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, 2020

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, 2020 was 14,875,000.

Table of Contents

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Assets		
Investments:		
Fixed maturities – available-for-sale – at fair value (amortized cost; $306,398 and $294,402)	$ 334,664	$ 314,921
Equity securities – at fair value (cost; $6,427 and $6,350)	3,612	5,231
Short-term investments - at fair value (amortized cost; $250 and $29,742)	250	29,757
Mortgage loans (net of valuation allowances of $33 and $53)	52,209	51,835
Policyholder loans	6,205	6,040
Other invested assets	115	104
Total investments	397,055	407,888
Cash and cash equivalents	56,964	37,842
Accrued investment income	2,582	2,780
Reinsurance recoverables	145,821	132,870
Deferred policy acquisition costs	89,518	85,776
Commissions and agent balances (net of allowances of $545 and $545)	14,753	11,270
Intangible assets	1,635	1,635
Deferred income tax assets, net	10,520	9,440
Other assets	25,906	32,281
Total assets	744,754	721,782
Liabilities and Shareholders' Equity		
Liabilities		
Future policy benefits and claims	362,985	335,766
Policyholder account balances	85,047	87,517
Other policyholder liabilities	29,193	25,063
Policy dividend obligations	13,085	11,453
Reinsurance liabilities and payables	7,151	15,382
Long-term debt	19,961	16,601
Short-term debt	5,098	3,999
Other liabilities	22,189	13,584
Total liabilities	544,709	509,365
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	148,455	163,805
Accumulated other comprehensive income (loss)	11,735	8,757
Total shareholders' equity	200,045	212,417
Total liabilities and shareholders' equity	$ 744,754	$ 721,782

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,	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues				
Net insurance premiums	$ 26,313	$ 25,791	$ 56,369	$ 48,880
Net investment income	3,456	3,682	7,028	7,501
Net realized investment (losses) gains	1,307	(99)	(1,750)	949
Other-than-temporary-impairment (OTTI)	—	—	(54)	—
Earned commissions	4,403	5,149	8,528	8,895
Insurance lead sales	1,061	1,444	2,649	2,879
Other income	117	87	200	142
Total revenues	36,657	36,054	72,970	69,246
Benefits and expenses				
Life, annuity, and health claim benefits	20,916	16,085	41,677	32,330
Interest credited to policyholder account balances	781	837	1,564	1,638
Operating costs and expenses	18,657	18,377	42,186	37,305
Amortization of deferred policy acquisition costs	3,791	3,383	4,767	6,522
Total benefits and expenses	44,145	38,682	90,194	77,795
(Loss) income before income tax	(7,488)	(2,628)	(17,224)	(8,549)
Income tax (benefit) expense	(716)	(30)	(1,874)	284
Net (loss) income	$ (6,772)	$ (2,598)	$ (15,350)	$ (8,833)

Earnings per share for the periods	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited) (Pro forma)	(Unaudited)	(Unaudited) (Pro forma)
Weighted average shares outstanding, basic and diluted	14,875,000	14,875,000	14,875,000	14,875,000
Basic earnings per share	$ (0.46)	$ (0.17)	$ (1.03)	$ (0.59)
Diluted earnings per share	$ (0.46)	$ (0.17)	$ (1.03)	$ (0.59)

The 2019 pro forma earnings per common share—basic and diluted—presented on the above Interim Condensed Consolidated Statements of Operations is intended to depict the impact of the Conversion because neither Vericity, Inc., nor the Predecessor, had, prior to the Conversion, any outstanding common shares. The above table presents the 2019 pro forma net loss and weighted average common shares outstanding used in the computation of earnings per common share and earnings per common share – assuming dilution.

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,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
Net (loss) income	$ (6,772)	$ (2,598)	$ (15,350)	$ (8,833)
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on investments	10,231	4,608	2,978	9,306
Total other comprehensive income (loss)	10,231	4,608	2,978	9,306
Total comprehensive (loss) income	$ 3,459	$ 2,010	$ (12,372)	$ 473

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,	
	2020	2019
	(Unaudited)	
Common stock		
Balance – beginning of period	$ 15	$ —
Common stock issued	—	—
Balance – end of period	$ 15	$ —
Additional paid-in capital		
Balance – beginning of period	$ 39,840	$ —
Proceeds net of offering costs	—	—
Balance – end of period	$ 39,840	$ —
Retained earnings		
Balance – beginning of period	$ 163,805	$ 174,558
Cumulative effect adjustment from changes in accounting guidance, net of tax	—	8,571
Balance after adjustments – beginning of period	163,805	183,129
Net (loss) income	(15,350)	(8,833)
Balance – end of period	$ 148,455	$ 174,296
Accumulated other comprehensive income (loss)		
Balance – beginning of period	$ 8,757	$ (2,368)
Other comprehensive (loss) income	2,978	9,306
Balance – end of period	$ 11,735	$ 6,938
Total shareholders' equity	$ 200,045	$ 181,234

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, 2020	Six Months Ended June 30, 2019
	(Unaudited)	
Cash flows from operating activities		
Net (loss) income	$ (15,350)	$ (8,833)
Adjustments to reconcile net (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization and other non-cash items	1,263	921
Interest credited to policyholder account balances	1,564	1,638
Deferred income tax	(1,874)	85
Net realized investment (losses) gains	1,750	(949)
Other-than-temporary-impairment	54	—
Interest expense	638	446
Change in:		
Equity securities	(390)	(216)
Accrued investment income	198	258
Reinsurance recoverables	(12,951)	1,740
Deferred policy acquisition costs	(3,742)	(665)
Commissions and agent balances	(3,483)	(2,834)
Other assets	8,388	(3,672)
Insurance liabilities	29,023	3,309
Other liabilities	348	1,823
Net cash provided (used) by operating activities	5,436	(6,949)
Cash flows from investing activities		
Sales, maturities and repayments of:		
Fixed maturity securities	36,225	60,356
Short-term investments	29,800	—
Mortgage loans	1,187	1,215
Limited partnership interests	—	138
Purchases of:		
Fixed maturity securities	(48,253)	(53,467)
Short-term investments	(250)	—
Mortgage loans	(1,541)	(4,508)
Other invested assets	(11)	—
Limited partnership interests	—	(38)
Change in policyholder loans, net	(165)	(86)
Other, net	(3,179)	(2,336)
Net cash provided by investing activities	13,813	1,274
Cash flows from financing activities		
Debt issued	7,671	6,845
Debt repaid	(3,850)	(3,482)
Deposits to policyholder account balances	228	240
Withdrawals from policyholder account balances	(4,176)	(4,658)
Net cash (used) by financing activities	(127)	(1,055)
Net increase (decrease) in cash and cash equivalents	19,122	(6,730)
Cash, cash equivalents and restricted cash – beginning of period	37,842	20,984
Cash, cash equivalents and restricted cash – end of period	$ 56,964	$ 14,254
Supplemental cash flow information		
Non-cash transactions	$ —	$ —
Cumulative effect adjustment from changes in accounting guidance, net of tax	$ —	$ 8,571

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, 2020 and June 30, 2019 and at June 30, 2020 and December 31, 2019. 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, 2019. 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, 2019, 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 maturities and equity securities, investment impairments, the valuation of deferred tax assets, future policy benefits and other policyholder liabilities.

Accounting Standards Adopted

On January 1, 2020, the Company adopted ASU No. 2018-13, Fair Value Measurement (Topic 820): *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,* to improve the effectiveness of disclosures in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Recent Developments

The outbreak of the novel coronavirus ("COVID-19") in many countries continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The measures governments worldwide have enacted to combat the pandemic have resulted in disruptions in global and local supply chains and have led to adverse impacts on economic and market conditions as well as increases in unemployment. The severity of COVID-19 and duration of government containment actions impacts both employees and customers of the Company and presents material uncertainty and risk with respect to the Company's performance, liquidity, results of operations, and financial condition.

The stress and disruption placed on the global economy and financial markets from the outbreak of COVID-19 may continue to have near and long-term negative effects on investment valuations, returns, and credit allowance exposure. The Company will continue to closely monitor the situation, including potential negative impacts on sales of new policies and mortality; however, due to the highly uncertain nature of these conditions, it is not possible to reliably estimate the length and severity of COVID-19 or its impact to the Company's operations, but the effect could be material.

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.

Available-for-Sale Securities

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, 2020				
Fixed maturities	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**OTTI Losses**
U.S. government and agencies	$ 11,668	$ 3,161	$ —	$ 14,829	$ —
U.S. agency mortgage-backed	27,984	1,914	(1)	29,897	—
State and political subdivisions	38,727	3,405	(2)	42,130	—
Corporate and miscellaneous	132,249	21,484	(507)	153,226	—
Foreign government	131	33	—	164	—
Residential mortgage-backed	7,369	339	(64)	7,644	(136)
Commercial mortgage-backed	18,670	1,036	(264)	19,442	—
Asset-backed	69,600	428	(2,696)	67,332	—
Total fixed maturities	$ 306,398	$ 31,800	$ (3,534)	$ 334,664	$ (136)

	December 31, 2019				
Fixed maturities	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**OTTI Losses**
U.S. government and agencies	$ 14,195	$ 1,907	$ —	$ 16,102	$ —
U.S. agency mortgage-backed	38,542	1,044	(52)	39,534	—
State and political subdivisions	23,246	1,561	(64)	24,743	—
Corporate and miscellaneous	132,108	15,311	(280)	147,139	—
Foreign government	131	40	—	171	—
Residential mortgage-backed	8,820	421	(26)	9,215	(306)
Commercial mortgage-backed	18,685	681	(31)	19,335	—
Asset-backed	58,675	306	(299)	58,682	—
Total fixed maturities	$ 294,402	$ 21,271	$ (752)	$ 314,921	$ (306)

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, 2020	
	Amortized Cost	Fair Value
Due in one year or less	$ 10,656	$ 10,835
Due after one year through five years	44,215	47,204
Due after five years through ten years	24,909	28,883
Due after ten years	102,996	123,428
Securities not due at a single maturity date — primarily mortgage and asset-backed	123,622	124,314
Total fixed maturities	$ 306,398	$ 334,664

Fixed maturities with a carrying value of $3,972 and $3,398 were on deposit with governmental authorities as required by law at June 30, 2020 and December 31, 2019 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 98.2% and 98.2% of the Company's total fixed maturities portfolio at June 30, 2020 and December 31, 2019, respectively.

Short-Term Investments

The Company owned $250 and $29,757 of short-term investments as of June 30, 2020 and December 31, 2019, 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 32 such investment instruments with ownership shares ranging from 2.7% to 30.0% of the trust at June 30, 2020. The Company owns a share of 296 mortgage loans with an average loan balance of $176 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, 2020		December 31, 2019	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
Property Type:				
Retail	$ 16,557	31.7%	$ 16,892	32.6%
Office	12,503	23.9%	12,160	23.4%
Industrial	8,607	16.5%	8,517	16.4%
Mixed use	6,130	11.7%	6,240	12.0%
Apartments	4,099	7.8%	3,713	7.2%
Medical office	3,166	6.1%	3,163	6.1%
Other	1,180	2.3%	1,203	2.3%
Gross carrying value of mortgage loans	52,242	100.0%	51,888	100.0%
Valuation allowance	(33)		(53)	
Net carrying value of mortgage loans	$ 52,209		$ 51,835	

	June 30, 2020		December 31, 2019	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
U.S. Region:				
West South Central	$ 12,316	23.5%	$ 12,498	24.1%
East North Central	12,276	23.5%	12,080	23.3%
South Atlantic	11,579	22.2%	11,637	22.4%
West North Central	4,059	7.8%	4,241	8.2%
Mountain	4,291	8.2%	4,153	8.0%
Middle Atlantic	2,863	5.5%	2,831	5.5%
East South Central	3,128	6.0%	3,133	6.0%
New England	106	0.2%	110	0.2%
Pacific	1,624	3.1%	1,205	2.3%
Gross carrying value of mortgage loans	52,242	100.0%	51,888	100.0%
Valuation allowance	(33)		(53)	
Net carrying value of mortgage loans	$ 52,209		$ 51,835	

During the six months ended June 30, 2020 and June 30, 2019, $1,541 and $4,508 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, 2020 and December 31, 2019. At June 30, 2020 and December 31, 2019, the Company had 3 and 5 mortgage loans with a total carrying value of $333 and $528 that were in a restructured status, respectively. There were no impairments for mortgage loans at June 30, 2020 and December 31, 2019.

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

	Six Months Ended June 30, 2020	Year Ended December 31, 2019
Beginning balance	$ 53	$ 236
Net decrease in valuation allowance	(20)	(183)
Ending balance	$ 33	$ 53

At June 30, 2020 and December 31, 2019, the Company had no mortgage loans that were on nonaccrual status.

At June 30, 2020 and December 31, 2019, the Company had a commitment to make investments in mortgage loans in the amount of $305 and $359, respectively.

Net Investment Income

The sources of net investment income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Interest from:				
Fixed maturities	$ 2,994	$ 3,132	$ 5,962	$ 6,442
Policyholder loans	86	80	172	211
Mortgage loans	624	653	1,264	1,285
Cash and cash equivalents	35	46	250	106
Dividends on equity securities	90	106	195	207
Gross investment income	3,829	4,017	7,843	8,251
Investment expense	(373)	(335)	(815)	(750)
Net investment income	$ 3,456	$ 3,682	$ 7,028	$ 7,501

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 (Losses) Gains

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

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Investment (losses) gains from:				
Fixed maturities	$ 391	$ 42	$ 251	$ 153
Equity securities	906	(131)	(2,009)	647
Mortgage loans	11	—	20	174
Limited partnership interests	—	2	—	(5)
Investment expenses	(1)	(12)	(12)	(20)
Total net realized investment (losses) gains	$ 1,307	$ (99)	$ (1,750)	$ 949

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 security is 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 security or it is more likely than not the Company will be required to sell the fixed maturity security 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 a fixed maturity security 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 maturity securities is as follows:

	June 30, 2020	December 31, 2019
Beginning balance of credit losses on fixed maturity securities	$ 869	$ 828
Additional credit losses for which an OTTI was not previously recognized	54	41
Ending balance of credit losses on fixed maturity securities	$ 923	$ 869

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, 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	$ 89	$ —	$ 12	$ (1)	$ 101	$ (1)
State and political subdivisions	1,027	(2)	—	—	1,027	(2)
Corporate and miscellaneous	4,172	(481)	434	(26)	4,606	(507)
Residential mortgage-backed	1,188	(43)	146	(21)	1,334	(64)
Commercial mortgage-backed	3,898	(264)	—	—	3,898	(264)
Asset-backed	35,896	(1,973)	9,945	(723)	45,841	(2,696)
Total fixed maturities	$ 46,270	$ (2,763)	$ 10,537	$ (771)	$ 56,807	$ (3,534)

	12 months or less		Longer than 12 months		Total	
December 31, 2019	**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	$ 2,719	$ (28)	$ 2,157	$ (24)	$ 4,876	$ (52)
State and political subdivisions	3,061	(64)	—	—	3,061	(64)
Corporate and miscellaneous	6,799	(151)	1,613	(129)	8,412	(280)
Residential mortgage-backed	2,811	(16)	161	(10)	2,972	(26)
Commercial mortgage-backed	3,125	(31)	—	—	3,125	(31)
Asset-backed	27,893	(196)	1,997	(104)	29,890	(300)
Total fixed maturities	$ 46,408	$ (486)	$ 5,928	$ (267)	$ 52,336	$ (753)

The indicated gross unrealized losses in all fixed maturity categories increased to $3,534 from $753 at June 30, 2020 and December 31, 2019, 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, 2020.

	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	4	4	—	—	100%
Corporate and miscellaneous	14	11	1	2	36%
Residential mortgage-backed	9	8	1	—	56%
Commercial mortgage-backed	11	9	2	—	82%
Asset-backed	76	55	20	1	86%
Total fixed maturities	116	89	24	3	

	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	—	—	100%
Corporate and miscellaneous	4	4	—	—	0%
Residential mortgage-backed	2	—	2	—	0%
Asset-backed	16	13	3	—	100%
Total fixed maturities	23	18	5	—	

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 $20,780 and $18,474 at June 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, is $16,094 and $13,637, respectively.

To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve is recorded. A liability of $7,046 and $4,482 is included as part of the liability for structured settlements with respect to this deficiency at June 30, 2020 and December 31, 2019, 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 12.7% and 15.9% of the face value of total life insurance at June 30, 2020 and December 31, 2019, 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. No amounts have been recorded in the three months ended June 30, 2020 and 2019 for amounts anticipated to be uncollectible or for the anticipated failure of a reinsurer to meet its obligations under the contracts.

Reinsurance recoverable are as follows:

	June 30, 2020	December 31, 2019
Ceded future policy benefits	$ 121,857	$ 113,591
Claims and other amounts recoverables	23,964	19,279
Ending balance	$ 145,821	$ 132,870

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Direct premiums	$ 38,423	$ 37,417	$ 66,524	$ 73,728
Assumed premiums	9,703	7,160	18,072	11,911
Ceded premiums	(21,813)	(18,786)	(28,227)	(36,759)
Net insurance premiums	$ 26,313	$ 25,791	$ 56,369	$ 48,880

Net policy charges on universal life products were $43, $87, $41 and $84 for the three and six months ended June 30, 2020 and 2019, respectively, and are included in other income.

At June 30, 2020 and December 31, 2019, reserves related to fixed-rate annuity deposits assumed from a former affiliate company amounted to approximately $75,978 and $78,296, 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, 2020 and December 31, 2019 is $10,007 and $9,851 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, 2020 and December 31, 2019, the Company recognized a policyholder dividend obligation of $13,085 and $11,453, 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, 2020	December 31, 2019
Actual cumulative (loss) income earnings over expected cumulative earnings	$ (9,284)	$ (9,049)
Income tax (benefit) expense	(1,950)	(1,900)
Net (loss) income impact	(7,334)	(7,149)
Accumulated net unrealized investment (losses) gains	(3,801)	(2,404)
Income tax (benefit) expense	(798)	(504)
Other comprehensive (loss) income impact	(3,003)	(1,900)
Comprehensive (loss) income impact	$ (10,337)	$ (9,049)

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

Closed Block Liabilities	June 30, 2020	December 31, 2019
Future policy benefits and claims	$ 42,303	$ 39,704
Policyholder account balances	7,423	7,608
Other policyholder liabilities	2,727	4,630
Policyholder dividend obligations	13,085	11,453
Other (assets) liabilities	1,234	8,778
Total Closed Block liabilities	66,772	72,173
Assets Designated to the Closed Block		
Investments:		
Fixed maturities - available-for-sale (amortized cost $37,730 and $33,455, respectively)	43,439	37,483
Policyholder loans	1,262	1,249
Total investments	44,701	38,732
Cash and cash equivalents	4,360	7,025
Premiums due and uncollected	155	9,625
Accrued investment income	430	432
Reinsurance recoverables	22,898	23,447
Deferred income tax assets, net	3,335	3,557
Total assets designated to the Closed Block	75,879	82,818
Excess of Closed Block assets over liabilities	9,107	10,645
Amounts included in accumulated other comprehensive income:		
Unrealized investment gains (losses), net of income tax	4,510	3,182
Allocated to policyholder dividend obligations, net of income tax	(3,003)	(1,900)
Total amounts included in accumulated other comprehensive income	1,507	1,282
Maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities (includes excess assets of $10,007 and $9,851, respectively)	$ (7,600)	$ (9,363)

Policyholder Dividend Obligations	June 30, 2020	December 31, 2019
Beginning balance	$ 11,453	$ 9,383
Impact from earnings allocable to policyholder dividend obligations	236	381
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligations	1,396	1,689
Ending balance	$ 13,085	$ 11,453

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues				
Net insurance premiums	$ 1,193	$ 1,514	$ 6,454	$ 2,783
Net investment income	385	397	762	786
Realized gains	31	—	31	—
Total revenues	1,609	1,911	7,247	3,569
Benefits and expenses				
Life and annuity benefits - including policyholder dividends of $308, $409, $700 and $669, respectively	1,432	1,088	5,878	2,490
Interest credited to policyholder account balances	46	49	92	98
Operating costs and expenses	(67)	31	3,509	151
Total expenses	1,411	1,168	9,479	2,739
Revenues, net of expenses before provision for income tax expense	198	743	(2,232)	830
Income tax expense (benefit)	41	156	(469)	174
Revenues, net of expenses and provision for income tax expense (benefit)	$ 157	$ 587	$ (1,763)	$ 656

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 maturity securities portfolio by contractual maturity at June 30, 2020. 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 in one year or less	$ 2,745	$ 2,782
Due after one year through five years	9,327	9,948
Due after five years through ten years	1,748	2,125
Due after ten years	20,875	25,581
Securities not due at a single maturity date — primarily mortgage and asset-backed	3,035	3,003
Total fixed maturities	$ 37,730	$ 43,439

Note 6 – Commitments and Contingencies

Litigation

The Company is subject to legal and regulatory actions in the ordinary course of its 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 FHLBC which can be used as an alternative source of liquidity. FHLBC membership requires the Company to own member stock. At June 30, 2020 and December 31, 2019, 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 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, 2020 and December 31, 2019.

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 maturities 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, 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	$ —	$ 14,829	$ —	$ 14,829
U.S. agency mortgage-backed	—	29,897	—	29,897
State and political subdivisions	—	42,130	—	42,130
Corporate and miscellaneous	2,150	149,604	1,472	153,226
Foreign government	—	164	—	164
Residential mortgage-backed	—	7,644	—	7,644
Commercial mortgage-backed	—	19,442	—	19,442
Asset-backed	—	66,113	1,219	67,332
Total fixed maturities	2,150	329,823	2,691	334,664
Short-term investments	—	250	—	250
Equity securities	3,612	—	—	3,612
Total recurring assets	$ 5,762	$ 330,073	$ 2,691	$ 338,526

December 31, 2019	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	$ —	$ 16,102	$ —	$ 16,102
U.S. agency mortgage-backed	—	39,535	—	39,535
State and political subdivisions	—	24,743	—	24,743
Corporate and miscellaneous	1,870	145,268	—	147,138
Foreign government	—	171	—	171
Residential mortgage-backed	—	9,215	—	9,215
Commercial mortgage-backed	—	19,335	—	19,335
Asset-backed	—	57,467	1,215	58,682
Total fixed maturities	1,870	311,836	1,215	314,921
Short-term investments	29,757	—	—	29,757
Equity securities	5,231	—	—	5,231
Total recurring assets	$ 36,858	$ 311,836	$ 1,215	$ 349,909

Summary of Significant Valuation Techniques for Assets and Liabilities 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 and equity securities 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 Company does not adjust broker quotes when used as the fair value measurement for an asset. At June 30, 2020, the Company held 3 securities priced using internal models and 2 securities priced using a broker/dealer quote that was within Level 3. The fair value of Level 3 liabilities is estimated on the discounted cash flow 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, 2020	Net Income (loss)	OCI	Purchases	Sales	Settlements	Net Transfers	Balance at June 30, 2020
Financial Assets								
Fixed maturities								
Corporate and miscellaneous	$ —	$ 1	$ 9	$ 1,465	$ —	$ (3)	$ —	$ 1,472
Asset-backed	1,215	—	(111)	250	—	(135)	—	1,219
Total assets	$ 1,215	$ 1	$ (102)	$ 1,715	$ —	$ (138)	$ —	$ 2,691

		Total gains (losses) included in:						
	Balance at January 1, 2019	Net Income (loss)	OCI	Purchases	Sales	Settlements	Net Transfers	Balance at December 31, 2019
Financial Assets								
Fixed maturities								
Corporate and miscellaneous	$ 12,773	$ —	$ —	$ —	$ —	$ —	$ (12,773)	$ —
Asset-backed	922	—	3	1,875	—	(1,585)	—	1,215
Total assets	$ 13,695	$ —	$ 3	$ 1,875	$ —	$ (1,585)	$ (12,773)	$ 1,215

There were no transfers between levels in 2020. In 2019, there were 29 transfers from Level 3 to Level 2.

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, 2020	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments recorded as assets:					
Mortgage loans	$ 52,209	$ —	$ —	$ 47,568	$ 47,568
Policyholder loans	6,205	—	—	8,154	8,154
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	23,644	—	—	19,502	19,502
Long/short-term debt	25,059	—	—	29,554	29,554
Policyholder account balances	85,047	—	—	90,073	90,073

December 31, 2019	Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total
Financial instruments recorded as assets:					
Mortgage loans	$ 51,835	$ —	$ —	$ 47,567	$ 47,567
Policyholder loans	6,040	—	—	7,926	7,926
Financial instruments recorded as liabilities:					
Future policy benefits, excluding term life reserves	21,290	—	—	19,070	19,070
Long/short-term debt	20,600	—	—	23,060	23,060
Policyholder account balances	87,517	—	—	89,896	89,896

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 $3,625 and $3,193 of second and mezzanine mortgages carried at cost which fair value is not measurable at June 30, 2020 and December 31, 2019, 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 $27,500 of commission. At June 30, 2020 and December 31, 2019, the Company had a net advance of $22,910 and $19,089, respectively, under this arrangement. At June 30, 2020, the Company expects to pay back the aggregate amounts as presented in the following table.

Due in one year or less	$ 5,098
Due after one year through two years	3,141
Due after two years through three years	2,874
Due after three years through four years	2,687
Due after four years through five years	2,542
Due after five years	19,899
Less discount	(11,182)
Total long/short-term debt	$ 25,059

Note 9 – Accumulated Other Comprehensive Income (Loss)

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

	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized Gains (Losses) on Other Investments	Total
Balance at January 1, 2020	$ 362	$ 8,395	$ 8,757
Other comprehensive income (loss)	—	3,773	3,773
Income tax (expense) benefit	—	(795)	(795)
Other comprehensive income (loss), net of tax	—	2,978	2,978
Balance at June 30, 2020	$ 362	$ 11,373	$ 11,735

	Net Unrealized Gains (Losses) on Investments with OTTI Losses	Net Unrealized Gains (Losses) on Other Investments	Total
Balance at January 1, 2019	$ 362	$ (2,730)	$ (2,368)
Other comprehensive income (loss)	—	11,780	11,780
Income tax (expense) benefit	—	(2,474)	(2,474)
Other comprehensive income (loss), net of tax	—	9,306	9,306
Balance at June 30, 2019	$ 362	$ 6,576	$ 6,938

Note 10 – Business Segments

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

The Insurance Segment is composed of three broad lines consisting of Direct Life, Closed Block, and Assumed Life and Annuities. Direct Life and the Closed Block are distinct operations; the assumed 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 Segment includes expenses that will benefit the overall organization, which are not allocated to a segment. This segment also recognizes net investment income on cash and invested assets held mainly as a result of the IPO.

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, 2020					Three Months Ended June 30, 2019				
	Insurance	Agency	Corporate	Eliminations	Total Consolidated	Insurance	Agency	Corporate	Eliminations	Total Consolidated
Net insurance premiums	$ 26,313	$ —	$ —	$ —	$ 26,313	$ 25,791	$ —	$ —	$ —	$ 25,791
Net investment income	3,456	—	53	(53)	3,456	3,695	—	92	(105)	3,682
Net realized investment (losses) gains	1,307	—	—	—	1,307	(99)	—	—	—	(99)
Other-than-temporary-impairment	—	—	—	—	—	—	—	—	—	—
Earned commissions from external customers	—	4,403	—	—	4,403	—	5,149	—	—	5,149
Intersegment earned commissions	—	6,433	—	(6,433)	—	—	5,720	—	(5,720)	—
Other income	117	1,061	—	—	1,178	87	1,444	—	—	1,531
Total revenues	31,193	11,897	53	(6,486)	$ 36,657	29,474	12,313	92	(5,825)	36,054
Life, annuity, and health claim benefits	21,697	—	—	—	21,697	16,922	—	—	—	16,922
Operating costs and expenses	7,008	12,408	2,784	(3,543)	18,657	7,274	13,121	1,304	(3,322)	18,377
Amortization of deferred policy acquisition costs	4,355	—	—	(564)	3,791	4,416	—	—	(1,033)	3,383
Total benefits and expenses	33,060	12,408	2,784	(4,107)	44,145	28,612	13,121	1,304	(4,355)	38,682
(Loss) income before income tax	$ (1,867)	$ (511)	$ (2,731)	$ (2,379)	$ (7,488)	$ 862	$ (808)	$ (1,212)	$ (1,470)	$ (2,628)

	Six Months Ended June 30, 2020					Six Months Ended June 30, 2019				
	Insurance	Agency	Corporate	Eliminations	Total Consolidated	Insurance	Agency	Corporate	Eliminations	Total Consolidated
Net insurance premiums	$ 56,369	$ —	$ —	$ —	$ 56,369	$ 48,880	$ —	$ —	$ —	$ 48,880
Net investment income	6,935	—	221	(128)	7,028	7,536	—	175	(210)	7,501
Net realized investment (losses) gains	(1,750)	—	—	—	(1,750)	949	—	—	—	949
Other-than-temporary-impairment	(54)	—	—	—	(54)	—	—	—	—	—
Earned commissions from external customers	—	8,528	—	—	8,528	—	8,895	—	—	8,895
Intersegment earned commissions	—	12,899	—	(12,899)	—	—	11,839	—	(11,839)	—
Other income	200	2,649	—	—	2,849	142	2,879	—	—	3,021
Total revenues	61,700	24,076	221	(13,027)	72,970	57,507	23,613	175	(12,049)	69,246
Life, annuity, and health claim benefits	43,241	—	—	—	43,241	33,968	—	—	—	33,968
Operating costs and expenses	18,858	25,389	5,172	(7,233)	42,186	15,482	25,536	3,132	(6,845)	37,305
Amortization of deferred policy acquisition costs	6,541	—	—	(1,774)	4,767	8,674	—	—	(2,152)	6,522
Total benefits and expenses	68,640	25,389	5,172	(9,007)	90,194	58,124	25,536	3,132	(8,997)	77,795
(Loss) income before income tax	$ (6,940)	$ (1,313)	$ (4,951)	$ (4,020)	$ (17,224)	$ (617)	$ (1,923)	$ (2,957)	$ (3,052)	$ (8,549)

	June 30, 2020				December 31, 2019			
	Insurance	Agency	Corporate	Total Consolidated	Insurance	Agency	Corporate	Total Consolidated
Investments and cash	$ 426,307	$ 1,809	$ 25,903	$ 454,019	$ 412,329	$ 1,170	$ 32,231	$ 445,730
Commissions and agent balances	(14,805)	29,558	—	14,753	(13,775)	25,045	—	11,270
Deferred policy acquisition costs	89,518	—	—	89,518	85,776	—	—	85,776
Intangible assets	—	1,635	—	1,635	—	1,635	—	1,635
Reinsurance recoverables	145,821	—	—	145,821	132,870	—	—	132,870
Deferred income tax (liabilities) assets, net	(7,577)	—	18,097	10,520	(8,235)	—	17,675	9,440
Other	23,315	4,677	496	28,488	31,029	3,393	639	35,061
Total assets	$ 662,579	$ 37,679	$ 44,496	$ 744,754	$ 639,994	$ 31,243	$ 50,545	$ 721,782

The Company’s investment in equity method investees and the related equity income is attributable to the Corporate 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 14, 2020, 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, 2020 and 2019

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.

COVID-19

The outbreak of the novel coronavirus ("COVID-19") in many countries continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The measures governments worldwide have enacted to combat the pandemic have resulted in disruptions in global and local supply chains and have led to adverse impacts on economic and market conditions as well as increases in unemployment. The severity of COVID-19 and duration of government containment actions impacts both employees and customers of the Company and presents material uncertainty and risk with respect to the Company's performance, liquidity, results of operations, and financial condition.

The stress and disruption placed on the global economy and financial markets from the outbreak of COVID-19 may continue to have near and long-term negative effects on investment valuations, returns, and credit allowance exposure. The Company will continue to closely monitor the situation, including potential negative impacts on sales of new policies and mortality; however, due to the highly uncertain nature of these conditions, it is not possible to reliably estimate the length and severity of COVID-19 or its impact to the Company's operations, but the effect could be material.

Through June 30, 2020, the Company had an estimated $0.9 million in net incurred policyholder claims that included COVID-19 as a contributing cause of death.

In response to the economic impact related to COVID-19, concessions were granted to certain of the Company's mortgage loan borrowers, including payment deferrals and other loan modifications. During the quarter ended June 30, 2020, the Company held 25 mortgage loans where requests for temporary modifications were granted (23 were modified to interest only and 2 to forbearance). The total loan balance for these 25 loans amounted to $4.4 million or about 9% of the mortgage loan portfolio. As of June 30, 2020, 17 of the 25 temporary loan modifications have returned to full payment (both principal and interest) under the modified loan terms, including the 2 loans given forbearance. Of the 8 loans that have not returned to full payment, which represented $1.8 million or 3.7% of mortgage loan balance as of June 30, 2020, 6 loans were granted 2-3 month extensions. The remaining 2 loans had principal payments deferred through August 2020 as part of the modification granted in the original extension.

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"). 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.

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. On March 29, 2019, Protective Life and Fidelity Life agreed that Protective Life would recapture the majority of this assumed life block of business, thereby relieving Fidelity Life from further liability under the recaptured business (except for obligations incurred prior to the recapture effective date). Under the recapture agreement, Fidelity Life paid Protective Life an amount equal to the assumed carried reserves, and in turn, Fidelity Life received payment from its reinsurers of this business for their portion of the related ceded reserves. We recognized a $2.2 million gain from this transaction in 2019.

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 security 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 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 Segment recognizes income (loss) to the extent that net investment income and net realized investment gains (losses) exceed (are less than) corporate expenses.

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, 2019 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, 2019, 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	2020	2019	2020	2019
Net insurance premiums	$ 26,313	$ 25,791	$ 56,369	$ 48,880
Net investment income	3,456	3,682	7,028	7,501
Net realized investment (losses) gains	1,307	(99)	(1,750)	949
Other-than-temporary-impairment	—	—	(54)	—
Earned commissions	4,403	5,149	8,528	8,895
Insurance lead sales	1,061	1,444	2,649	2,879
Other income	117	87	200	142
Total revenues	36,657	36,054	72,970	69,246
Benefits and expenses				
Life, annuity, and health claim benefits	20,916	16,085	41,677	32,330
Interest credited to policyholder account balances	781	837	1,564	1,638
Operating costs and expenses	18,657	18,377	42,186	37,305
Amortization of deferred policy acquisition costs	3,791	3,383	4,767	6,522
Total benefits and expenses	44,145	38,682	90,194	77,795
(Loss) income before income taxes	(7,488)	(2,628)	(17,224)	(8,549)
Income tax (benefit) expense	(716)	(30)	(1,874)	284
Net (loss) income	$ (6,772)	$ (2,598)	$ (15,350)	$ (8,833)

Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019

Total Revenues

For the three months ended June 30, 2020, total revenues were $36.7 million compared to $36.1 million for the three months ended June 30, 2019. This increase of $0.6 million resulted from higher net insurance premiums and an increase in net realized investment gains, partially offset by decreases in earned commissions, insurance lead sales and net investment income.

Benefits and Expenses

For the three months ended June 30, 2020, total benefits and expenses were $44.1 million compared to $38.7 million for the three months ended June 30, 2019. This increase of $5.4 million was primarily due to higher life, annuity, and health claim benefits and amortization of deferred policy acquisition costs.

(Loss) Income Before Income Taxes

For the three months ended June 30, 2020, we had a loss before taxes of $7.5 million compared to a loss before taxes of $2.6 million for the three months ended June 30, 2019. The higher loss of $4.9 million was primarily due to increased life, annuity, and health claim benefits.

Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

Total Revenues

For the six months ended June 30, 2020, total revenues were $73.0 million compared to $69.2 million for the six months ended June 30, 2019. This increase of $3.8 million resulted from higher net insurance premiums, partially offset by lower net realized investment gains (losses) as a result of losses in our equity portfolio due to economic conditions and lower earned commissions and lead sales.

Benefits and Expenses

For the six months ended June 30, 2020, total benefits and expenses were $90.2 million compared to $77.8 million for the six months ended June 30, 2019. This increase of $12.4 million was primarily due to higher life, annuity, and health claim benefits and operating costs and expenses, partially offset by lower amortization of deferred policy acquisition costs.

(Loss) Income Before Income Taxes

For the six months ended June 30, 2020, we had a loss before taxes of $17.2 million compared to a loss before taxes of $8.5 million for the six months ended June 30, 2019. The higher loss of $8.7 million was primarily due to increased life, annuity, and health claim benefits, net realized investment gains (losses) and operating costs and expenses, partially offset by increased net insurance premiums and lower 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,	
	2020	2019	2020	2019
	(dollars in thousands)		(dollars in thousands)	
(Loss) income before income tax by segment				
Agency	$ (511)	$ (808)	$ (1,313)	$ (1,923)
Insurance	(1,867)	862	(6,940)	(617)
Corporate	(2,731)	(1,212)	(4,951)	(2,957)
Eliminations	(2,379)	(1,470)	(4,020)	(3,052)
(Loss) income before income taxes	(7,488)	(2,628)	(17,224)	(8,549)
Income tax (benefit) expense	(716)	(30)	(1,874)	284
Net (loss) income	$ (6,772)	$ (2,598)	$ (15,350)	$ (8,833)

Agency Segment

The results of our Agency Segment were as follows:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Earned commissions	$ 10,836	$ 10,869	$ 21,427	$ 20,734
Insurance lead sales	1,061	1,444	2,649	2,879
Total revenues	11,897	12,313	24,076	23,613
Expenses				
Operating costs and expenses	12,408	13,121	25,389	25,536
Total expenses	12,408	13,121	25,389	25,536
(Loss) income before income taxes	$ (511)	$ (808)	$ (1,313)	$ (1,923)

Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019

Earned Commissions

For the three months ended June 30, 2020, earned commissions were $10.8 million compared to $10.9 million for the three months ended June 30, 2019. This decrease of $0.1 million resulted from lower sales in our wholesale channel, partially offset by increased sales in our retail channel, which was primarily driven by increased agent headcount.

Insurance Lead Sales

For the three months ended June 30, 2020, insurance lead sales were $1.1 million compared to $1.4 million for the three months ended June 30, 2019. This decrease of $0.3 million was primarily due to lower external transfer revenue.

Operating Costs and Expenses

For the three months ended June 30, 2020, operating costs and expenses were $12.4 million compared to $13.1 million for the three months ended June 30, 2019. This decrease of $0.7 million was primarily due to lower variable cost of sales.

Net (Loss) Income

For the three months ended June 30, 2020, the Agency Segment incurred a net loss of $0.5 million compared to net loss of $0.8 million for the three months ended June 30, 2019. This decrease in net loss of $0.3 million was the result of lower operating costs and expenses, partially offset by lower insurance lead sales revenue.

Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

Earned Commissions

For the six months ended June 30, 2020, earned commissions were $21.4 million compared to $20.7 million for the six months ended June 30, 2019. This increase of $0.7 million resulted from higher sales in our retail channel, which was primarily driven by increased agent headcount, partially offset by decreased sales in our wholesale channel.

Insurance Lead Sales

For the six months ended June 30, 2020, insurance lead sales were $2.6 million compared to $2.9 million for the six months ended June 30, 2019. This decrease of $0.3 million was primarily due to lower click-through and transfer revenue.

Operating Costs and Expenses

For the six months ended June 30, 2020, operating costs and expenses were $25.4 million compared to $25.5 million for six months ended June 30, 2019. This decrease of $0.1 million was primarily due to lower variable cost of sales.

Net (Loss) Income

For the six months ended June 30, 2020, the Agency Segment incurred a net loss of $1.3 million compared to net loss of $1.9 million for the six months ended June 30, 2019. This decrease in net loss of $0.6 million was primarily the result of higher earned commissions, partially offset by lower click-through revenue.

Insurance Segment

The results of our Insurance Segment were as follows:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Net insurance premiums	$ 26,313	$ 25,791	$ 56,369	$ 48,880
Net investment income	3,456	3,695	6,935	7,536
Net realized investment (losses) gains	1,307	(99)	(1,750)	949
Other-than-temporary-impairment	—	—	(54)	—
Other income	117	87	200	142
Total revenues	31,193	29,474	61,700	57,507
Benefits and expenses				
Life, annuity, and health claim benefits	20,916	16,085	41,677	32,330
Interest credited to policyholder account balances	781	837	1,564	1,638
Operating costs and expenses	7,008	7,274	18,858	15,482
Amortization of deferred policy acquisition costs	4,355	4,416	6,541	8,674
Total benefits and expenses	33,060	28,612	68,640	58,124
(Loss) income before income taxes	$ (1,867)	$ 862	$ (6,940)	$ (617)

Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019

Net Insurance Premiums

For the three months ended June 30, 2020, net insurance premiums were $26.3 million compared to $25.8 million for the three months ended June 30, 2019. This increase of $0.5 million in net insurance premiums was primarily due to growth in our Core Life lines of $1.0 million, mainly driven by increases in LifeTime Benefit Term (LBT) and ***RAPID***ecision® Life. This increase was partially offset by decreases in our Non-Core Life and Closed Block of $0.5 million.

Net Investment Income

For the three months ended June 30, 2020, net investment income was $3.5 million compared to $3.7 million for the three months ended June 30, 2019. The decrease was mainly due to lower book yields in the fixed maturity portfolio resulting from the lower interest rate environment. 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 (Losses)

For the three months ended June 30, 2020, net realized investment gains were $1.3 million compared to $0.1 million net realized investment losses for the months ended June 30, 2019. The change was mainly due to the equity portfolio, which incurred mark to market gains of $0.9 million and losses of $0.1 million in the second quarter 2020 and 2019, respectively. The portfolio is invested in the energy sector which showed partial recovery for losses incurred in the first quarter 2020 partially attributable to COVID-19. In addition, gains from sales of fixed maturities increased $0.4 million. For more information on Net realized investment gains (losses), see "Note 2 – Investments" in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Life, Annuity and Health Claim Benefits

For the three months ended June 30, 2020, life, annuity and health claim benefits were $20.9 million compared with $16.1 million for the three months ended June 30, 2019. This increase of $4.8 million was mainly attributable to an increase of $2.8 million in Core Life and $2.1 million in Non-Core Life primarily attributable to higher net claims.

Operating Costs and Expenses

For the three months ended June 30, 2020, operating costs and expenses were $7.0 million compared to $7.3 million for the three months ended June 30, 2019. This decrease of $0.3 million was primarily due to increased ceded allowances attributed to both Core Life and Non-Core Life of $0.8 million, partially offset by an increase in general operating expenses of $0.5 million.

Net (Loss) Income

For the three months ended June 30, 2020, net loss was $1.9 million compared to net income of $0.9 million for the three months ended June 30, 2019. This decrease in net income of $2.8 million resulted primarily from a $4.8 million increase in life, annuity and health claim benefits and a $0.2 million decrease in net investment income, partially offset by a $1.4 million increase in net realized investment gains (losses), $0.5 million increase in net insurance premiums and a $0.3 million decrease in operating costs and expenses.

Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

Net Insurance Premiums

For the six months ended June 30, 2020, net insurance premiums were $56.4 million compared to $48.9 million for the six months ended June 30, 2019. This increase of $7.5 million in net insurance premiums was primarily due to growth in our Core Life lines of $3.5 million, mainly driven by increases in LifeTime Benefit Term (LBT) and ***RAPID***ecision® Life. In addition, there was an increase of $3.7 million related to Closed Block and $0.5 million related to the 2019 recapture of annuities and assumed 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, 2020, net investment income was $6.9 million compared to $7.5 million for the six months ended June 30, 2019. The decrease was mainly due to lower book yields in the fixed maturity portfolio resulting from the lower interest rate environment. 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 (Losses)

For the six months ended June 30, 2020, net realized investment losses were $1.7 million compared to $0.9 million net realized investment gains for the six months ended June 30, 2019. The decrease was mainly due to the equity portfolio which incurred losses of $2.0 million and gains of $0.7 million in the first six months of 2020 and 2019, respectively. The portfolio is invested in the energy sector, which incurred losses, partially attributable to COVID-19. For more information on Net realized investment gains (losses), see “Note 2 – Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

Life, Annuity and Health Claim Benefits

For the six months ended June 30, 2020, life, annuity and health claim benefits were $41.7 million compared with $32.3 million for the six months ended June 30, 2019. This increase of $9.4 million was mainly attributable to an increase of $4.4 million in Core Life and Non-Core Life lines, primarily attributable to increased claim benefits, $2.0 million as a result of the 2019 recapture of annuities and assumed life business and $2.9 million in 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.

Operating Costs and Expenses

For the six months ended June 30, 2020, operating costs and expenses were $18.9 million compared to $15.5 million for the six months ended June 30, 2019. This increase of $3.4 million was primarily due to a reduction in ceded allowances of $2.6 million, which includes $3.5 million related to Close Block, partially offset by increased allowances in our Core Life and Non-Core Life lines and increases in general operating expenses. 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, 2020, amortization of deferred policy acquisition costs was $6.5 million compared to $8.7 million for the six months ended June 30, 2019. The decrease of $2.2 million includes a $3.0 million decrease in Closed Block, partially offset by an increase in our Core Life lines of $0.7 million and Non-Core Life lines of $0.2 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 (Loss) Income

For the six months ended June 30, 2020, net loss was $6.9 million compared to a net loss of $0.6 million for the six months ended June 30, 2019. This increase in net loss of $6.3 million resulted primarily from $9.4 million increase in life, annuity and health claim benefits, $3.4 million increase in operating costs and expenses, $2.7 million net realized investment losses, and $0.6 million reduction in net investment income, partially offset by an increase in net insurance premiums of $7.5 million and a reduction in amortization of deferred acquisition costs of $2.1 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, 2020 and December 31, 2019, are $10.0 million and $9.9 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 Segment

The results of the Corporate Segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Net investment income	$ 53	$ 92	$ 221	$ 175
Total revenues	53	92	221	175
Expenses				
Operating costs and expenses	2,784	1,304	5,172	3,132
Total expenses	2,784	1,304	5,172	3,132
(Loss) income before income taxes	$ (2,731)	$ (1,212)	$ (4,951)	$ (2,957)

Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019

Net (Loss) Income

For the three months ended June 30, 2020, net loss increased $1.5 million to $2.7 million from a net loss of $1.2 million for the three months ended June 30, 2019. The increase in the net loss is primarily related to increased costs due to our targeted growth initiatives and costs associated with being a public company.

Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

Net (Loss) Income

For the six months ended June 30, 2020 net loss increased $2.0 million to $5.0 million from a net loss of $3.0 million for the six months ended June 30,2019. The increase in the net loss is primarily related to increased costs due to our targeted growth initiatives and costs associated with being a public company.

Intercompany Eliminations

The impact of the eliminations for intercompany transactions primarily consists of the sales by our Agency Segment of the life products of our Insurance Segment. The eliminations represent the amounts required to eliminate the intercompany transactions as recorded in our segment results, and in particular, to eliminate any intersegment profits resulting from such transactions. Our segment results follow the accounting principles and methods applicable to each segment as if the intercompany transactions were with unaffiliated organizations:

Revenue—our Agency Segment recognizes all commission revenue to be paid for the first year that the policy is in force at the date that the insurance policy goes in force at the carrier.

Expense—our Insurance Segment recognizes the first-year commission as a policy acquisition cost, in proportion to the premiums earned from providing insurance coverage throughout the first year that the policy is in force. In addition, our Insurance Segment defers the amount by which the first-year commission acquisition costs exceed the ultimate renewal commission and records this amount as deferred acquisition cost that is amortized over the expected life of the policy.

Viewed at the segment level, because of the timing difference between the Agency Segment's immediate recognition of commission revenue and the Insurance Segment's deferral and amortization of the commission expense over the expected life of the policy, all else being equal, the sale of a policy through our Agency Segment results in an intersegment profit in an amount equal to the difference between the commission paid and the related amortization expense. However, in consolidation, two impacts occur. First, the intercompany revenue recognized by our Agency Segment and the related deferred acquisition expense recorded by our Insurance Segment are eliminated. Second, we record deferred policy acquisition costs equal to that portion of commission deferred acquisition cost (DAC) that can be tied directly to Efinancial's expenses incurred in the successful placement of a policy. Therefore, in consolidation, the commission DAC recorded in our Insurance Segment is effectively reduced to reflect the elimination of that portion of commission DAC that results from Efinancial expenses that cannot be directly tied to the successful placement of a policy. The amount of eliminated commission DAC, which represents a majority of the commission DAC, is charged to current expense, and acquisition cost DAC is recorded at a reduced amount, which represents the amount of commission DAC that is eligible for deferral under GAAP.

The results of these elimination entries were as follows:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(dollars in thousands)		(dollars in thousands)	
Revenues				
Net investment (loss) income	$ (53)	$ (105)	$ (128)	$ (210)
Earned commissions	(6,433)	(5,720)	(12,899)	(11,839)
Total revenues	(6,486)	(5,825)	(13,027)	(12,049)
Expenses				
Operating costs and expenses	(3,543)	(3,322)	(7,233)	(6,845)
Amortization of deferred policy acquisition costs	(564)	(1,033)	(1,774)	(2,152)
Total expenses	(4,107)	(4,355)	(9,007)	(8,997)
(Loss) income before income taxes	$ (2,379)	$ (1,470)	$ (4,020)	$ (3,052)

Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019

For the three months ended June 30, 2020, the impact of intercompany eliminations on pre-tax income was a reduction of $2.4 million compared to a $1.5 million reduction for the three months ended June 30, 2019, primarily related to higher inter-company sales.

Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

For the six months ended June 30, 2020, the impact of intercompany eliminations on pre-tax income was a reduction of $4.0 million compared to a $3.1 million reduction for the six months ended June 30, 2019, primarily related to higher inter-company sales.

Investments

Investment Returns

We invest our available cash and funds that support our regulatory capital, surplus requirements and policy reserves in investment securities that are included in our Insurance and Corporate Segments. We earn income on these investments in the form of interest on fixed maturity securities (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 our 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 our 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 maturity securities 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 National Association of Insurance Commissioners (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 98.2% at June 30, 2020 and December 31, 2019.

	Estimated Fair Value			
	June 30, 2020		December 31, 2019	
	(dollars in thousands)			
S&P Rating				
AAA	$ 94,658	28.3%	$ 93,137	29.7%
AA	59,398	17.7%	47,217	15.0%
A	92,909	27.8%	94,776	30.1%
BBB	66,997	20.0%	60,277	19.1%
Not rated	14,709	4.4%	13,443	4.3%
Total investment grade	328,671	98.2%	308,850	98.2%
BB	3,693	1.1%	3,455	1.1%
B	1,717	0.5%	1,707	0.5%
CCC	577	0.2%	727	0.2%
D	6	0.0%	7	0.0%
Not Rated	—	0.0%	175	0.0%
Total below investment grade	5,993	1.8%	6,071	1.8%
Total	$ 334,664	100.0%	$ 314,921	100.0%

The following table sets forth the maturity profile of our fixed maturity securities at June 30, 2020 from December 31, 2019. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without penalty.

	June 30, 2020				December 31, 2019			
(dollars in thousands)	Amortized Cost	%	Estimated Fair Value	%	Amortized Cost	%	Estimated Fair Value	%
Due in one year or less	$ 10,656	3.5%	$ 10,835	3.2%	$ 10,746	3.7%	$ 10,839	3.4%
Due after one year through five years	44,215	14.4%	47,204	14.1%	37,668	12.8%	39,506	12.5%
Due after five years through ten years	24,909	8.1%	28,883	8.6%	23,760	8.1%	25,695	8.2%
Due after ten years	102,996	33.6%	123,428	36.9%	97,506	33.1%	112,115	35.6%
Securities not due at a single maturity date-primarily mortgage and asset-backed securities	123,622	40.4%	124,314	37.0%	124,722	42.3%	126,766	40.3%
Total debt securities	$ 306,398	100.0%	$ 334,664	100.0%	$ 294,402	100.0%	$ 314,921	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 maturity securities classified as available-for-sale. Fair value of these securities totaled $334.7 million and $314.9 million as of June 30, 2020 and December 31, 2019, 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 six months ended June 30, 2020 and 2019, our book yield on fixed maturity securities available-for-sale was 3.9% and 4.3%, 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, 2020	December 31, 2019	June 30, 2020	June 30, 2019
	Ending Balance	Ending Balance	Year to Date Interest Credited	Year to Date Interest Credited
	(dollars in thousands)			
Annuity contract holder deposits—assumed	$ 75,978	$ 78,296	$ 1,451	$ 1,520
Dividends left on deposit	7,423	7,609	92	98
Other	1,646	1,612	21	20
Total	$ 85,047	$ 87,517	$ 1,564	$ 1,638

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 maturity securities 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)

We also record capital appreciation/depreciation on our available-for-sale fixed maturity securities. At June 30, 2020 and 2019, we had $3.0 million and $9.3 million in Accumulated other comprehensive income, respectively, from mark-to-market adjustments of our available-for-sale fixed income securities, net of federal income taxes and reserves. 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, 2020, we had total assets of $744.8 million compared to total assets at December 31, 2019 of $721.8 million, an increase of $23.0 million. Cash increased $19.1 million primarily related to cash from operations and investments. Reinsurance recoverables increased $13.0 million as a result of a $9.6 million increase in ceded policy and claim reserves and an increase of $3.4 million related to timing of settlements of reinsured claims. Deferred policy acquisition costs increased $3.7 million primarily due to deferrals on new business in excess of amortization. Commission and agent balances increased $3.5 million due to the timing of collections. Deferred income taxes increased $1.0 million, primarily due to a deferred tax credit as a result of net loss, partially offset by tax on unrealized investment market gains. The above increases were partially offset by the following drivers: The invested asset base decreased $10.9 million, primarily due to the maturity of short-term investments of $29.8 million, partially offset by net purchases of investments of $12.9 million and $7.7 million in net unrealized gains. Other assets decreased $6.4 million, primarily due to decreases in due premium mostly on the Closed Block, partially offset by increases in internally developed software.

At June 30, 2020, we had total liabilities of $544.7 million compared to total liabilities of $509.4 million at December 31, 2019, an increase of $35.3 million. Future policy benefits and claims increased $27.2 million, primarily due to a $23.1 million increase in Core Life and Non-Core Life lines resulting from growth and maturity of the underlying blocks of business, $2.6 million increase in the Closed Block and $1.5 million increase in annuities and assumed life. Debt increased $4.5 million related to additional net borrowings under our commission financing agreement with Hannover Life. Other liabilities increased $8.6 million, primarily related to timing of investment trades, partially offset by lower operating expense accruals. Policyholder dividend obligations related to the Closed Block increased $1.6 million, primarily due to changes in the market value of invested assets. The increases were partially offset by a decrease in Reinsurance liabilities and payables of $8.2 million, primarily due to timing of claim payments and reinsurance settlements, and $2.5 million decrease in Policyholder account balances, largely due to annuity payments.

At June 30, 2020, total equity decreased to $200.0 million from $212.4 million at December 31, 2019. This decrease in equity of $12.4 million was attributable to a decrease in Retained earnings of $15.4 million for the six months ended June 30, 2020 due to our net loss. Other comprehensive income for the period had a gain of $3.0 million, which was due to unrealized net gains on our fixed maturity available-for-sale securities portfolio, net of taxes.

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. We are able to obtain advances up to $27.5 million under our arrangement with Hannover Life. As of June 30, 2020 and December 31, 2019, we had net advances of $22.9 million and $19.1 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 $2.3 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 2020 and 2019.

During the first six months of 2020 and 2019, the Board of Directors of Fidelity Life approved payments of $0.0 million and $5.0 million, respectively, in dividends to Vericity Holdings, Inc. (Vericity Holdings), an intermediate holding company and immediate parent of Fidelity Life. The dividends provided operating funds to Vericity Holdings to support corporate operations and initiatives. 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

Cash flows from investing activities includes our fixed maturity securities and equity holdings that are classified as available-for-sale securities. Period to period, the cash flows associated with the changes in these portfolios will vary between cash sources and cash uses depending on portfolio trading due to investment market conditions.

Cash flows from financing activities primarily consists of the assumed annuity contract holder deposits. The annuity liabilities are reducing each period due to cash withdrawals by contract holders on this block of annuities that were primarily written in the late 1980s. Cash deposits from these annuity contracts are minimal compared to cash withdrawal activity. Also included in financing cash flows are net proceeds from our commission financing arrangement.

The following table summarizes our cash flows for the six months ended June 30, 2020 and 2019**:**

	Six Months Ended June 30,	
	2020	2019
	(dollars in thousands)	
Consolidated Summary of Cash Flows		
Net cash (used) provided by operating activities	$ 5,436	$ (6,949)
Net cash (used) provided by investing activities	13,813	1,274
Net cash (used) provided by financing activities	(127)	(1,055)
Net increase (decrease) in cash and cash equivalents	$ 19,122	$ (6,730)

For the six months ended June 30, 2020, we had a net increase in cash of $19.1 million compared to a net decrease of $6.7 million for the six months ended June 30, 2019. The increase in cash flows from operating activities is primarily due to additional payments related to a recapture of an assumed block of business, offering costs in 2019 and timing of operating expense accruals. Cash from investing activity increased primarily as a result of the maturity of certain short-term investments, offset by fixed maturity acquisitions, net of sales.

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, 2020. 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 were $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	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAR	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase 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 14, 2020

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 14, 2020

/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 14, 2020

/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, 2020 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 14, 2020

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, 2020 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 14, 2020

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