance company that was founded in 1896. Fidelity Life markets life insurance products through independent and affiliated distributors and is licensed in the District of Columbia and all states, except New York and Wyoming. Efinancial markets life and other products for non-affiliated insurance companies and sells life products for Fidelity Life.

The accompanying interim condensed consolidated financial statements present the accounts of the Company and subsidiaries for the six months ended June 30, 2021 and June 30, 2020 and at June 30, 2021 and December 31, 2020. These interim condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report in the Form 10-K for the year ended December 31, 2020. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Basis of Presentation

These interim condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The unaudited interim condensed consolidated financial information furnished herein reflects all adjustments which are, in the opinion of management, necessary to fairly state the results for the interim periods presented. All such adjustments are of a normal recurring nature. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated results of operations for the interim periods presented are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted from this report, as is permitted by such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the financial statements as of and for the year ended December 31, 2020, and notes thereto, included in the Form 10-K.

Use of Estimates

The preparation of interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The more significant estimates employed in the preparation of the interim condensed consolidated financial statements include the determination of the valuation of investments in fixed maturity and equity securities, investment impairments, the valuation of deferred tax assets, future policy benefits and other policyholder liabilities.

Note 2 – Investments

The Company continuously monitors its investment strategies and individual holdings with consideration of current and projected market conditions, the composition of the Company's liabilities, projected liquidity and capital investment needs, and compliance with investment policies and state regulatory guidelines.

Fixed Maturities

The amortized cost, gross unrealized gains, gross unrealized losses, fair value, and OTTI loss included in accumulated other comprehensive income (AOCI) of fixed maturities available-for-sale are as follows:

	June 30, 2021				
Fixed maturities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI Losses
U.S. government and agencies	$ 9,857	$ 2,225	$ —	$ 12,082	$ —
U.S. agency mortgage-backed	17,543	1,160	(3)	18,700	—
State and political subdivisions	60,963	3,127	(173)	63,917	—
Corporate and miscellaneous	152,302	21,754	(250)	173,806	—
Foreign government	378	35	—	413	—
Residential mortgage-backed	6,070	301	(32)	6,339	(404)
Commercial mortgage-backed	18,512	1,199	(15)	19,696	—
Asset-backed	64,842	590	(162)	65,270	—
Total fixed maturities	$ 330,467	$ 30,391	$ (635)	$ 360,223	$ (404)

	December 31, 2020				
Fixed maturities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI Losses
U.S. government and agencies	$ 11,386	$ 2,886	$ —	$ 14,272	$ —
U.S. agency mortgage-backed	21,015	1,461	—	22,476	—
State and political subdivisions	57,646	3,798	(15)	61,429	—
Corporate and miscellaneous	143,242	26,069	(258)	169,053	—
Foreign government	131	45	—	176	—
Residential mortgage-backed	6,060	388	(27)	6,421	(151)
Commercial mortgage-backed	18,567	1,503	(53)	20,017	—
Asset-backed	70,216	605	(814)	70,007	(260)
Total fixed maturities	$ 328,263	$ 36,755	$ (1,167)	$ 363,851	$ (411)

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Maturities of mortgage-backed and asset-backed securities may be substantially shorter than their contractual maturity because they may require monthly principal installments and such loans may prepay principal. The amortized cost and fair value of fixed maturities available-for-sale by contractual maturity, are presented in the following table:

	June 30, 2021	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,748	$ 2,760
Due after one year through five years	38,376	41,629
Due after five years through ten years	53,694	58,221
Due after ten years	128,680	147,608
Securities not due at a single maturity date — primarily mortgage and asset-backed	106,969	110,005
Total fixed maturities	$ 330,467	$ 360,223

Fixed maturities with a carrying value of $3,568 and $3,852 were on deposit with governmental authorities, as required by law at June 30, 2021 and December 31, 2020, respectively.

The Company's fixed maturities portfolio was primarily composed of investment grade securities, defined as a security having a rating of Aaa, Aa, A, or Baa from Moody's, AAA, AA, A, or BBB from Standard & Poor's, or National Association of Insurance Commissioners (NAIC) rating of NAIC 1 or NAIC 2. Investment grade securities comprised 97.3% and 97.9% of the Company's total fixed maturities portfolio at June 30, 2021 and December 31, 2020, respectively.

At June 30, 2021 and December 31, 2020, the Company had commitments to make investments in available-for-sale securities in the amount of $10,000 and $3,027, respectively.

Mortgage Loans

The Company makes investments in commercial mortgage loans. The Company, along with other investors, owns a pro rata share of each loan. The Company participates in 34 such investment instruments with ownership shares ranging from 0.6% to 30.0% of the trust at June 30, 2021. The Company owns a share of 283 mortgage loans with an average loan balance of $169 and a maximum exposure related to any single loan of $555. Mortgage loan holdings are diversified by geography and property type as follows:

	June 30, 2021		December 31, 2020	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Property Type:				
Retail	$ 15,706	32.8%	$ 16,252	32.1%
Office	12,195	25.5%	12,493	24.7%
Industrial	7,230	15.1%	8,095	16.0%
Mixed use	5,624	11.7%	6,014	11.9%
Apartments	2,942	6.1%	3,439	6.8%
Medical office	3,068	6.4%	3,119	6.2%
Other	1,131	2.4%	1,156	2.3%
Gross carrying value of mortgage loans	47,896	100.0%	50,568	100.0%
Valuation allowance	(136)		(141)	
Net carrying value of mortgage loans	$ 47,760		$ 50,427	

	June 30, 2021		December 31, 2020	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
U.S. Region:				
West South Central	$ 11,581	24.2%	$ 11,780	23.3%
East North Central	11,907	24.9%	12,105	23.9%
South Atlantic	10,102	21.1%	10,908	21.6%
West North Central	3,575	7.5%	3,981	7.9%
Mountain	3,471	7.2%	4,404	8.7%
Middle Atlantic	2,784	5.8%	2,824	5.6%
East South Central	2,989	6.2%	3,060	6.1%
New England	87	0.2%	91	0.2%
Pacific	1,400	2.9%	1,415	2.8%
Gross carrying value of mortgage loans	47,896	100.0%	50,568	100.0%
Valuation allowance	(136)		(141)	
Net carrying value of mortgage loans	$ 47,760		$ 50,427	

During the six months ended June 30, 2021 and June 30, 2020, $465 and $1,541 of new mortgage loans were purchased, respectively, which did not include second lien mortgage loans. There were no taxes, assessments, or any amounts advanced that were not included in the mortgage loan balances at June 30, 2021 and December 31, 2020. At June 30, 2021 and December 31, 2020, the Company had 5 and 6 mortgage loans with a total carrying value of $1,356 and $1,408 that were in a restructured status, respectively. There were no impairments for mortgage loans at June 30, 2021 and December 31, 2020.

The changes in the valuation allowance for commercial mortgage loans were as follows:

	Six Months Ended June 30, 2021	Year Ended December 31, 2020
Beginning balance	$ 141	$ 53
Net (decrease) increase in valuation allowance	(5)	88
Ending balance	$ 136	$ 141

At June 30, 2021 and December 31, 2020, the Company had no mortgage loans that were on nonaccrual status.

At June 30, 2021 and December 31, 2020, the Company had commitments to make investments in mortgage loans in the amount of $3,339 and $1,299, respectively.

Net Investment Income

The sources of net investment income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Interest from:				
Fixed maturities	$ 3,066	$ 2,994	$ 5,980	$ 5,962
Policyholder loans	35	86	127	172
Mortgage loans	796	624	1,422	1,264
Cash, cash equivalents and restricted cash	1	35	5	250
Dividends on equity securities	89	90	179	195
Gross investment income	3,987	3,829	7,713	7,843
Investment expenses	(377)	(373)	(849)	(815)
Net investment income	$ 3,610	$ 3,456	$ 6,864	$ 7,028

Investment expenses include investment management fees, some of which include incentives based on market performance, custodial fees and internal costs for investment-related activities.

Net Realized Investment Gains (Losses)

The sources of realized investment gains (losses) are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Investment gains (losses) from:				
Fixed maturities	$ 228	$ 391	$ 488	$ 251
Equity securities	747	906	1,402	(2,009)
Other invested assets	281	—	889	—
Mortgage loans	48	11	53	20
Investment expenses	(7)	(1)	(19)	(12)
Total net realized investment gains (losses)	$ 1,297	$ 1,307	$ 2,813	$ (1,750)

Other-Than-Temporary Impairments

The Company regularly reviews its investments portfolio for factors that may indicate that a decline in the fair value of an investment is other-than-temporary. A fixed maturity has OTTI if the fair value of the security is less than its amortized cost basis and the Company either intends to sell the fixed maturity or it is more likely than not the Company will be required to sell the fixed maturity before recovery of its amortized cost basis. For all other securities in an unrealized loss position in which the Company does not expect to recover the entire amortized cost basis, the security is deemed to be OTTI for credit reasons.

Significant judgment is required in the determination of whether an OTTI loss has occurred for a security. The Company has developed a consistent methodology and has identified significant inputs for determining whether an OTTI loss has occurred. Some of the factors considered in evaluating whether a decline in fair value is OTTI are the financial condition and prospects of the issuer, payment status, the probability of collecting scheduled principal and interest payments when due, credit ratings of the securities, and the duration and severity of the decline.

The credit loss component of fixed maturity impairment is calculated as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate of cash flows discounted at the effective rate implicit to the security at the date of purchase or prior impairment. The methodology and assumptions for estimating the cash flows vary depending on the type of security. For mortgage-backed and asset-backed securities, cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral characteristics, expectations of delinquency and default rates, and structural support, including subordination and guarantees. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss exists, and the security is considered to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is determined to be OTTI impaired for credit reasons and is recognized as an OTTI loss in earnings. The non-credit component, determined as the difference between the adjusted amortized cost basis and fair value, is recognized as OTTI in other comprehensive (loss) income.

A rollforward of the cumulative credit losses on fixed maturities are as follows:

	June 30, 2021	December 31, 2020
Beginning balance of credit losses on fixed maturities	$ 833	$ 869
Additional credit losses for which an OTTI was not previously recognized	3	68
Reduction of credit losses related to securities sold during period	—	(104)
Ending balance of credit losses on fixed maturities	$ 836	$ 833

Unrealized Losses for Fixed Maturities

The Company's fair value and gross unrealized losses for fixed maturities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous gross unrealized loss position are as follows:

	12 months or less		Longer than 12 months		Total	
June 30, 2021	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
Fixed maturities						
U.S. agency mortgage-backed	$ 134	$ (3)	$ 12	$ —	$ 146	$ (3)
State and political subdivisions	13,762	(173)	—	—	13,762	(173)
Corporate and miscellaneous	6,945	(217)	1,271	(33)	8,216	(250)
Residential mortgage-backed	473	(9)	418	(23)	891	(32)
Commercial mortgage-backed	823	(4)	394	(11)	1,217	(15)
Asset-backed	17,329	(78)	10,183	(84)	27,512	(162)
Total fixed maturities	$ 39,466	$ (484)	$ 12,278	$ (151)	$ 51,744	$ (635)

	12 months or less		Longer than 12 months		Total	
December 31, 2020	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
Fixed maturities						
U.S. agency mortgage-backed	$ 17	$ —	$ 12	$ —	$ 29	$ —
State and political subdivisions	2,320	(15)	—	—	2,320	(15)
Corporate and miscellaneous	5,177	(256)	254	(2)	5,431	(258)
Residential mortgage-backed	480	(10)	140	(17)	620	(27)
Commercial mortgage-backed	1,028	(46)	73	(7)	1,101	(53)
Asset-backed	34,859	(607)	11,247	(207)	46,106	(814)
Total fixed maturities	$ 43,881	$ (934)	$ 11,726	$ (233)	$ 55,607	$ (1,167)

The indicated gross unrealized losses in all fixed maturity categories decreased to $635 from $1,167 at June 30, 2021 and December 31, 2020, respectively. Based on the Company's current evaluation of its fixed maturities in an unrealized loss position, in accordance with our impairment policy and the Company's current intentions regarding these securities, the Company concluded that these securities were not OTTI.

Information and concentrations related to fixed maturities in an unrealized loss position are included below. The tables below include the number of fixed maturities in an unrealized loss position for greater than and less than 12 months and the percentage that were investment grade at June 30, 2021.

	Unrealized Losses 12 months or less				
			Number of Securities		
	Total	Impairment is Less than 10% of Amortized Cost	Impairment is Between 10% and 20% of Amortized Cost	Impairment is Greater than 20% of Amortized Cost	Percent Investment Grade
Fixed maturities					
U.S. agency mortgage-backed	2	2	—	—	100%
State and political subdivisions	37	37	—	—	100%
Corporate and miscellaneous	46	44	—	2	80%
Residential mortgage-backed	5	5	—	—	100%
Commercial mortgage-backed	2	2	—	—	100%
Asset-backed	38	38	—	—	100%
Total fixed maturities	130	128	-	2	

	Unrealized Losses greater than 12 months				
			Number of Securities		
	Total	Impairment is Less than 10% of Amortized Cost	Impairment is Between 10% and 20% of Amortized Cost	Impairment is Greater than 20% of Amortized Cost	Percent Investment Grade
Fixed maturities					
U.S. agency mortgage-backed	1	1	—	—	80%
Corporate and miscellaneous	3	2	1	—	100%
Residential mortgage-backed	6	5	1	—	0%
Commercial mortgage-backed	3	3	—	—	67%
Asset-backed	17	16	1	—	100%
Total fixed maturities	30	27	3	—	

Note 3 – Policy Liabilities

Future Policy Benefits

Future policy benefits represent the reserve for direct and assumed traditional life insurance policies and annuities in payout status.

The annuities in payout status are certain structured settlement contracts. The policy liability for structured settlement contracts of $20,120 and $21,489 at June 30, 2021 and December 31, 2020, respectively, is computed as the present value of contractually specified future benefits. The amount included in the policy liability for structured settlements that are life contingent at June 30, 2021 and December 31, 2020, is $16,018 and $17,084, respectively.

To the extent that unrealized gains on fixed maturities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve is recorded. A liability of $6,970 and $8,010 is included as part of the liability for structured settlements with respect to this deficiency at June 30, 2021 and December 31, 2020, respectively. The offset to this liability is recorded as a reduction of the unrealized capital gains included in AOCI.

Participating life insurance in force was 9.5% and 11.6% of the face value of total life insurance at June 30, 2021 and December 31, 2020, respectively.

Note 4 – Reinsurance

The Company uses reinsurance to mitigate exposure to potential losses, provide additional capacity for growth, and provide greater diversity of business. For ceded reinsurance, the Company remains liable to the extent that reinsuring companies may not be able to meet their obligations under the reinsurance agreements. To manage the risk from failure of a reinsurer to meet its obligations, the Company periodically evaluates the financial condition of all of its reinsurers.

Reinsurance recoverable are as follows:

	June 30, 2021	December 31, 2020
Ceded future policy benefits	$ 137,326	$ 128,456
Claims and other amounts recoverables	31,141	29,559
Ending balance	$ 168,467	$ 158,015

The reconciliation of direct premiums to net premiums is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Direct premiums	$ 42,320	$ 38,423	$ 83,849	$ 66,524
Assumed premiums	9,338	9,703	18,115	18,072
Ceded premiums	(26,225)	(21,813)	(51,234)	(28,227)
Net insurance premiums	$ 25,433	$ 26,313	$ 50,730	$ 56,369

Net policy charges on universal life products were $45, $90, $43 and $87 for the three months and six months ended June 30, 2021 and 2020, respectively, and are included in other income.

At June 30, 2021 and December 31, 2020, reserves related to fixed-rate annuity deposits assumed from a former affiliate company amounted to approximately $73,453 and $74,918, respectively, and are included with policyholder account balances in the Interim Condensed Consolidated Balance Sheets.

Note 5 – Closed Block

The Closed Block was formed at October 1, 2006 and contains all participating policies issued or assumed by Fidelity Life. The assets and future net cash flows of the Closed Block are available only for purposes of paying benefits, expenses and dividends of the Closed Block and are not available to the Company, except for an amount of additional funding that was established at the inception of the Closed Block. The additional funding was designed to protect the block against future experience, and if the funding is not required for that purpose, is subject to reversion to the Company in the future. Any reversion of Closed Block assets to the Company must be approved by the Illinois Department of Insurance (IDOI).

In October 2011, the IDOI approved a reversion of a portion of the initial funding that the Company had determined was not required to fund the Closed Block. The carrying value of the assets transferred from the Closed Block on October 31, 2011, the date of transfer, was $4,397.

The assets and liabilities within the Closed Block are included in the Company’s consolidated financial statements on the same basis as other accounts of the Company. The maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities represent the estimated future Closed Block profits that will accrue to the Company and is calculated as the excess of Closed Block assets over Closed Block liabilities. Included in Closed Block assets at June 30, 2021 and December 31, 2020 is $10,308 and $10,170 of additional Closed Block funding, plus accrued interest, that is eligible for reversion to the Company if not needed to fund Closed Block experience, respectively.

The Closed Block was funded based on a model developed to forecast the future cash flows of the Closed Block, which is referred to as the actuarial calculation. The actuarial calculation projected the anticipated future cash flows of the Closed Block as established at the initial funding. We compare the actual results of the Closed Block to expected results from the actuarial calculation as part of the annual assessment of the current level of policyholder dividends. The assessment of policyholder dividends includes projections of future experience of the Closed Block. The review of Closed Block experience also includes consideration of whether a policy dividend obligation should be recorded to reflect favorable Closed Block experience that has not yet been reflected in the dividend scales. At June 30, 2021 and December 31, 2020, the Company recognized a policyholder dividend obligation of $13,145 and $13,282, respectively, resulting from the excess of actual cumulative earnings over the expected cumulative earnings and from accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block.

The impacts on the Company's comprehensive (loss) income from recognizing policyholder dividend obligations are as follows:

	June 30, 2021	December 31, 2020
Actual cumulative (loss) income earnings over expected cumulative earnings	$ (9,742)	$ (9,284)
Income tax (benefit) expense	(2,046)	(1,950)
Net (loss) income impact	(7,696)	(7,334)
Accumulated net unrealized investment (losses) gains	(3,403)	(3,998)
Income tax (benefit) expense	(715)	(839)
Other comprehensive (loss) income impact	(2,688)	(3,159)
Comprehensive (loss) income impact	$ (10,384)	$ (10,493)

Information regarding the Closed Block liabilities (assets) designated to the Closed Block is as follows:

Closed Block Liabilities	June 30, 2021	December 31, 2020
Future policy benefits and claims	$ 34,807	$ 38,110
Policyholder account balances	7,044	7,272
Other policyholder liabilities	3,294	6,360
Policyholder dividend obligations	13,145	13,282
Other liabilities (assets)	(634)	(619)
Total Closed Block liabilities	57,656	64,405
Assets Designated to the Closed Block		
Investments:		
Fixed maturities - available-for-sale (amortized cost $38,414 and $37,364, respectively)	43,756	43,738
Policyholder loans	1,204	1,245
Total investments	44,960	44,983
Cash, cash equivalents and restricted cash	802	2,614
Premiums due and uncollected	1,581	1,029
Accrued investment income	415	427
Reinsurance recoverables	16,806	22,689
Deferred income tax assets, net	3,297	3,130
Total assets designated to the Closed Block	67,861	74,872
Excess of Closed Block assets over liabilities	10,205	10,467
Amounts included in accumulated other comprehensive income:		
Unrealized investment gains (losses), net of income tax	4,220	5,035
Allocated to policyholder dividend obligations, net of income tax	(2,688)	(3,159)
Total amounts included in accumulated other comprehensive income	1,532	1,876
Maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities (includes excess assets of $10,308 and $10,170, respectively)	$ (8,673)	$ (8,591)

Policyholder Dividend Obligations	June 30, 2021	December 31, 2020
Beginning balance	$ 13,282	$ 11,453
Impact from earnings allocable to policyholder dividend obligations	458	235
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligations	(595)	1,594
Ending balance	$ 13,145	$ 13,282

Information regarding the Closed Block revenues and expenses is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues				
Net insurance premiums	$ 795	$ 1,193	$ 1,695	$ 6,454
Net investment income	364	385	715	762
Realized gains	36	31	36	31
Total revenues	1,195	1,609	2,446	7,247
Benefits and expenses				
Life and annuity benefits - including policyholder dividends of $223, $308, $623 and $700 respectively	771	1,432	2,695	5,878
Interest credited to policyholder account balances	44	46	86	92
Operating costs and expenses	(198)	(67)	(439)	3,509
Total expenses	617	1,411	2,342	9,479
Revenues, net of expenses before provision for income tax expense	578	198	104	(2,232)
Income tax expense (benefit)	121	41	22	(469)
Revenues, net of expenses and provision for income tax expense (benefit)	$ 457	$ 157	$ 82	$ (1,763)

The Company charges the Closed Block with federal income taxes and state and local premium taxes, policy maintenance costs and investment management expenses relating to the Closed Block as provided in the Closed Block Memorandum.

The following table presents the amortized cost and fair value of the Closed Block fixed maturities portfolio by contractual maturity at June 30, 2021. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Amortized Cost	Fair Value
Due after one year through five years	$ 9,064	$ 9,746
Due after five years through ten years	3,754	4,794
Due after ten years	22,698	26,317
Securities not due at a single maturity date — primarily mortgage and asset-backed	2,898	2,899
Total fixed maturities	$ 38,414	$ 43,756

Note 6 – Commitments and Contingencies

Litigation

The Company is subject to legal and regulatory actions in the course of our business. Management does not believe such litigation will have a material impact on the Company's interim condensed consolidated financial statements. The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible but not probable or, is probable but not reasonably able to be estimated, no accrual is established, but the matter, if material, is disclosed. The Company is not aware of any material legal or regulatory matters threatened or pending against the Company.

Federal Home Loan Bank of Chicago

The Company is a member of the Federal Home Loan Bank of Chicago (FHLBC). As a member, the Company is able to borrow on a collateralized basis from the FHLBC which can be used as an alternative source of liquidity. The FHLBC membership requires the Company to own member stock. At June 30, 2021 and December 31, 2020, the Company held $115 of FHLBC common stock which allows the Company to borrow up to $2,558. Interest on borrowed funds is charged at variable rates established from time to time by the FHLBC and depending on the borrowing option selected at the time of the borrowing. No amounts have been borrowed from the FHLBC as of June 30, 2021 and December 31, 2020.

Note 7 – Assets and Liabilities Measured at Fair Value

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company attempts to establish fair value as an exit price consistent with transactions taking place under normal market conventions. The Company utilizes market observable information to the extent possible and seeks to obtain quoted market prices for all securities. If quoted market prices in active markets are not available, the Company uses a number of methodologies to establish fair value estimates including discounted cash flow models, prices from recently executed transactions of similar securities, or broker/dealer quotes.

Fair values for the Company's fixed maturity and equity securities are determined by management, utilizing prices obtained from third-party pricing services. Management reviews on an ongoing basis the reasonableness of the methodologies used by the pricing services to ensure prices received represent a reasonable estimate of fair value and to confirm representations regarding whether inputs are observable or unobservable. The main procedure the Company employs in fulfillment of this objective includes back-testing transactions, where past fair value estimates are compared to actual transactions executed in the market on similar dates.

The Company's assets and liabilities have been classified into a three-level hierarchy based on the priority of the inputs to the respective valuation technique. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Level 1 and Level 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices for identical assets in active markets the Company can access. Level 1 assets include securities that are traded in an active exchange market.

Level 2 – This level includes fixed maturities priced principally by independent pricing services using observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments on inactive markets; and model-derived valuations for which all significant inputs are observable market data. Level 2 instruments include most corporate debt securities and U.S. government and agency mortgage-backed securities that are valued by models using inputs that are derived principally from or corroborated by observable market data.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are unobservable. Level 3 instruments include less liquid assets for which significant inputs are unobservable in the market, such as structured securities with complex features that require significant management assumptions or estimation in the fair value measurement.

This hierarchy requires the use of observable market data when available.

Certain assets and liabilities are not carried at fair value on a recurring basis, including investments such as mortgage loans, intangible assets, future policy benefits excluding term life reserves and policyholder account balances. Accordingly, such items are only included in the fair value hierarchy disclosure when the items are subject to re-measurement at fair value after initial recognition (for example, when there is evidence of impairment) and the resulting re-measurement is reflected in the consolidated financial statements at the reporting date.

Recurring and Non-Recurring Fair Value Measurements

The Company's assets that are carried at fair value on a recurring and non-recurring basis, by fair value hierarchy level, are as follows:

June 30, 2021	Level 1	Level 2	Level 3	Total Fair Value
Recurring fair value measurements				
Financial instruments recorded as assets:				
Fixed maturities				
U.S. government and agencies	$ —	$ 12,082	$ —	$ 12,082
U.S. agency mortgage-backed	—	18,700	—	18,700
State and political subdivisions	—	63,404	513	63,917
Corporate and miscellaneous	2,802	157,009	13,995	173,806
Foreign government	—	413	—	413
Residential mortgage-backed	—	6,339	—	6,339
Commercial mortgage-backed	—	19,696	—	19,696
Asset-backed	—	62,417	2,853	65,270
Total fixed maturities	2,802	340,060	17,361	360,223
Equity securities	5,496	—	—	5,496
Total recurring assets	$ 8,298	$ 340,060	$ 17,361	$ 365,719

December 31, 2020	Level 1	Level 2	Level 3	Total Fair Value
Recurring fair value measurements				
Financial instruments recorded as assets:				
Fixed maturities				
U.S. government and agencies	$ —	$ 14,272	$ —	$ 14,272
U.S. agency mortgage-backed	—	22,476	—	22,476
State and political subdivisions	—	60,908	521	61,429
Corporate and miscellaneous	2,685	157,935	8,433	169,053
Foreign government	—	176	—	176
Residential mortgage-backed	—	6,421	—	6,421
Commercial mortgage-backed	—	20,017	—	20,017
Asset-backed	—	68,706	1,301	70,007
Total fixed maturities	2,685	350,911	10,255	363,851
Equity securities	3,833	15	—	3,848
Total recurring assets	$ 6,518	$ 350,926	$ 10,255	$ 367,699

Summary of Significant Valuation Techniques for Assets on a Recurring Basis

Level 1 securities include principally exchange-traded funds that are valued based on quoted market prices for identical assets.

All the fair values of the Company's fixed maturities within Level 2 are based on prices obtained from independent pricing services. All of the Company's prices for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type and region of the world, based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type and region. For fixed maturities that do not trade on a daily basis, the pricing services prepare estimates of fair value measurements using their pricing applications which incorporate a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, and U.S. Treasury curves. Specifically, for asset-backed securities, key inputs include prepayment and default projections based on past performance of the underlying collateral and current market data. Securities with validated quotes from pricing services are reflected within Level 2 of the fair value hierarchy, as they generally are based on observable pricing for similar assets or other market significant observable inputs.

Level 3 fair value classification consists of investments in structured securities where the fair value of the security is determined by a pricing service using internal pricing models where one or more of the significant inputs is unobservable in the marketplace, or there is a single broker/dealer quote. The fair value of a broker-quoted asset is based solely on the receipt of an updated quote from a single market maker or a broker-dealer recognized as a market participant. The fair value of Level 3 liabilities is estimated on the discounted cash flows of contractual payments.

If the Company believes the pricing information received from third-party pricing services is not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service. Historically, the Company has not challenged or updated the prices provided by third-party pricing services. However, any such updates by a pricing service to be more consistent with the presented market observations, or any adjustments made by the Company to prices provided by third-party pricing services would be reflected in the balance sheet for the current period.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) and unobservable (Level 3). Net transfers into and/or out of Level 3 are reported as having occurred at the beginning of the period and are based on observable inputs received from pricing sources; therefore, all net realized and unrealized gains and losses on these securities for the period are reflected in the table that follows. A summary of changes in fair value of Level 3 assets held at fair value on a recurring basis is as follows:

		Total gains (losses) included in:						
	Balance at January 1, 2021	Net Income (loss)	OCI	Purchases	Sales	Settlements	Net Transfers	Balance at June 30, 2021
Financial Assets								
Fixed maturities								
State and political subdivision	$ 521	$ —	$ (7)	$ —	$ —	$ —	$ —	$ 514
Corporate and miscellaneous	8,433	(199)	5	8,270	—	(2)	(2,513)	13,994
Asset-backed	1,301	(5)	43	1,578	—	(64)	—	2,853
Total assets	$ 10,255	$ (204)	$ 41	$ 9,848	$ —	$ (66)	$ (2,513)	$ 17,361

		Total gains (losses) included in:						
	Balance at January 1, 2020	Net Income	OCI	Purchases	Sales	Settlements	Net Transfers	Balance at December 31, 2020
Financial Assets								
Fixed maturities								
State and political subdivisions	$ —	$ —	$ 21	$ 500	$ —	$ —	$ —	$ 521
Corporate and miscellaneous	—	42	120	8,271	—	—	—	8,433
Asset-backed	1,215	—	(34)	292	—	(172)	—	1,301
Total assets	$ 1,215	$ 42	$ 107	$ 9,063	$ —	$ (172)	$ —	$ 10,255

In 2021, there were 3 transfers from Level 3 to Level 2. There were no transfers between levels in 2020.

Financial Instruments not Measured at Fair Value

The following tables provide fair value information for financial instruments that are carried on the balance sheet at amounts other than fair value. These tables exclude cash and cash equivalents and accrued investment income, that are not securities and therefore are not included in the three-level hierarchy table disclosed in the "Recurring and Non-Recurring Fair Value Measurements" section. The carrying amount and estimated fair values of the Company's financial instruments that are not measured at fair value on the Interim Condensed Consolidated Balance Sheets are as follows:

		Estimated Fair Value			
June 30, 2021	Carrying Value	Level 1	Level 2	Level 3	Total
Financial instruments recorded as assets:					
Mortgage loans	$ 47,760	$ —	$ —	$ 44,530	$ 44,530
Policyholder loans	6,303	—	—	8,191	8,191
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	$ 23,264	$ —	$ —	$ 19,983	$ 19,983
Long/short-term debt	27,648	—	—	34,194	34,194
Policyholder account balances	82,197	—	—	89,455	89,455

December 31, 2020	Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total
Financial instruments recorded as assets:					
Mortgage loans	$ 50,427	$ —	$ —	$ 46,816	$ 46,816
Policyholder loans	6,414	—	—	8,335	8,335
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	$ 24,495	$ —	$ —	$ 20,454	$ 20,454
Long/short-term debt	30,478	—	—	37,033	37,033
Policyholder account balances	83,869	—	—	92,190	92,190

The following methods and assumptions were used to estimate the fair value of these financial assets and liabilities.

Mortgage Loans — Fair value was based on the discounted value of future cash flows for all first mortgage loans adjusted for specific loan risk. The discount rate was based on the rate that would be offered for similar loans at the reporting date. Fair value excludes $2,399 and $2,675 of second and mezzanine mortgages carried at cost for which fair value is not measurable at June 30, 2021 and December 31, 2020, respectively.

Policyholder Loans — Fair value of policyholder loans was estimated using discounted cash flows using risk-free interest rates with no adjustment for borrower credit risk as these loans are fully collateralized by the cash value of the underlying insurance policy.

Future Policy Benefits and Policyholder Account Balances — For deposit liabilities with interest rate guarantees greater than one year or with defined maturities, the fair value was estimated by calculating an average present value of expected cash flows over a broad range of interest rate scenarios using the current market risk-free interest rates adjusted for spreads required for publicly traded bonds issued by comparably rated insurers. For deposit liabilities with interest rate guarantees of less than one year, the fair value was based on the amount payable on demand at the reporting date.

Long and Short-Term Debt — Fair value was calculated using the discounted value of future cash flows method. The discount rate was based on the rate that is commensurable to the level of risk. The carrying amounts reported on the Interim Condensed Consolidated Balance Sheets have been divided in to short and long-term based upon expected maturity dates.

Note 8 – Long and Short-Term Debt

The Company originally entered into a financing arrangement with an external party in January 2018, from which the Company receives an advanced commission-based payment for certain Insurance Segment term policies sold through the Agency Segment, in exchange for a level commission that is paid by the Company over the period the policy remains in-force. The Company’s arrangement with the external party allows the Company to finance up to $30 million of commission. At June 30, 2021 and December 31, 2020, the Company had a net advance of $23,918 and $27,533, respectively, under this arrangement. At June 30, 2021, the Company expects to pay back the aggregate amounts as presented in the following table.

Due in one year or less	$ 4,186
Due after one year through two years	3,699
Due after two years through three years	3,443
Due after three years through four years	3,252
Due after four years through five years	3,100
Due after five years	23,401
Less discount	(13,433)
Total long/short-term debt	$ 27,648

Note 9 – Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss), net of taxes are as follows:

	2021			2020		
	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized Gains (Losses) on Other Investments	Total	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized Gains (Losses) on Other Investments	Total
Balance at beginning of year	$ 362	$ 16,239	$ 16,601	$ 362	$ 8,395	$ 8,757
Second Quarter						
Other comprehensive income (loss)	—	6,545	6,545	—	12,950	12,950
Deferred Income tax (expense) benefit	—	(1,374)	(1,374)	—	(2,719)	(2,719)
Second Quarter, net	—	5,171	5,171	—	10,231	$ 10,231
Year to Date						
Other comprehensive (loss) income	—	(4,197)	(4,197)	—	3,773	3,773
Deferred Income tax benefit (expense)	—	882	882	—	(795)	(795)
Year to Date, net	—	(3,315)	(3,315)	—	2,978	2,978
Balance at end of period	$ 362	$ 12,924	$ 13,286	$ 362	$ 11,373	$ 11,735

Note 10 – Business Segments

The Company’s current operations are organized into three reportable segments: Insurance, Agency, and Corporate & Other.

In the first quarter of 2021 and in connection with now selling the majority of our insurance products through the AmeriLife agency arrangement, the Company has removed Eliminations as a separate component of our segment presentation to better align with the decline in intersegment earned commissions.

Intersegment earned commissions and deferral of agents selling costs for a successful policy sale previously reported as Eliminations are now reported as part of the Corporate & Other segment, and amortization of deferred policy acquisition costs and commission related to policy acquisition costs previously reported as Eliminations are now reported as part of the Insurance segment.

These changes were made to better reflect the manner in which the Company is currently organized for purposes of making operating decisions and assessing performance. There was no change to the Agency segment. Segment data for prior reporting periods has been adjusted to reflect the new segment reporting.

The reclassification of historical segment information has no effect on the Company's previously reported consolidated results of operations, financial condition, or cash flows.

The Insurance Segment is composed of three broad lines consisting of Traditional Life, Closed Block, and Assumed Life and Annuities. Traditional Life and the Closed Block are distinct operations; the Assumed life and annuities business and the small amount of structured settlements are all blocks in runoff from a prior management arrangement.

The Agency Segment includes the insurance distribution operations of the Company and includes commission revenue from the sale of Fidelity Life products.

The Corporate & Other Segment includes expenses that will benefit the overall organization, which are not allocated to a segment. This segment recognizes net investment income on cash and invested assets held mainly as a result of the IPO and interest expense related to our commission financing agreement.

All intercompany accounts and transactions have been eliminated in consolidation, including any profit or loss from the sale of Insurance Segment products through the Agency Segment.

The segment results are as follows:

	Three Months Ended June 30, 2021				Three Months Ended June 30, 2020			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Net insurance premiums	$ 25,433	$ —	$ —	$ 25,433	$ 26,313	$ —	$ —	$ 26,313
Net investment income	3,551	—	59	3,610	3,456	—	—	3,456
Net realized investment gains (losses)	1,102	—	195	1,297	1,307	—	—	1,307
Other-than-temporary-impairments	(1)	—	—	(1)	—	—	—	—
Earned commissions	—	12,414	(606)	11,808	—	10,836	(6,433)	4,403
Other income	63	1,758	—	1,821	117	1,061	—	1,178
Total revenues	30,148	14,172	(352)	43,968	31,193	11,897	(6,433)	36,657
Life, annuity, and health claim benefits	18,181	—	—	18,181	21,697	—	—	21,697
Operating costs and expenses	5,875	14,276	2,597	22,748	5,753	12,408	496	18,657
Amortization of deferred policy acquisition costs	3,938	—	—	3,938	3,791	—	—	3,791
Total benefits and expenses	27,994	14,276	2,597	44,867	31,241	12,408	496	44,145
(Loss) income before income tax	$ 2,154	$ (104)	$ (2,949)	$ (899)	$ (48)	$ (511)	$ (6,929)	$ (7,488)

	Six Months Ended June 30, 2021				Six Months Ended June 30, 2020			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Net insurance premiums	$ 50,730	$ —	$ —	$ 50,730	$ 56,369	$ —	$ —	$ 56,369
Net investment income	6,759	—	105	6,864	6,935	—	93	7,028
Net realized investment gains (losses)	2,223	—	590	2,813	(1,750)	—	—	(1,750)
Other-than-temporary-impairment	(3)	—	—	(3)	(54)	—	—	(54)
Earned commissions	—	24,288	(1,858)	22,430	—	21,427	(12,899)	8,528
Other income	137	3,232	—	3,369	200	2,649	—	2,849
Total revenues	59,846	27,520	(1,163)	86,203	61,700	24,076	(12,806)	72,970
Life, annuity, and health claim benefits	40,855	—	—	40,855	43,241	—	—	43,241
Operating costs and expenses	12,166	28,308	5,602	46,076	16,493	25,389	304	42,186
Amortization of deferred policy acquisition costs	7,178	—	—	7,178	4,767	—	—	4,767
Total benefits and expenses	60,199	28,308	5,602	94,109	64,501	25,389	304	90,194
(Loss) income before income tax	$ (353)	$ (788)	$ (6,765)	$ (7,906)	$ (2,801)	$ (1,313)	$ (13,110)	$ (17,224)

	June 30, 2021				December 31, 2020			
	Insurance	Agency	Corporate & Other	Total Consolidated	Insurance	Agency	Corporate & Other	Total Consolidated
Investments and cash	$ 426,490	$ 2,269	$ 12,047	$ 440,806	$ 436,757	$ 3,469	$ 20,829	$ 461,055
Commissions and agent balances	5,722	23,515	130	29,367	(12,231)	31,651	106	19,526
Deferred policy acquisition costs	89,999	—	—	89,999	87,212	—	—	87,212
Intangible assets	—	1,635	—	1,635	—	1,635	—	1,635
Reinsurance recoverables	168,467	—	—	168,467	158,015	—	—	158,015
Deferred income tax (liabilities) assets, net	(5,345)	—	17,829	12,484	(7,351)	—	18,277	10,926
Other	24,472	4,482	3,235	32,189	23,845	2,909	3,641	30,395
Total assets	$ 709,805	$ 31,901	$ 33,241	$ 774,947	$ 686,247	$ 39,664	$ 42,853	$ 768,764

The Company’s investment in equity method investees and the related equity income is attributable to the Corporate & Other Segment.

All the Company’s significant revenues and long-lived assets are located in the United States, which is the Company’s country of domicile.

Note 11 –Subsequent Events

Management has evaluated subsequent events up to and including August 16, 2021, the date these Interim Condensed Consolidated Financial Statements were issued and determined there were no reportable subsequent events.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and six months ended June 30, 2021 and 2020

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

Forward-Looking Statements

This Form 10-Q contains "forward-looking" statements that are intended to enhance the reader's ability to assess our future financial and business performance. Forward-looking statements include, but are not limited to, statements that represent our beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. In addition, statements that refer to our future financial performance, anticipated growth and trends in our business and in our industry and other characterizations of future events or circumstances are forward-looking statements. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different.

Consequently, such forward-looking statements should be regarded solely as our current plans, estimates and beliefs with respect to, among other things, future events and financial performance. Except as required under the federal securities laws, we do not intend, and do not undertake, any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

The forward-looking statements include, among other things, those items listed below:

- future economic conditions in the markets in which we compete that could be less favorable than expected and could have impacts on demand for our products and services;
- our ability to grow and develop our Agency business through expansion of retail call centers, online sales, wholesale operations and other areas of opportunity;
- our ability to grow and develop our insurance business and successfully develop and market new products;
- our ability to enter new markets successfully and capitalize on growth opportunities either through acquisitions or organically;
- financial market conditions, including, but not limited to, changes in interest rates and the level and trends of stock market prices causing a reduction of net investment income or realized losses and reduction in the value of our investment portfolios;
- increased competition in our businesses, including the potential impacts of aggressive price competition by other insurance companies, payment of higher commissions to agents that could affect demand for our insurance products and impact the ability to grow and retain agents in our Agency Segment and the entry of new competitors and the development of new products by new or existing competitors, resulting in a reduction in the demand for our products and services;
- the effect of legislative, judicial, economic, demographic, and regulatory events in the jurisdictions where we do business;
- the effect of challenges to our patents and other intellectual property;
- costs, availability, and collectability of reinsurance;
- the potential impact on our reported net income that could result from the adoption of future accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies;
- the inability to maintain or grow our strategic partnerships or our inability to realize the expected benefits from our relationship with the Standby Purchaser;
- the inability to manage future growth and integration of our operations; and
- changes in industry trends and financial strength ratings assigned by nationally recognized statistical rating organizations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes included in Item 1 of this Form 10-Q. Some of the information contained in this discussion and analysis and set forth elsewhere in this Form 10-Q constitutes forward looking information that involves risks and uncertainties. You should review "Forward Looking Statements" for a discussion of important factors that could cause actual results to differ materially from the results described, or implied by, the forward-looking statements contained herein.

Overview

We provide life insurance protection targeted to the middle American market. We believe there is a substantial unmet need for life insurance, particularly among domestic households with annual incomes of between $50,000 and $125,000, a market we refer to as our target Middle Market. We differentiate our product and service offerings through innovative product design and sales processes, with an emphasis on rapidly issued products that are not medically underwritten at the time of sale.

We conduct our business through our two operating subsidiaries, Fidelity Life, an Illinois-domiciled life insurance company, and Efinancial, a call center-based insurance agency. Efinancial sells Fidelity Life products through its own call center distribution platform, independent agents and other marketing organizations. Efinancial, in addition to offering Fidelity Life products, sells insurance products of unaffiliated carriers. We report our operating results in three segments: Agency, Insurance and Corporate & Other.

COVID-19

The Company continues to monitor the effects of the changing economic environment on our fixed maturities portfolio and currently have a number of securities on our watch list, which are mainly concentrated in the oil and gas and airline sectors. Our assessment through June 30, 2021 has resulted in no additional material OTTI due to COVID-19 and the recent market events.

In the six months ended June 30, 2021 and June 30, 2020, the Company had an estimated $3.9 million and $0.9 million, respectively in net incurred policyholder claims that included COVID-19 as a contributing cause of death.

National Service Group of AmeriLife, LLC

In the second quarter 2020, Fidelity Life entered into a General Agent's agreement with an unaffiliated third party, National Service Group of AmeriLife, LLC ("AmeriLife"). The President of this entity, Scott Perry also sits on the Company's Board of Directors. This agreement provides Fidelity Life access to AmeriLife distribution channels, its commission systems and assists in streamlining administrative processes related to commissions. This agreement also allows Efinancial to operate as a sub agent to AmeriLife. On May 15, 2020, the Company began selling products using this new distribution arrangement. Due to the large amount of the Company's insurance policies now being sold through AmeriLife, dissolution of this agency arrangement could have a material impact on the Company's financial statements. The Company has additional arrangements with AmeriLife wherein Efinancial's sub agents may sell third party products through AmeriLife. To date it is not believed that any of these arrangements will exceed the related party thresholds described in 17 CFR § 229.404. Should these or other arrangements change or exceed the aforementioned threshold, after review by the CFO and General Counsel, the Company's Chairman will be advised and written sign-off will be required from the Chairman.

Agency Segment

This segment primarily consists of the operations of Efinancial. Efinancial is a call center-based insurance agency that markets life insurance for Fidelity Life and unaffiliated insurance companies. Efinancial's primary operations are conducted through employee agents from three call center locations, which we refer to as our retail channel. In addition, Efinancial operates as a wholesale agency, assisting independent agents that seek to produce business for the carriers that Efinancial represents, which we refer to as our wholesale channel. The Agency Segment's main source of revenue is commissions earned on the sale of insurance policies sold through our retail and wholesale channels. Efinancial also generates data and click-through revenue (reported as part of Insurance Lead Sales on the related Interim Condensed Consolidated Statements of Operations) through its eCoverage web presence.

Agency Segment expenses consist of marketing costs to acquire potential customers, salary and bonuses paid to our employee agents, salary and other costs of employees involved in managing the underwriting process for our insurance applications, sales management, agent licensing, training and compliance costs. Other Agency Segment expenses include costs associated with financial and administrative employees, facilities rent, and information technology. After payroll, the most significant Agency Segment expense is the cost of acquiring leads. We partially offset our sales leads expense through advertising revenues from individuals who click on specific advertisements while viewing one of our web pages, and through the resale of leads that are not well suited for our call center.

Insurance Segment

This segment consists of the operations of Fidelity Life. Fidelity Life underwrites primarily term life insurance through Efinancial and a diverse group of independent insurance distributors. Fidelity Life specializes in life insurance products that can be issued immediately or within a short period following a sales call, using non-medical underwriting at the time of policy issuance.

Fidelity Life engages in the following business lines:

Core Life - Our Core Life insurance business is the primary business of the Insurance Segment. Core Life represents a significant portion of the insurance business written by Fidelity Life since it resumed independent operations in 2005. Our Core Life business consists of inforce policies that are considered to be of high strategic importance to Fidelity Life.

NonCore Life - Our NonCore Life business consists of: products that are currently being marketed but are not deemed to be of high strategic importance to the Company; inforce policies from product lines introduced since Fidelity Life resumed independent operations in 2005 but were subsequently discontinued; and an older annuity block of business that was not included in the Closed Block.

Closed Block - Our Closed Block represents all inforce participating insurance policies of Fidelity Life. The Closed Block was established in connection with our 2007 reorganization into a mutual holding company structure.

Annuities and Assumed Life - We have assumed reinsurance commitments with respect to annuity contract holder deposits and a block of life insurance contracts that were ceded by former affiliates of Fidelity Life. Under an agreement with Protective Life Insurance Company (Protective Life), the successor to a former affiliate of Fidelity Life, Fidelity Life had assumed a portion of risk on a group of life insurance contracts primarily written in the 1980s and early 1990s.

Insurance Segment revenues consist of net insurance premiums, net investment income, and net realized gains (losses) on investments. We recognize premium revenue from our policyholders. We purchase reinsurance coverage to help manage the risk on our insurance policies by paying, or ceding, a portion of the policyholder premiums to the reinsurance company. Our net insurance premiums reflect amounts collected from policyholders, plus premiums assumed under reinsurance agreements less premiums ceded to reinsurance companies. Net investment income represents primarily interest income earned on fixed maturity investments. We also realize gains and losses on sales of investment securities.

Insurance Segment expenses consist of benefits paid to policyholders or their beneficiaries under life insurance policies. Benefit expenses also include additions to the reserve for future policyholder benefits to recognize our estimated future obligations under the policies. Benefit expenses are shown net of amounts ceded under our reinsurance contracts. Our Insurance Segment also incurs policy acquisition costs that consist of commissions paid to agents, policy underwriting, issue costs and variable sales costs. A portion of these policy acquisition costs are deferred and expensed over the life of the insurance policies acquired during the period. In addition to policy acquisition costs, we incur expenses that vary based on the number of contracts that we have in-force, or variable policy administrative costs. These variable costs consist of expenses paid to third-party administrators based on rates for each policy administered. Our insurance operations also incur overhead costs for functional and administrative staff to support insurance operations, financial reporting and information technology.

Corporate & Other Segment

The results of this segment consist of net investment income and net realized investment gains (losses) earned on invested assets. We also include certain corporate expenses that are not allocated to our other segments, including expenses of the Company, board expenses, allocation of executive management time spent on corporate matters, and financial reporting and auditing costs related to our consolidation and internal controls. Our Corporate & Other Segment recognizes income (loss) to the extent that net investment income and net realized investment gains (losses) exceed (are less than) corporate expenses. This segment also includes certain items previously reported in the elimination segment, see “Note 10 – Business Segments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Critical Accounting Policies

Our critical accounting policies are described in “Note 1—Basis of Presentation and Summary of Significant Accounting Policies” to our Consolidated Financial Statements as of and for the year ended December 31, 2020 included in the Form 10-K. The preparation of the Interim Condensed Consolidated Financial Statements in conformity with GAAP requires management to use judgment in making estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and related disclosures. We regularly evaluate our estimates and judgments based on historical experience, market indicators and other relevant factors and circumstances. Actual results may differ from these estimates under different assumptions or conditions and may affect our financial position and results of operations. Accordingly, these Interim Condensed Consolidated Financial Statements should be read in conjunction with the financial statements as of and for the year ended December 31, 2020, and notes thereto, included in the Form 10-K.

Results of Operations

The major components of operating revenues, benefits and expenses and net (loss) income were as follows:

Vericity, Inc. Consolidated Results of Operations
(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
Revenues	2021	2020	2021	2020
Net insurance premiums	$ 25,433	$ 26,313	$ 50,730	$ 56,369
Net investment income	3,610	3,456	6,864	7,028
Net realized investment gains (losses)	1,297	1,307	2,813	(1,750)
Other-than-temporary-impairments	(1)	-	(3)	(54)
Earned commissions	11,808	4,403	22,430	8,528
Insurance lead sales	1,758	1,061	3,232	2,649
Other income	63	117	137	200
Total revenues	43,968	36,657	86,203	72,970
Benefits and expenses				
Life, annuity, and health claim benefits	17,430	20,916	39,382	41,677
Interest credited to policyholder account balances	751	781	1,473	1,564
Operating costs and expenses	22,748	18,657	46,076	42,186
Amortization of deferred policy acquisition costs	3,938	3,791	7,178	4,767
Total benefits and expenses	44,867	44,145	94,109	90,194
(Loss) income before income taxes	(899)	(7,488)	(7,906)	(17,224)
Income tax expense (benefit)	264	(716)	(676)	(1,874)
Net (loss) income	$ (1,163)	$ (6,772)	$ (7,230)	$ (15,350)

Three Months Ended June 30, 2021 Compared to the Three Months June 30, 2020

Total Revenues

For the three months ended June 30, 2021, total revenues were $44.0 million compared to $36.7 million for the three months ended June 30, 2020. This increase of $7.3 million resulted from an increase in earned commissions and insurance lead sales, partially offset by lower net insurance premiums.

Benefits and Expenses

For the three months ended June 30, 2021, total benefits and expenses were $44.9 million compared to $44.1 million for the three months ended June 30, 2020. This increase of $0.8 million was primarily due to higher operating costs and expenses and amortization of deferred policy acquisition costs, partially offset by lower claim benefits.

(Loss) Income Before Income Taxes

For the three months ended June 30, 2021, net loss before taxes was $0.9 million compared to net loss before taxes of $7.5 million for the three months ended June 30, 2020. The lower net loss of $6.6 million was primarily due to an increase in earned commissions and lower claim benefits, partially offset by higher operating costs.

Six Months Ended June 30, 2021 Compared to the Six Months June 30, 2020

Total Revenues

For the six months ended June 30, 2021, total revenues were $86.2 million compared to $73.0 million for the six months ended June 30, 2020. This increase of $13.2 million resulted from an increase in earned commissions, net realized investment gains and insurance lead sales, partially offset by lower net insurance premiums and net investment income.

Benefits and Expenses

For the six months ended June 30, 2021, total benefits and expenses were $94.1 million compared to $90.2 million for the six months ended June 30, 2020. This increase of $3.9 million was primarily due to higher operating costs and expenses and amortization of deferred policy acquisition costs expenses, partially offset by lower claim benefits.

(Loss) Income Before Income Taxes

For the six months ended June 30, 2021, net loss before taxes was $7.9 million compared to net loss before taxes of $17.2 million for the six months ended June 30, 2020. The lower net loss of $9.3 million was primarily due to increases in earned commissions, net realized gains and lower claim benefits, partially offset by lower net insurance premiums, higher operating costs and higher amortization of deferred policy acquisition costs.

Analysis of Segment Results

Reconciliation of Segment Results to Consolidated Results

The following analysis reconciles the reported segment results to the Company's total consolidated results.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(dollars in thousands)		(dollars in thousands)	
(Loss) income before income tax by segment				
Agency	$ (104)	$ (511)	$ (788)	$ (1,313)
Insurance	2,154	(48)	(353)	(2,801)
Corporate & Other	(2,949)	(6,929)	(6,765)	(13,110)
(Loss) income before income taxes	(899)	(7,488)	(7,906)	(17,224)
Income tax (benefit) expense	264	(716)	(676)	(1,874)
Net (loss) income	$ (1,163)	$ (6,772)	$ (7,230)	$ (15,350)

Agency Segment

The results of our Agency Segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Earned commissions	$ 12,414	$ 10,836	$ 24,288	$ 21,427
Insurance lead sales	1,758	1,061	3,232	2,649
Total revenues	14,172	11,897	27,520	24,076
Expenses				
Operating costs and expenses	14,276	12,408	28,308	25,389
Total expenses	14,276	12,408	28,308	25,389
(Loss) income before income taxes	$ (104)	$ (511)	$ (788)	$ (1,313)

Three Months Ended June 30, 2021 Compared to the Three Months Ended June 30, 2020

Earned Commissions

For the three months ended June 30, 2021, earned commissions were $12.4 million compared to $10.8 million for the three months ended June 30, 2020. This increase of $1.6 million resulted from increased sales in the retail channel, which was primarily driven by increased marketing efforts and efficiency, partially offset by lower sales in the wholesale channel.

Insurance Lead Sales

For the three months ended June 30, 2021 insurance lead sales were $1.8 million compared to $1.1 million for the three months ended June 30, 2020. This increase of $0.7 million was primarily due to higher click-through revenue.

Operating Costs and Expenses

For the three months ended June 30, 2021, operating costs and expenses were $14.3 million compared to $12.4 million for the three months ended June 30, 2020. This increase of $1.9 million was primarily due to increased variable costs of $1.1 million and other operating costs of $0.8 million

(Loss) Income Before Income Taxes

For the three months ended June 30, 2021, the Agency Segment net loss was $0.1 million compared to net loss of $0.5 million for the three months ended June 30, 2020. This decrease in net loss of $0.4 million was the result of increased earned commissions, partially offset by increased operating costs and expenses.

Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

Earned Commissions

For the six months ended June 30, 2021, earned commissions were $24.3 million compared to $21.4 million for the six months ended June 30, 2020. This increase of $2.9 million resulted from increased sales in the retail channel, which was primarily driven by increased marketing efforts and efficiency, partially offset by lower sales in the wholesale channel.

Insurance Lead Sales

For the six months ended June 30, 2021, insurance lead sales were $3.2 million compared to $2.6 million for the six months ended June 30, 2020. This increase of $0.6 million was primarily due to higher click-through revenue.

Operating Costs and Expenses

For the six months ended June 30, 2021, operating costs and expenses were $28.3 million compared to $25.4 million for the six months ended June 30, 2020. This increase of $2.9 million was primarily due to increased variable costs of $1.7 million and other operating costs of $0.7 million.

(Loss) Income Before Income Taxes

For the six months ended June 30, 2021, the Agency Segment net loss was $0.8 million compared to net loss of $1.3 million for the six months ended June 30, 2020. This decrease in net loss of $0.5 million was the result of increased earned commissions, partially offset by increased operating costs and expenses.

Insurance Segment

The results of our Insurance Segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Net insurance premiums	$ 25,433	$ 26,313	$ 50,730	$ 56,369
Net investment income	3,551	3,456	6,759	6,935
Net realized investment gains (losses)	1,102	1,307	2,223	(1,750)
Other-than-temporary-impairments	(1)	-	(3)	(54)
Other income	63	117	137	200
Total revenues	30,148	31,193	59,846	61,700
Benefits and expenses				
Life, annuity, and health claim benefits	17,459	20,916	39,382	41,677
Interest credited to policyholder account balances	722	781	1,473	1,564
Operating costs and expenses	5,875	5,753	12,166	16,493
Amortization of deferred policy acquisition costs	3,938	3,791	7,178	4,767
Total benefits and expenses	27,994	31,241	60,199	64,501
(Loss) income before income taxes	$ 2,154	$ (48)	$ (353)	$ (2,801)

Three Months Ended June 30, 2021 Compared to the Three Months Ended June 30, 2020

Net Insurance Premiums

For the three months ended June 30, 2021, net insurance premiums were $25.4 million compared to $26.3 million for the three months ended June 30, 2020. The decrease of $0.9 million in net insurance premiums was primarily due to a decrease in our Core Life lines of $0.5 million, mainly driven by decreases in LifeTime Benefit Term (LBT) and a decrease in Closed Block of $0.4 million. See “Closed Block” section in this Form 10-Q for further discussion regarding Closed Block and “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

Net Investment Income

For the three months ended June 30, 2021, net investment income increased to $3.6 million compared to $3.5 million for the three months ended June 30, 2020. The $0.1 million increase was mainly due to higher book yields in the mortgage loan portfolio due to prepayment penalty income in the second quarter of 2021. For more information on net investment income, see "Note 2 – Investments" in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Net Realized Investment Gains

For the three months ended June 30, 2021, net realized investment gains were $1.1 million compared to $1.3 million net realized investment gains for the three months ended June 30, 2020. The $0.2 million decrease was mainly due to lower mark to market gains in our equity portfolio.

Life, Annuity and Health Claim Benefits

For the three months ended June 30, 2021, life, annuity and health claim benefits were $17.4 million compared with $21.0 million for the three months ended June 30, 2020. This decrease of $3.6 million was primarily due to a decrease in Core life and Non-Core life net claim benefits of $1.6 million and a decrease in future policy benefit reserves of $1.2 million. In addition, Closed Block decreased by $0.7 million. See "Closed Block" section in this Form 10-Q for further discussion regarding Closed Block and "Note 5—Closed Block" in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

Operating Costs and Expenses

For the three months ended June 30, 2021, operating costs and expenses were $5.9 million compared to $5.8 million for the three months ended June 30, 2020. The $0.1 million increase was attributable to an increase in reinsurance allowances of $0.6 million, partially offset by increased other operating expenses of $0.4 million.

Amortization of Deferred Policy Acquisition Costs

For the three months ended June 30, 2021, amortization of deferred policy acquisition costs was $3.9 million compared to $3.8 million for the three months ended June 30, 2020. The increase of $0.1 million relates to the Closed Block. See "Closed Block" section in this Form 10-Q for further discussion regarding Closed Block and "Note 5—Closed Block" in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

(Loss) Income Before Income Taxes

For the three months ended June 30, 2021, net income was $2.2 million compared to net loss of $0.0 million for the three months ended June 30, 2020. This increase in net income of $2.2 million resulted primarily from a $3.5 million decrease in life, annuity and health claim benefits, partially offset by decreases of $0.9 million in net insurance premiums and $0.2 million in net realized investment gains.

Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

Net Insurance Premiums

For the six months ended June 30, 2021, net insurance premiums were $50.7 million compared to $56.4 million for the six months ended June 30, 2020. This decrease of $5.7 million in net insurance premiums was primarily due to a decrease of $4.8 million related to Closed Block and a decrease in our Core Life lines of $0.8 million, mainly driven by decreases in LifeTime Benefit Term (LBT) and *RAPID*ecision® Life. See "Closed Block" section in this Form 10-Q for further discussion regarding Closed Block and "Note 5—Closed Block" in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

Net Investment Income

For the six months ended June 30, 2021, net investment income was $6.8 million compared to $6.9 million for the six months ended June 30, 2020. The decrease was mainly due to lower invested asset base in short term investments and lower fixed maturity yields partially offset by an increase in mortgage loan income primarily driven by increased prepayment penalty income.

Net Realized Investment Gains

For the six months ended June 30, 2021, net realized investment gains increased to $2.2 million compared to a loss of $1.8 million for the six months ended June 30, 2020. The $4.0 million increase was mainly due to the equity portfolio which incurred mark to market gains of $1.4 million and losses of $2.0 million in the first six months of 2021 and 2020, respectively, and $0.3 million higher realized gains on other invested assets related to net asset value changes and $0.2 million from sales of fixed maturities.

Life, Annuity and Health Claim Benefits

For the six months ended June 30, 2021, life, annuity and health claim benefits were $39.4 million compared with $41.7 million for the six months ended June 30, 2020. The decrease of $2.3 million was primarily due to a decrease of $3.2 million in Closed Block. This decrease was partially offset by an increase in Core life and Non-Core life net claim benefits of $3.8 million, partially offset by a decrease in future policy benefit reserves of $3.0 million. See “Closed Block” section in this Form 10-Q for further discussion regarding Closed Block and “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

Operating Costs and Expenses

For the six months ended June 30, 2021, operating costs and expenses decreased to $12.2 million from $16.5 million for the six months ended June 30, 2020. The decrease of $4.3 million was primarily due to an increase in ceded allowances of $5.6 million, which includes $3.9 million related to Closed Block. Other operating expenses increased by $1.3 million primarily attributable to depreciation on capitalized projects. See “Closed Block” section in this Form 10-Q for further discussion regarding Closed Block and “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

Amortization of Deferred Policy Acquisition Costs

For the six months ended June 30, 2021, amortization of deferred policy acquisition costs was $7.2 million compared to $4.8 million for the six months ended June 30, 2020. The increase of $2.4 million primarily relates to the Closed Block. See “Closed Block” section in this Form 10-Q for further discussion regarding Closed Block and “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

(Loss) Income Before Income Taxes

For the six months ended June 30, 2021, net loss was $0.4 million compared to net loss of $2.8 million for the six months ended June 30, 2020. This increase of $2.4 million resulted primarily from lower operating costs and expenses of $4.2 million, $4.0 million in net realized investment gains and $2.3 million in life, annuity and health claim benefits, partially offset by decreases in net insurance premiums of $5.7 million and an increase in amortization of deferred acquisition costs of $2.4 million.

Closed Block

The Closed Block was formed as of October 1, 2006 and contains all participating policies issued or assumed by Fidelity Life. The assets and future net cash flows of the Closed Block are available only for purposes of paying benefits, expenses and dividends of the Closed Block and are not available to the Company, except for an amount of additional funding that was established at inception. The additional funding was designed to protect the block against future adverse experience, and if the funding is not required for that purpose, it is subject to reversion to the Company in the future. Any reversion of Closed Block assets to the Company must be approved by the Illinois Department of Insurance.

The maximum future earnings to be recognized from Closed Block assets and liabilities represent the estimated future Closed Block profits that will accrue to the Company and is calculated as the excess of Closed Block assets over Closed Block liabilities. Included in Closed Block assets at June 30, 2021 and December 31, 2020, are $10.3 million and $10.2 million, respectively, of additional Closed Block funding, plus accrued interest, that is eligible for reversion to the Company if not needed to fund Closed Block experience.

The Closed Block was funded based on a model developed to forecast the future cash flows of the Closed Block which is referred to as the “glide path.” The glide path model projected the anticipated future cash flows of the Closed Block as established at the initial funding. We compare the actual results of the Closed Block to expected results from the glide path as part of the annual assessment of the current level of policyholder dividends. The assessment of policyholder dividends includes projections of future experience of the Closed Block policies and the investment experience of the Closed Block assets. The review of Closed Block experience also includes consideration of whether a policy dividend obligation should be recorded to reflect favorable Closed Block experience that has not yet been reflected in the dividend scales. See “Note 5—Closed Block” in the accompanying Notes to the Interim Condensed Consolidated Financial Statements.

The block where there are no dividends expected had a significant number of policies issued in December 1999 which had level premiums for the first 20 durations, followed by premiums which increased significantly in duration 21 as the premiums from that point forward go to an annually increasing scale. The approximate increase in premiums going from the 20th to the 21st duration is 1300%. Direct policies are a mixture of annual, semi-annual, quarterly, and monthly premium payment modes, whereas ceded policies are all annual premium mode. Therefore, both direct and ceded premiums increased significantly in the fourth quarter of 2019 on the Closed Block compared to the prior year as this group of policies ended their level term with larger impacts affecting ceded premiums more than direct premiums as a result of these modal differences.

Most of these policies lapsed in the first quarter of 2020 causing increases in net insurance premiums due to modal differences in direct and ceded premiums and a reduction in ceding allowances included in operating costs and expenses and life, annuity and health claim benefits and offset by a decrease in amortization of deferred policy acquisition costs.

Corporate & Other Segment

The results of the Corporate & Other Segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Net investment income	$ 59	$ —	$ 105	$ 93
Net realized investment gains	195	—	590	—
Earned commissions	(606)	(6,433)	(1,858)	(12,899)
Total revenues	(352)	(6,433)	(1,163)	(12,806)
Expenses				
Operating costs and expenses	2,597	496	5,602	304
Total expenses	2,597	496	5,602	304
(Loss) income before income taxes	$ (2,949)	$ (6,929)	$ (6,765)	$ (13,110)

Three Months Ended June 30, 2021 Compared to the Three Months Ended June 30, 2020

Net Realized Investment Gains

For the three months ended June 30, 2021, net realized investment gains were $0.2 million compared to $0.0 million for the three months ended June 30, 2020. This change is a result of gains from other invested assets related to net asset value changes of other invested assets.

Earned Commissions

For the three months ended June 30, 2021, earned commissions were ($0.6) million compared to ($6.4) million for the three months ended June 30, 2020. This increase is attributable to the elimination of lower intersegment earned commissions resulting from declining intersegment sales.

Operating Expenses

For the three months ended June 30, 2021, operating expenses were $2.6 million compared to $0.5 million for the three months ended June 30, 2020. The increase of $2.1 million is primarily related to $2.6 million lower deferral of internal agent selling expenses from lower intersegment sales, partially offset by a decline in corporate costs of $0.5 million.

(Loss) Income Before Income Taxes

For the three months ended June 30, 2021, net loss decreased from $6.9 million to $2.9 million for the three months ended June 30, 2020. The reduced loss is primarily a result of lower intersegment sales.

Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

Net Realized Investment Gains

For the six months ended June 30, 2021, net realized investment gains were $0.6 million compared to $0.0 million for the six months ended June 30, 2020. This change is a result of gains from other invested assets related to net asset value changes of other invested assets.

Earned Commissions

For the six months ended June 30, 2021, earned commissions were ($1.9) million compared to ($12.9) million for the six months ended June 30, 2020. This increase is attributable to the elimination of lower intersegment earned commissions resulting from declining intersegment sales.

Operating Expenses

For the six months ended June 30, 2021, operating expenses were $5.6 million compared to $0.3 million for the six months ended June 30, 2020. The increase of $5.3 million is primarily related to $5.5 million lower deferral of internal agent selling expenses related to lower intersegment sales, partially offset by a decline in corporate costs of $0.2 million.

(Loss) Income Before Income Taxes

For the six months ended June 30, 2021, net loss decreased from $13.1 million to $6.8 million for the six months ended June 30, 2020. The reduced loss is primarily a result of lower intersegment sales.

Investments

Investment Returns

We invest available cash and funds that support our regulatory capital, surplus requirements and policy reserves in investment securities that are included in the Insurance and Corporate & Other Segments. We earn income on these investments in the form of interest on fixed maturities (bonds and mortgage loans) and dividends (equity holdings). Net investment income is recorded as revenue, net of investment related expenses. The amount of net investment income that we recognize will vary depending on the amount of invested assets that we own, the types of investments, the interest rates earned, and amount of dividends received on our investments.

Gains and losses on sales of investments are classified as "realized investment gains (losses)" and are recorded as revenue. Capital appreciation and depreciation caused by changes in the market value of investments classified as "available-for-sale" is recorded in accumulated other comprehensive income. The amount of investment gains and losses that we recognize depends on the amount of and the types of invested assets we own, and the market conditions related to those investments. Our cash needs can vary from time to time and could require that we sell invested assets to fund cash needs.

Investment Guidelines

Our investment strategy and guidelines are developed by management and approved by the Investment Committee of Fidelity Life's board of directors. Our investment strategy related to the Insurance Segment is designed to maintain a well-diversified, high quality fixed income portfolio that will provide adequate levels of net investment income and liquidity to meet our policyholder obligations under our life insurance policies and our assumed annuity deposits. To help maintain liquidity, we establish the duration of invested assets within a tolerance to the policy liability duration. The investments of the Insurance Segment are managed with an emphasis on current income within quality and diversification constraints. The focus is on book yield of the fixed income portfolio as the anticipated portfolio yield is a key element used in pricing our insurance products and establishing policyholder crediting rates on our annuity contracts.

We apply our overall investment strategy and guidelines on a consolidated basis for purposes of monitoring compliance with our overall guidelines. All of our investments are owned by Fidelity Life and are maintained in compliance with insurance regulations. Critical guidelines of our investment plan include:

- Asset concentration guidelines that limit the amount that we hold in any one issuer of securities,
- Asset quality guidelines applied on a portfolio basis and for individual issues that establish a minimum asset quality standard for portfolios and establish minimum asset quality standards for investment purchases and investment holdings,
- Liquidity guidelines that limit the amount of illiquid assets that can be held at any time, and
- Diversification guidelines that limit the exposure at any time to the total portfolio by investment sectors.

Our investment portfolios are all managed by third-party investment managers that specialize in insurance company asset management. These managers are selected based upon their expertise in the particular asset classes that we own. We contract with an investment management firm to provide overall assistance with oversight of our portfolio managers, evaluation of investment performance and assistance with development and implementation of our investment strategy. This investment management firm reports to our Chief Financial Officer and to the Investment Committee of Fidelity Life's board of directors. On a quarterly basis, or more frequently if circumstances require, we review the performance of all portfolios and portfolio managers with the Investment Committee.

The following table shows the distribution of the fixed maturities classified as available-for-sale by quality rating using the rating assigned by Standard & Poor's (S&P), a nationally recognized statistical rating organization. For securities where the S&P rating is not available (not rated), the NAIC rating is used. Over the periods presented, we have maintained a consistent weighted average bond quality rating of "A." The percentage allocation of total investment grade securities was 97.3% and 97.9% at June 30, 2021 and December 31, 2020, respectively.

	Estimated Fair Value			
	June 30, 2021		December 31, 2020	
	(dollars in thousands)			
S&P Rating				
AAA	$ 80,445	22.4%	$ 91,153	25.2%
AA	77,777	21.6%	75,167	20.7%
A	83,539	23.2%	95,263	26.2%
BBB	71,845	19.9%	72,945	20.0%
Not rated	36,815	10.2%	21,261	5.8%
Total investment grade	350,421	97.3%	355,789	97.9%
BB	5,942	1.6%	4,814	1.3%
B	3,474	1.0%	2,627	0.7%
CCC	382	0.1%	418	0.1%
D	4	0.0%	5	0.0%
Not Rated	—	0.0%	198	0.0%
Total below investment grade	9,802	2.7%	8,062	2.1%
Total	$ 360,223	100.0%	$ 363,851	100.0%

The following table sets forth the maturity profile of our fixed maturities at June 30, 2021 from December 31, 2020. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without penalty.

	June 30, 2021				December 31, 2020			
(dollars in thousands)	Amortized Cost	%	Estimated Fair Value	%	Amortized Cost	%	Estimated Fair Value	%
Due in one year or less	$ 2,748	0.8%	$ 2,760	0.8%	$ 9,296	2.8%	$ 9,371	2.6%
Due after one year through five years	38,376	11.6%	41,629	11.6%	42,301	12.9%	46,085	12.7%
Due after five years through ten years	53,694	16.2%	58,221	16.2%	41,115	12.5%	45,997	12.6%
Due after ten years	128,680	39.0%	147,608	40.9%	119,693	36.5%	143,477	39.4%
Securities not due at a single maturity date-primarily mortgage and asset-backed securities	106,969	32.4%	110,005	30.5%	115,858	35.3%	118,921	32.7%
Total fixed maturities	$ 330,467	100.0%	$ 360,223	100.0%	$ 328,263	100.0%	$ 363,851	100.0%

Every quarter, we review all investments where the market value is less than the carrying value to ascertain if the impairment of the security's value is OTTI. The quarterly review is targeted to focus on securities with larger impairments and that have been in an impaired status for longer periods of time. See "Note 9 – Accumulated Other Comprehensive Income (Loss)" in the accompanying Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Net Investment Income

One key measure of our net investment income is the book yield on our holdings of fixed maturities classified as available-for-sale. Fair value of these securities totaled $360.2 million and $363.9 million as of June 30, 2021 and December 31, 2020, respectively. Book yield is the effective interest rate, before investment expenses, that we earn on these investments. Book yield is calculated as the percent of net investment income to the average amortized cost of the underlying investments for the period. For the three months ended June 30, 2021 and 2020, our book yield on fixed maturities available-for-sale was 3.6% and 3.9%, respectively. See "Note 2 – Investments" in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Interest Credited to Policyholder Account Balances

Included with the future policy benefits is the liability for contract holder deposits on deferred annuity contracts assumed through two reinsurance agreements effective in 1991 and 1992 and certain other policy funds left on deposit with the Company. The aggregate liability for deposits is as follows:

	June 30, 2021 Ending Balance	December 31, 2020 Ending Balance	June 30, 2021 Year to Date Interest Credited	June 30, 2020 Year to Date Interest Credited
	(dollars in thousands)			
Annuity contract holder deposits—assumed	$ 73,453	$ 74,918	$ 1,368	$ 1,451
Dividends left on deposit	7,045	7,271	86	92
Other	1,699	1,680	19	21
Total	$ 82,197	$ 83,869	$ 1,473	$ 1,564

The liability for deferred annuity deposits represents the contract holder account balances. Due to the declines in market interest rates and the book yield on our investment portfolio, we credit interest on all contract holder deposit liabilities at contractual rates that are currently at the minimum rate allowed by the contract or by state regulations.

Our Insurance Segment realizes operating profit from the excess of our book yield realized on fixed maturities that support our contract holder deposits over the amount of interest that we credit to the contract holder. We refer to this operating profit as the “spread” we earn on contract holder deposits. If book yields decline further, the amount of spread between the interest earned and credited will be reduced.

Net Realized Investment Gains (Losses)

Net realized investment gains (losses) are subject to general economic trends and generally correlate with movements in major market indexes. The amounts classified as net realized gains (losses) in our Interim Condensed Consolidated Statements of Operations include amounts realized from sales of investments, mark-to-market adjustments and OTTI of individual securities related to credit impairment. See “Note 2 – Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Unrealized Holding Gains (Losses)

The Company records capital appreciation/depreciation on the available-for-sale fixed maturities. At June 30, 2021 and 2020, accumulated other comprehensive income, from mark-to-market adjustments of our available-for-sale fixed income securities, net of federal income taxes and reserves was $(3.3) million and $3.0 million, respectively. See “Note 9 – Accumulated other comprehensive income (loss)” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Financial Position

At June 30, 2021, we had total assets of $774.9 million compared to total assets at December 31, 2020 of $768.8 million, an increase of $6.1 million. Reinsurance recoverables increased $10.5 million as a result of a $8.4 million increase in ceded policy and claim reserves and an increase of $2.0 million related to timing of settlements of reinsured claims. Commission and agent balances increased $9.8 million due to increases in agent debit balances as result of changes in commission payment structures and increased production. Deferred policy acquisition costs increased $2.8 million primarily due to deferrals on new business in excess of amortization. Other assets increased $1.8 million, primarily due to increases internally developed software. Deferred income taxes increased $1.6 million, primarily due to a deferred tax credit as a result of net loss and tax on unrealized investment market losses. The above increases were offset primarily by the following: Cash and cash equivalents decrease of $16.4 million is attributable to cash used in operating, investing and financing activities. See Cash Flows section for further discussion on changes in cash. The invested asset base decreased $3.9 million, mainly due to $5.8 million in net unrealized losses, partially offset by net purchases.

At June 30, 2021, we had total liabilities of $590.3 million compared to total liabilities of $573.5 million at December 31, 2020, an increase of $16.8 million. Future policy benefits and claims increased $17.9 million, primarily due to a $22.7 million increase in Core Life and Non-Core Life lines resulting from growth of the underlying blocks of business, partially offset by decreases in Annuities and assumed life of $1.5 million and Closed Block of $3.3 million. Other liabilities increased $4.3 million, primarily related to timing of investment trades and higher operating expense accruals, reinsurance liabilities and payables increased $0.2 million, primarily related to timing of ceded premium payments. The increases were partially offset by a decrease in debt of $2.8 million related to net payments under our commission financing agreement with Hannover Life and a $1.7 million decrease in Policyholder account balances, largely due to annuity payments. Other policyholder liabilities decreased $1.1 million due to increased claims incurred during the year.

At June 30, 2021, total equity decreased to $184.7 million from $195.2 million at December 31, 2020. This decrease in equity of $10.5 million was attributable to decreases in retained earnings of $7.2 million due to net loss and other comprehensive loss of $3.3 million related to market declines in fixed maturities.

Liquidity and Capital Resources

Our principal sources of funds are from premium revenues, commission revenues, net investment income and proceeds from the sale or maturity of investments and net borrowings. The Company's primary uses of funds are for payment of life, annuity and health claim benefits, contract holder withdrawals on assumed annuity contracts, new business acquisition costs for our insurance operations (i.e., commissions, underwriting and issue costs), cost of sales for Agency operations (i.e., agent compensation, purchased lead and lead generation costs), operating costs and expenses and purchases of investments. Our investment portfolio is structured to provide funds periodically over time, through net investment income and maturities, for the payment of policy benefits and contract holder withdrawals.

Under our commission financing arrangement with Hannover Life, Fidelity Life is able to pay level annual commissions instead of first year only commissions to Efinancial for sales of *RAPID*ecision® Life policies and Hannover Life advances to Efinancial amounts approximately equal to first year only commissions for sales of those policies. This arrangement reduces Fidelity Life's surplus strain associated with issuing *RAPID*ecision® Life business while helping to provide liquidity for Efinancial through the receipt of larger first year only commissions. In the first quarter of 2021, the Company ceased new advances on this financing arrangement. As of June 30, 2021 and December 31, 2020, we had net advances of $23.9 million and $27.5 million, respectively, under this arrangement.

We are a member of the Federal Home Loan Bank of Chicago (the "FHLBC"). As a member, we are able to borrow on a collateralized basis from the FHLBC. We own FHLBC common stock with a book value of $0.1 million, which allows us to borrow up to $2.6 million. Interest on borrowed funds is charged at variable rates established from time to time by the FHLBC based on the interest rate option selected at the time of the borrowing. There have been no borrowings from the FHLBC during 2021 and 2020.

Following the Conversion, Fidelity Life has agreed not to pay any dividends without the approval of a majority of the Company designees. In connection with the approval of the Conversion by the Illinois Director of Insurance, we agreed, for a period of twenty-four months following the completion of the Conversion, to (i) seek the prior approval of the Illinois Department of Insurance for any declaration of an ordinary dividend by Fidelity Life, and (ii) either maintain $20 million of the proceeds of the offering at the Company or use all or a portion of that $20 million to fund our operations.

Cash Flows

For the six months ended June 30, 2021, the Company had a net decrease in cash of $16.5 million compared to a net increase of $19.1 million for the six months ended June 30, 2020.

The decrease in cash flows from operating activities is primarily due to increased paid claims and timing related to reinsurance recoverables.

Cash flows from investing activities mainly includes our fixed maturities, mortgage loans, and equity holdings. Period to period, the cash flows associated with the changes in these portfolios will vary between cash sources and cash uses depending on the need for cash or the excess of cash from operating activities, as well as portfolio trading due to investment market conditions. In the first six months of 2021 cash of $1.9 million was used to acquire $3.1 million of capitalized software, partially offset by net invested assets sales of $1.2 million.

Cash flows from financing activities declined due to changes in the commission financing arrangement. Also included in financing cash are cash withdrawals by contract holders of annuities that were primarily written in the late 1980s.

The following table summarizes our cash flows for the six months ended June 30, 2021 and 2020**:**

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(dollars in thousands)	
Consolidated Summary of Cash Flows		
Net cash (used) provided by operating activities	$ (7,759)	$ 5,436
Net cash (used) provided by investing activities	(1,951)	13,813
Net cash (used) by financing activities	(6,670)	(127)
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (16,380)	$ 19,122

Recent Accounting Pronouncements

All applicable adopted accounting pronouncements have been reflected in our Interim Condensed Consolidated Financial Statements as of and for the six months ended June 30, 2021. See “Note 1 – Summary of Significant Accounting Policies” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectives of Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management’s authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with GAAP.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business. While it is not possible to forecast the outcome of such legal proceedings, in light of existing insurance, reinsurance, and established reserves, we believe that there is no individual case pending that is likely to have a material adverse effect on our financial condition or results of operations.

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Use of IPO Proceeds

The Company completed its IPO on August 7, 2019, pursuant to a Form S-1 declared effective by the SEC on June 20, 2019 (File No. 333-231952). Below are further details of the use of the IPO proceeds: Vericity, Inc. registered the sale of a maximum of 20,125,000 shares, of which 14,875,000 were sold in the IPO. Raymond James served as managing underwriter in the IPO.

- The amount registered and the aggregate price of the offering amount was 20,125,000 and $201,250,000, respectively, and the amount sold and the aggregate price of the offering amount was 14,875,000 and $148,750,000, respectively.
- The common stock was registered pursuant to the Form S-1 described above.
- The total offering expenses incurred in connection with the IPO were $15.9 million, including $4.0 million paid to the underwriters. Offering expenses of $11.9 million were comprised of $5.9 million in legal fees and expenses, $2.6 million of actuarial fees and expenses, $1.8 million of printing and mailing, and $1.6 million of accounting fees and expenses.
- The net offering proceeds to Vericity, Inc. after deducting total offering expenses and the special one-time distribution was $39.8 million.

- Vericity, Inc. expects that any unallocated net proceeds from the offering will be used for general corporate purposes, including paying holding company expenses and the special one-time distribution to stockholders referenced in “Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities” in the Form 10-K for the year ended December 31, 2019.
- Additionally, pursuant to an agreement with the Illinois Department of Insurance, at least $20 million of the proceeds of the offering will be used to fund the operations of Vericity, Inc.’s various subsidiaries.

Item 3. Default upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

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

Vericity, Inc.

Date: August 16, 2021

By: /s/ Chris S. Kim
Chris S. Kim
Executive Vice President, Chief Financial Officer and Treasurer

Exhibit 31.1

I, James Hohmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vericity Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 16, 2021

/s/ James E. Hohmann

James E. Hohmann

Chief Executive Officer and President, Vericity, Inc.

Exhibit 31.2

I, Chris Kim, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vericity Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 16, 2021

/s/ Chris S. Kim

Chris S. Kim

Executive Vice President, Chief Financial Officer and Treasurer, Vericity, Inc.

Exhibit 32.1

Vericity, Inc.

Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned officer of Vericity, Inc. (“Vericity”) certifies, to his knowledge and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Vericity for the period ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: August 16, 2021

By: /s/ James E. Hohmann
James E. Hohmann
Chief Executive Officer and President, Vericity, Inc.

Exhibit 32.2

Vericity, Inc.

Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned officer of Vericity, Inc. ("Vericity") certifies, to his knowledge and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Vericity for the period ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: August 16, 2021

By: /s/ Chris S. Kim
Chris S. Kim
Executive Vice President, Chief Financial Officer and Treasurer, Vericity, Inc.