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

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2022**

**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.)** |
| **1350 E Touhy Avenue, Suite 205W, Des Plaines, Illinois** | **60018** |
| **(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(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, Par Value $0.001 per share | VERY | NASDAQ Capital Market |

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the offering price and number of shares sold in the Registrant's initial public offering on August 7, 2019, was $18,411,600.

The number of shares of Registrant's Common Stock outstanding as of March 30, 2023 was 14,875,000.

DOCUMENTS INCORPORATED BY REFERENCE

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## PART I

### Item 1. Business.

### Overview

On August 7, 2019, Vericity, Inc. (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 ("Members Mutual") from mutual to stock form and the acquisition by Vericity, Inc. of all of the capital stock of Members Mutual 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, Vericity, Inc. became the holding company for converted Members Mutual and its indirect subsidiaries, including Fidelity Life Association and Efinancial, LLC.

In the IPO, a total of 3,501,648 shares were sold to eligible members, employees and management of Members Mutual, and certain purchasers in a community offering, and a total of 11,373,352 were sold to Apex Holdco L.P., an affiliate of J.C. Flowers IV L.P., a private equity fund advised by J.C. Flowers & Co. LLC, pursuant to a standby stock purchase agreement under which Apex Holdco L.P. agreed to act as the standby purchaser for the IPO ("Standby Purchaser"). As a result, the Standby Purchaser owns approximately 76.5% of the issued and outstanding shares of Vericity, Inc. common stock.

We conduct our business through our two operating subsidiaries, Fidelity Life Association, an Illinois-domiciled life insurance company chartered in 1896 ("Fidelity Life"), and Efinancial, LLC, a call center-based insurance agency ("Efinancial"). Fidelity Life distributes life insurance products through Efinancial and other unaffiliated agents and is licensed in the District of Columbia and every state except New York and Wyoming. A.M. Best has assigned an "A-" (Excellent) rating to Fidelity Life, which is the fourth highest out of fifteen ratings. Fidelity Life is located in Des Plaines, Illinois.

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 strive to deliver to this market affordable, easy to understand term and whole life insurance products through a consumer-friendly and efficient sales process. Through innovation in product design and distribution that provides access to the Middle Market, including call center and web-enabled sales and underwriting processes, quick issuance of policies and an emphasis on products not medically underwritten at the time of sale, we believe we are well positioned to make life insurance more affordable and accessible to the Middle Market.

Efinancial markets life products for Fidelity Life and other unaffiliated insurance companies. Efinancial's primary operations are conducted through employee agents from physical call centers and remote locations which we refer to as our retail channel, and through independent agents and other marketing organizations, which we refer to as our wholesale channel. Efinancial's principal office is located in Bellevue, Washington.

We believe our unique products and ability to unconditionally issue policies either during or within 24 to 48 hours of the initial call differentiates us from our competitors. Leveraging our patented ***RAPID***ecision® sales and underwriting processes, we can sell a life insurance policy to a consumer before medical underwriting is complete. We are able to complete an initial underwriting process for most of our life insurance applicants either during or shortly after the initial call, and if not, within 24 to 48 hours after that initial call. For the year ended December 31, 2022, approximately 90% of our policy applications processed through our ***RAPID***ecision® underwriting process received an underwriting disposition on or shortly after the initial sales call. Approximately one-half of the remaining applications received final underwriting decisions within the next 24 to 48 hours.

Our ***RAPID***ecision®Life product provides coverage at the point of issue that is a blend of all-cause term life insurance for part of the coverage and accidental death insurance for the remainder of the total face amount. If a policyholder completes medical underwriting after the initial sale of the ***RAPID***ecision®Life product, the policy benefits may be improved based on the underwriting results to increase the proportion of all-cause term life insurance coverage, typically with no increase in premium. In some instances, based upon the results of predictive analytic models, the consumer can qualify for the full amount of all-cause coverage without medical testing.

For the years ended December 31, 2022 and 2021, we had total consolidated revenue of $163.9 million and $176.6 million, net life premium revenue of $100.1 million and $108.0 million, and a net loss of $20.5 million and $16.7 million, respectively. As of December 31, 2022, we had total assets of $770.1 million and equity of $111.3 million.

### Our Approach

Our business model is predicated upon gaining cost effective access to the Middle Market, engaging consumers in our sales process for life insurance with products that have higher placement rates than traditional fully underwritten term life insurance in a call center environment, and issuing those products quickly. We require access to a large quantity of quality sales leads to keep our retail call center agents productive. Currently, we acquire about half of our sales leads from third-party vendors. We supplement that lead flow with leads from affinity partner relationships and leads we generate ourselves. More significantly, we are rapidly increasing our own lead generation capabilities and growing our affinity business with non-life insurance partners that provide their customers or prospects as leads, and we market and sell life insurance products to those leads.

We tend to sell policies with lower face amounts, resulting in more affordable options for our customers. Although not the lowest priced, our products are competitive and they represent an attractive consumer value considering the coverage they provide and the relative simplicity of our sales and underwriting processes. Our business model allows us to capture end-to-end data beginning with the acquisition of sales leads through the final disposition of life insurance policies. With this data, we plan to develop and apply predictive analytics to realize efficiencies at various points in the sales process.

**Business Segments**

We manage our business through three segments:

- ***Agency***. Our Agency Segment operates through Efinancial. Efinancial sells insurance products through its call center distribution platform and through its independent agents and other marketing organizations.
- ***Insurance***. Our Insurance Segment operates through Fidelity Life. Fidelity Life engages in the principal business lines of Core Life, Non-Core Life, Closed Block, annuities and assumed life. In its Core Life and Non-Core Life business lines, Fidelity Life offers primarily term life insurance products, and to a lesser extent accidental death and final expense products. We currently do not offer annuity contracts, separate account variable products or universal life products.
- ***Corporate & Other***. Our Corporate & Other Segment consists primarily of a small amount of capital required to be maintained for regulatory purposes, and also includes certain expenses considered to be corporate and not allocated to our Agency or Insurance Segments.

**Agency Segment**

***Overview***

The Agency Segment consists of the operations of Efinancial. Efinancial is a call center and remote employee based insurance agency that markets life insurance for Fidelity Life and unaffiliated insurance companies. Efinancial's primary operations are conducted through employee agents who may be located remotely or within one of our three call center locations, all located within the United States, 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 channel. Efinancial's employee agents utilize insurance sales leads to contact potential customers and then work with the customers to complete the sales process, which can occur during the initial contact or within 24 to 48 hours for non-medically underwritten policies. In our wholesale channel, in consideration for using our carrier contracts, access to leads and case management services, we receive a portion of the commission earned by the independent agent from the carrier. Efinancial also generates insurance lead sales revenue through its eCoverage web presence, and through the resale of leads that are not well suited for our call center.

***Agents***

Our agents in the Agency Segment are either employed by Efinancial or are independent agents who sell through our wholesale distribution channel.

*Our Employee Agents*

In each of our retail call center facilities, our employee agents, or call center insurance agents, conduct outbound telephone sales using insurance sales leads obtained from sales lead vendors or generated by our own marketing efforts or through our affinity partner relationships. To a much lesser extent, the call center insurance agents also handle inbound telephone and web-based inquiries directly from consumers. Our Applicant and Prospect System provides a structured environment in which our call center insurance agents are able to efficiently handle both in-bound and out-bound sales traffic.

Efinancial is reliant on a capable and well-trained sales force of insurance agents to effectively operate its call center platform. It is therefore important for Efinancial's business to attract, retain and develop its insurance agents. Efinancial primarily recruits individuals with little or no prior experience in the insurance industry. We seek to develop a career path for our recruits by providing a comprehensive training program designed to assist new recruits in becoming licensed agents and achieving success with call center marketing. In a process that typically takes between six to eighteen weeks, a new hire will receive training, learn to develop leads and work towards receiving the required insurance sales licenses. Following licensure and promotion to retail call center agent, a new agent is placed on the physical or virtual sales floor, where monitoring and coaching continue. As an agent develops sales experience, the level of supervision of that agent decreases and the agent is able to handle more sophisticated sales opportunities.

For the years ended December 31, 2022 and December 31, 2021, Efinancial's retail call centers generated a total of $41.0 million and $44.6 million, respectively, in commission revenues, of which $28.9 million and $34.1 million, respectively, were generated from sales of Fidelity Life products.

*Our Independent Agents*

Efinancial has developed capabilities that allow us to expand sales operations beyond the call center insurance agents traditionally associated with a direct sales operation. Efinancial also operates as a wholesale agency and recruits independent agents to market insurance products using Efinancial's platform. Through our wholesale channel, we subcontract with our independent agents to sell through Efinancial's contracts with its insurance carriers. Efinancial offers services to these independent agents, including access to our ALISS® technology, marketing platform, case management services, insurance sales leads and sales education. Efinancial earns a portion of the commission revenue on independent agent sales. For the years ended December 31, 2022 and December 31, 2021, Efinancial generated $2.4 million and $2.0 million, respectively, in revenue from our affiliation with our independent agents.

***Our Partners***

We partner with unaffiliated insurance carriers to market their products through our agency distribution platform. We also have marketing relationships with third-party businesses and member organizations, which we call our affinity partners, under which Efinancial provides their customers and members with access to the insurance products we market, either under their brand or Efinancial's brand.

*Other Insurance Carriers*

Our Agency Segment also generates revenue from the sales of insurance products issued by unaffiliated companies, or carriers. We typically enter into contractual agency relationships with carriers that are non-exclusive and terminable on short notice by either party for any reason. Efinancial's retail call center agents help consumers select among these carriers based on that consumer's needs, insurance product features, cost and other factors. The mix of insurance carrier sales will vary over time based on client preferences, carrier strategies, availability of new product features, premium cost, commissions paid, carrier placement rates, and ease of doing business.

For the years ended December 31, 2022 and December 31, 2021, Efinancial generated $14.2 million and $12.4 million, respectively, in total commission revenue from agency contracts with unaffiliated life insurance carriers.

The following tables show our total earned commissions for our retail and wholesale channels:

Retail Channel:

| (dollars in thousands) | For the Years Ended December 31, 2022 | 2021 |
|---|---|---|
| **Carrier** | | |
| Fidelity Life Association | $ 28,889 | $ 34,054 |
| Affinity partners | 2,792 | 3,141 |
| All other carriers | 9,298 | 7,412 |
| Total eSales Earned Commissions | $ 40,979 | $ 44,607 |

Wholesale Channel:

| (dollars in thousands) | For the Years Ended December 31, 2022 | 2021 |
|---|---|---|
| **Carrier** | | |
| Fidelity Life Association | $ 5 | $ 17 |
| All other carriers | 2,713 | 2,283 |
| Total earned commissions | 2,718 | 2,300 |
| Wholesale commission expense | 635 | 452 |
| Net earned wholesale commissions | $ 2,083 | $ 1,848 |

*Affinity Partners*

In a typical affinity partner arrangement, Efinancial will market our range of insurance products to the affinity partner's customers or prospects under Efinancial's brand or our affinity partner's brand. Affinity partner relationships offer an attractive source for insurance sales leads and increase our revenues. Given the existing relationship between an affinity partner and its prospects or customers, we believe that the sales leads generated by our affinity partners are of a high quality relative to sales leads purchased from a third-party. We expect affinity partner relationships to continue to be a valuable source of future growth. Currently, nearly all of our affinity business is derived from a single affinity partner.

***Our Technology Platforms***

*Applicant and Prospect System*

Our Applicant and Prospect System (APS) is a technology ecosystem that uses a combination of proprietary software and Software-As-A-Service (SaaS) third party vendors to operate our retail call centers. Our proprietary software application suite manages lead management, call scripting, quoting, insurance policy applications, and product information. Our technology ecosystem includes Salesforce Sales Cloud, a best in breed consumer management system that supports robust automation engines as well as layered data protection. Additionally, our environment is integrated with a third-party telephony system to prioritize and distribute calls to sales personnel. This full technology solution includes logic that makes allocations to specific call center insurance agents based on factors such as availability, complexity of sales leads, state licensing requirements, source of the sales lead and other factors, in an effort to enhance the productivity and effectiveness of our retail call centers.

*ALISS®*

Our independent agents continue to use our patented Automated Life Insurance Sales System, or ALISS®, as a service remotely from their locations. ALISS® is made up of several functional models that provide much of the same functionality as the Applicant and Prospect System, including consumer relationship management. We believe that ALISS® provides a comprehensive package of operational features that help our distributors increase their productivity and grow their businesses.

*Consumer Technologies*

Fidelity Life has developed a digital purchase experience – a web portal that enables qualified consumers to calculate how much life insurance they need, obtain quotes, apply, and purchase a policy online. Consumers can also start the purchase process online and seamlessly transition to speak with an agent at any point in the journey. Fidelity Life also has a robust website, FidelityLife.com, that enables consumers to obtain customized product recommendations and quotes depending on their personal situation. Efinancial also has several web portals for consumers to shop for insurance, including Efinancial.com, termfinder.com and eCoverage.com. These web portals offer consumers easy-to-use tools, such as online price quoting and information (in the form of articles and blogs) designed to help consumers better understand the life insurance market. These websites also provide consumers with the ability to initiate the sales process online.

***Marketing***

Efinancial's business relies heavily on the use of insurance sales leads. Our sales leads are records of personal and contact information of potential purchasers of life insurance. We analyze these sales leads to enable our agents to make contact with consumers that we believe are more likely than the general population to purchase life insurance products.

Efinancial uses a combination of marketing methods to obtain insurance sales leads to support its operations. Efinancial acquires a significant portion of its sales leads from third-party vendors specializing in insurance sales leads. Additionally, Efinancial generates leads through its websites (including Efinancial.com and eCoverage.com) and through affinity partners whose customers and prospects are interested in life insurance. We evaluate the profitability of sales leads by analyzing their cost and productivity based on the sales resulting from these sales leads. We use this information to seek to optimize the productivity and cost efficiency of leads we acquire.

As a result of our business model, Efinancial's marketing expenses are a significant part of our total cost of doing business. To reduce our customer acquisition costs, we contract with third-party marketers who contact consumers, some of whom will click through to one of eCoverage's landing pages. In addition to becoming an Efinancial lead, the consumer may also "click" on an ad to receive a quote from a third-party carrier. If the consumer clicks on an insurance option sponsored by another company, we generate insurance lead sales revenue from that click. We are also able to generate insurance lead sales revenue through the sale of information regarding leads sourced through the eCoverage landing pages. For the years ended December 31, 2022 and December 31, 2021 we generated $4.9 million and $6.3 million from insurance lead sales revenues, respectively. Additionally, we seek to sell a policy to that lead through our call center.

For a description of the marketing of policies written by Fidelity Life, see "Business—Insurance Segment—Distribution."

***Competition***

Efinancial competes for access to talented sales representatives and for quality sales prospects or leads. Much of the competition for talent involves agent recruitment. Efinancial's competitors include SelectQuote, AIG Direct, and Health I.Q., among others. Some competitors in the direct distribution call center industry have made much larger investments or have greater resources to hire insurance agents and develop new technologies. Also, agents choose to work through agencies based on a number of factors including marketing service and support, technology tools, the insurance company that the agency represents, sales commission structure, and the number and quality of sales leads. However, Efinancial believes that its innovative sales processes and the Fidelity Life quick-issue products it sells, combined with our ability to customize our product offering based on a customer's ability to pay through our distribution platform, position Efinancial to successfully compete and continue to grow in the Middle Market.

**Insurance Segment**

***Overview***

Fidelity Life was chartered in 1896 and operated independently until the 1950s, when it became affiliated with several stock life insurance companies that managed its operations and controlled its strategies pursuant to a management services agreement. In 2003, the independent members of the Board of Directors undertook a review of the longstanding management relationship and future plans for operation of Fidelity Life. During 2005, the prior long-term management contract and all affiliations were terminated and a reconstituted Board of Directors and a new management team were selected. Since then, Fidelity Life has again operated independently.

As discussed in more detail below, 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 in-force policies that are considered to be of high strategic importance to Fidelity Life.

***Non-Core Life.*** Our Non-Core Life business consists of: products that are currently being marketed but are not deemed to be of high strategic importance to the Company; in-force 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 in-force 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. In 2019, one of these former affiliates recaptured the majority of the assumed block of life business. The annuity deposits were ceded to Fidelity Life through two contracts entered into in the early 1990s. These annuity and assumed life deposits are now largely in run-off, with only minor amounts of new deposits each year. There are minimal remaining surrender charges associated with the assumed annuity contracts.

The following table sets forth the net premium revenues by business line for Fidelity Life's Insurance Segment for the years ended December 31, 2022 and December 31, 2021:

| | For the Twelve Months Ended December 31, | |
|---|---|---|
| (dollars in thousands) | 2022 | 2021 |
| Net Insurance Premium | | |
| Core Life | $ 69,002 | $ 70,338 |
| Non-Core Life | 27,934 | 34,507 |
| Closed Block | 3,073 | 3,039 |
| Annuities and Assumed Life | 66 | 74 |
| Total | $ 100,075 | $ 107,958 |

***Core Life and Non-Core Life***

*Our Products*

In its Core and Non-Core Life insurance business, Fidelity Life offers an array of traditional and innovative insurance products. The principal life insurance products offered by Fidelity Life fall within the ***RAPID***ecision® product line. The ***RAPID***ecision® product line includes several term life insurance products. ***RAPID***ecision® products use our ***RAPID***ecision® underwriting process, which is a process that for many products does not rely on medical testing as part of the underwriting process, thereby substantially shortening the time required for underwriting and policy issuance. See "Underwriting and Risk Selection" in this form 10-K.

***Core Life:***

***RAPIDecision® Life.*** Our ***RAPID***ecision® Life product was introduced in 2008 and is primarily marketed by Efinancial and select unaffiliated distributors. The ***RAPID***ecision® Life product was specifically designed to address the problem of low product placement in direct distribution for medically underwritten business, stemming in part from the typical length of the life insurance underwriting process. Our ***RAPID***ecision® Life product incorporates the following features:

- A patented sales process featuring ***RAPID***ecision® underwriting, which allows for the quick issuance of a policy. Under certain circumstances, this policy will be issued entirely on an all-cause basis. In other circumstances, the issuance will provide a blend of all-cause term life insurance coverage and accidental death benefit coverage;
- If issued as a blend of all-cause and accidental death benefit coverage, there is an option permitting policyholders to begin a traditional medical underwriting process within the first six months after policy issuance;
- Depending on the underwriting results, policyholders completing medical underwriting may have the option to reduce or eliminate the accidental death coverage and increase the proportion of the all-cause term life insurance coverage under the policy with no increase in premium; and
- Policyholders not completing medical underwriting (or failing to meet medical underwriting standards) may retain the original coverage blend of term life and accidental death benefit coverage at the existing premium rates.

***RAPIDecisionLifeOne®.*** This product is a one-year term product designed to be a quick sale, with a focus on younger issue ages (20-45). Underwriting utilizes the ***RAPID***ecision® underwriting process.

***LifeTime Benefit Term.*** LifeTime Benefit Term is our patented voluntary worksite product offering. Voluntary worksite policies like LifeTime Benefit Term are provided to employer and other groups for sales to their employees, participants and members. LifeTime Benefit Term insurance is sold on a group policy basis by offering future paid up coverage additions after the policy has been in-force for a certain number of years. LifeTime Benefit Term coverage can be kept by the individual after they leave employment with the group. We have been issued a patent for one variation of the LifeTime Benefit Term product. We largely ceased writing this business directly in 2014 and have entered into a licensing agreement and reinsurance agreement under which we license the product to Combined Insurance Company of America ("Combined Insurance") and assume 50% of the business written. The most current licensing agreement provides Combined Insurance with a non-exclusive license to market the LifeTime Benefit Term product. The reinsurance agreement has been terminated as of December 31, 2021 as to new policies or certificates of insurance written on or after January 1, 2022. A revised licensing agreement was entered into in early 2022 which provides a fee to Fidelity Life allowing Combined Insurance to use our patented product. The fee in 2022, reported in Other income was $373 thousand. Fidelity Life continues to manage the direct in-force block of LifeTime Benefit Term policies that are now in run-off.

***RAPID*****ecision® Final Expense.** Our ***RAPID***ecision® Final Expense product is targeted toward individuals aged 50-85 and provides permanent whole life coverage for amounts ranging from $5,000 to $35,000. These policies are designed to help in lessening the burden of covering final expenses, such as medical costs, funeral costs, and credit card debt. Like ***RAPID***ecision® Life, ***RAPID***ecision®Final Expense does not require a medical examination, but instead approval is determined based upon answers to various health questions and database results. There is a related graded death benefit Final Expense product for poorer underwriting risks.

***Non-Core Life:***

***Accidental Death Benefit.*** Fidelity Life offers accidental death benefit insurance as both a policy rider and as stand-alone policy coverage. The accidental death benefit product covers death due to accidental causes as defined in the policy. Accidental death benefit is a quick-issue product with limited underwriting.

***RAPID*****ecision® *Senior Life Term and Whole Life.*** Fidelity Life's Senior Life Term and Whole Life products are designed for impaired risk individuals in particular age ranges (50 to 70 for term and 50 to 85 for whole life). Senior Life Term and Whole Life products are underwritten utilizing the ***RAPID***ecision® underwriting process and offer graded death benefits over an initial three-year period (the full face amount is paid for all causes of death starting in policy year four).

*Distribution*

For the years ended December 31, 2022 and 2021, the breakdown of sales of annualized premiums for new in-force policies by distribution channel were as follows:

| | For the Years Ended December 31, | |
|---|---|---|
| (dollars in thousands) | 2022 | 2021 |
| Efinancial | $ 8,492 | $ 6,667 |
| AmeriLife | 29,708 | 34,671 |
| Independent Sales Distributors | 29 | 84 |
| Worksite Producers | — | 29,818 |
| Total | $ 38,229 | $ 71,240 |

More information regarding our relationship with AmeriLife can be found in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

*Underwriting and Risk Selection*

We have developed the ***RAPID***ecision® underwriting process to support the quick issuance of our ***RAPID***ecision® products. The first step in our ***RAPID***ecision® underwriting process is for a consumer to complete a coverage application. We verify the medical history and conditions disclosed in the application using automated web-based links to reporting and statistical agencies and a data base service with pharmaceutical records. The underwriting decision is made based on this information. The ***RAPID***ecision® underwriting process is supported by our proprietary technology platforms that allow us to obtain an underwriting decision during or shortly after the initial call, and if not, 24 to 48 hours after that initial call. This technology platform is our Fidelity Life Association Sales Handler, or FLASH, system.

Consistent with our business strategy and our view of the needs of our customers, we do not perform medical underwriting in the traditional way prior to the issuance of a policy. Traditionally, in our industry, the life insurance underwriting process takes place prior to policy issuance and involves a paramedical examination, blood and urine testing and other tests designed to assess the underwriting risk and the lowest premium appropriate for the level of risk involved. Such traditional underwriting delays policy issuance after an application is submitted by several weeks. This delay makes it difficult to achieve acceptable placement ratios in call center sales, leading to lost sales and unrecovered costs. In contrast, our primary underwriting process is designed to support the quick issuance of policies. We therefore do not typically require an initial paramedical exam. By not requiring this exam or postponing it until after policy issuance, we are able to issue coverage far more quickly, although without access to up front medical data that is standard in industry underwriting practices. This means that our insurance products generally are issued at lower face amounts and a relatively higher price per dollar of coverage as compared to medically underwritten products. If medical underwriting is completed after the initial sale of a ***RAPID***ecision® Life policy, the policy benefits may be improved based on the underwriting results to increase the proportion of all-cause term life insurance coverage, typically with no increase in premium.

Fidelity Life employs a small staff of full-time employee underwriters. Most of the underwriting of individual policies is performed on an outsourced basis, primarily using two contract underwriting firms. Given the quick-issue nature of many of Fidelity

Life's products, it is important to our business to be able to access underwriting services on an as-needed basis. Using outsourced contract underwriters gives Fidelity Life the flexibility to meet this need.

In our typical underwriting process, Fidelity Life's contract underwriters access the information on a potential customer, what we refer to as a case, through a web-based interface and approve or decline the individual case based on Fidelity Life's underwriting rules. If necessary, a member of our contract underwriting team can be joined to an initial phone call with a potential customer. While our in-house underwriting team does engage in certain case underwriting activities, the team's primary function is to manage and supervise the contract underwriters. Our in-house underwriting team oversees our contract underwriters to review their compliance with our underwriting standards.

*Product Pricing*

We regularly review claim results for each of our products, comparing actual experience to the assumptions used to design and price the products. The review process is performed by our actuarial and finance teams with assistance from the underwriting and operations team, product development team and marketing. Variances in our expectations for particular products are examined for implications on product performance and used to evaluate product prices and underwriting assumptions. Product experience is also reviewed by our reinsurance partners.

Key elements of our product pricing include assumptions regarding future mortality (amount and timing of future benefit payments), persistency experience (number and timing of policyholder discontinuations or coverage lapses) and investment returns (interest we will earn on investment of available cash and reserves).

*Outsourced Functions*

Fidelity Life contracts with third-party service providers to provide, or assist with, a number of key functions that are traditionally performed in-house in the life insurance industry. These functions include insurance policy administration, underwriting, investment portfolio management, internal audit, filing of insurance policy forms with state regulatory agencies and income tax return preparation. This model was adopted to reduce the fixed cost investment in our Insurance Segment, provide operating flexibility and allow access to specialized skills as needed. In doing so, we believe we can contract with partners that possess a wide range of experience and with established capabilities that would be costly and time consuming for us to develop internally.

*Competition*

Competition in the life insurance industry is based on many factors. These factors include the perceived financial strength of the insurer, premiums charged, policy terms and conditions, services provided, reputation, financial ratings assigned by independent rating agencies and the experience of the insurer in the line of insurance to be written. In addition, there are many competitors that participate in the non-medically underwritten segment of the life insurance industry. As new competitors enter the non-medically underwritten market using predictive analytics, they may price aggressively to capture market share.

Fidelity Life's competition includes many companies that are larger, and which have significantly more resources at their disposal. While lacking the scale and market presence of many of its principal competitors, Fidelity Life does have certain attributes we believe to provide us competitive advantages in a crowded marketplace. These include innovative products, proprietary technology and controlled distribution in Efinancial. These advantages allow us to be more flexible in adapting to product and sales process opportunities than our more established competitors. We also believe that our innovative products and processes provide a point of differentiation that appeals to consumers.

Fidelity Life also competes by placing a majority of its policies through Efinancial. While this distribution channel provides access to our target Middle Market, we are aware that some Middle Market consumers prefer to purchase life insurance through alternative methods. We have developed an internet-based direct sales platform that permits customers to complete the purchase of a Fidelity Life insurance policy completely over the internet. Several of our competitors have also begun to implement online and digital distribution platforms. We believe that through the implementation of the Fidelity Life internet-based direct sales platform we will be able to extend our reach into our target Middle Market.

*A.M. Best Rating*

Fidelity Life is rated by A.M. Best, an independent rating agency that specializes in ratings for the insurance industry. A.M. Best annually issues a financial strength rating for the great majority of insurance companies doing business in the U.S. The financial strength rating is an independent opinion of an insurer's financial strength and its ability to meet its ongoing insurance policy obligations. A.M. Best's financial strength rating is based on a comprehensive quantitative and qualitative evaluation of an insurer's balance sheet strength, operating performance and business profile and is subject to a regular review by A.M. Best. Currently, A.M. Best has assigned Fidelity

Life a financial strength rating of “A-” (Excellent), which is the fourth highest rating category for A.M. Best. A.M. Best’s financial strength rating is not a recommendation to purchase, hold, or terminate any insurance policy or contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, A.M. Best’s financial strength rating does not address the risks or the advisability of any investment in our common stock.

*IT Applications*

Fidelity Life’s business, including the marketing, sales and administration of its insurance products, relies on its technology infrastructure. Our technology infrastructure incorporates both proprietary and commercially available elements, including the following:

- ***Fidelity Life Association Sales Handler (FLASH).*** Fidelity Life has developed FLASH, a modular technology platform that interfaces with our other key systems including Salesforce, our third-party data and service providers, and our reinsurer’s automated underwriting engine. FLASH allows an agent to collect the information necessary to complete an application for insurance and obtain underwriting decision while on the telephone with an applicant. In addition, FLASH is the technology platform that powers our direct-to-consumer digital sales efforts.
- ***New Business Exchange (NBX).*** Fidelity Life’s business processes are managed through NBX, a proprietary system developed by Fidelity Life. The NBX system catalogues all of the data gathered in the sales process and relevant to the insurance application process, and permits Fidelity Life employees to electronically access information used for underwriting maintained by third-party database providers.
- ***Other.*** Fidelity Life uses several other software applications for administration and operational purposes. Typically, these are obtained from third-party vendors. For example, we use commercially available software applications for all of Fidelity Life’s financial reporting and control functions.

*Reinsurance*

Fidelity Life uses reinsurance arrangements with multiple reinsurance carriers to limit our claims risk under our insurance contracts and to mitigate the impact of the insurance policies we issue on our statutory policyholder surplus. Our retention limit is $300,000 on each insured life for all policies. On the products that we currently issue where we have reinsurance, our reinsurance is on a first-dollar quota-share basis. Additionally, our reinsurance arrangements provide Fidelity Life with access to underwriting technology and risk management expertise from our reinsurance partners.

We evaluate our reinsurance needs, including the appropriate amount and structure of particular reinsurance arrangements, based on a number of factors, including the expertise of particular reinsurance carriers (and their technology platforms) required to support our various life insurance products, the estimated variability of claims experience, the estimated future impact of new business written on our statutory reserves and the costs of reinsurance.

Our current reinsurance arrangements open for new business‑are with Hannover Life Reassurance Company of America (“Hannover Life”) and Swiss Re Life & Health America Inc. (“Swiss Re”). The following is a brief summary of the reinsurance agreements relating to these arrangements:

***Hannover Life.*** Under our agreements with Hannover Life, we cede claims liability under certain of our term life policies in the Core Life business to Hannover Life on a coinsurance basis. We cede 25% of the claims liability to Hannover Life. Reinsurance premiums per policy are determined according to the amount reinsured with Hannover Life. These agreements do not have a fixed term. Either party may terminate the agreements with respect to future business with 90 days written notice to the other party.

***Swiss Re.*** Under our agreements with Swiss Re, we cede claims liability under certain of our term life policies in the Core Life business to Swiss Re on a coinsurance basis. We cede 65% of the claims liability to Swiss Re. Reinsurance premiums per policy are determined according to the amount reinsured with Swiss Re. These agreements do not have a fixed term. Either party may terminate the agreements with respect to future business with 90 days written notice to the other party.

***Swiss Re.— Accidental Death Benefit.*** Under our agreement with Swiss Re, we cede to Swiss Re 90% of our claims liability, subject to certain per life limits, under our accidental death benefit policies and riders on a coinsurance basis. Reinsurance premiums are determined according to the amount reinsured with Swiss Re per policy or rider. Swiss Re has the right to modify the reinsurance premium rates upon 90 days written notice to us. If we do not accept such modified reinsurance premium rates and we are unable to agree upon a revised rate structure within 60 days of Swiss Re's original notice, then the reinsurance premium rates then in effect continue unchanged. However, Swiss Re may, upon 30 days written notice to us, terminate the reinsurance on any policy or rider for which we have not accepted Swiss Re's modified reinsurance premium rate. This agreement does not have a fixed term. Either party may terminate the agreement with respect to future business with 90 days written notice to the other party. In the first quarter 2022, Fidelity Life entered into a reinsurance contract with Swiss Re Life & Health America Inc. This new treaty is in addition to existing coinsurance agreements on policies issued through and including December 31, 2020. The impact of this transaction to our segment results included an initial ceded premium of $2.6 million based on the statutory reserves at January 1, 2022. The impact to pre-tax income is nominal, however various income statement lines are impacted.

***Swiss Re.—Final Expense*****.** Under a separate agreement with Swiss Re, we cede to Swiss Re on a coinsurance basis 40% of our claims liability, subject to certain per life limits, under our final expense level death benefit and final expense graded benefit policies. This agreement does not have a fixed term. Either party may terminate the agreement with respect to future business with 60 days written notice to the other party. In the first quarter 2022, Fidelity Life entered into a reinsurance contract with Swiss Re Life & Health America Inc. This new treaty is in addition to existing coinsurance agreements on Final Expense Level Death Benefit policies issued through and including December 31, 2020. The impact of this transaction to our segment results included an initial ceded premium of $3.9 million based on the statutory reserves at January 1, 2022. The impact to pre-tax income is nominal, however various income statement lines are impacted.

***Swiss Re.—InstaTerm.*** The Company cedes to Swiss Re, on a coinsurance basis 33.3% of our claims liability, subject to certain per life limits, under InstaTerm term life insurance product. Either party may terminate the agreement with respect to future business with 90 days written notice to the other party.

***Swiss Re.—RapidDecission LifeOne®.*** The Company cedes to Swiss Re, on a coinsurance basis 80% of our claims liability, subject to certain per life limits, under ***RAPID*****Decision LifeOne®** term life insurance product. Either party may terminate the agreement with respect to future business with 90 days written notice to the other party.

***RGA Reinsurance Company —Final Expense*** Under an agreement with RGA Reinsurance Company we cede to RGA on a coinsurance basis 40% of our claims liability, subject to certain per life limits, under our final expense level death benefit and final expense graded benefit policies. This agreement does not have a fixed term. Either party may terminate the agreement with respect to future business with 60 days written notice to the other party.

***SCOR Global Life USA Reinsurance Company Inc. (SCOR)—InstaTerm.*** The Company cedes to SCOR on a coinsurance basis 33.3% of our claims liability, subject to certain per life limits, under InstaTerm term life insurance product. This agreement does not have a fixed term. Either party may terminate the agreement with respect to future business with 90 days written notice to the other party.

In 2013, Fidelity Life entered into a reserve financing reinsurance arrangement with Hannover Life designed to enhance its ability to continue to grow Fidelity Life's Core Life insurance business. This agreement was first amended and restated as of July 1, 2016, and a subsequent amendment was filed with the Illinois Department of Insurance in November 2019 and approved by the Illinois Department of Insurance on December 23, 2019. The structure of the agreement, which was first effective July 1, 2013, involves a combination of coinsurance with funds withheld and yearly renewable term reinsurance covering most of the Company's non-participating in-force life insurance business with issue dates on or before December 31, 2019.

Even though we reinsure certain of our liabilities to third-party reinsurance carriers, Fidelity Life remains directly liable to policyholders for the benefit payments associated with these policies. Our reinsurance carriers have a contractual relationship with Fidelity Life to reimburse us for policy claims but are not under any contractual obligation to our policyholders. Because Fidelity Life remains directly liable to policyholders for the full amount of the death benefits payable under its policies, Fidelity Life bears credit risk relating to its reinsurers under its reinsurance contracts. As a result, Fidelity Life will only enter into a reinsurance agreement with reinsurers that have stable operating performance, including a minimum A.M. Best financial strength rating of "A-" (Excellent).

We had reinsurance recoverables of $214.9 million and $184.1 million as of December 31, 2022 and December 31, 2021, respectively. The following table sets forth our five largest reinsurers based on reinsurance recoverables as of December 31, 2022 and December 31, 2021, and the A.M. Best ratings of those reinsurers as of December 31, 2022:

| (dollars in thousands) | As of December 31, 2022 | | | | As of December 31, 2021 | | |
|---|---|---|---|---|---|---|---|
| | Ceded Future Policy Benefits | Claims and Other Amounts Recoverable | Total Reinsurance Recoverables | 2022 A.M. Best's Rating | Ceded Future Policy Benefits | Claims and Other Amounts Recoverable | Total Reinsurance Recoverables |
| **Reinsurer** | | | | | | | |
| Hannover Life | $ 80,792 | $ 12,431 | $ 93,223 | A+ | $ 74,822 | $ 11,440 | $ 86,262 |
| Swiss Re | 63,182 | 21,560 | 84,742 | A+ | 43,685 | 17,504 | 61,189 |
| Combined Insurance | 16,064 | 2,189 | 18,253 | A+ | 14,668 | 3,841 | 18,509 |
| RGA Reinsurance Company | 5,535 | 788 | 6,323 | A+ | 3,065 | 528 | 3,593 |
| Canada Life Assurance Company | 2,056 | 416 | 2,472 | A+ | 2,201 | 465 | 2,666 |
| Other (12 Reinsurers) | 6,275 | 3,574 | 9,849 | | 7,646 | 4,266 | 11,912 |
| Total | $ 173,904 | $ 40,958 | $ 214,862 | | $ 146,087 | $ 38,044 | $ 184,131 |

***Core Life***. The overall relationship of ceded premium to direct premiums increased in 2022 due to the mix of business and related retention rates. For the Core Life business line, the amount of death benefit reinsured by Fidelity Life varies by insurance product, with some products having no reinsurance and others have 80% or 90% of the death benefit is reinsured, all of which is subject to the $300,000 limit. For the Closed Block and the annuities and assumed life business lines, the percent of death benefit reinsured is higher, on average, than the average for the insurance products currently being sold in the Core Life line of business. The following table shows the different relationship of reinsurance premiums ceded to total direct and assumed premiums for each of these business lines for the years ended December 31, 2022 and December 31, 2021.

| (dollars in thousands) | As of December 31, 2022 | | | | | As of December 31, 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Core Life | Non-Core Life | Closed Block | Annuities and Assumed Life | Total | Core Life | Non-Core Life | Closed Block | Annuities and Assumed Life | Total |
| **Ratios:** | | | | | | | | | | |
| Direct and Assumed Premium | $ 150,030 | $ 61,867 | $ 7,881 | $ 460 | $ 220,238 | $ 137,788 | $ 62,569 | $ 10,336 | $ 452 | $ 211,145 |
| Ceded Premium | $ 81,028 | $ 33,933 | $ 4,808 | $ 394 | $ 120,163 | $ 67,450 | $ 28,062 | $ 7,297 | $ 378 | $ 103,187 |
| Ceded % of Total Direct and Assumed Premiums | 54.0 % | 54.8 % | 61.0 % | 85.7 % | 54.6 % | 49.0 % | 44.8 % | 70.6 % | 83.6 % | 48.9 % |

The period-to-period comparison of the ceded to direct and assumed premiums shows the total ceding percentage in our Core Life increasing, as the percentage of the total increased due to changes in reinsurance contracts.

***Non-Core Life***. Non-Core life follows the same reinsurance guidelines and procedures as Core Life, as discussed above.

***Closed Block***. In October 2006, Fidelity Life established a Closed Block consisting of all of the outstanding participating policies issued or assumed by Fidelity Life. We call this arrangement the Closed Block. We operate the Closed Block in accordance with a Closed Block memorandum that we entered into in connection with our 2007 reorganization as a mutual holding company. The purpose of the Closed Block is to provide reasonable assurance to the participating policyholders that sufficient assets will be available to provide for the continuation of policy benefits and experience-based dividends for these participating policies. Most of the participating policies in the Closed Block were sold on the basis of “no dividends expected” and, accordingly, such policies had never received an experience-based dividend prior to 2022. In 2022, dividends on these “no dividends expected” policies began to be paid, and dividends will be paid in future years if experience warrants. The payment of any dividends is not guaranteed based on the results of a specific block or group of participating policies. The declaration of any dividend is subject to the discretion of the Board of Directors of Fidelity Life, and dividends are not payable until declared. No new dividend-paying or participating policies have been issued by Fidelity Life since our reorganization in 2007.

The Closed Block was funded on October 1, 2006 with cash flow producing assets that together with anticipated revenues from the Closed Block policies were expected to be sufficient to support the Closed Block, including payment of claims, expenses, and taxes and to provide for continuation of dividends, to the extent experience allowed, for the life of the policies. Dividend scales were changed in 2022 due to past and expected future experience. It is possible that past experience and expectations of future experience may lead to further changes in dividend scales. If the future experience is such that the assets of the Closed Block are not sufficient to pay the claims and expenses guaranteed under the policies, then Fidelity Life would be required to make such payments from its general funds. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K for further discussion regarding the Closed Block.

***Annuities and Assumed Life***

Fidelity Life reinsures products issued by other companies under four reinsurance arrangements, three of which are not open to new insurance policies but still cover the existing in-force business that was assumed prior to 1993. Under two contracts with Zurich American Life Insurance Company, Fidelity Life assumed the liability for the contractual benefits under a group of annuity contracts written through 1993. Under a contract with Protective Life Insurance Company ("Protective Life"), the successor company of a former affiliate, Fidelity Life assumed a portion of the risk on a group of life insurance contracts primarily written in the 1980s and early 1990s. On March 29, 2019, Protective Life recaptured the majority of the assumed block of life business.

Fidelity has an active reinsurance agreement with Hannover Life Reassurance Company of America (Bermuda) Ltd. (Hannover Bermuda) under which Fidelity Life assumes a portion of risks on certain life contracts originally issued by Fidelity Life and ceded to Hannover Life Reassurance Company of America. In addition, we license our LifeTime Benefit Term product to Combined Insurance Company of America (Combined Insurance) and for certificates issued prior to January 1, 2022 we reinsured 50% of the business written by Combined Insurance on that product.

The following table sets forth Fidelity Life's assumed reinsurance liabilities as of December 31, 2022 and December 31, 2021:

| | As of December 31, 2022 | | | | As of December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Future Policy Benefits | Contract Holder Account Balances | Other Policyholder Liabilities | Total Assumed Liabilities | Future Policy Benefits | Contract Holder Account Balances | Other Policyholder Liabilities | Total Assumed Liabilities |
| **Reinsurer** | | | | | | | | |
| Hannover Bermuda | $ (1,441) | $ — | $ 9 | $ (1,432) | $ (1,481) | $ — | $ 10 | $ (1,471) |
| Protective Life Insurance Company | 1,507 | — | 4 | 1,511 | 1,440 | — | 4 | 1,444 |
| Zurich American Life Insurance Company | — | 69,070 | — | 69,070 | — | 71,832 | — | 71,832 |
| Combined Insurance Company of America | 60,910 | — | 1,776 | 62,686 | 47,779 | — | 3,231 | 51,010 |
| Total | $ 60,976 | $ 69,070 | $ 1,789 | $ 131,835 | $ 47,738 | $ 71,832 | $ 3,245 | $ 122,815 |

**Corporate & Other Segment**

The results of this segment consist of net investment income and net gains (losses) on investments earned on invested assets. We also include certain corporate expenses that are not allocated to our other segments, including public company costs and other expenses of Vericity, Inc., board expenses, allocation of executive management time spent on corporate matters, and financial reporting and auditing costs related to our consolidation and internal controls. Our Corporate & Other Segment recognizes income (loss) to the extent that net investment income and net gains (losses) on investments exceed (are less than) corporate expenses.

**Intellectual Property**

The Company and its subsidiaries rely on our proprietary intellectual property to conduct our business. We believe that it is easy for participants in the insurance industry to attempt to copy product and process ideas of other participants. We therefore intend to protect to the fullest extent permitted by law our intellectual property rights in the unique products and sales processes we have developed. We believe that protecting our intellectual property rights and obtaining protection for future innovations will help us to achieve better results over time.

Efinancial currently has trade name protection for certain of its key internet domains, including Efinancial.com, termfinder.com, eCoverage.com, and netcoverage.com. Efinancial has also been granted two U.S. patents for its ALISS® agency management system. The patents include tracking and management of leads from purchase through the sales cycle. Real-time modeling is applied to lead sourcing, user identification, purchase intent and identification of the product a customer is most likely to purchase.

We have been granted four U.S. patents related to the ***RAPID***ecision® Life product and its supporting sales and underwriting technology and processes and a separate patent directed to the LifeTime Benefit Term product. We continue to seek additional patent protections for our ***RAPID***ecision® Life product. We may be unable to adequately protect our intellectual property rights or avoid infringing the intellectual property rights of third parties, and the intellectual property rights we have may not be a meaningful barrier to competition.

**Information Technology**

Fidelity Life maintains an in-house information technology staff. Fidelity Life's in-house personnel are supplemented by independent consultants, as needed, for programming, development, and other technology-based efforts.

Fidelity Life maintains a Disaster Recovery Plan under the Enterprise Disaster Recovery Plan umbrella and has put in place various programs to increase our agility in responding to a disaster.

Similar to Fidelity Life, Efinancial maintains an in-house information technology staff. The Efinancial technology team is responsible for developing and maintaining Efinancial's applications and assisting our internal and external customers. In limited cases, we use outside contractors to provide additional programming and development expertise.

The Bellevue, Des Plaines, and Tempe call centers are connected via high-speed connection to TierPoint and each other. The data and files hosted on the two TierPoint data centers are automatically backed up and duplicated to the other data center nightly and weekly.

Efinancial maintains a Disaster Recovery Plan under the Enterprise Disaster Recovery Plan umbrella.

**Cybersecurity**

Vericity maintains a dedicated cybersecurity department that manages the Access Review, Cloud Security, Compliance and Privacy, Data Loss Prevention, Endpoint Security, Incident Response, Risk Management, Security Awareness, and Vulnerability Management programs for the entire enterprise. Additionally, in response to the growing threat of cyber-attacks in the insurance industry, certain jurisdictions have begun to consider and adopt new cybersecurity regulations. We take steps to comply with all applicable financial industry cybersecurity regulations and believes we comply in all material respects with current requirements. It must be noted that the patchwork nature of the laws in this area can make it more costly and difficult to ensure compliance. Our Board of Directors oversees cybersecurity risk management and delegates oversight of our information security program to our executive officers and we provide updates to our Board of Directors at each meeting.

**Investments**

We had total cash and investment assets of $363.6 million as of December 31, 2022. All invested assets are managed pursuant to an investment plan developed by our executive management team and approved by and reviewed annually with the investment committee of our Board of Directors. All changes to the investment plan are approved by the investment committee.

We have contracted with a third-party investment advisory firm to provide portfolio management and consulting services to assist our Chief Financial Officer with the oversight of various portfolios and investment managers that manage portions of our investment portfolio. We utilize multiple investment managers to leverage specialized expertise in specific asset classes. Each investment manager operates under agreed-upon guidelines that are specifically designed for the investment manager's segment of the overall portfolio. Our investment advisor meets periodically, but not less frequently than quarterly, with the investment committee of our Board of Directors to review portfolio results, portfolio managers and discuss portfolio strategies.

Our investment strategy is to diversify among asset classes and individual issuers to achieve appropriate matching of assets with insurance liabilities, sufficient liquidity and predictability of income. The composition of our investment portfolio supporting our Insurance Segment is primarily investment grade fixed maturity securities and is managed with primary emphasis on current earnings. The Closed Block assets are segregated in a separate portfolio and are managed in accordance with the Closed Block memorandum.

**Enterprise Risk Management**

The review and assessment of enterprise risks is the responsibility of the Vericity, Inc. executive management team with oversight provided by the Board of Directors through its audit committee. We have established risk management policies and procedures throughout our organization. To supervise the implementation of these risk management policies and procedures, we have engaged outside consultants on this topic and have established a risk management committee that consists of members of our senior management team.

In 2015, we launched a multi-phase risk assessment project focused on formalizing our enterprise risk management process covering Efinancial, Fidelity Life, their respective subsidiaries and operations and all corporate activities. Project goals include defining key risks and risk events, establishing corporate risk tolerances and documenting the accountability for the risk management processes. We re-evaluated our program in 2019 and made significant reporting and process improvements and narrowed the focus of our enterprise risk management program. We seek continuous improvement of our program and the program will continue to evolve over time. We currently assess our key risks on four primary measures: impact, likelihood, vulnerability and speed of onset.

**Employees & Human Capital**

As of December 31, 2022, Fidelity Life had 137 employees and Efinancial had 280 employees. None of our employees are covered by a collective bargaining agreement. We believe that relations with our employees are good. Our core values of Putting People First, Operating with Excellence, being Passionate Team Players and Making a Positive Difference help our employees maintain a connected culture of working together to help middle America get access to affordable life insurance products and solutions. We are also committed to helping build a diverse and well rounded employee base where we focus on a stair step approach to maintaining equity, fostering inclusion which ultimately leads to the diversity of people, thoughts and ideas we want to hear and see in all of our employees. We view our employees as part of our overall competitive advantage and the key to a successful future. We monitor competitor, industry and overall economic trends in order to ensure we maintain competitive compensation and comprehensive benefits to attract and retain our talent. We also provide training, education and other development opportunities to ensure our employees can grow and achieve their goals.

**Environmental, Social, and Governance**

As a publicly traded holding company for a US domiciled life insurance product manufacturer and insurance agency, our primary Environmental, Social and Governance (ESG) focus tends to lean toward the social responsibility aspects of ESG. We comply in all material respects with insurance, SEC, NASDAQ and other legal, regulatory or exchange governance requirements. Additionally as we do not manufacture industrial or waste dependent products, do not have a large industrial or commercial real estate footprint and conduct limited travel overall, the environmental impacts of the Company itself are small. We do discuss ESG principles with our third-party investment advisory firm and we monitor the potential impacts of climate change or other environmental considerations as they relate to our ability accurately underwrite our insurance policies. As a provider of a product that is especially important to those who would suffer a great deal of financial hardship due to the death of a loved one, our entire business is focused on social responsibility and providing assistance to people when they may need it the most. As to our employees, as discussed elsewhere in this document we are committed to helping build a diverse and well rounded employee base where we focus on a stair step approach where we work toward maintaining equity, foster inclusion which in turn ultimately leads to a more diverse group of people, thoughts and ideas. We believe that by serving our Middle Market consumers, engaging our diverse and multi-state workforce and ensuring we are offering products and services that help maintain financial security we make a large impact from a social responsibility perspective. We closely follow ESG activities, proposed laws, rules and regulations and we have not currently seen impacts that would cause us to change or further enhance our risk factors as it relates to ESG.

**Regulation**

Our businesses are subject to a number of federal and state laws and regulations. These laws and regulations cover Fidelity Life operations as a life insurance company and Efinancial’s insurance agency operations. Our operations are subject to extensive laws and governmental regulations, including administrative determinations, court decisions and similar constraints. The purpose of the laws and regulations affecting our operations is primarily to protect our policyholders and not our shareholders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. State insurance laws regulate most aspects of our insurance businesses, and we are regulated by the insurance departments of the states in which we sell insurance policies. The National Association of Insurance Commissioners (“NAIC”) assists the various state insurance regulators in the development, review and implementation of a wide range of financial and other regulations over the insurance industry.

### *Insurance Regulation*

Both Fidelity Life and Efinancial are licensed to transact business in all states and jurisdictions in which they conduct an insurance business. Fidelity Life is an Illinois-domiciled life insurance company licensed to transact business in 48 states and the District of Columbia. Fidelity Life is not licensed to transact business in New York or Wyoming. Efinancial is an insurance agency domiciled in the State of Washington and is licensed in all 50 states and the District of Columbia. State insurance laws regulate many aspects of our business. Such regulation is vested primarily in state agencies having broad administrative and in some instances discretionary power dealing with many aspects of our business, which may include, among other things, required reserve liability levels, permitted classes of investments, transactions among affiliates, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy, and is concerned primarily with the protection of policyholders and other consumers rather than shareholders. We are subject to financial and market conduct examinations by insurance regulators from our domiciliary states and from other states in which we do business and are currently undergoing such a financial examination by the Illinois Department of Insurance.

State laws and regulations governing the financial condition of insurers apply to Fidelity Life, including standards of solvency, risk-based capital requirements, types, quality and concentration of investments, establishment and maintenance of reserves, required methods of accounting, reinsurance and minimum capital and surplus requirements, and the business conduct of insurers, including sales and marketing practices, claim procedures and practices, and policy form content. In addition, state insurance laws require licensing of insurers and their agents. State insurance regulators have the power to grant, suspend and revoke licenses to transact business and to impose substantial fines and other penalties.

### *Agent Licensing*

Efinancial (or its designated representative) is authorized to act as an insurance producer under company licenses or licenses held by its officers in all 50 states and the District of Columbia. In each jurisdiction in which Efinancial transacts business, it is generally subject to regulation regarding licensing, sales and marketing practices, premium collection and safekeeping, and other market conduct practices. Its business depends on the validity of, and continued good standing under, the licenses and approvals pursuant to which it operates, as well as compliance with pertinent regulations. We devote significant effort toward maintaining licenses for Efinancial and managing its operations and practices consistent with the diverse and complex regulatory environment in which we operate.

Fidelity Life sells its insurance products through Efinancial and independent distributors. Efinancial employs insurance agents working in its call centers and also works with independent insurance agents. The states in which insurance agents operate require agents to obtain and maintain licenses to sell insurance products. In order to sell insurance products, the agents must be licensed by their resident state and by any other state in which they do business and must comply with regulations regarding licensing, sales and marketing practices, premium collection and safeguarding, and other market conduct practices. In addition, in most states, Fidelity Life must appoint the agents and agencies that sell our insurance products, and Efinancial and the agents that they work with must be appointed by all carriers for which they sell.

Consistent with various federal and state legal requirements, we monitor our agents that sell for Fidelity Life and Efinancial, and we monitor the agencies with which the independent distributors and independent agents work in order to understand and evaluate the agencies’ training and general supervision programs relevant to regulatory compliance. For Efinancial’s call center agents using telephone sales, we periodically record and monitor the sales calls in order to identify and correct potential regulatory compliance problems.

### *Financial Review*

Fidelity Life is required to file detailed annual and quarterly financial reports with the insurance departments in the states in which we do business, and its business and accounts are subject to examination by such agencies at any time. These examinations generally are conducted under NAIC guidelines. Under the rules of these jurisdictions, insurance companies are examined periodically (generally every three to five years) by one or more of the supervisory agencies on behalf of the states in which they do business.

### *Market Conduct Regulation*

The laws and regulations governing our insurance businesses include numerous provisions governing the marketplace activities of insurers, such as Fidelity Life, and agencies, such as Efinancial, including regulations governing the form and content of disclosures to consumers, advertising, product replacement, sales and underwriting practices, complaint handling, and claims handling. State insurance regulators enforce compliance, in part, through periodic market conduct examinations.

### *Insurance Holding Company Regulation*

All states in which Fidelity Life conducts insurance business have enacted legislation that requires each insurance company in a holding company system to register with the insurance regulatory authority of its state of domicile and to furnish that regulatory authority financial and other information concerning the operations of, and the interrelationships and transactions among, companies within its holding company system that may materially affect the operations, management or financial condition of the insurers within the system. These laws and regulations also regulate transactions between insurance companies and their parents and affiliates. Generally, these laws and regulations require that all transactions within a holding company system between an insurer and its affiliates be fair and reasonable and that the insurer's statutory surplus following any transaction with an affiliate be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. Statutory surplus is the excess of admitted assets over statutory liabilities. For certain types of agreements and transactions between an insurer and its affiliates, these laws and regulations require prior notification to, and non-disapproval or approval by, the insurance regulatory authority of the insurer's state of domicile. These laws and regulations also require the holding company system to file an annual report identifying certain risks ("enterprise risks") that, if not remedied, are likely to have a material adverse effect upon the financial condition of the insurer or its holding company system as a whole.

***Dividend Limitations***

As a holding company with no significant business operations of its own, Vericity, Inc. depends on intercompany dividends or other distributions from its subsidiaries as the principal source of cash to meet its obligations. The ability of Fidelity Life to pay dividends to its corporate parent is limited under Illinois law. Such dividends may only be paid out of earned surplus (excluding unrealized capital gains), and no dividend may be paid that would reduce Fidelity Life's statutory surplus to less than the amount required to be maintained by Illinois law for the types of business transacted by Fidelity Life. All intercompany dividends must be reported to the Illinois Department of Insurance prior to payment. In addition, Fidelity Life may not pay an "extraordinary" dividend or distribution until 30 days after the Illinois Director of Insurance ("the Director") has received sufficient notice of the intended payment and has not objected or has approved the payment within the 30-day period. An "extraordinary" dividend or distribution is defined under Illinois law as a dividend or distribution that, together with other dividends and distributions made within the preceding 12 months, exceeds the greater of:

- 10% of the insurer's statutory surplus as of the immediately prior year end; or
- the statutory basis net income of the insurer for the prior year.

As a result of no shareholder dividends in 2022, Fidelity Life's remaining ordinary dividend capacity on December 31, 2022 was $9.8 million. In connection with the approval of the Conversion by the Director, 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 Vericity, Inc. or use all or a portion of that $20 million to fund our operations. To date we have not requested any such dividend and the 24 month prior approval for ordinary dividends expired in August of 2021.

Efinancial is not subject to the above dividend restrictions that relate to Fidelity Life.

***Change of Control***

Illinois law requires advance approval by the Director of any direct or indirect change of control of an Illinois-domiciled insurer, such as Fidelity Life. In considering an application to acquire control of an insurer, the Director generally will consider such factors as experience, competence, and the financial strength of the applicant, the integrity of the applicant's Board of Directors and officers, the acquirer's plans for the management and operation of the insurer, and any anti-competitive effects that may result from the acquisition. Under Illinois law, there exists a presumption of "control" when an acquiring party acquires 10% or more of the voting securities of an insurance company or of a company which itself controls an insurance company. Therefore, any person acquiring, directly or indirectly, 10% or more of our common stock would need the prior approval of the Director, or a determination from the Director that "control" has not been acquired. Under Section 59.1(6)(i) of the Illinois Insurance Code, no person or a group of persons acting in concert (other than the Standby Purchaser in the Company's IPO), may acquire, directly or indirectly, more than 5% of the capital stock of Vericity, Inc. for a period of five years from the effective date of the Conversion without the approval of the Director.

In addition, a person seeking to acquire, directly or indirectly, control of an insurance company is required in some states to make filings prior to completing an acquisition if the acquirer and the target insurance company and their affiliates have sufficiently large market shares in particular lines of insurance in those states. Approval of an acquisition may not be required in these states, but the state insurance departments could take action to impose conditions on an acquisition that could delay or prevent its consummation.

***Policy and Contract Reserve Sufficiency***

Fidelity Life is required under Illinois law to conduct annual analyses of the sufficiency of its life insurance and annuity statutory reserves. In addition, other states in which Fidelity Life is licensed may have certain reserve requirements that differ from those of Illinois. In each case, a qualified actuary must submit an opinion each year that states that the aggregate statutory reserves, when considered in light of the assets held with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurer. If such an opinion cannot be provided, the affected insurer must set up additional reserves by moving funds from surplus. Fidelity Life submitted these opinions without qualification as of December 31, 2022 to applicable insurance regulatory authorities.

***Risk-Based Capital (RBC) Requirements***

The NAIC has established a standard for assessing the solvency of insurance companies using a formula for determining each insurer's RBC. The RBC model act provides that life insurance companies must submit an annual RBC report to state regulators reporting their RBC based upon four categories of risk: asset risk, insurance risk, interest rate risk and business risk. For each category, the capital requirement is determined by applying factors to various asset, premium and reserve items, with the factor being higher for those items with greater underlying risk and lower for less risky items. The formula is intended to be used by insurance regulators as an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action. Companies that do not maintain total adjusted risk-based capital in excess of 200% of the company's authorized control level RBC may be required to take specific actions at the direction of state insurance regulators. Fidelity Life's total adjusted capital at December 31, 2022 was well in excess of 200% of its authorized control level. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Risk-Based Capital."

***NAIC Ratios***

The NAIC is a voluntary association of state insurance commissioners formed to discuss issues and formulate policy with respect to regulation, reporting and accounting of insurance companies. Although the NAIC has no legislative authority and insurance companies are at all times subject to the laws of their respective domiciliary states, and to a lesser extent, other states in which they conduct business, the NAIC is influential in determining the form in which such laws are enacted. Model insurance laws, regulations and guidelines have been promulgated by the NAIC as minimum standards by which state regulatory systems and regulations are measured.

The NAIC also has established a set of 12 financial ratios to assess the financial strength of insurance companies. The key financial ratios of the NAIC's Insurance Regulatory Information System, or IRIS, which were developed to assist insurance departments in overseeing the financial condition of insurance companies, are reviewed by experienced financial examiners of the NAIC and state insurance departments to select those companies that merit highest priority in the allocation of the regulators' resources. IRIS identifies these key financial ratios and specifies a range of "unusual values" for each ratio. The NAIC suggests that insurance companies that fall outside the "usual" range in four or more financial ratios are those most likely to require analysis by state regulators. However, according to the NAIC, it may not be unusual for a financially sound company to have several ratios outside the "usual" range. For the year ended December 31, 2022, Fidelity Life was within the "usual" range for all ratios.

***Statutory Accounting Principles (SAP)***

SAP is a basis of accounting developed by U.S. insurance regulators to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with evaluating an insurer's ability to pay all its current and future obligations to policyholders. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer's domiciliary jurisdiction. Uniform statutory accounting practices are established by the NAIC and generally adopted by regulators in the various U.S. jurisdictions. These accounting principles differ somewhat from GAAP, which are designed to measure a business on a going-concern basis. GAAP gives consideration to matching of revenue and expenses and, as a result, certain insurer expenses are capitalized when incurred and then amortized over the life of the associated policies. The valuation of assets and liabilities under GAAP is based in part upon best estimate assumptions made by the insurer. Shareholders' equity under GAAP represents both amounts currently available and amounts expected to emerge over the life of the business. As a result, the values for assets, liabilities and equity reflected in financial statements prepared in accordance with GAAP may be different from those reflected in financial statements prepared under SAP.

State insurance laws and regulations require Fidelity Life to file with state insurance departments publicly available quarterly and annual financial statements, prepared in accordance with statutory guidelines that generally follow NAIC uniform standards. State insurance laws require that the annual statutory financial statements be audited by an independent public accountant and that the audited statements be filed with the insurance departments in states where the insurer transacts business.

***State Insurance Guaranty Funds Laws***

In most states, there is a requirement that life insurers doing business within the state participate in a guaranty association, which is organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the written premium in the state by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover such paid assessments through full or partial premium tax offsets.

Life insurance company insolvencies or failures may result in additional guaranty association assessments against Fidelity Life in the future. At this time, we are not aware of any material liabilities for guaranty fund assessments that apply to Fidelity Life with respect to impaired or insolvent insurers that are currently subject to insolvency proceedings.

***Regulation of Investments***

Fidelity Life is subject to state laws and regulations that require diversification of its investment portfolios and limit the amount of investments in certain asset categories, such as below-investment grade fixed-income securities, equity real estate, mortgages, other equity investments, foreign investments and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring statutory surplus, and, in most instances, require divestiture.

***Federal and State Legislative and Regulatory Changes***

From time to time, various regulatory and legislative changes have been proposed for the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which proposals have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the NAIC. We are unable to predict whether any of these proposed laws and regulations will be adopted, the form in which any such laws and regulations would be adopted or the effect, if any, these developments would have on our business, financial condition and results of operations.

**Other Laws and Regulations**

***USA Patriot Act and Similar Regulations***

The USA Patriot Act of 2001, enacted in response to the terrorist attacks on September 11, 2001, contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. The increased obligations of financial institutions to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, require the implementation and maintenance of internal practices, procedures and controls.

***Privacy of Consumer Information***

U.S. federal and state laws and regulations require financial institutions, including insurance companies, to protect the security and confidentiality of consumer financial information and to notify consumers about their policies and practices relating to their collection and disclosure of consumer information and their policies relating to protecting the security and confidentiality of that information. Similarly, federal and state laws and regulations also govern the disclosure and security of consumer health information. In particular, regulations promulgated by the U.S. Department of Health and Human Services regulate the disclosure and use of protected health information by health insurers and others (including life insurers), the physical and procedural safeguards employed to protect the security of that information and the electronic transmission of such information.

***Telephone and Email Solicitation Sales Regulations***

The United States Congress, the Federal Communications Commission and various states have promulgated and enacted rules and laws that govern personal privacy, telephone and email solicitations and data privacy. There are numerous state statutes and regulations governing phone and email solicitation activities that apply or may apply to us. For example, some states place restrictions on the methods and timing of telephone solicitation calls and require that certain mandatory disclosures be made during the course of a call. We specifically train our retail call center sales agents to handle calls in an approved manner, and such compliance training is costly and time consuming. Federal and state “Do Not Call” regulations must be followed for us to engage in telephone sales activities. In addition, the Federal Trade Commission has promulgated rules in response to the CAN-SPAM Act of 2003 that regulates the use of electronic mail in commercial contexts. This regulation applies to all electronic mail for which the primary purpose is the commercial advertisement or promotion of a commercial product or service.

***Federal Income Taxation***

The U.S. Congress and state and local governments consider from time-to-time legislation that could increase or change the manner of taxing the products Fidelity Life sells and of calculating the amount of taxes paid by life insurance companies or other corporations, including Fidelity Life. To the extent that any such legislation is enacted in the future, we could be adversely affected.

**Item 1A. Risk Factors.**

In addition to the risks delineated throughout Item 1, 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 have impacted both employees and customers of the Company and presented 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.

**Item 1B. Unresolved Staff Comments.**

None

**Item 2. Properties.**

We operate from three locations that are leased from unaffiliated parties. Vericity, Inc. and Fidelity Life are headquartered in Des Plaines, Illinois at 1350 E. Touhy Avenue, Suite 205W. Efinancial is headquartered in Bellevue, Washington at 1203 114th Avenue, Southeast. Efinancial has a call center in Des Plaines, Bellevue and Tempe, Arizona. In total, the three locations can house in excess of 200 employees. During the COVID pandemic we began transitioning most employee roles to remote capable roles. Today we operate as a remote first workforce and our locations supplement those remote capabilities to provide hybrid work location alternatives for our employees.

**Item 3. Legal Proceedings.**

We are, from time to time, involved in various legal proceedings in the ordinary course of business. These matters often raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to the underlying facts of each matter; novel legal issues; differences or developments in applicable laws and judicial interpretations; class certification issues; judges reconsidering prior rulings; the length of time before many of these matters might be resolved by settlement, through litigation, or otherwise.

The outcome of these matters may be affected by many factors included but not limited to decisions, verdicts, and settlements in other individual and class action lawsuits that involve the Company, other insurers, or other entities and/or by other legal, governmental, and regulatory actions that involve the Company, other insurers, or other entities.

While it is not possible to forecast the outcome of such legal proceedings, in light of known facts, current issues under consideration via motions to dismiss or otherwise, existing insurance, reinsurance, and established reserves, we believe that there is no individual or class action case pending against the Company that is currently likely to have a material adverse effect on our financial condition or results of operations.

**Item 4. Mine Safety Disclosures.**

Non-Applicable

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the NASDAQ Capital Market under the symbol “VERY.”

On November 6, 2019, the Company announced that its Board of Directors had declared a special one-time cash distribution of $6.25 per share to common shareholders of record on November 21, 2019, that was paid on December 6, 2019. The cash distribution totaled approximately $93 million. The cash distribution was declared after the completion of a capital needs assessment undertaken by Vericity, Inc. management at the direction of the Board of Directors, following the closing of the Company’s IPO.

Since we are a holding company, our ability to pay cash dividends depends in large measure on our subsidiaries' ability to make distributions of cash or property to us. Illinois insurance laws restrict the amount of distributions Fidelity Life can pay to us without the approval of the Director. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 9 to our audited consolidated financial statements, which are incorporated by reference in this Item 5. In connection with the approval of the Conversion by the Director, 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 IPO at Vericity, Inc. or use all or a portion of that $20 million to fund our operations. While this time period has now expired, Fidelity Life did not request approval or declare a dividend during that time period.

As of March 28, 2023, the Company had 905 shareholders of record of common stock.

### Use of IPO Proceeds

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

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

### Item 6. Selected Financial Data.

As a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and Item 10(f)(1) of Regulation S-K, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore is not required to provide the information required by Item 301 of Regulation S-K.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

### Forward-Looking Statements

This Form 10-K 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 investment 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 8 of this Form 10-K. Some of the information contained in this discussion and analysis and set forth elsewhere in this Form 10-K 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 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.

## Russia and Ukraine War

The Company believes the war in Ukraine does not have a material impact on the condensed consolidated financial statements of the Company at December 31, 2022.

## National Service Group of AmeriLife, LLC

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

## Agency Segment

This segment primarily consists of the operations of Efinancial. Efinancial is a physical call center and remote employee 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 desire to work for the carriers that Efinancial represents, which we refer to as our wholesale channel. Efinancial also generates insurance lead sales revenue through its eCoverage web presence. For the years ended December 31, 2022 and December 31, 2021, our Agency Segment revenue earned 86% and 85% through the retail channel, 5% and 3% through the wholesale channel, and 9% and 12% through insurance lead sales revenue, respectively.

The Agency Segment's main source of revenue is commissions earned on the sale of insurance policies sold through our retail channel. Efinancial's employee agents utilize insurance sales leads to contact or be contacted by potential customers and then work with the customers to complete the sales process, which can occur during the initial contact or within 24 to 48 hours for non-medically underwritten policies. In our wholesale channel, we subcontract with our independent agents who sell through Efinancial's contracts with its unaffiliated insurance carriers. In consideration for using our carrier contracts and services, we receive a portion of the commission earned by the independent agent from the carrier.

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 are able to 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. For years ended December 31, 2022 and December 31, 2021, these offsetting revenues were $4.5 million and $6.3 million, respectively, which reduced our total agency expenses by approximately 8% and 11%, respectively. Our Agency Segment recognizes income (loss) to the extent that commissions and other revenue exceed (are less than) our marketing and overhead costs for the period.

**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.

Non Core 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 and represents all in-force participating insurance policies of Fidelity Life. Annuities and assumed life represent (i) our assumed life business, which consists of policies primarily written in the 1980s and early 1990s; (ii) our direct annuity contracts, which consist of approximately 77 structured settlement contracts that remain from a group of contracts entered into in the late 1980s; and (iii) our assumed annuities, which consist of contract-holder deposits assumed from a former affiliate under two coinsurance treaties entered into in 1991 and 1992. The 2019 demutualization of Members Mutual had no impact on how the Closed Block is structured.

We have not accepted new policies in these legacy lines since 2006 or prior, and these lines are considered to be in “run-off” with a declining number of policies in-force each period. We recognize income on the Closed Block, and annuities and assumed life to the extent that premium revenues and net investment income exceed the benefit expenses and operating expenses (including paid and accrued policyholder dividends) of these lines of business. On the two annuity lines, we recognize income (loss) to the extent that our net investment income earned exceeds (are less than) benefit expenses (direct annuities) and amounts credited on policy deposits (assumed annuities) and operating expenses of the two lines.

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. On March 29, 2019, one of these former affiliates recaptured the majority of the assumed block of life business. The annuity deposits were ceded to Fidelity Life through two contracts entered into in the early 1990s. These annuity and assumed life deposits are now largely in runoff, with only minor amounts of new deposits each year. There are minimal remaining surrender charges associated with the assumed annuity contracts.

Our Insurance Segment revenues consist of net insurance premiums, net investment income, and net gains (losses) on investments. Our distributors consist of the independent insurance agencies and Efinancial that we contract with to sell our insurance products to the customers (policyholders) who buy our insurance policies. 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 companies. 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 securities that we purchase with cash flows from our premium revenues. We also realize gains and losses on sales of investment securities. These investments support our liability for policy reserves and provide the capital required to operate our insurance business. Capital requirements are primarily established by regulatory authorities. See “Note 2—Investments” and “Business—Risk-Based Capital (RBC) Requirements.”

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 and 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. As the number of in-force policies increases, these expenses will increase. Conversely, when the number of in-force policies declines, variable policy expenses decline. Our insurance operations also incur overhead costs for functional and administrative staff to support insurance operations, financial reporting and information technology. We recognize income (loss) on insurance operations to the extent that premium revenues, net investment income and investment gains (losses) exceed (are less than) benefit expenses and general operating expenses for the period.

**Corporate & Other Segment**

The results of this segment consist of net investment income and net gains (losses) on investments earned on invested assets. We also include certain corporate expenses that are not allocated to our other segments, including expenses of Vericity, Inc., Board of Director's expenses, allocation of executive management time spent on corporate matters, and financial reporting and auditing costs related to our consolidation and internal controls. Our Corporate & Other Segment recognizes income (loss) to the extent that net investment income and net gains (losses) on investments exceed (are less than) corporate expenses.

Included in the Corporate & Other Segment is the elimination of intercompany transactions which primarily consists of the sales by our Agency Segment of 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:. See "Corporate & Other " segment results included in this Management Discussion & Analysis for further discussion.

**Factors Affecting Our Results**

**Strategic Goals and Financial Impact of Sales of Policies Produced by Efinancial**

Using Efinancial as both a direct writing and sub-agent of AmeriLife we have full vertical integration for the sale and issuance of life insurance policies and are able to gather end-to-end consumer data, extending from tracking data to analyzing the characteristics of leads that generate successful marketing efforts to the associated underwriting and claims experience. Since we acquired Efinancial in 2009, we have made significant investments in the development of our controlled distribution strategy for reaching our target market. By converting data we generate through our distribution platform into actionable insight using statistical analysis, we will seek to be more efficient in our acquisition and use of leads, improve our call center placement ratios and strive to achieve overall profitability. However, the investments made in pursuit of this strategy, among other factors, have adversely affected our historical results of operations. Additionally, while unlikely, changes in the relationship between Efinancial and Amerilfe could also negatively impact our financial condition and results of operations.

**Accuracy of Our Pricing Assumptions**

In order for our insurance operations to be profitable, we must achieve product experience consistent with our pricing assumptions. We price our products using a number of assumptions that are designed to support the desired level of profitability. Our operating results will be affected by variances between our pricing assumptions and our actual experience. The key pricing assumptions made are:

- ***Investment Returns*.** We earn income on the investments held to support reserves and capital requirements. 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 we own, the interest rates earned and amount of dividends received on our investments. If the actual amount of net investment income earned is less than projected, our products may not generate the desired level of profitability.

- ***Persistency Experience*****.** Many of the non-medically underwritten products that we issue have a limited amount of insurance industry information to use in developing policy lapse rates. We are developing our own historical experience as to expected lapse rates for these products and reflect our emerging experience in our pricing. If actual policy lapse rates exceed the lapse rates assumed in pricing our products, we may receive lower premium revenues and may not receive enough premium to cover all of our acquisition costs for the policy.
- ***Mortality Experience*****.** We use our historical experience combined with experience projections from our reinsurance partners to develop our assumptions for the level, frequency and pattern of future claims experience. In our Insurance Segment, we principally issue non-medically underwritten products through underwriting processes that generally have limited recent company and industry experience; therefore, their performance may be less reliable and subject to greater variance than products underwritten through processes with more established industry experience.
- ***Operating Expenses*****.** Our level of operating expenses affects our reported net income (loss). Our general operating expenses include expenses that vary based on the growth in our revenues and expenses that are fixed regardless of revenue growth. As discussed above, we have experienced operating losses principally because our operating expenses and corporate overhead exceed our revenues, and our inability to defer a majority of our commission expense on policies produced by our affiliated agency, Efinancial.

**Efinancial Commission Financing**

In instances where Efinancial has agreed to accept the receipt of levelized commissions on the successful placement of an insurance policy. Efinancial has entered into a commission financing arrangement with Hannover Life. Under this arrangement, Efinancial receives an upfront commission from Hannover Life and agrees to pay a levelized commission back to Hannover Life over the period the policy stays in-force and premiums are received. On March 31, 2022, Efinancial entered into a new commission financing arrangement and is taking new advances on this financing arrangement on policies placed on or after January 1, 2022. Efinancial's ability to receive advances under this arrangement will terminate when the aggregate amount advanced including prior commission financing arrangements equals or exceeds $36.0 million.

**Critical Accounting Policies**

The accounting policies discussed in this section are those that we consider to be the most critical to an understanding of our consolidated financial statements, and include valuation of fixed maturity securities, other-than-temporary impairments on available-for-sale securities, mortgage loans, deferred policy acquisition costs (DAC), future policy benefit reserves and income taxes. Our significant policies are described in Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements included elsewhere in this Form 10-K. The preparation of the 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.

**Valuation of Fixed Maturity Securities**

Our fixed maturity securities are classified as "available-for-sale" securities, which are carried at fair value on the balance sheet. Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants on the measurement date. For investments that are not actively traded, the determination of fair value requires us to make a significant number of assumptions and judgments. Fair value determinations include consideration of both observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. Security pricing is applied using a hierarchy approach.

*Level 1*—Unadjusted quoted prices for identical assets in active markets the Company can access.

*Level 2*—This level includes fixed maturity securities 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 in 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*—Fair values are derived from valuation techniques in which one or more significant inputs are unobservable. Level 3 instruments include less liquid securities 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. Level 3 hierarchy requires the use of observable market data when available.

At December 31, 2022 and December 31, 2021, the estimated fair value of our fixed maturity securities by fair value hierarchy was as follows:

**Fair Value of Investments at December 31, 2022**
**(dollars in thousands)**

| Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|
| $ 2,847 | $ 264,726 | $ 30,565 | $ 298,138 |
| 1 % | 89 % | 10 % | 100 % |

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

All of the fair values of our fixed maturity within Level 2 are based on prices obtained from independent pricing services. All of our 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. We ultimately use the price from the pricing service highest in the vendor hierarchy based on the respective asset type and region. For fixed maturity securities 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.

If we believe the pricing information received from third-party pricing services is not reflective of market activity or other inputs observable in the market, we may challenge the price through a formal process with the pricing service. Historically, we have 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 us 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).

**Other-Than-Temporary Impairments on Available-For-Sale Securities**

Securities that are classified as available-for-sale are subject to market declines below amortized cost (a gross unrealized loss position). When a gross unrealized loss position occurs, the security is considered impaired. Quarterly or when necessary, we review each impaired security to identify whether the impairment may be other-than-temporary impairment (“OTTI”) and require the recognition of an impairment loss in the current period earnings. Indication of OTTI includes potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or other company or industry specific concerns. A number of factors are considered in determining whether or not a decline in a specific security is other-than-temporary, including our current intention or need to sell the security or an indication that a credit loss exists. An impairment loss will be recorded if our intention is to sell an impaired security or it is considered to be more likely than not that we will be required to sell the security.

Our review of our available-for-sale securities for impairment includes an analysis of impaired securities in terms of severity and/or age of the gross unrealized loss. Additionally, we consider a wide range of factors about the issuer of the security and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the likelihood for near-term recovery. Inherent in our evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential that includes the evaluation of the financial condition and expected near-term and long-term prospects of the issuer, collateral position, the relevant industry conditions and trends, and whether expected cash flows will be sufficient to recover the entire amortized cost basis of the security.

The credit loss component of fixed maturity securities impairment is calculated as the difference between amortized cost of the security 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 other-than-temporarily impaired for credit reasons and is recognized as an OTTI loss in earnings. The portion of the OTTI that is not considered a credit loss, is recognized as OTTI in accumulated comprehensive income.

There was OTTI on fixed maturity securities in the amount of $442 thousand and $4 thousand for the years ended December 31, 2022 and December 31, 2021, respectively.

**Mortgage Loans**

Our mortgage loans are held on commercial real estate and are stated at the aggregate unpaid principal balances, net of any write-downs and valuation allowances. We identify loans for evaluation of impairment primarily based on the collection experience of each loan. Mortgage loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect principal or interest amounts according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis based on the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral. Impairments are included in net gains (losses) on investments in the Consolidated Statements of Operations.

Interest income from mortgage loans is recognized on an accrual basis using the effective yield method. Accrual of income is generally suspended for mortgage loans that are in default or when full and timely collection of principal and interest payments is not probable. Mortgage loans are considered past due when full principal or interest payments have not been received according to contractual terms.

At December 31, 2022 and December 31, 2021, there was a valuation allowance of $83 thousand and $69 thousand, respectively.

### Deferred Policy Acquisition Costs (DAC)

For our Insurance Segment, the costs of acquiring new business are deferred to the extent that they are directly related to the successful acquisition of insurance contracts. Deferred acquisition costs include commissions paid in the first policy year that are in excess of the ultimate renewal commissions payable on the policy. For any of our policies for which we do not pay renewal commissions, the deferred acquisition costs (at the segment level) include all commissions paid in the first year. For policies for which we pay levelized commissions over the life of the policy, we expense the first-year commission and therefore do not defer any other commission expense. We also defer costs associated with policy underwriting and issuance related to the successful acquisition of insurance contracts. Non-deferred first year acquisition costs that are expensed as incurred include expenses that do not meet the definition of a deferrable cost, which includes the acquisition costs incurred on insurance applications that do not result in an in-force policy (unsuccessful efforts).

The amortization of DAC for traditional life insurance products is determined as a level proportion of premium based on actuarial methods and assumptions about mortality, morbidity, lapse rates, expenses, and future yield on related investments, established by us at the time the policy is issued. GAAP requires that assumptions for these types of products not be modified while the policy is outstanding. Amortization is adjusted each period to reflect policy lapse or termination rates compared to anticipated experience. Accordingly, acceleration of DAC amortization could occur if policies terminate earlier than originally assumed. We establish the assumptions used to determine DAC amortization based on estimates using Company experience and other relevant information that is used to price the products. We monitor our actual experience and will update the actuarial factors applied to future policy issues if warranted. The selection of actuarial assumptions requires considerable judgment and has inherent uncertainty. Should actual policy lapse experience be higher than that assumed during a reporting period, we will amortize our DAC balance faster and report lower net income.

We evaluate the recoverability of our DAC asset as part of our premium deficiency testing. If a premium deficiency exists, we reduce DAC by the amount of the deficiency through a charge to current period earnings (loss). If the deficiency is more than the recognized DAC balance, we reduce the DAC balance to zero and increase the reserve for future policy benefits by the excess with a corresponding charge to current period earnings (loss). See “Future Policy Benefit Reserves” below for more information on premium deficiency testing.

### Future Policy Benefit Reserves

We calculate and maintain reserves for estimated future claims payments to policyholders using actuarial assumptions in accordance with industry practice and GAAP. Many factors affect these reserves, including mortality trends, policy persistency and investment returns. We establish our reserves based on estimates, assumptions and our analysis of historical experience.

The calculation of future policy reserves requires the use of significant judgment and is inherently uncertain. If our actual experience differs from the experience assumed in establishing our reserves, the impact of these differences is reflected in the results of operations in each period. If actual claims are higher than assumed claims experience, our reported income (loss) will be reduced (increased) for the periods in which this experience occurs. If actual policy lapses are higher than that assumed, our future policy benefit reserves will be reduced for the period in which this experience occurs.

The primary reserve method that is used in calculation of our future policy benefit reserves is the net level premium method. The net level premium method requires that the future policy benefit reserves are accrued as a level proportion of the premium paid by the policyholder. In applying this method, we use a number of actuarial assumptions that represent management’s best estimate at the time the contract was issued with the addition of a margin for adverse deviation. Actuarial assumptions include estimates of morbidity, mortality, policy persistency, discount rates and expenses over the life of the contracts.

A premium deficiency exists if the discounted present value of future gross premiums is not sufficient to cover anticipated future cash outflows. To assess the adequacy of our benefit reserves, we annually perform premium deficiency testing for each of our lines of business using best estimate assumptions as of the date of the test without provision for adverse deviation. If benefit reserves minus the DAC asset are less than the present value of future cash flows on the line of business, then first the DAC asset will be reduced. If reducing the DAC asset down to zero is still not sufficient to eliminate the premium deficiency, then benefit reserves will be increased. Recognizing a premium deficiency will reduce our reported net income or increase our reported loss, for the period.

Under best estimate assumptions as to mortality, lapses, expenses, and investment yields, DAC is still recoverable on the Core Life and Non-Core Life products (Open Block), Closed Block, and assumed life line of business. The annuities line has no remaining DAC, and under best estimate assumptions on that line, no benefit reserve increases are needed.

In connection with our premium deficiency testing, we performed sensitivity analyses on our Open Block, Closed Block, annuities, and assumed life business lines to capture the effect that certain key assumptions have on expected future cash flows, and the impact of those assumptions on the adequacy of DAC balances and GAAP benefit reserves. The sensitivity tests are performed independently, without consideration for any correlation among the key assumptions. In 2022, the Company recognized a premium deficiency in the Closed Block of $778.

We performed the following sensitivity tests as of September 30, 2022:

- future lapse assumptions increased by a multiplicative factor of 1.05,
- future mortality increased by a multiplicative factor of 1.05 for all life blocks,
- future investment yield assumptions were lowered by 50 basis points.

Under all tests described above, the DAC was still recoverable on the Core Life plus Non-Core Life and assumed life lines of business. For the annuities line, there is no remaining DAC due to the age of the contracts. As such, these sensitivity runs tested the adequacy of the benefit reserves for this line. For the annuities line, a drop in investment yield of 50 basis points would result in a required reserve increase of $0.6 million, while for the mortality scenario and the lapse scenario there would be no impact to benefit reserves.

**Income Taxes**

Under applicable Federal income tax guidance, the taxation of life insurance companies is subject to special rules not applicable to other (non-life) companies. Accordingly, we have to consider the implications of these different tax rules in accounting for income tax expense, as separately applicable to our life and non-life subgroups of companies.

We record federal income tax expense in our Consolidated Statements of Operations based on pre-tax income as determined using GAAP accounting. The timing of the recognition of certain income and expense items for GAAP accounting can differ from the timing of recognition of the same income and expense items in our federal tax returns. The timing of recognition in the federal tax return is based on tax laws and regulations. As a result, the annual tax expense reflected in our Consolidated Statements of Operations is different than that reported in the tax returns.

We account for income taxes under the asset and liability method, which requires the recognition of deferred taxes for temporary differences between the financial statement and tax return basis of assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which we have already recorded the tax benefit in our income statement. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred or expenditures for which we have already taken a deduction in our tax return but have not yet been recognized in our financial statements. Under GAAP, we are required to evaluate the recoverability of our deferred tax assets and establish a valuation allowance if necessary, to reduce our deferred tax assets to an amount that is more likely than not to be realized. Significant judgment is required in determining whether valuation allowances should be established, as well as the amount of such allowances. To the extent that we are required to establish an additional valuation allowance against deferred income tax assets, the amount of such valuation allowance would generally be charged against our net income for the period in which that valuation allowance is established.

We establish or adjust valuation allowances for deferred tax assets when we estimate that it is more likely than not that future taxable income will be insufficient to realize the value of the deferred tax asset. We evaluate all significant available positive and negative evidence as part of our analysis. Negative evidence includes the existence of losses in recent years. Positive evidence includes the forecast of future taxable income and tax-planning strategies that would result in the realization of deferred tax assets. The underlying assumptions we use in forecasting future taxable income require significant judgment and take into account our recent performance. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which temporary differences are deductible or creditable. If actual experience differs from these estimates and assumptions, the recognized deferred tax asset value may not be fully realized, resulting in an increase to income tax expense in our results of operations.

As of December 31, 2022, we had a 100% valuation allowance recorded against the deferred tax assets related to the non-life subgroup of our tax return. The Company also maintains a valuation allowance against a portion of the unrealized investment losses at December 31, 2022 in the life group. Valuation allowances are established because we determined that it is more likely than not that these assets will not be recoverable. The recording of the valuation allowance not related to investment losses, increases our federal income tax expense which in turn reduces our reported net income or increases our net loss as applicable. Our recorded net deferred tax asset is shown in the following table.

| (dollars in thousands) | December 31, 2022 Life | December 31, 2022 Non-Life | December 31, 2022 Total | December 31, 2021 Life | December 31, 2021 Non-Life | December 31, 2021 Total |
|---|---|---|---|---|---|---|
| **Deferred income tax assets, net** | | | | | | |
| Total deferred tax assets | $ 53,747 | $ 37,910 | $ 91,657 | $ 53,090 | $ 28,491 | $ 81,581 |
| Total deferred tax liabilities | 24,244 | 14,550 | 38,794 | 40,390 | 8,432 | 48,822 |
| Net deferred tax asset (liability) before valuation allowance | 29,503 | 23,360 | 52,863 | 12,700 | 20,059 | 32,759 |
| Valuation allowance | (1,066) | (23,360) | (24,426) | — | (20,059) | (20,059) |
| Deferred income tax asset, net | $ 28,437 | $ — | $ 28,437 | $ 12,700 | $ — | $ 12,700 |

## Principal Revenue & Expense Items

### Revenues

Our primary revenue sources are net insurance premiums, commissions, net investment income, net gains (losses) on investments, insurance lead sales and other income.

### Net Insurance Premiums

Net premiums consist of direct life insurance premiums due and collected from our policyholders on in-force insurance policies and premiums collected on assumed life reinsurance contracts, less reinsurance premiums paid to reinsurers. Direct premiums are recorded in our Insurance Segment and classified as first year premiums when they relate to the first calendar year coverage period. Premiums for policies outside their first calendar year are called renewal premiums.

### Net Investment Income

Net investment income consists of income generated from our investment portfolio and is recorded net of related expenses incurred to manage our investments. Net investment income primarily consists of interest income earned on fixed maturity security investments and dividends earned on our equity holdings, net of related expenses incurred to manage our investments. Net investment income earned on assets required to support insurance reserves, annuity deposits and related regulatory capital requirements is allocated to our Insurance Segment. Any other net investment income is recorded in the Corporate & Other Segment.

### Earned Commissions

Earned commission revenue consists of amounts received and due from insurance carriers on policies sold by Efinancial and is recorded in our Agency Segment. However, the commission revenue from sales of Fidelity Life policies not included in the AmeriLife agreement are eliminated in our Consolidated Statements of Operations because Efinancial and Fidelity Life are affiliated.

### Net Gains (Losses) on Investments

Net gains (losses) on investments result from sales of investment securities and OTTI for estimated credit losses of fixed maturity securities.

### Insurance Lead Sales

In our Agency Segment, insurance lead sales revenue consists of (i) click-through revenues we generate when leads click through to our webpages to access information about life insurance options sponsored by another company and (ii) data revenues we generate through the sale of information regarding leads.

### Other Income

For our Insurance Segment, other income primarily consists of cost of insurance charges on universal life contracts. Included in other income are fees received from the licensing of our patented worksite product where the licensee is required under the agreement to pay a licensing fee as premiums are earned. The license of intellectual property rights for a licensing transaction in which consideration is tied to the subsequent sale or usage of intellectual property, the revenue recognition standard provides an exception to the recognition principle that is part of step 5 (i.e., recognize revenue when or as control of the goods or services is transferred to the customer). Under this sales- or usage-based royalty exception, an entity would not estimate the variable consideration from sales- or usage-based royalties. Instead, the entity would wait until the subsequent sale or usage occurs to determine the amount of revenue to recognize. Accordingly, licensing fee income under this arrangement is recognized as the licensee earns premiums.

**Benefits and Expenses**

This category consists of benefits to policyholders, which include policyholder dividends and policyholder dividend obligations (PDO), interest credited to policyholder and contract-holder balances, general operating expenses and amortization of DAC.

**Life, Annuity and Health Claim Benefits**

Benefit expenses are recorded in our Insurance Segment. Benefit expenses include claims paid or payable on in-force insurance policies, as well as the change in our reserves for future policy benefits during the period. Benefit expenses are reduced by amounts ceded to reinsurance companies with whom we contract to share policy risks.

**Interest Credited to Policyholder Account Balances**

The interest credited primarily relates to amounts that contract-holders earn on any contract-holder deposits from our assumed annuity contracts and other amounts left on deposit with us. Our universal life policies and assumed annuity contracts require Fidelity Life to periodically establish the crediting rate to be paid on policyholder and contract-holder deposits. All current assumed annuity contracts are credited with interest at the minimum interest rate guaranteed in the contract. Interest credited relates solely to our Insurance Segment.

**Operating Costs and Expenses**

Operating expenses are incurred by all of our segments. The operating expenses of our Insurance Segment include policy acquisition costs in excess of amounts that qualify for deferral, ceding commissions received on ceded reinsurance in excess of amounts deferred, variable policy administration costs, general overhead and administration costs, and insurance premium taxes and assessments paid to various states. Agency Segment expenses consist of compensation paid to employee sales agents, costs of insurance sales leads (marketing), costs of sales management and support activities, agent licensing expenses and general overhead and administration expenses. The expenses of the Corporate & Other Segment include allocation of a portion of the compensation of senior executives related to corporate activities, Board of Director expenses related to corporate business, and other operating costs considered to be of a corporate nature and not directly related to either of our other business segments. Overhead and administrative expenses of the segments include employee costs (salaries, bonuses and benefits), office rent, information technology and costs of third-party administrators and other contractors.

### Amortization of Deferred Policy Acquisition Costs

DAC amortization represents the actuarially determined reduction in the DAC asset for the period. The amount of acquisition cost amortization recognized each period is based on actual factors established when the insurance contracts were written.

### Results of Operations

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

**Vericity, Inc. Consolidated Results of Operations**

| (dollars in thousands) | Year Ended December 31, | |
|---|---|---|
| **Revenues** | **2022** | **2021** |
| Net insurance premiums | $ 100,075 | $ 107,958 |
| Net investment income | 16,036 | 14,566 |
| Net gains (losses) on investments | 115 | 3,106 |
| Other-than-temporary-impairments | (442) | (4) |
| Earned commissions | 42,634 | 44,393 |
| Insurance lead sales | 4,453 | 6,313 |
| Other income | 1,041 | 247 |
| Total revenues | 163,912 | 176,579 |
| **Benefits and expenses** | | |
| Life, annuity, and health claim benefits | 67,502 | 77,693 |
| Interest credited to policyholder account balances | 2,780 | 2,984 |
| Operating costs and expenses | 97,755 | 94,712 |
| Amortization of deferred policy acquisition costs | 18,443 | 18,225 |
| Total benefits and expenses | 186,480 | 193,614 |
| (Loss) income before income taxes | (22,568) | (17,035) |
| Income tax expense (benefit) | (2,108) | (378) |
| Net (loss) income | $ (20,460) | $ (16,657) |

### Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

### Total Revenues

For the year ended December 31, 2022, total revenues were $163.9 million compared to $176.6 million for the year ended December 31, 2021. This decrease of $12.7 million primarily resulted from higher ceded premiums, lower earned commissions, lower investment gains and insurance lead sales, partially offset by higher net investment income.

### Benefits and Expenses

For the year ended December 31, 2022, total benefits and expenses were $186.5 million compared to $193.6 million for the year ended December 31, 2021. This decrease of $7.1 million was primarily due to lower life, annuity, and health benefits, partially offset by higher operating costs and expenses.

### Loss from Operations Before Income Taxes

For the year ended December 31, 2022, we had a loss before taxes of $22.6 million compared to a loss before taxes of $17.0 million for the year ended December 31, 2021. This increase in loss of $5.6 million was primarily due to lower net insurance premiums, earned commissions, net gains on investments and insurance lead sales and higher operating costs and expenses, partially offset by lower life, annuity and health claim benefits.

### Income Taxes

For the year ended December 31, 2022, our income tax benefit was $2.1 million compared to an income tax benefit of $0.4 million for the year ended December 31, 2021. The increased benefit of $1.7 million reflects increased income attributable to the life sub-group. The non-life sub-group has a full valuation allowance, therefore no income tax impact. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Income Taxes."

## Analysis of Segment Results

### Reconciliation of Segment Results to Consolidated Results

The following analysis reconciles the reported segment results to the Vericity, Inc. total consolidated results.

| (dollars in thousands) | Year Ended December 31, 2022 | 2021 |
|---|---|---|
| (Loss) income before income tax by segment | | |
| Agency | $ (8,695) | $ (3,971) |
| Insurance | (7,652) | (64) |
| Corporate & Other | (6,221) | (13,000) |
| (Loss) income from operations before income tax | (22,568) | (17,035) |
| Income tax (benefit) expense | (2,108) | (378) |
| Net (loss) income | $ (20,460) | $ (16,657) |

### Agency Segment

The results of our Agency Segment were as follows:

| (dollars in thousands) | Year Ended December 31, 2022 | 2021 |
|---|---|---|
| **Revenues** | | |
| Earned commissions | $ 43,063 | $ 46,455 |
| Insurance lead sales & Other | 4,890 | 6,313 |
| Total revenues | 47,953 | 52,768 |
| **Expenses** | | |
| Operating costs and expenses | 56,648 | 56,739 |
| Total expenses | 56,648 | 56,739 |
| (Loss) income before income taxes | $ (8,695) | $ (3,971) |

### Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

#### Earned Commissions

For the year ended December 31, 2022, earned commissions were $43.1 million compared to $46.5 million for the year ended December 31, 2021. This decrease of $3.4 million resulted from lower sales in the retail channel, which was primarily driven by a reduction in policy placement rates.

#### Insurance Lead Sales & Other

For the year ended December 31, 2022, insurance lead sales and other were $4.9 million compared to $6.3 million for the year ended December 31, 2021. This decrease of $1.4 million was primarily due to lower click and transfer revenue.

#### Operating Costs and Expenses

For the year ended December 31, 2022, general operating expenses were $56.6 million compared to $56.7 million for the year ended December 31, 2021. This decrease of $0.1 million was primarily due lower variable costs, partially offset by higher costs of technology and marketing capabilities.

#### Net (Loss) Income

For the year ended December 31, 2022, the Agency Segment incurred a net loss of $8.7 million compared to a net loss of $4.0 million for the year ended December 31, 2021. This increase in net loss of $4.7 million was the result of lower earned commissions and insurance lead sales, partially offset by lower operating costs and expenses.

**Insurance Segment**

The results of our Insurance Segment were as follows:

| (dollars in thousands) | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| **Revenues** | | |
| Net insurance premiums | $ 100,075 | 107,958 |
| Net investment income | 15,556 | 13,973 |
| Net gains (losses) on investments | (148) | 2,352 |
| Other-than-temporary-impairments | (442) | (4) |
| Other income | 604 | 247 |
| Total revenues | $ 115,645 | $ 124,526 |
| **Benefits and expenses** | | |
| Life, annuity, and health claim benefits | 67,502 | 77,693 |
| Interest credited to policyholder account balances | 2,780 | 2,984 |
| Operating costs and expenses | 34,572 | 25,688 |
| Amortization of deferred policy acquisition costs | 18,443 | 18,225 |
| Total benefits and expenses | 123,297 | 124,590 |
| (Loss) income before income taxes | $ (7,652) | $ (64) |

**Year Ended December 31, 2022 Compared to Year Ended December 31, 2021**

**Net Insurance Premiums**

For the year ended December 31, 2022, net insurance premiums were $100.1 million compared to $108.0 million for the year ended December 31, 2021. The decrease of $7.9 million was primarily due to the new reinsurance agreement with Swiss Re (see discussion earlier in this Management Discussion and Analysis of Financial Condition and results of Operations) which reduced net insurance premiums by $12.7 million in both our core and non-core lines of business. Excluding the impact of the new reinsurance agreement non-core decreased $0.8 million and core lines increased $5.6 million primarily related to LifeTime Benefit Term (LBT) and ***RAPID***ecision® Life.

**Net Investment Income**

For the year ended December 31, 2022, net investment income was $15.6 million compared to $14.0 million for the year ended December 31, 2021. This increase was primarily due to higher reinvestment yields in the fixed maturities portfolio, partially offset by a decrease from equity securities and the mortgage loan portfolio.

**Net (Losses) Gains on Investments**

For the year ended December 31, 2022, net loss on investments were $0.1 million compared to a gain of $2.4 million for the year ended December 31, 2021. The $2.5 million decrease was mainly due to a reduction in fixed maturities and valuation changes in both the equity securities portfolio and other invested assets. The equity securities portfolio was sold in 2021. For more information on net gains (losses) on investments, see “Note 2–Investments” in the Notes to the Interim Condensed Consolidated Financial Statements included in this Form 10-K.

**Life, Annuity and Health Claim Benefits**

For the year ended December 31, 2022, life, annuity and health claim benefits were $67.5 million compared with $77.7 million for the year ended December 31, 2021. The decrease of $10.2 million was primarily due to the new reinsurance agreement with Swiss Re ( see discussion earlier in this Management Discussion and Analysis of Financial Condition and results of Operations) which reduced Life, annuity and health claim benefits by $9.9 million and a decrease in non core of $2.0 million. The decreases were partially offset by an increase in Closed Block of $1.2 million and Core lines of $0.4 million.

### Interest Credited to Policyholder Account Balances

For the year ended December 31, 2022, interest credited was $2.8 million compared to $3.0 million for the year ended December 31, 2021. This decrease of $0.2 million was due to lower interest credited on assumed fixed annuity contract-holder account balances.

### Operating Costs and Expenses

For the year ended December 31, 2022, general operating expenses were $34.6 million compared to $25.7 million for the year ended December 31, 2021. This increase of $8.9 million was attributable, primarily to a $5.8 million increase in other operating expenses, primarily related to increases in staff costs and depreciation expense and lower reinsurance allowances of $3.3 million which includes $2.2 million related to the new reinsurance agreement with Swiss Re.

### Amortization of Deferred Policy Acquisition Costs

For the year ended December 31, 2022, amortization of deferred acquisition costs was $18.4 million compared to $18.2 million for the year ended December 31, 2021. This increase of $0.2 million includes an increase in the Closed Block of $1.4 million, partially offset by a decrease of $1.1 million in our Core and Non-core lines.

### Net (Loss) Income

For the year ended December 31, 2022, net loss was $7.7 million compared to a net loss of $0.1 million for the year ended December 31, 2021. The increase in net loss of $7.6 million resulted from lower net insurance premiums, lower net gains on investments and higher operating costs and expenses, partially offset by lower life, annuity and health claim benefits and higher net investment income.

### 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.

Included in Closed Block assets at December 31, 2022 and December 31, 2021 are $10.8 million and $10.5 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 Consolidated Financial Statements.

**Corporate & Other Segment**

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

| | Year Ended December 31, | |
|---|---|---|
| (dollars in thousands) | 2022 | 2021 |
| Revenues | | |
| Net investment income | $ 480 | $ 593 |
| Net gains (losses) on investments | 263 | 754 |
| Earned commissions | (429) | (2,062) |
| Total revenues | 314 | (715) |
| Expenses | | |
| Operating costs and expenses | 6,535 | 12,285 |
| Total expenses | 6,535 | 12,285 |
| (Loss) income from operations before income tax | $ (6,221) | $ (13,000) |

**Year Ended December 31, 2022 Compared to Year Ended December 31, 2021**

**Net Investment Income**

For the year ended December 31, 2022, net investment income was $0.5 million compared to $0.6 million for the year ended December 31, 2021. This change is a result of increased yields in the fixed maturity portfolio.

**Net Gains (Losses) on Investments**

For the year ended December 31, 2022, net gains on investments were $0.3 million compared to $0.7 million for the year ended December 31, 2021. This change is a result of gains from other invested assets related to net asset value changes.

**Earned Commissions**

For the year ended December 31, 2022, earned commissions were ($0.4) million compared to ($2.0) million for the year ended December 31, 2021. This decrease is attributable to the elimination of lower intersegment earned commissions resulting from declining intersegment sales.

**Operating Expenses**

For the year ended December 31, 2022, operating expenses were $6.5 million compared to $12.3 million for the year ended December 31, 2021. The decrease of $5.8 million is primarily related to the completion of corporate wide initiatives, partially offset by one-time severance activity.

**Net Loss**

The net loss for the year ended December 31, 2022 decreased $6.8 million to $6.2 million from a net loss of $13.0 million for the year ended December 31, 2021. The smaller loss is primarily a result of lower intersegment sales and net gains on investments.

**<u>Investments</u>**

**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 & Other Segments. We earn income on these investments in the form of interest on fixed maturity securities (bonds and mortgage loans) and dividends (from equity holdings). Net investment income is recorded net of investment related expenses as revenue. 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 we own, the interest rates earned and amount of dividends received on our investments.

Gains and losses on sales of investments are classified as net gains (losses) on investments 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 maturity 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 maturity 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. Almost 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 and in particular 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 has decreased to 95.1% at December 31, 2022 from 94.8% at December 31, 2021 due to the S&P ratings on certain new securities acquired in our portfolio of distressed residential mortgage-backed securities.

| | Estimated Fair Value | | | |
|---|---|---|---|---|
| | December 31, 2022 | | December 31, 2021 | |
| | (dollars in thousands) | | | |
| S&P Rating | | | | |
| AAA | $ 53,065 | 17.8 % | $ 68,171 | 19.3 % |
| AA | 66,283 | 22.2 % | 73,535 | 20.9 % |
| A | 64,018 | 21.5 % | 79,603 | 22.6 % |
| BBB | 56,194 | 18.8 % | 69,420 | 19.7 % |
| Not rated | 44,163 | 14.8 % | 43,254 | 12.3 % |
| Total investment grade | 283,723 | 95.1 % | 333,983 | 94.8 % |
| BB | 5,520 | 1.9 % | 7,832 | 2.2 % |
| B | 4,778 | 1.6 % | 4,031 | 1.1 % |
| CCC | 492 | 0.2 % | 341 | 0.1 % |
| D | — | 0.0 % | 4 | 0.0 % |
| Not Rated | 3,625 | 1.2 % | 6,192 | 1.8 % |
| Total below investment grade | 14,415 | 4.9 % | 18,400 | 5.2 % |
| Total | $ 298,138 | 100.0 % | $ 352,383 | 100.0 % |

The following table sets forth the maturity profile of our fixed maturity securities at December 31, 2022 and December 31, 2021. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without penalty.

| | December 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Amortized Cost | % | Estimated Fair Value | % | Amortized Cost | % | Estimated Fair Value | % |
| Due in one year or less | $ 6,239 | 1.9 % | $ 6,207 | 2.1 % | $ 1,753 | 0.5 % | $ 1,771 | 0.5 % |
| Due after one year through five years | 34,330 | 10.3 % | 32,719 | 11.0 % | 36,245 | 11.1 % | 38,497 | 10.9 % |
| Due after five years through ten years | 72,312 | 21.8 % | 67,472 | 22.6 % | 67,802 | 20.8 % | 71,435 | 20.3 % |
| Due after ten years | 136,004 | 41.0 % | 115,545 | 38.7 % | 127,396 | 39.0 % | 145,580 | 41.3 % |
| Securities not due at a single maturity date-primarily mortgage and asset-backed securities | 83,061 | 25.0 % | 76,195 | 25.6 % | 93,395 | 28.6 % | 95,100 | 27.0 % |
| Total fixed maturities | $ 331,946 | 100.0 % | $ 298,138 | 100.0 % | $ 326,591 | 100.0 % | $ 352,383 | 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Polices—Other-Than-Temporary Impairments on Available-For-Sale Securities".

**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, which holdings totaled $298.1 million and $352.4 million, and represented 84.3% and 86.4% of our invested assets, as of December 31, 2022 and December 31, 2021, 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 years ended December 31, 2022 and December 31, 2021, our book yield on fixed maturity securities available-for-sale was 4.5% and 3.9% for the years ended December 31, 2022 and December 31, 2021, respectively.

See "Note 2 – Investments" in the Notes to the Consolidated Financial Statements included in this Form 10-K.

**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:

| | December 31, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Ending Balance | Year to Date Interest Credited | Average Credit Rate | Ending Balance | Year to Date Interest Credited | Average Credit Rate |
| Annuity contract holder deposits—assumed | $ 69,070 | $ 2,576 | 3.7% | $ 71,832 | $ 2,775 | 3.9% |
| Dividends left on deposit | 6,731 | 169 | 2.5% | 6,957 | 173 | 2.5% |
| Other | 1,642 | 35 | 2.1% | 1,705 | 36 | 2.1% |
| Total | $ 77,443 | $ 2,780 | 3.6% | $ 80,494 | $ 2,984 | 3.7% |

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. Our book yields on fixed maturity investments have declined in recent periods due to current market conditions. If book yields continue to decline, the amount of spread between the interest earned and credited will be reduced.

**Net Gains (Losses) on Investments**

Net gains (losses) on investments are subject to general economic trends and in particular correlate generally with movements in the major equity market indexes. The amounts classified as investment gains and losses in our Consolidated Statements of Operations include amounts realized from sales of investments, mark-to-market adjustments on investments classified as equity holdings and investments that use the equity method of accounting (limited partnership interests which are included in Other invested assets on the Consolidated Balance Sheet) and other-than-temporary impairments of individual securities related to credit impairments.

See “Note 2 – Investments” in the Notes to the Consolidated Financial Statements included in this Form 10-K.

**Unrealized Holding Gains (Losses)**

We also record capital appreciation/depreciation on our available-for-sale fixed maturity securities. At December 31, 2022 and December 31, 2021, our Accumulated Other Comprehensive Loss) from mark-to-market adjustments of our available-for-sale fixed maturity securities was $41.1 million and $5.7 million (net of federal income taxes and reserve), respectively.

At December 31, 2022 our fixed maturity securities had an unrealized loss of $33.8 million compared to an unrealized gain of $25.8 million at December 31, 2021. Duration measures the sensitivity of a bond’s price to changes in market yields and convexity measures a bond’s duration sensitivity to changes in market yields. The Company’s unrealized loss incurred in 2022 was $59.6 million in our fixed maturities portfolio which has a duration of 7.1, convexity of 0.846, and current yield of 8.1%, is accounted for by the increase in the 10-year treasury bill yield for 2022 of 237 basis points, along with the widening of credit spreads over the same period of time.

**Financial Position**

At December 31, 2022, we had total assets of $770.1 million compared to total assets at December 31, 2021 of $788.0 million, a decrease of $17.9 million. The invested asset base decreased $54.6 million, mainly due to $59.6 million in net unrealized losses and partially offset by net purchases of fixed maturities. Cash decreased $12.6 million primarily related to cash used from financing, investments and operating activities. These decreases were partially offset by the following: Reinsurance recoverables increased $30.7 million as a result of a $29.3 million increase in ceded policy and claim reserves and $1.4 million related to timing of settlements of reinsured claims. Deferred income tax assets increased $15.7 million due to tax credits of $9.5 million on unrealized investment market losses and $6.2 million as a result of net loss. Commission and agent balances increased $6.1 million mainly due to increased commission receivables in the Agency segment primarily related to levelized commission structures implemented in 2022. Deferred policy acquisition costs decreased $5.5 million, primarily due to a reduction of $7.3 million driven by a change in reinsurance agreement, partially offset by deferrals in excess of amortization. Other assets increased $2.4 million, primarily due to establishment of a right-of-use asset from the adoption of ASU No. 2016-02, Leases (Topic 842).

At December 31, 2022, we had total liabilities of $658.7 million compared to total liabilities of $615.1 million at December 31, 2021, an increase of $43.6 million. Future policy benefits and claims increased $37.7 million, primarily due to a $46.4 million increase in Core Life and Non-Core Life lines, resulting from growth of the underlying blocks of business, partially offset by decreases in Annuities and assumed life of $6.1 million and Closed Block of $2.6 million. Debt increased $10.8 million due increase in net borrowing of $9.2 million and interest accrued of $1.6 million under our commission financing agreement with Hannover Life. Other liabilities increased $3.7 million, due to an operating lease liability from the adoption of ASU No. 2016-02, Leases (Topic 842) in the amount of $2.4 million, and operating account liabilities increased $1.4 million. Other policyholder liabilities increased $1.7 million, primarily due to $2.0 million in Core and Non-Core lines, offset by a decrease of $0.3 million in Closed Block. The above increases were partially offset by a decrease of $3.1 million in Policyholder account balances largely due to annuity payments. Policyholder dividend obligations related to the Closed Block decreased $3.2 million primarily related to changes in accumulated net unrealized investment gains of $3.0 million. Reinsurance liabilities and payable increased $0.7 million, primarily due to timing of reinsurance settlements.

At December 31, 2022, total equity decreased to $111.3 million from $172.9 million at December 31, 2021. This decrease in equity of $61.6 million consists of a net loss of $20.5 million and a decrease of $41.1 million in other comprehensive income.

**Liquidity and Capital Resources**

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

Under our commission financing arrangement, Efinancial receives an upfront commission from Hannover Life on certain insurance products and agrees to pay levelized commissions back to Hannover Life over the period the policy stays in-force and premiums are received. On March 31, 2022, Efinancial entered into a new commission financing arrangement and is taking new advances on this financing arrangement. As of December 31, 2022 and December 31, 2021, we had net advances of $31.1 million and $21.9 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 $0.2 million, The Company's ability to borrow under this facility is subject to the FHLBC's discretion and requires the availability of qualifying assets, 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 borrowing. In 2022, the Company borrowed and repaid $4 million. There were no borrowings from the FHLBC during 2021.

Fidelity Life’s ability to pay dividends to Vericity Holdings, Inc. (VHI) is limited by the insurance laws of the State of Illinois. All shareholder dividends are subject to notice filings with the Illinois Director of Insurance. The maximum amount of dividends that can be paid by Illinois life insurance companies to shareholders without 30 days prior notice to the Illinois Director of Insurance is the greater of (i) statutory net income for the preceding year or (ii) 10% of statutory surplus as of the preceding year-end. Under Illinois insurance statutes, dividends may be paid only from surplus, excluding unrealized appreciation in value of investments, without prior approval. Dividends in excess of these amounts require advance approval of the Illinois Director of Insurance. There are no limitations on the amount of dividends that Efinancial can pay.

Following the Conversion, Fidelity Life has agreed not to pay any common stock 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 offerings, to seek the prior approval of the Illinois Department of Insurance for any declaration of an ordinary dividend by Fidelity Life. To date we have not requested any such dividend and the 24 month prior approval for ordinary dividends expired in August of 2021. During the years ended 2022 and 2021, the Board of Directors of Fidelity Life approved no dividend payments to VHI.

Cash inflows from operating activities come primarily from net insurance premiums, earned commissions and net investment income. Cash outflows from operations are the result of life, annuity and health claim benefits, operating expenses and income taxes.

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 and other factors.

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 to these annuity contracts are minimal compared to cash withdrawal activity. Also included in financing cash flows is activity from our commission financing program.

**Cash Flows**

For the for the year ended December 31, 2022, the Company had a net decrease in cash of $12.6 million compared to a net decrease of $13.8 million for the year ended December 31, 2021.

The decrease in cash flows from operating activities is primarily due to lower cash receipts of commissions in the Agency segment, increased operating costs, timing related to reinsurance recoverables and a decrease in other policyholder liabilities.

Cash flows from investing activities mainly includes our fixed maturities, mortgage loans, and equity holdings. Period to period, the cash flows associated with the changes in these portfolios will vary between cash sources and cash uses depending on the need for cash or the excess of cash from operating activities, as well as portfolio trading due to investment market conditions. In the year ended December 31, 2022 $8.8 million was used principally to acquire $4.7 million of capitalized software and $4.1 million of investment purchases net of sales and maturities.

Cash flows from financing activities was $3.5 million which includes $9.2 million, net proceeds from our commission financing program, partially offset by $5.7 million, net of deposits, by contract holders of annuities that were primarily written in the late 1980s.

The following table summarizes our cash flows for the years ended December 31, 2022 and 2021.

| | Year Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| | (dollars in thousands) | |
| **Consolidated Summary of Cash Flows** | | |
| Net cash (used) provided by operating activities | $ (7,370) | $ (794) |
| Net cash (used) provided by investing activities | (8,766) | (1,275) |
| Net cash provided (used) by financing activities | 3,513 | (11,774) |
| Net (decrease) in cash, cash equivalents and restricted cash | $ (12,623) | $ (13,843) |

**Risk-Based Capital**

Fidelity Life is subject to regulatory guidelines related to the ratio of its capital level compared to its RBC level as determined by formulas adopted by state insurance departments and applicable to all life insurance companies. A company's "authorized control level RBC" is a measure of the amount of capital appropriate for an insurance company to support its overall business operations in light of its size, growth and risk profile. RBC standards are used by regulators to determine appropriate regulatory actions for insurers that show signs of weak or deteriorating conditions. Companies that do not maintain total adjusted RBC in excess of 200% of the company's authorized control level RBC may be required to take specific actions at the direction of state insurance regulators. Fidelity Life's total adjusted capital at December 31, 2022 and 2021 was well in excess of 200% of its authorized control level. See "Business—Regulation—Risk-Based Capital (RBC) Requirements."

Due to the continued growth in Fidelity Life's sales of new insurance policies, Fidelity Life's statutory surplus has been declining. The accounting principles applicable to regulatory reporting require that insurance companies expense all policy acquisition costs as incurred. Acquisition expenses attributable to Fidelity Life's increasing new business growth have resulted in net losses being reported for regulatory reporting purposes. Regulatory accounting principles allow limited recognition of the future benefits of deferred tax assets. Accordingly, we recognize no income tax benefit that would offset our operating losses for regulatory reporting purposes.

Fidelity Life is also subject to the model regulation entitled "Valuation of Life Insurance Policies" commonly known as "Regulation XXX." This regulation requires life insurance companies that issue insurance policies with level premium guarantees to carry reserves that can greatly exceed the amount that the insurance company believes is necessary to reflect its liability for future claims payments. Such reserves are sometimes referred to as "non-economic reserves." Many insurance companies use reinsurance, financing, formation of captive reinsurers and other reserve financing transactions to reduce the regulatory capital needs under Regulation XXX. Generally, these solutions have only been available to carriers with much larger amounts of affected liabilities than Fidelity Life. To mitigate the future impact on regulatory capital from Regulation XXX and help stabilize our regulatory capital position in light of anticipated sales increases, we entered into a reserve financing agreement with Hannover Life effective July 1, 2013 that covered certain products with policies written on or before September 30, 2012. This agreement was first amended and restated as of July 1, 2016 and a subsequent amendment was filed with the Illinois Department of Insurance in November 2019 and approved by the Illinois Department of Insurance on December 23, 2019. The structure of the agreement, which was first effective July 1, 2013, involves a combination coinsurance with funds withheld and yearly renewable term reinsurance covering most of the Company's non-participating in-force life insurance business with issue dates on or before December 31, 2019. As of December 31, 2022 and December 31, 2021, the reserve credit net of funds held of ($69.2 and $67.8 for 2022 and 2021), respectively under this arrangement was approximately $136.0 and $127.3 million, respectively.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity or capital expenditures.

**Quantitative and Qualitative Information about Market Risk**

We own a diversified portfolio of investments including cash, bonds, commercial mortgages, and common stock. Each of these investments is subject, in varying degree, to market risk that can affect their return and their fair value. Bonds are the majority of our investments and include debt issues of corporations, residential and commercial mortgage-backed securities or other asset-backed securities, U.S. Treasury securities, or obligations of U.S. Government Sponsored Enterprises and are classified as fixed maturity investments in our financial statements. Our investment portfolios are subject to market risks.

Market risk is the risk that we will incur losses due to adverse changes in market rates and prices on the fair value of the investment securities that we own. We have exposure to market risk through our investment activities, including interest rate risk, credit risk, equity risk and foreign currency risk. We have not and do not plan to enter into any derivative financial instruments for trading or speculative purposes.

### Interest Rate Risk

Interest rate risk arises from the price sensitivity of investments to changes in interest rates. The changes in the fair value of our fixed maturity investments are inversely related to changes in market interest rates. As market interest rates fall the fixed income streams of fixed maturity investments held become more valuable and market values rise. As market interest rates rise, the opposite effect occurs. Interest rate risk can also arise if market rates fall, which can result in lower interest spreads on our assumed annuity deposits, which are our primary interest rate sensitive liability.

We review the interest rate sensitivity of our available-for-sale fixed maturity securities by calculating the impact on the market value of our holdings that would result from a hypothetical instantaneous shift in market interest rates across all maturities, which we consider to be reasonably possible. The impact of such a parallel shift upward in the yield curve of 200 basis points would reduce the market value of our fixed maturity securities portfolio by $39.4 million (13.2%) and $52.2 million (14.8%) as of December 31, 2022 and December 31, 2021, respectively. The estimated market value changes assume all other factors are held constant and do not attempt to estimate any offsetting change in the value of our liabilities.

With regard to our assumed annuity deposits, we are subject to risk from contract-holder behavior resulting from changes in interest rates. The assumed annuity contracts have virtually no surrender charges remaining that could be assessed against withdrawals. When market interest rates exceed the amount that we are crediting on deposits, we are subject to higher contract-holder withdrawals or an increase in contract loans, both of which could force the Company to sell assets prematurely and could lead to the realization of capital losses on such sales. As of December 31, 2022, we were crediting interest at the minimum contract interest rate, which on a composite basis is approximately 3.9% annually. We manage our exposure to rising interest rates through our ability to increase the contract crediting rate. Our ability to increase our crediting rate is constrained by our portfolio yield at the time of the decision to increase rates. Increases in the contract crediting rates could reduce our income unless we are able to maintain a constant interest spread on our assets.

### Credit Risk

Credit risk is the risk of loss due to an adverse change in the financial condition of a specific debt issuer or, in the case of a securitized investment, adverse change in the assets being securitized. We address credit risk by establishing minimum rating standards for investments that our portfolio managers can acquire and, in the case of a downgrade, continue to hold the investment. For our core fixed maturity portfolio, which comprises a significant majority of our invested assets, only investment grade securities (minimum credit rating for new investments is BBB- as established by Standard & Poor’s or a comparable nationally recognized statistical rating organization) can be purchased and such portfolio managers must maintain an overall credit rating for the portfolio of at least A-. Through our portfolio managers, we monitor the financial condition of all the issues of securities that we own. As an additional step to reduce our exposure to credit risk, we have established diversification guidelines limiting the total amount of holding by issuer and by investment sector.

### Recent Accounting Pronouncements

All applicable adopted accounting pronouncements have been reflected in our consolidated financial statements as of and for the years ended December 31, 2022 and December 31, 2021.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and Item 10(f)(1) of Regulation S-K, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore is not required to provide the information required by Item 305 of Regulation S-K.

**Index to Item 8. Financial Statements and Supplementary Data**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and Board of Directors of Vericity, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Vericity, Inc. and subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income(loss), changes in shareholders' equity, and cash flows, for each of the two years in the period ended December 31, 2022, and the related notes and schedules listed in the Index at Item 8 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
March 31, 2023

We have served as the Company's auditor since 2005.

**Vericity, Inc.**
**Consolidated Balance Sheets**
**(dollars in thousands, except share and par value data)**

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Fixed maturities – available-for-sale – at fair value (amortized cost; $331,946 and $326,591) | $ 298,138 | $ 352,383 |
| Mortgage loans (net of valuation allowances of $83 and $69) | 45,270 | 47,487 |
| Policyholder loans | 6,699 | 6,371 |
| Other invested assets | 3,693 | 2,140 |
| Total investments | 353,800 | 408,381 |
| Cash, cash equivalents and restricted cash | 9,776 | 22,399 |
| Accrued investment income | 3,006 | 2,590 |
| Reinsurance recoverables (net of allowances of $126 and $149) | 214,862 | 184,131 |
| Deferred policy acquisition costs | 90,189 | 95,715 |
| Commissions and agent balances (net of allowances of $338 and $432) | 34,766 | 28,689 |
| Intangible assets | 1,635 | 1,635 |
| Deferred income tax assets, net | 28,437 | 12,700 |
| Other assets | 33,607 | 31,767 |
| Total assets | 770,078 | 788,007 |
| **Liabilities and Shareholders' Equity** | | |
| **Liabilities** | | |
| Future policy benefits and claims | 453,763 | 416,039 |
| Policyholder account balances | 77,443 | 80,494 |
| Other policyholder liabilities | 47,486 | 49,202 |
| Policy dividend obligations | 9,515 | 12,669 |
| Reinsurance liabilities and payables | 6,246 | 6,927 |
| Long-term debt | 30,213 | 22,412 |
| Short-term debt | 6,976 | 3,966 |
| Other liabilities | 27,093 | 23,394 |
| Total liabilities | 658,735 | 615,103 |
| **Commitments and Contingencies (Note 10)** | | |
| **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 | 101,660 | 122,120 |
| Accumulated other comprehensive income (loss) | (30,172) | 10,929 |
| Total shareholders' equity | 111,343 | 172,904 |
| Total liabilities and shareholders' equity | $ 770,078 | $ 788,007 |

See footnotes to the consolidated financial statements.

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

| | Year Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| **Revenues** | | |
| Net insurance premiums | $ 100,075 | $ 107,958 |
| Net investment income | 16,036 | 14,566 |
| Net gains (losses) on investments | 115 | 3,106 |
| Other-than-temporary-impairments (OTTI) | (442) | (4) |
| Earned commissions | 42,634 | 44,393 |
| Insurance lead sales | 4,453 | 6,313 |
| Other income | 1,041 | 247 |
| Total revenues | 163,912 | 176,579 |
| **Benefits and expenses** | | |
| Life, annuity, and health claim benefits | 67,502 | 77,693 |
| Interest credited to policyholder account balances | 2,780 | 2,984 |
| Operating costs and expenses | 97,755 | 94,712 |
| Amortization of deferred policy acquisition costs | 18,443 | 18,225 |
| Total benefits and expenses | 186,480 | 193,614 |
| (Loss) income before income tax | (22,568) | (17,035) |
| Income tax (benefit) expense | (2,108) | (378) |
| Net (loss) income | $ (20,460) | $ (16,657) |

**Earnings per share for the periods**

| | Year Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| Weighted average shares outstanding, basic and diluted | 14,875,000 | 14,875,000 |
| Basic earnings per share | $ (1.38) | $ (1.12) |
| Diluted earnings per share | $ (1.38) | $ (1.12) |

See footnotes to the consolidated financial statements.

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

| | Year Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| Net (loss) income | $ (20,460) | $ (16,657) |
| Other comprehensive income (loss), net of tax: | | |
| Net unrealized (losses) gains | (41,101) | (5,672) |
| Total other comprehensive (loss) income | (41,101) | (5,672) |
| Total comprehensive (loss) income | $ (61,561) | $ (22,329) |

See footnotes to the consolidated financial statements.

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

| | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| **Common stock** | | |
| Balance – beginning of period | $ 15 | $ 15 |
| Balance – end of period | $ 15 | $ 15 |
| **Additional paid-in capital** | | |
| Balance – beginning of period | $ 39,840 | $ 39,840 |
| Balance – end of period | $ 39,840 | $ 39,840 |
| **Retained earnings** | | |
| Balance – beginning of period | $ 122,120 | $ 138,777 |
| Net (loss) income | (20,460) | (16,657) |
| Balance – end of period | $ 101,660 | $ 122,120 |
| **Accumulated other comprehensive income (loss)** | | |
| Balance – beginning of period | $ 10,929 | $ 16,601 |
| Other comprehensive (loss) income | (41,101) | (5,672) |
| Balance – end of period | $ (30,172) | $ 10,929 |
| Total shareholders' equity | $ 111,343 | $ 172,904 |

See footnotes to the consolidated financial statements.

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

| | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net (loss) income | $ (20,460) | $ (16,657) |
| Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities: | | |
| Depreciation and amortization and other non-cash items | 4,105 | 3,322 |
| Interest credited to policyholder account balances | 2,780 | 2,984 |
| Deferred income tax | (6,160) | (266) |
| Net investment (gains) losses | (115) | (3,106) |
| Other-than-temporary-impairments | 442 | 4 |
| Interest expense | 1,648 | 1,496 |
| Change in: | | |
| Equity securities | — | 4,887 |
| Accrued investment income | (416) | 43 |
| Reinsurance recoverables | (30,731) | (26,116) |
| Deferred policy acquisition costs | 5,526 | (8,503) |
| Commissions and agent balances | (6,077) | (9,163) |
| Other assets | (402) | (1,349) |
| Insurance liabilities | 41,783 | 47,911 |
| Other liabilities | 707 | 3,719 |
| Net cash (used) provided by operating activities | (7,370) | (794) |
| **Cash flows from investing activities** | | |
| Sales, maturities and repayments of: | | |
| Fixed maturities | 37,534 | 68,115 |
| Mortgage loans | 6,650 | 6,513 |
| Other invested assets | — | 428 |
| Purchases of: | | |
| Fixed maturities | (42,373) | (65,392) |
| Mortgage loans | (4,527) | (3,456) |
| Other invested assets | (980) | (1,120) |
| Change in policyholder loans, net | (328) | 42 |
| Other, net | (4,742) | (6,405) |
| Net cash (used) provided by investing activities | (8,766) | (1,275) |
| **Cash flows from financing activities** | | |
| Debt issued | 22,169 | 1,248 |
| Debt repaid | (13,006) | (6,844) |
| Deposits to policyholder account balances | 381 | 584 |
| Withdrawals from policyholder account balances | (6,031) | (6,762) |
| Net cash provided (used) by financing activities | 3,513 | (11,774) |
| Net (decrease) in cash, cash equivalents and restricted cash | (12,623) | (13,843) |
| Cash, cash equivalents and restricted cash – beginning of period | 22,399 | 36,242 |
| Cash, cash equivalents and restricted cash – end of period | $ 9,776 | $ 22,399 |
| **Supplemental cash flow information** | | |
| Non-cash transactions: | $ — | $ — |

See footnotes to the 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 Mutual 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 from mutual to stock form and the acquisition by the Company of all of the capital stock of Members Mutual 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 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 consolidated financial statements present the accounts of the Company and subsidiaries at December 31, 2022 and December 31, 2021, and for the years ended December 31, 2022 and 2021.

**Basis of Presentation**

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany accounts and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of 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.

**Unconsolidated Variable Interest Entities**

In the normal course of investing activities, the Company enters into relationships with variable interest entities (VIEs), as an investor in limited partnership interests and asset-backed securities. The Company is not the primary beneficiary of these VIEs, and therefore does not consolidate them. The Company determines whether it is the primary beneficiary of a VIE based on a qualitative assessment of the relative power and benefits of the Company and the other participants in the VIE. The Company’s maximum exposure to loss with respect to these investments is limited to the investment carrying values included in the Company’s Consolidated Balance Sheets and any unfunded commitments.

**Fixed Maturities**

Fixed maturities classified as available-for-sale are reported at fair value. Changes in fair value are reported as unrealized gains or losses as discussed below. Fixed maturities include bonds, residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities. Unrealized gains and losses on available-for-sale fixed maturity securities are reported as a component of accumulated other comprehensive income (AOCI), net of applicable deferred income taxes.

Fair value is based on quoted market prices, when available. When quoted market prices are not available, fair value is estimated by discounting fixed maturity securities cash flows to reflect interest rates currently being offered on similar terms to borrowers of similar credit quality, by quoted market prices of comparable instruments, and by independent pricing sources. See "Note 11–Assets and Liabilities Measured at Fair Value" for further discussion on inputs and assumptions used to estimate fair value.

The amortized cost of fixed maturity securities is determined based on cost, adjustments for previously recorded other-than-temporary impairment (OTTI) losses, and the cumulative effect of amortization of premiums and accretion of discounts using the effective interest method. Such amortization and accretion are included in net investment income on the Consolidated Statements of Operations. For mortgage-backed and asset-backed securities, the Company considers estimates of future prepayments in the calculation of the effective yield used to apply the interest method. If a difference arises between the anticipated prepayments and the actual prepayments, the Company recalculates the effective yield based on actual prepayments and the currently anticipated future prepayments. The amortized costs of such securities are adjusted to the amount that would have resulted had the recalculated effective yields been applied since the acquisition of the securities with a corresponding charge or credit to net investment income. Interest income on lower rated asset-backed securities is determined using the prospective yield method. Prepayment estimates are based on the structural elements of specific securities, interest rates, and generally recognized prepayment speed indices.

For OTTI losses on fixed maturity securities, credit losses are recognized in earnings and losses resulting from factors other than credit of the issuer are recognized in other comprehensive income. See “Note 2–Investments” for further information on factors reviewed to assess OTTIs.

**Mortgage Loans**

Mortgage loans are held on commercial real estate and are stated at the aggregate unpaid principal balances, net of any write-downs and valuation allowances. The Company identifies loans for evaluation of impairment primarily based on the collection experience of each loan. Mortgage loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect principal or interest amounts according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis based on the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral. Impairments are included in net gains (losses) on investments in the Consolidated Statements of Operations.

Interest income from mortgage loans is recognized on an accrual basis using the effective yield method. Accrual of income is generally suspended for mortgage loans that are in default or when full and timely collection of principal and interest payments is not probable.

**Short-Term Investments**

Short-term investments include highly liquid securities and other investments with remaining maturities of one year or less, but greater than three months from the date of purchase. Securities included within short-term investments are classified as available-for-sale and are reported at fair value. Changes in fair value are reported as unrealized gains or losses and are a component of AOCI, net of applicable deferred income taxes. Fair value is based on quoted market prices, when available. When quoted market prices are not available, fair value is estimated by discounting fixed maturity securities cash flows to reflect interest rates currently being offered on similar terms to borrowers of similar credit quality, by quoted market prices of comparable instruments, and by independent pricing sources. See “Note 11–Assets and Liabilities Measured at Fair Value” for further discussion on inputs and assumptions used to estimate fair value.

**Policyholder Loans**

Policyholder loans are carried at the aggregate of the unpaid balance. Interest income on such loans is recorded as earned in net investment income using the contractually agreed-upon interest rate.

**Cash, Cash Equivalents and Restricted Cash**

Cash and cash equivalents include cash on hand, amounts due from banks and highly liquid investments that are both readily convertible into known amounts of cash and have maturities of three months or less at the time of acquisition such that they present insignificant risk of changes in value due to changing interest rates and lack of credit exposure. The carrying value of these securities approximates their fair value.

**Reinsurance**

The Company enters into reinsurance agreements to diversify risk and limit its overall financial exposure. Although these reinsurance agreements contractually obligate the reinsurers to reimburse the Company, they do not discharge the Company from its primary liability and obligation to policyholders. Risk transfer criteria are reviewed for each reinsurance contract to determine if the contract will be accounted for as reinsurance or under the deposit method of accounting.

The Company estimates the amount of uncollectible reinsurance recoverables based on periodic evaluations of balances due from reinsurers, reinsurer solvency, and management's experience. Changes in the estimated amounts for uncollectible reinsurance recoverables are presented as a component of life, annuity, and health claim benefits in the Consolidated Statements of Operations. Amounts owed by reinsurers are considered past due based on the terms of the reinsurance contract. Reinsurance recoverables and any related allowance are written off after collection efforts have been exhausted or a negotiated settlement is reached with the reinsurer.

**Deferred Policy Acquisition Costs (DAC)**

Incremental direct costs of acquiring new business, principally commissions on sales, underwriting, policy issuance and processing, and medical inspection costs, are deferred for successfully placed contracts. DAC for the life insurance business is amortized over the life of the business; for traditional life products, the DAC is amortized as a level percentage of gross premiums; for universal life (UL) products, the DAC is amortized as a level percentage based on estimated gross profits (EGPs). DAC for the assumed block of deferred annuities is amortized over 20 years. For UL and the deferred annuities, amortization amounts are adjusted when revisions are made to the estimates of current or future EGPs. DAC balances are evaluated periodically to assess whether there are sufficient gross margins or gross profits to recover the remaining unamortized balances.

**Intangible Assets**

Impairment testing may be performed when events or changes in circumstances indicate that the carrying amount of the intangible assets may not be recoverable. Intangible assets are tested for impairment based on undiscounted cash flows, which requires the use of estimates and judgment, and, if impaired, are written down to fair value based on discounted cash flows. For years ended December 31, 2022 and December 31, 2021, we have not recorded an impairment of intangible assets.

**Future Policy Benefits, Policyholder Account Balances, and Other Policyholder Liabilities**

Future policy benefits represent the reserve for traditional life insurance policies and annuities in payout status. Reserves for traditional life insurance policies are computed using the net level premium method on the basis of actuarial assumptions at the issue date of the contracts, including mortality, policy lapse assumptions, and rates of interest. The reserves for annuities in payout status (structured settlements) represent the present value of assumed future payments based on contract terms for the future payouts and can include assumptions for mortality. To the extent that unrealized gains on available-for-sale fixed maturity securities would result in a premium deficiency had those gains actually been realized, an adjustment is recorded net of tax as a (decrease) increase of unrealized capital gains included in AOCI. For years ended December 31, 2022 and 2021, this adjustment, net of tax, was ($4,687) and ($1,269), respectively.

A premium deficiency exists if the discounted present value of future gross premiums is not sufficient to cover anticipated future cash outflows. To assess the adequacy of our benefit reserves, we annually perform premium deficiency testing for each of our lines of business using best estimate assumptions as of the date of the test without provision for adverse deviation. If benefit reserves minus the DAC asset are less than the present value of future cash flows on the line of business, then first the DAC asset will be reduced. If reducing the DAC asset down to zero is still not sufficient to eliminate the premium deficiency, then benefit reserves will be increased. Recognizing a premium deficiency will reduce our reported net income or increase our reported loss, for the period.

In connection with our premium deficiency testing on our most significant business lines, we performed sensitivity analyses on our Core Life, Non-Core Life, Closed Block, and annuities and assumed life business lines to capture the effect that certain key assumptions have on expected future cash flows, and the impact of those assumptions on the adequacy of DAC balances and GAAP benefit reserves. The sensitivity tests are performed independently, without consideration for any correlation among the key assumptions.

Policyholder account balances include the liability for assumed deferred annuity and universal life contracts and the liabilities for policyholder dividends and death benefits on life insurance contracts that have been left on deposit with the Company. These liabilities represent the account value of the policyholder as there are no other benefits due. This liability is equal to the balance that accrues to the benefit of the policyholder, which includes the accumulation of deposits, plus interest credited, less withdrawals.

Other policyholder liabilities include the amounts estimated for claims that have been reported but not settled and estimates for claims incurred but not reported.

**Long and Short-Term Debt**

Debt represents upfront commission payments received on certain term life products that are to be repaid as level commissions over the life of the underlying policies issued. The debt liability is accounted for under the interest method, which requires the imputation of interest resulting in the recognition of a discount as the difference between the cash payments received and the level commissions expected to be repaid based on current policy lapse assumptions. Under the interest method, the discount is amortized as interest expense over the period that level commissions are repaid resulting in a constant rate of interest when applied to the amount outstanding at the beginning of any given period. The amount to be repaid as level commissions are dependent on the level of expected policy lapses assumed for the underlying commissions financed; therefore, the debt liability may be adjusted in periods where revisions to policy lapse assumptions are made, which may result in the recognition of a gain or loss.

**Shareholders' Equity - Common Stock**

Apex Holdco L.P., an affiliate of J.C. Flowers IV L.P., a private equity fund advised by J.C. Flowers & Co. LLC, pursuant to a standby stock purchase agreement under which Apex Holdco L.P. agreed to act as the standby purchaser for the IPO (“Standby Purchaser”). As a result, the Standby Purchaser owns approximately 76.5% of the issued and outstanding shares of Vericity, Inc. common stock.

**Income Taxes**

The current receivable for federal income tax is recognized based on the estimated amounts to be reflected on the filed tax returns. Federal income tax expense or benefit is recognized based on amounts reported in the consolidated financial statements and using the applicable current federal income tax rate. Income taxes are allocated to operations and other comprehensive (loss) income based on the source of the taxable event. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effects of changes in tax rates or laws are recognized in the period that includes the enactment date. If necessary, a valuation allowance is established to reduce the carrying amount of deferred tax assets to amounts that are more likely than not to be realized. See “Note 4 – Income Taxes” for further details.

**Revenue Recognition**

Life and health insurance contract premiums are recognized as income when due from policyholders. Deposits on deposit-type contracts are entered directly as a liability when cash is received.

Commission revenue from the sale of insurance products by Efinancial is recognized once the insurance policy is issued by the insurance company and accepted by the customer (policy placement) and recorded as commission receivable, net of any advances received. Provision is made for commission revenue that, based on experience, will ultimately not be earned due to the customer discontinuing the underlying insurance policy. Commission revenue that Efinancial earns from the sale of insurance products where Efinancial acts as the general agent and utilizes a sub-agent to sell the policy (wholesale distribution) is recorded net of related commission expense paid to the writing agency. Efinancial commissions earned for the sale of Fidelity Life products, where Efinancial is acting in the capacity as a sub-agent, are not eliminated, primarily related to the agreement with AmeriLife in which services under the agency and sub-agency agreements are distinct from one another.

Our primary revenue-generating arrangements that are within the scope of Accounting Standards Codification (ASC) 606 are our brokerage arrangements associated with selling an insurance policy where Efinancial is either acting in the capacity of a general agent and selling directly to the insurance carrier, or acting as a sub-agent under general agency agreement. In these arrangements, our customer is the insurance carrier and we have a single performance obligation to place a policy for the insurance carrier. Our performance obligation is satisfied at the point in time when the policy is placed, which is the point in time when the customer obtains control over the policy and has the right to use and obtain the benefits from the policy. In these arrangements, depending on the number of years the policy is in-force, a majority of our consideration is received in the first year. In addition to the first-year consideration, depending on the specific carrier and product involved, we may also be entitled to renewal commissions over the period of time the policy remains in-force. Our consideration is variable based on the amount of time we estimate a policy will remain in-force. We estimate the amount of variable consideration that we expect to receive based on our historical experience or carrier experience to the extent available, industry data and our expectations as to future persistency rates. Additionally, we consider application of the constraint and only recognize the amount of variable consideration that we believe is probable to be received and will not be subject to a significant revenue reversal. We monitor and update this estimate at each reporting date. Because we recognize revenue prior to being entitled to the payment for these renewal commissions, we recognize a contract asset. We have determined that any contract costs (e.g., costs to obtain or costs to fulfill) related to our brokerage arrangements are immaterial.

Insurance lead sales include the sale of potential life insurance customer leads to outside parties including agencies and unaffiliated insurers. Sales of leads are recorded at the time the lead data is sold to the customer and recorded as a receivable, net of allowance for returns.

**Net Investment Income and Net Gains (Losses) on Investments**

Net investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis and reflects amortization of premiums and accretion of discounts on an effective yield basis, based on expected cash flows. Dividends are recorded on the ex-dividend date. Net gains (losses) on investments, resulting from sales or calls of investments and representing the difference between the net proceeds and the carrying value of investments sold, are determined on a specific identification basis. Net gains (losses) on investments are also recognized when declines in the fair value of invested assets are considered to be other-than-temporary. Changes in value reported for investments accounted for using the equity method of accounting are classified within net gains (losses) on investments.

**Policyholder Dividend Obligations**

Dividends payable to policyholders are determined annually based on the experience of the Closed Block policies and are payable only upon declaration by the Board of Directors of Fidelity Life. At December 31, 2022 and 2021, a provision has been made for dividends expected to be paid in the following calendar year of $1,236 and $1,139, respectively. The provision is recorded in other policyholder liabilities in the Consolidated Balance Sheets.

The Company also establishes a policyholder dividend obligation when cumulative actual earnings of the Closed Block are in excess of the cumulative expected earnings that were determined at the inception of the Closed Block. See “Note 8 – Closed Block” for further discussion.

**Recently Issued and Adopted Accounting Pronouncements**

Pursuant to the Jumpstart Our Business Startups Act (“JOBS Act”), an emerging growth company is provided the option to adopt new or revised accounting standards that may be issued by the Financial Accounting Standards Board (FASB) or the SEC either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. The Company has elected to use the extended transition period for complying with any new or revised financial accounting standards. Accordingly, the information contained herein may be different than the information you receive from other public companies.

We also intend to continue to take advantage of some of the reduced regulatory and reporting requirements of emerging growth companies pursuant to the JOBS Act so long as we qualify as an emerging growth company, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842): Accounting for Leases. The guidance is effective for interim and annual periods beginning on or after January 1, 2022. The new guidance requires a lessee to recognize “right-of-use” (ROU) assets and liabilities for leases with lease terms of more than 12 months including those historically accounted for as operating leases. We adopted ASU No. 2016-02, Leases (Topic 842) effective January 1, 2022. The effect of the new guidance at date of adoption was the recognition of a ROU asset and operating lease liabilities of $2,329 reported in other assets and liabilities, respectively.

In August 2020, the FASB issued ASU 2020-08, Codification Improvements to Subtopic 310-20, *Receivables - Nonrefundable Fees and Other Costs*, which clarifies that an entity should re-evaluate whether a callable debt security is within the scope of ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs*, paragraph 310-20-35-33 for each reporting period. For public business entities, the amendments in this update are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. The amendments in this ASU are to be applied on a prospective basis, as of the beginning of the period of adoption for existing or newly purchased callable debt securities. The Company adopted the ASU on January 1, 2022 with no material impact on the consolidated financial statements and disclosures.

In June 2016, the FASB issued new guidance on measurement of credit losses on financial instruments, ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The guidance is effective for interim and annual periods beginning on or after January 1, 2023. For substantially all financial assets, the ASU should be applied on a modified retrospective basis through a cumulative effect adjustment to retained earnings. For previously impaired debt securities and certain debt securities acquired with evidence of credit quality deterioration since origination, the new guidance should be applied prospectively. This ASU replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The new guidance requires that OTTI on a debt security will be recognized as an allowance going forward, such that improvements in expected future cash flows after an impairment will no longer be reflected as a prospective yield adjustment through net investment income, but rather a reversal of the previous impairment and recognized through net gains (losses) on investments. The guidance also requires enhanced disclosures. The Company has assessed the asset classes impacted by the new guidance and is currently assessing the accounting and reporting system changes that will be required to comply with the new guidance. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements. In March 2022, the FASB issued ASU 2022-02 – *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosure.* This ASU was issued to eliminate the troubled debt restructuring recognition and measurement guidance for creditors that have adopted the current expected credit loss guidance while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. The Company is evaluating this ASU as part of ASU 2016-13 implementation assessment.

In August 2018, the FASB issued ASU No. 2018-12, *Targeted Improvements to the Accounting for Long-Duration Insurance Contracts (Topic 944).* The FASB amends the accounting model under GAAP for certain long-duration insurance contracts and requires insurers to provide additional disclosures in annual and interim reporting periods. The amendments are aimed at improving the following four key areas of financial reporting: measurement of the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts, measurement and presentation of market risk benefits, amortization of deferred acquisition costs (DAC), and presentation and disclosures. The Company expects the impact to be material and is in the process of quantifying the impact of this standard. In November 2020, the FASB issued ASU 2020-11—*Financial Services—Insurance (Topic 944): Effective Date and Early Application*. This ASU was issued to provide additional time for implementation of ASU 2018-12 by deferring the effective date by one year. For smaller reporting companies, this update is effective for fiscal years beginning after December 15, 2024 and interim periods within fiscal years beginning after December 15, 2025. In December 2022, FASB issued ASU 2022-05 —*Financial Services—Insurance (Topic 944): Transition for Sold Contracts.* This ASU introduced an optional accounting policy election under which the insurer can choose not to apply the amendments made by ASU 2018-12 to certain contracts that are derecognized as a result of a sale or disposal before the effective date of ASU 2018-12. Insurers that make this policy election would also be subject to additional disclosure requirements. This ASU will be considered as part of ASU 2018-12 impact assessment.

**Note 2—Investments**

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

**Fixed Maturities**

The amortized cost, gross unrealized gains, gross unrealized losses, fair value, and OTTI loss included in AOCI of fixed maturities are as follows:

| | December 31, 2022 | | | | |
|---|---|---|---|---|---|
| **Fixed maturities** | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** | **OTTI Losses** |
| U.S. government and agencies | $ 9,258 | $ 349 | $ (501) | $ 9,106 | $ — |
| U.S. agency mortgage-backed | 9,429 | 63 | (614) | 8,878 | — |
| State and political subdivisions | 68,213 | 26 | (12,015) | 56,224 | — |
| Corporate and miscellaneous | 171,283 | 1,473 | (16,275) | 156,481 | — |
| Foreign government | 130 | 1 | — | 131 | — |
| Residential mortgage-backed | 4,912 | 140 | (622) | 4,430 | (709) |
| Commercial mortgage-backed | 21,374 | 2 | (1,914) | 19,462 | — |
| Asset-backed | 47,347 | 5 | (3,926) | 43,426 | — |
| Total fixed maturities | $ 331,946 | $ 2,059 | $ (35,867) | $ 298,138 | $ (709) |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| **Fixed maturities** | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** | **OTTI Losses** |
| U.S. government and agencies | $ 9,825 | $ 2,076 | $ — | $ 11,901 | $ — |
| U.S. agency mortgage-backed | 12,889 | 795 | (5) | 13,679 | — |
| State and political subdivisions | 58,170 | 2,696 | (396) | 60,470 | — |
| Corporate and miscellaneous | 164,823 | 20,023 | (348) | 184,498 | — |
| Foreign government | 378 | 36 | — | 414 | — |
| Residential mortgage-backed | 5,880 | 222 | (33) | 6,069 | (412) |
| Commercial mortgage-backed | 20,003 | 848 | (36) | 20,815 | — |
| Asset-backed | 54,623 | 330 | (416) | 54,537 | — |
| Total fixed maturities | $ 326,591 | $ 27,026 | $ (1,234) | $ 352,383 | $ (412) |

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 by contractual maturity, are presented in the following table:

| | December 31, 2022 | |
|---|---|---|
| | **Amortized Cost** | **Fair Value** |
| Due in one year or less | $ 6,239 | $ 6,207 |
| Due after one year through five years | 34,330 | 32,719 |
| Due after five years through ten years | 72,312 | 67,472 |
| Due after ten years | 136,004 | 115,545 |
| Securities not due at a single maturity date — primarily mortgage and asset-backed | 83,061 | 76,195 |
| Total fixed maturities | $ 331,946 | $ 298,138 |

Fixed maturities with a carrying value of $2,680 and $3,604 were on deposit with governmental authorities, as required by law at December 31, 2022 and 2021, 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 S&P or NAIC rating of NAIC 1 or NAIC 2. Investment grade securities comprised 95.1% and 94.8% of the Company's total fixed maturities portfolio at December 31, 2022 and 2021, respectively.

At December 31, 2022 and December 31, 2021, the Company had unfunded commitments to make investments in fixed maturity securities in the amount of $1,290 and $657, 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 37 such investment instruments with ownership shares ranging from 0.6% to 30.0% of the trust at December 31, 2022. The Company owns a share of 328 mortgage loans with a loan average balance of $138 and a maximum exposure related to any single loan of $555. Mortgage loan holdings are diversified by geography and property type as follows:

| | December 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Gross Carrying Value | % of Total | Gross Carrying Value | % of Total |
| **Property Type:** | | | | |
| Retail | $ 13,866 | 30.6 % | $ 15,257 | 32.1 % |
| Office | 11,115 | 24.5 % | 11,627 | 24.4 % |
| Industrial | 8,138 | 17.9 % | 8,234 | 17.3 % |
| Mixed use | 5,249 | 11.6 % | 5,327 | 11.2 % |
| Apartments | 2,796 | 6.2 % | 2,880 | 6.1 % |
| Medical office | 3,053 | 6.7 % | 3,078 | 6.5 % |
| Other | 1,136 | 2.5 % | 1,153 | 2.4 % |
| Gross carrying value of mortgage loans | 45,353 | 100.0 % | 47,556 | 100.0 % |
| Valuation allowance | (83) | | (69) | |
| Net carrying value of mortgage loans | $ 45,270 | | $ 47,487 | |

| | December 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Gross Carrying Value | % of Total | Gross Carrying Value | % of Total |
| **U.S. Region:** | | | | |
| West South Central | $ 11,608 | 25.6 % | $ 12,017 | 25.3 % |
| East North Central | 12,320 | 27.2 % | 12,439 | 26.3 % |
| South Atlantic | 8,815 | 19.4 % | 9,337 | 19.6 % |
| West North Central | 2,871 | 6.3 % | 3,065 | 6.4 % |
| Mountain | 2,824 | 6.2 % | 3,393 | 7.1 % |
| Middle Atlantic | 2,310 | 5.1 % | 2,392 | 5.0 % |
| East South Central | 3,661 | 8.1 % | 3,445 | 7.2 % |
| New England | 34 | 0.1 % | 82 | 0.2 % |
| Pacific | 910 | 2.0 % | 1,386 | 2.9 % |
| Gross carrying value of mortgage loans | 45,353 | 100.0 % | 47,556 | 100.0 % |
| Valuation allowance | (83) | | (69) | |
| Net carrying value of mortgage loans | $ 45,270 | | $ 47,487 | |

During the years ended December 31, 2022 and 2021, $4,527 and $3,456 of new mortgage loans were purchased, respectively, which did not include second lien mortgage loans. All taxes, assessments, or any amounts advanced were not included in the mortgage loan balances at December 31, 2022 and 2021. At December 31, 2022 and 2021, the Company had 3 and 2 mortgage loans with a total carrying value of $692 and $685 that were in a restructured status, respectively. There were no impairments for mortgage loans in 2022 and 2021.

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

| | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| Beginning balance | $ 69 | $ 141 |
| Net (decrease) increase in valuation allowance | 14 | (72) |
| Ending balance | $ 83 | $ 69 |

At December 31, 2022 and 2021 the Company had no mortgage loans that were on non-accrual status.

At December 31, 2022 and 2021, the Company had a commitment to make investments in mortgage loans in the amount of $2,575 and $4,485, respectively.

**Net Investment Income**

The sources of net investment income are as follows:

| | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| Income from: | | |
| Fixed maturities | $ 14,556 | $ 12,738 |
| Policyholder loans | 378 | 305 |
| Mortgage loans | 2,472 | 2,824 |
| Cash, cash equivalents and restricted cash | 66 | 5 |
| Dividends on equity securities | — | 260 |
| Gross investment income | 17,472 | 16,132 |
| Investment expenses | (1,436) | (1,566) |
| Net investment income | $ 16,036 | $ 14,566 |

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 Gains (Losses) on Investments**

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

| | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| Investment gains (losses) from sales: | | |
| Fixed maturities | $ (364) | $ 801 |
| Equity securities | — | (1,644) |
| Mortgage loans | (80) | 44 |
| Cash and cash equivalents | 1 | — |
| Investment expenses | — | (24) |
| Gains and losses from sales | (443) | (823) |
| Valuation change of other invested assets - appreciation (decline): | 572 | 1,175 |
| Valuation change of equity securities - appreciation (decline): | — | 2,682 |
| Change in valuation allowance on mortgage loans | (14) | 72 |
| Total net gains (losses) on investments | $ 115 | $ 3,106 |

**Other-Than-Temporary Impairment**

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 other-than-temporarily impaired 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 other-than-temporarily impaired 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 other-than-temporary 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 other-than-temporarily 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 roll-forward of the cumulative credit losses on fixed maturity securities is as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Beginning balance of credit losses on fixed maturities | $ 837 | $ 833 |
| Additional credit losses for which an OTTI was not previously recognized | 394 | 4 |
| Additional credit losses for which an OTTI was previously recognized | 48 | — |
| Reduction of credit losses related to securities sold during period | (16) | — |
| Ending balance of credit losses on fixed maturities | $ 1,263 | $ 837 |

**Unrealized Losses for Fixed Maturities**

The Company's fair value and gross unrealized losses for fixed maturities, 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 | |
|---|---|---|---|---|---|---|
| **December 31, 2022** | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| **Fixed maturities** | | | | | | |
| U.S. government and agencies | $ 2,722 | $ (501) | $ — | $ — | $ 2,722 | $ (501) |
| U.S. agency mortgage-backed | 5,297 | (578) | 216 | (36) | 5,513 | (614) |
| State and political subdivisions | 38,252 | (7,036) | 15,057 | (4,979) | 53,309 | (12,015) |
| Corporate and miscellaneous | 94,461 | (13,479) | 8,322 | (2,796) | 102,783 | (16,275) |
| Residential mortgage-backed | 3,286 | (554) | 344 | (68) | 3,630 | (622) |
| Commercial mortgage-backed | 16,218 | (1,611) | 2,655 | (303) | 18,873 | (1,914) |
| Asset-backed | 20,465 | (1,726) | 21,069 | (2,200) | 41,534 | (3,926) |
| Total fixed maturities | $ 180,701 | $ (25,485) | $ 47,663 | $ (10,382) | $ 228,364 | $ (35,867) |

| December 31, 2021 | 12 months or less Estimated Fair Value | 12 months or less Gross Unrealized Losses | Longer than 12 months Estimated Fair Value | Longer than 12 months Gross Unrealized Losses | Total Estimated Fair Value | Total Gross Unrealized Losses |
|---|---|---|---|---|---|---|
| **Fixed maturities** | | | | | | |
| U.S. agency mortgage-backed | $ 294 | $ (5) | $ 11 | $ — | $ 305 | $ (5) |
| State and political subdivisions | 20,439 | (377) | 231 | (19) | 20,670 | (396) |
| Corporate and miscellaneous | 11,913 | (312) | 727 | (36) | 12,640 | (348) |
| Foreign government | 247 | — | — | — | 247 | — |
| Residential mortgage-backed | 1,983 | (13) | 427 | (20) | 2,410 | (33) |
| Commercial mortgage-backed | 3,870 | (36) | — | — | 3,870 | (36) |
| Asset-backed | 29,487 | (315) | 8,798 | (101) | 38,285 | (416) |
| Total fixed maturities | $ 68,233 | $ (1,058) | $ 10,194 | $ (176) | $ 78,427 | $ (1,234) |

The indicated gross unrealized losses in all fixed maturity categories were $35,867 and $1,234 at December 31, 2022 and 2021, 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 other-than-temporarily impaired.

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 December 31, 2022.

| | Unrealized Losses 12 months or less | | | | |
|---|---|---|---|---|---|
| | Gross Unrealized Losses | 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. government and agencies | $ (501) | $ (83) | $ — | $ (418) | 100 % |
| U.S. agency mortgage-backed | (578) | (153) | (425) | — | 100 % |
| State and political subdivisions | (7,036) | (854) | (1,502) | (4,680) | 100 % |
| Corporate and miscellaneous | (13,479) | (1,909) | (6,523) | (5,047) | 75 % |
| Residential mortgage-backed | (554) | (68) | (222) | (264) | 93 % |
| Commercial mortgage-backed | (1,611) | (620) | (991) | — | 100 % |
| Asset-backed | (1,726) | (570) | (657) | (499) | 99 % |
| Gross Unrealized Losses | $ (25,485) | $ (4,257) | $ (10,320) | $ (10,908) | |
| | | | | | |
| Total number of fixed maturities | 659 | 314 | 216 | 129 | |

| | Unrealized Losses greater than 12 months | | | | |
|---|---|---|---|---|---|
| | Gross Unrealized Losses | 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 | $ (36) | $ — | $ (36) | $ — | 100% |
| State and political subdivisions | (4,979) | — | (444) | (4,535) | 100% |
| Corporate and miscellaneous | (2,796) | — | (479) | (2,317) | 84% |
| Residential mortgage-backed | (68) | — | (62) | (6) | 88% |
| Commercial mortgage-backed | (303) | (50) | (232) | (21) | 100% |
| Asset-backed | (2,200) | (528) | (867) | (805) | 97% |
| Gross Unrealized Losses | $ (10,382) | $ (578) | $ (2,120) | $ (7,684) | |
| | | | | | |
| Total number of fixed maturities | 199 | 25 | 66 | 108 | |

Gross unrealized losses by unrealized loss position and credit quality at December 31, 2022 are as follows :

| | Investment Grade | Below Investment Grade | Total |
|---|---|---|---|
| Fixed income securities with unrealized loss position less than or equal to 20% of amortized cost, net [(1)] [(2)] | $ 16,330 | $ 943 | $ 17,273 |
| Fixed income securities with unrealized loss position greater than 20% of amortized cost, net [(3)] [(4)] | 18,047 | 547 | 18,594 |
| Total Unrealized Losses | $ 34,377 | $ 1,490 | $ 35,867 |

(1) Below investment grade fixed income securities include $1,138 that have been in an unrealized loss position for less than twelve months.

(2) Related to securities with an unrealized loss position less than or equal to 20% of amortized cost, net, the degree of which suggests that these securities do not pose a high risk of having credit losses.

(3) Below investment grade fixed income securities include $352 that have been in an unrealized loss position for a period of twelve or more consecutive months.

(4) Evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations.

**Note 3—Deferred Policy Acquisition Costs**

Policy acquisition costs deferred primarily consist of commissions on sales, policy underwriting and issuance costs, and variable sales and marketing costs. Annually, the Company reviews the assumptions and experience underlying the expected gross margins for policies accounted for as investment contracts, which may or may not result in the recognition of unlocking adjustments.

The deferred policy acquisition costs and changes are as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Beginning balance | $ 95,715 | $ 87,212 |
| Acquisition costs deferred | 12,917 | 26,728 |
| Amortization | (18,443) | (18,225) |
| Ending balance | $ 90,189 | $ 95,715 |

**Note 4—Income Taxes**

Provided below are income taxes based on the difference between the expected tax provision, applying the statutory tax rate (21%) to the actual tax provision.

| | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| (Loss) income before income taxes | $ (22,568) | $ (17,035) |
| Statutory rate | 21 % | 21 % |
| Income tax (benefit) expense at statutory rate | (4,739) | (3,578) |
| Effect of: | | |
| Return to provision adjustments | (664) | (186) |
| Valuation allowance | | |
| Increase (decrease) in the valuation allowance related to return to provision adjustments | 172 | 598 |
| Increase in the valuation allowance - current year | 3,129 | 2,796 |
| Total increase in the valuation allowance | 3,301 | 3,394 |
| Other | (6) | (8) |
| Income tax (benefit) expense | $ (2,108) | $ (378) |

The components of income tax (benefit) expense are as follows:

| | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| Income tax applicable to: | | |
| Current | $ 4,052 | $ (112) |
| Deferred (net of increase in allowance: 2022 - $3,301, 2021 - $3,394) | (6,160) | (266) |
| Ending balance | $ (2,108) | $ (378) |

The components of the net deferred income tax assets are as follows:

| | Year Ended December 31, 2022 | 2021 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforward | $ 23,490 | $ 21,076 |
| Reinsurance assets | 48,717 | 48,559 |
| Net unrealized investment losses | 7,100 | — |
| Policyholder dividend obligation | 1,998 | 2,660 |
| Policyholder dividend | 259 | 239 |
| Commission receivable, net | 6,813 | 7,255 |
| Incentive compensation | 378 | 176 |
| Other | 2,902 | 1,616 |
| Total deferred tax assets | 91,657 | 81,581 |
| Valuation allowance | (24,426) | (20,059) |
| Total deferred income tax assets | 67,231 | 61,522 |
| Deferred tax liabilities: | | |
| Life insurance reserves | 27,539 | 29,014 |
| Deferred policy acquisition cost | 7,096 | 9,643 |
| Net unrealized investment gains | — | 5,416 |
| Intangible assets | 344 | 344 |
| Basis difference – investments | 464 | 392 |
| Fixed assets | 2,784 | 3,519 |
| Other | 567 | 494 |
| Total deferred tax liabilities | 38,794 | 48,822 |
| Deferred income tax assets, net | $ 28,437 | $ 12,700 |

As of December 31, 2022, we had a 100% valuation allowance recorded against the deferred tax assets related to the non-life subgroup of our tax return. The Company also maintains a valuation allowance of $1,066 against a portion of the unrealized investment losses at December 31, 2022 in the life group. Valuation allowances are established because we determined that it is more likely than not that these assets will not be recoverable. The recording of the valuation allowance not related to investment losses, increases our federal income tax expense which in turn reduces our reported net income or increases our net loss as applicable.

On December 22, 2017, the Tax Cut and Jobs Act Bill “H.R.1” was enacted, which, among other things, allows Net Operating Losses (NOLs) to be carried forward indefinitely; therefore, NOLs generated after December 31, 2017 are reflected in the table below under the caption no expiration. Internal Revenue Code Section 382 (“Section 382”) limits how much of a loss carry-forward existing as of the date of an ownership change that can be used to offset annual taxable income subsequent to the change of ownership. As a result of the IPO and Section 382, the Company will be restricted in its ability to utilize loss carry-forwards. The annual limit is estimated to be approximately $3.1 million. In 2022, no NOLs expired and there was a return to provision adjustment related to non-life NOLs of $1.4 million. These expiring NOLs have no impact on the Company’s results due to a full valuation allowance on these NOLs. The Inflation Reduction Act of 2022 (“Act”), which contains several tax-related provisions, was signed into law in August 2022. The Act creates a 15% corporate alternative minimum tax (“CAMT”) on certain large corporations and an excise tax of 1% on stock repurchases by publicly traded U.S. corporations, both effective after December 31, 2022. The Company has determined that it is not considered an “applicable corporation” under the rules of CAMT.

The Company's net operating loss carry-forwards are as follows:

| | Life Sub-Group | Non-Life Sub-Group | Total |
|---|---|---|---|
| **Year net operating loss expires** | | | |
| 2025 | $ — | $ 1,229 | $ 1,229 |
| 2026 | — | 5,249 | 5,249 |
| 2027 | — | 5,057 | 5,057 |
| 2028 | — | 3,061 | 3,061 |
| 2029 | — | 1,708 | 1,708 |
| 2030 | — | 8,121 | 8,121 |
| 2031 | — | 5,361 | 5,361 |
| 2032 | — | 2,539 | 2,539 |
| 2033 | — | 1,099 | 1,099 |
| 2034 | — | 13,527 | 13,527 |
| 2035 | — | 5,311 | 5,311 |
| 2036 | — | 5,267 | 5,267 |
| 2037 | — | 4,266 | 4,266 |
| No expiration | — | 50,061 | 50,061 |
| | $ - | $ 111,856 | $ 111,856 |

The Company has no unrecognized tax benefits for the years ended December 31, 2022 and 2021 and the Company does not expect the unrecognized tax benefits to increase in the next 12 months. The Company records penalties and interest related to unrecognized tax benefits within income tax expense.

**Note 5—Policy Liabilities**

**Future Policy Benefits and Claims**

Future policy benefits and claims 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 $13,118 and $19,398 at December 31, 2022 and 2021, 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 December 31, 2022 and 2021, is $10,097 and $15,557, respectively.

To the extent that unrealized gains on fixed maturity securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve is recorded. A liability of $470 and $6,403 is included as part of the liability for structured settlements with respect to this deficiency at December 31, 2022 and 2021, 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 3.9% and 7.5% of the face value of total life insurance in-force at December 31, 2022 and 2021, respectively.

**Note 6—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 2022 and 2021 for amounts anticipated to be uncollectible or for the anticipated failure of a reinsurer to meet its obligations under the contracts.

In the first quarter 2022, Fidelity Life entered into a reinsurance contract with Swiss Re Life & Health America Inc. (Swiss Re). This new treaty is in addition to existing coinsurance agreements, largely with Swiss Re on certain policies issued through and including December 31, 2020. The impact of this transaction to our segment results included an initial ceded premium of $6.5 million based on the statutory reserves at January 1, 2022. The impact to pre-tax income is nominal, however various income statement lines are impacted. See "Item 1 Reinsurance" in this form 10-K.

Reinsurance recoverables are as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Ceded future policy benefits | $ 173,904 | $ 146,087 |
| Claims and other amounts recoverables | 40,958 | 38,044 |
| Ending balance | $ 214,862 | $ 184,131 |

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

| | Year Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| Direct premiums | $ 174,600 | $ 169,958 |
| Assumed premiums | 45,637 | 41,187 |
| Ceded premiums | (120,162) | (103,187) |
| Net insurance premiums | $ 100,075 | $ 107,958 |

Net policy charges on universal life products were $181 and $182 for the year ended December 31, 2022 and 2021, respectively, and are included in other income.

At December 31, 2022 and December 31, 2021 reserves related to fixed-rate annuity deposits assumed from a former affiliate company amounted to approximately $69,070 and $71,832, respectively, and are included with policyholder account balances in the Consolidated Balance Sheets.

**Note 7—Retirement and Executive Compensation Plans**

The Company sponsors a defined contribution 401(k) plan covering substantially all employees. For the years ended December 31, 2022 and 2021, the Company's expenses were $712 and $544, respectively. These expenses were recorded as part of Operating costs and expenses in the Consolidated Statements of Operations.

**Note 8—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 liabilities over Closed Block assets. Included in Closed Block assets are $10,792 and $10,463 at December 31, 2022 and 2021, 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 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 policyholder dividend obligations should be recorded to reflect favorable Closed Block experience that has not yet been reflected in the dividend scales. At December 31, 2022 and 2021, the Company recognized policyholder dividend obligations of $9,515 and $12,669, 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.

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

| **Closed Block Liabilities** | **December 31, 2022** | **December 31, 2021** |
|---|---|---|
| Future policy benefits and claims | $ 29,382 | $ 32,005 |
| Policyholder account balances | 6,731 | 6,957 |
| Other policyholder liabilities | 5,298 | 5,017 |
| Policyholder dividend obligations | 9,515 | 12,669 |
| Other liabilities (assets) | 586 | (634) |
| Total Closed Block liabilities | 51,512 | 56,014 |
| **Assets Designated to the Closed Block** | | |
| Investments: | | |
| Fixed maturities - available-for-sale (amortized cost $40,522 and $38,314, respectively) | 36,625 | 43,162 |
| Policyholder loans | 1,132 | 1,210 |
| Total investments | 37,757 | 44,372 |
| Cash, cash equivalents and restricted cash | - | 1,630 |
| Premiums due and uncollected | 1,852 | 2,089 |
| Accrued investment income | 457 | 420 |
| Reinsurance recoverables | 13,885 | 15,567 |
| Deferred income tax assets, net | 4,263 | 3,139 |
| Total assets designated to the Closed Block | 58,214 | 67,217 |
| Excess of Closed Block assets over liabilities | 6,702 | 11,203 |
| Amounts included in accumulated other comprehensive income: | | |
| Unrealized investment gains (losses), net of income tax | (3,079) | 3,830 |
| Allocated to policyholder dividend obligations, net of income tax | - | (2,361) |
| Total amounts included in accumulated other comprehensive income | (3,079) | 1,469 |
| Maximum future earnings and accumulated other comprehensive income to be recognized from Closed Block assets and liabilities (includes excess assets of $10,792 and $10,463, respectively) | $ (9,781) | $ (9,734) |

Information regarding the policyholder dividend obligations is as follows:

| **Policyholder Dividend Obligations** | **December 31, 2022** | **December 31, 2021** |
|---|---|---|
| Beginning balance | $ 12,669 | $ 13,282 |
| Impact from earnings allocable to policyholder dividend obligations | (165) | 396 |
| Change in net unrealized investment gains (losses) allocated to policyholder dividend obligations | (2,989) | (1,009) |
| Ending balance | $ 9,515 | $ 12,669 |

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

| | Year Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| **Revenues** | | |
| Net insurance premiums | $ 3,073 | $ 3,039 |
| Net investment income | 1,666 | 1,488 |
| Net Realized Investment Losses (Gains) | (1) | 29 |
| Total revenues | 4,738 | 4,556 |
| **Benefits and expenses** | | |
| Life and annuity benefits - including policyholder dividends of $1,483 and $1,098 respectively | 4,994 | 3,810 |
| Interest credited to policyholder account balances | 169 | 173 |
| Operating costs and expenses | (484) | (875) |
| Total expenses | 4,679 | 3,108 |
| Revenues, net of expenses before provision for income tax expense (benefit) | 58 | 1,448 |
| Income tax expense (benefit) | 12 | 304 |
| Revenues, net of expenses and provision for income tax expense (benefit) | $ 46 | $ 1,144 |

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 December 31, 2022. 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 | $ 1,700 | $ 1,696 |
| Due after one year through five years | 6,930 | 6,760 |
| Due after five years through ten years | 5,626 | 5,431 |
| Due after ten years | 23,125 | 19,746 |
| Securities not due at a single maturity date — primarily mortgage and asset-backed | 3,141 | 2,992 |
| Total fixed maturities | $ 40,522 | $ 36,625 |

## Note 9—Regulatory Matters

### Minimum Capital and Surplus Requirements

Fidelity Life is required to comply with the provisions of state insurance statutes in the jurisdictions in which it does business. These statutes include minimum statutory capital and surplus requirements. At December 31, 2022, Fidelity Life exceeded the minimum statutory capital and surplus level of $2,000 required by Illinois, its state of domicile.

### Risk-Based Capital Requirements

The NAIC established a standard for assessing the solvency of insurance companies using a formula for determining each insurer’s risk-based capital (RBC). At December 31, 2022, the RBC of the Company’s insurance subsidiary, Fidelity Life, exceeded the levels at which certain regulatory corrective actions would be initiated.

### Dividend Limitations

The maximum amount of dividends that can be paid by Illinois life insurance companies to shareholders without 30 days prior notice to the Director of the IDOI is the greater of (i) statutory net income for the preceding year or (ii) 10% of statutory surplus as of the preceding year-end. However, under State of Illinois insurance statutes, dividends may be paid only from surplus, excluding unrealized appreciation in value of investments without prior approval. All dividends paid by Fidelity Life must be reported to the IDOI prior to payment.

Fidelity Life declared and paid no dividends during the twelve months ended December 31, 2022 and 2021, respectively.

In connection with the approval of the Conversion by the Director, the Company agreed, for a period of twenty-four months following the completion of the Conversion, to (i) seek the prior approval of the IDOI for any declaration of an ordinary dividend by Fidelity Life, and (ii) either maintain $20 million of the proceeds of the IPO at Vericity, Inc. or use all or a portion of that $20 million to fund Company operations.

**Statutory Accounting Practices**

Fidelity Life prepares their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the IDOI. The IDOI requires that insurance companies domiciled in Illinois prepare their statutory-basis financial statements in accordance with the NAIC's Accounting Practices and Procedures Manual, as modified by the IDOI. In addition, the IDOI has the right to permit other specific practices that may deviate from prescribed practices.

**Statutory Financial Information**

The statutory capital and surplus and net income for Fidelity Life, as determined in accordance with statutory accounting practices prescribed or permitted by the IDOI, at December 31, 2022 and 2021, and for the years ended December 31, 2022 and 2021, are as follows:

| | At December 31, 2022 | At December 31, 2021 |
|---|---|---|
| **Statutory capital and surplus** | | |
| Fidelity Life | $ 106,260 | $ 98,211 |

| | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| **Statutory net income (loss)** | | |
| Fidelity Life | $ 1,282 | $ (8,692) |

**Note 10—Commitments and Contingencies**

**Leases**

Minimum future operating lease payments, including lease payments for real estate, vehicles, computers and office equipment at December 31, 2022, are as follows:

| Year | |
|---|---|
| 2023 | $ 946 |
| 2024 | 588 |
| 2025 | 281 |
| 2026 | 240 |
| 2027 | 247 |
| 2028 | 370 |
| Total | $ 2,672 |

Lease expense for the years ended December 31, 2022 and 2021 was $1,393 and $1,466, respectively.

**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 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.

**Note 11—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 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 maturity securities 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 investments are only included in the fair value hierarchy disclosure when the investment is 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 and liabilities that are carried at fair value on a recurring and non-recurring basis, by fair value hierarchy level, are as follows:

| December 31, 2022 | 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 | $ — | $ 9,106 | $ — | $ 9,106 |
| U.S. agency mortgage-backed | — | 8,878 | — | 8,878 |
| State and political subdivisions | — | 55,782 | 442 | 56,224 |
| Corporate and miscellaneous | 2,847 | 126,644 | 26,990 | 156,481 |
| Foreign government | — | 131 | — | 131 |
| Residential mortgage-backed | — | 4,430 | — | 4,430 |
| Commercial mortgage-backed | — | 19,462 | — | 19,462 |
| Asset-backed | — | 40,293 | 3,133 | 43,426 |
| Total fixed maturities | 2,847 | 264,726 | 30,565 | 298,138 |
| Total recurring assets | $ 2,847 | $ 264,726 | $ 30,565 | $ 298,138 |

| December 31, 2021 | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| **Recurring fair value measurements** | | | | |
| Financial instruments recorded as assets: | | | | |
| Fixed maturities | | | | |
| U.S. government and agencies | $ — | $ 11,901 | $ — | $ 11,901 |
| U.S. agency mortgage-backed | — | 13,679 | — | 13,679 |
| State and political subdivisions | — | 59,972 | 498 | 60,470 |
| Corporate and miscellaneous | 2,821 | 156,937 | 24,740 | 184,498 |
| Foreign government | — | 414 | — | 414 |
| Residential mortgage-backed | — | 6,069 | — | 6,069 |
| Commercial mortgage-backed | — | 20,815 | — | 20,815 |
| Asset-backed | — | 51,699 | 2,838 | 54,537 |
| Total fixed maturities | 2,821 | 321,486 | 28,076 | 352,383 |
| Total recurring assets | $ 2,821 | $ 321,486 | $ 28,076 | $ 352,383 |

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

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

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

| | | Total gains (losses) included in: | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance at January 1, 2022 | Net Income (loss) | OCI | Purchases | Sales | Settlements | Net Transfers | Balance at December 31, 2022 |
| **Financial Assets** | | | | | | | | |
| Fixed maturities | | | | | | | | |
| State and political subdivision | $ 498 | $ — | $ (56) | $ — | $ — | $ — | $ — | $ 442 |
| Corporate and miscellaneous | 24,740 | 2 | (398) | 3,198 | (2,582) | 1,468 | 563 | 26,991 |
| Asset-backed | 2,838 | (122) | (325) | 1,907 | (1,260) | — | 95 | 3,133 |
| Total assets | $ 28,076 | $ (120) | $ (779) | $ 5,105 | $ (3,842) | $ 1,468 | $ 658 | $ 30,566 |

| | | Total gains (losses) included in: | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance at January 1, 2021 | Net Income | OCI | Purchases | Sales | Settlements | Net Transfers | Balance at December 31, 2021 |
| **Financial Assets** | | | | | | | | |
| Fixed maturities | | | | | | | | |
| State and political subdivisions | $ 521 | $ — | $ (23) | $ — | $ — | $ — | $ — | $ 498 |
| Corporate and miscellaneous | 8,433 | (39) | — | 18,873 | — | (14) | (2,513) | 24,740 |
| Asset-backed | 1,301 | — | (2) | 1,290 | — | (251) | 500 | 2,838 |
| Total assets | $ 10,255 | $ (39) | $ (25) | $ 20,163 | $ — | $ (265) | $ (2,013) | $ 28,076 |

There were 2 transfers from Level 3 to Level 2 and 6 transfers from Level 2 to Level 3 in 2022. In 2021, there were 3 transfers from Level 3 to Level 2 and 1 transfer from Level 2 to Level 3.

**Financial Instruments not Measured at Fair Value**

The carrying amount and estimated fair values of the Company's financial instruments that are not measured at fair value on the Consolidated Balance Sheets are as follows:

| | | | Estimated Fair Value | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2022** | | **Carrying Value** | | **Level 1** | | **Level 2** | | **Level 3** | | **Total** |
| Financial instruments recorded as assets: | | | | | | | | | | |
| Mortgage loans | $ | 45,270 | $ | — | $ | — | $ | 41,622 | $ | 41,622 |
| Policyholder loans | $ | 6,699 | $ | — | $ | — | $ | 7,722 | $ | 7,722 |
| Financial instruments recorded as liabilities: | | | | | | | | | | |
| Future policy benefits, excluding term life reserves | $ | 16,555 | $ | — | $ | — | $ | 15,192 | $ | 15,192 |
| Long/short-term debt | $ | 37,189 | $ | — | $ | — | $ | 36,763 | $ | 36,763 |
| Policyholder account balances | $ | 77,443 | $ | — | $ | — | $ | 70,157 | $ | 70,157 |

| | | | Estimated Fair Value | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2021** | | **Carrying Value** | | **Level 1** | | **Level 2** | | **Level 3** | | **Total** |
| Financial instruments recorded as assets: | | | | | | | | | | |
| Mortgage loans | $ | 47,487 | $ | — | $ | — | $ | 43,047 | $ | 43,047 |
| Policyholder loans | $ | 6,371 | $ | — | $ | — | $ | 8,280 | $ | 8,280 |
| Financial instruments recorded as liabilities: | | | | | | | | | | |
| Future policy benefits, excluding term life reserves | $ | 22,680 | $ | — | $ | — | $ | 19,733 | $ | 19,733 |
| Long/short-term debt | $ | 26,378 | $ | — | $ | — | $ | 31,940 | $ | 31,940 |
| Policyholder account balances | $ | 80,494 | $ | — | $ | — | $ | 86,198 | $ | 86,198 |

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 $1,952 and $2,398 of second and mezzanine mortgages carried at cost which fair value is not measurable at December 31, 2022 and 2021, respectively.

**Policyholder Loans**—Fair value of policyholder loans are 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 Consolidated Balance Sheets has been divided into short and long-term based upon expected maturity dates.

## Note 12—Long and Short-Term Debt

### Commission Financing

In 2022, Efinancial entered into a new commission financing arrangement and is taking new advances on this financing arrangement. Efinancial's ability to receive advances under this agreement will terminate when the aggregate amount advanced under the arrangement equals or exceeds $36.0 million. At December 31, 2022 and December 31, 2021, we had a net advance of $31,100 and $21,937, respectively, under this arrangement. At December 31, 2022, the Company expects to pay back the aggregate amounts as presented in the following table.

| | December 31, 2022 |
|---|---|
| Due in one year or less | $ 6,976 |
| Due after one year through two years | 4,836 |
| Due after two years through three years | 4,491 |
| Due after three years through four years | 4,230 |
| Due after four years through five years | 3,904 |
| Due after five years | 28,293 |
| Less discount | (15,541) |
| Total long/short-term debt | $ 37,189 |

### Federal Home Loan Bank of Chicago

The Company is a member of the 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. The FHLBC membership requires the Company to own member stock. The Company held $180 and $115 of FHLBC common stock at December 31, 2022 and December 31, 2021, respectively. The Company's ability to borrow under this facility is subject to the FHLBC's discretion and requires the availability of qualifying assets. In 2022, the Company borrowed and repaid $4 million. As of December 31, 2022 and December 31, 2021, the Company had not pledged any assets and there were no outstanding borrowings.

## Note 13—Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated Other Comprehensive (Loss) Income, 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, 2022 | $ 362 | $ 10,567 | $ 10,929 |
| Other comprehensive income (loss) | | | |
| Unrealized holding (losses) gains from changes in the market value of securities | — | (59,600) | (59,600) |
| Impact on Policy benefit liabilities of changes in market value of securities | — | 5,934 | 5,934 |
| Change in net unrealized investment (losses) gains allocated to policyholder dividend obligations | — | 2,989 | 2,989 |
| Income tax benefit (expense) | — | 9,576 | 9,576 |
| Other comprehensive income (loss), net of tax | — | (41,101) | (41,101) |
| Balance at December 31, 2022 | $ 362 | $ (30,534) | $ (30,172) |

| | Net Unrealized Gains (Losses) on Investments with OTTI Losses | Net Unrealized Gains (Losses) on Other Investments | Total |
|---|---|---|---|
| Balance at January 1, 2021 | $ 362 | $ 16,239 | $ 16,601 |
| Other comprehensive income (loss) | | | |
| Unrealized holding (losses) gains from changes in the market value of securities | — | (9,796 ) | (9,796 ) |
| Impact on Policy benefit liabilities of changes in market value of securities | — | 1,606 | 1,606 |
| Change in net unrealized investment (losses) gains allocated to policyholder dividend obligations | — | 1,009 | 1,009 |
| Income tax benefit (expense) | — | 1,509 | 1,509 |
| Other comprehensive income (loss), net of tax | — | (5,672 ) | (5,672 ) |
| Balance at December 31, 2021 | $ 362 | $ 10,567 | $ 10,929 |

**Note 14—Business Segments**

Our Chief Operating Decision Maker makes decisions by analyzing our segment information. For internal decision-making purposes and external reporting purposes, we do not disaggregate revenue beyond our segment information and believe that any further disaggregation is immaterial. The Company's current operations were organized into three reportable segments: Insurance, Agency, and Corporate & Other.

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 run-off from a prior management arrangement.

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

The Corporate & Other Segment includes certain expenses that are corporate expenses or that will benefit the overall organization and are not allocated to a segment.

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:

| | Year Ended December 31, 2022 | | | | Year Ended December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Insurance | Agency | Corporate & Other | Total Consolidated | Insurance | Agency | Corporate & Other | Total Consolidated |
| Net insurance premiums | $ 100,075 | $ — | $ — | $ 100,075 | $ 107,958 | $ — | $ — | $ 107,958 |
| Net investment income | 15,556 | — | 480 | 16,036 | 13,973 | — | 593 | 14,566 |
| Net gains (losses) on investments | (148 ) | — | 263 | 115 | 2,352 | — | 754 | 3,106 |
| Other-than-temporary-impairments | (442 ) | — | — | (442 ) | (4 ) | — | — | (4 ) |
| Earned commissions | — | 43,063 | (429 ) | 42,634 | — | 46,455 | (2,062 ) | 44,393 |
| Other income | 604 | 4,890 | — | 5,494 | 247 | 6,313 | — | 6,560 |
| Total revenues | 115,645 | 47,953 | 314 | 163,912 | 124,526 | 52,768 | (715 ) | 176,579 |
| Life, annuity, and health claim benefits | 70,282 | — | — | 70,282 | 80,677 | — | — | 80,677 |
| Operating costs and expenses | 34,572 | 56,648 | 6,535 | 97,755 | 25,688 | 56,739 | 12,285 | 94,712 |
| Amortization of deferred policy acquisition costs | 18,443 | — | — | 18,443 | 18,225 | — | — | 18,225 |
| Total benefits and expenses | 123,297 | 56,648 | 6,535 | 186,480 | 124,590 | 56,739 | 12,285 | 193,614 |
| (Loss) income before income tax | $ (7,652 ) | $ (8,695 ) | $ (6,221 ) | $ (22,568 ) | $ (64 ) | $ (3,971 ) | $ (13,000 ) | $ (17,035 ) |

| | December 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Insurance | Agency | Corporate & Other | Total Consolidated | Insurance | Agency | Corporate & Other | Total Consolidated |
| Investments and cash | $ 358,620 | $ 1,094 | $ 3,862 | $ 363,576 | $ 419,953 | $ 425 | $ 10,402 | $ 430,780 |
| Commissions and agent balances | 4,751 | 30,015 | — | 34,766 | 11,919 | 16,770 | — | 28,689 |
| Deferred policy acquisition costs | 90,189 | — | — | 90,189 | 95,715 | — | — | 95,715 |
| Intangible assets | — | 1,635 | — | 1,635 | — | 1,635 | — | 1,635 |
| Reinsurance recoverables | 214,862 | — | — | 214,862 | 184,131 | — | — | 184,131 |
| Deferred income tax (liabilities) assets, net | 13,489 | — | 14,948 | 28,437 | (4,136) | — | 16,836 | 12,700 |
| Other | 26,800 | 5,869 | 3,944 | 36,613 | 26,074 | 4,023 | 4,260 | 34,357 |
| Total assets | $ 708,711 | $ 38,613 | $ 22,754 | $ 770,078 | $ 733,656 | $ 22,853 | $ 31,498 | $ 788,007 |

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 15—Quarterly Financial Information

As a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and Item 10(f)(1) of Regulation S-K, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore is not required to provide the information required by Item 503(c) of Regulation S-K.

## Note 16—Subsequent Events

Management has evaluated subsequent events up to and including March 31, 2023, the date these Consolidated Financial Statements were issued and determined there were no reportable subsequent events.

**Vericity, Inc.**
**Schedule I**
**Summary of Investments Other Than Investments in Related Parties**
**As of December 31, 2022**
**(dollars in thousands)**

| Type of Investment | Cost / Amortized Cost | Fair Value | Balance Sheet |
|---|---|---|---|
| Fixed maturities: | | | |
| Bonds: | | | |
| U.S. government and agencies | $ 9,258 | $ 9,106 | $ 9,106 |
| U.S. agency mortgage-backed | 9,429 | 8,878 | 8,878 |
| State and political subdivisions | 68,213 | 56,224 | 56,224 |
| Corporate and miscellaneous | 171,283 | 156,481 | 156,481 |
| Foreign government | 130 | 131 | 131 |
| Residential mortgage-backed securities | 4,912 | 4,430 | 4,430 |
| Commercial mortgage-backed securities | 21,374 | 19,462 | 19,462 |
| Asset backed securities | 47,347 | 43,426 | 43,426 |
| Total fixed maturity securities | 331,946 | 298,138 | 298,138 |
| Mortgage loans | 45,270 | 41,622 | 45,270 |
| Policy loans | 6,699 | 7,722 | 6,699 |
| Other invested assets | 2,944 | 3,693 | 3,693 |
| Total investments | $ 386,859 | $ 351,175 | $ 353,800 |

**Vericity, Inc.**
**Schedule II**
**Condensed Financial Information of Registrant (Parent Company) Statement of Operations**
**As of and for the Years Ended December 31, 2022 and 2021**
**(dollars in thousands)**

| For the Years Ended December 31, | 2022 | 2021 |
|---|---|---|
| **Revenues** | | |
| Net investment income and gains (losses) | $ 786 | $ 1,425 |
| Total revenues | 786 | 1,425 |
| **Expenses** | | |
| Operating costs and expenses | 5,650 | 11,038 |
| Total expenses | 5,650 | 11,038 |
| Income (loss) before income taxes | (4,864) | (9,613) |
| Income tax expense (benefit) | (298) | (670) |
| Net income (loss) before equity in net loss of subsidiary | (4,566) | (8,943) |
| Equity in net (loss) of subsidiary | (15,894) | (7,714) |
| **Net (loss) income** | (20,460) | (16,657) |
| Equity in other comprehensive income of subsidiary | (41,101) | (5,672) |
| **Total comprehensive (loss) income** | $ (61,561) | $ (22,329) |

See footnotes to the condensed financial statements.

**Vericity, Inc.**
**Schedule II (Continued)**
**Condensed Financial Information of Registrant Statement of Financial Position**
**(dollars in thousands)**

| For the Years Ended December 31, | 2022 | 2021 |
|---|---|---|
| **Assets** | | |
| Investment in subsidiaries | $ 98,168 | $ 155,163 |
| Fixed maturities - available-for-sales - at fair value (amortized cost; $2,563 and $5,883) | 2,563 | 5,883 |
| Other invested assets | 818 | 555 |
| Cash, cash equivalents and restricted cash | 419 | 3,884 |
| Inter-company receivables | 8,433 | 7,095 |
| Current income tax receivable | 1,477 | 1,613 |
| Other assets | 635 | 755 |
| Total assets | 112,513 | 174,948 |
| **Liabilities and Shareholders' Equity** | | |
| **Liabilities:** | | |
| Other liabilities | 1,170 | 2,044 |
| Total liabilities | 1,170 | 2,044 |
| **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 | 101,660 | 122,120 |
| Accumulated other comprehensive (loss) income | (30,172) | 10,929 |
| Total shareholders' equity | 111,343 | 172,904 |
| **Total liabilities and shareholders' equity** | $ 112,513 | $ 174,948 |

See footnotes to the condensed financial statements.

**Vericity, Inc.**
**Schedule II (Continued)**
**Condensed Financial Information of Registrant Statement of Cash Flows**
**(dollars in thousands)**

| For the Years Ended December 31, | 2022 | 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net (loss) income | $ (20,460) | $ (16,657) |
| Adjustments to reconcile net income to net cash provided (used) by operations: | | |
| Equity in earnings of subsidiaries | 15,894 | 7,714 |
| Net investment (gains) losses | (263) | (754) |
| Accretion of bond discount | (462) | (321) |
| Change in: | | |
| Due to subsidiaries | (1,338) | (1,027) |
| Accrued investment income | — | 1 |
| Other liabilities | (874) | 106 |
| Other assets | 120 | 107 |
| Income tax | 136 | (670) |
| Net cash used by operating activities | (7,247) | (11,501) |
| **Cash flows from investing activities** | | |
| Purchases of fixed maturities | (228) | (4,239) |
| Purchases of other invested assets | — | 334 |
| Sales of fixed maturities | 4,010 | 3,540 |
| Net cash provided (used) by investing activities | 3,782 | (365) |
| **Cash flows from financing activities** | | |
| Net cash flows provided by financing | — | — |
| Net (decrease) increase in cash and cash equivalents | (3,465) | (11,866) |
| Cash, cash equivalents and restricted cash - beginning of period | 3,884 | 15,750 |
| Cash, cash equivalents and restricted cash - end of period | $ 419 | $ 3,884 |

See footnotes to the condensed financial statements.

**Note 1—General**

Pursuant to rules and regulations of the SEC, the unconsolidated condensed financial statements of the Parent Company do not reflect all of the information and notes normally included with financial statements prepared in accordance with GAAP. Therefore, these condensed financial statements of the Registrant should be read in conjunction with the consolidated financial statements and notes thereto included in Item 8.

**Vericity, Inc.**
**Schedule III**
**Supplementary Insurance Information**
**As of and for the Years Ended December 31, 2022 and 2021**
**(dollars in thousands)**

| Segment | Deferred Policy Acquisition Costs | Future Policy Benefits Losses and Expenses | Other Policy Claims and Benefits Payable | Net Insurance Premiums | Net Investment Income | Benefits, Claims, Losses and Settlement Expenses | Amortization of DAC | Other Operating Expenses |
|---|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | | |
| Insurance | $ 90,189 | $ 453,763 | $ 134,444 | $ 100,075 | $ 15,556 | $ 70,282 | $ 18,443 | $ 34,572 |
| Agency | — | — | — | — | — | — | — | 56,648 |
| Corporate & other | — | — | — | — | 480 | — | — | 6,535 |
| Total | $ 90,189 | $ 453,763 | $ 134,444 | $ 100,075 | $ 16,036 | $ 70,282 | $ 18,443 | $ 97,755 |
| **2021** | | | | | | | | |
| Insurance | $ 95,715 | $ 416,039 | $ 142,365 | $ 107,958 | $ 13,973 | $ 80,677 | $ 18,225 | $ 25,688 |
| Agency | — | — | — | — | — | — | — | 56,739 |
| Corporate & other | — | — | — | — | 196 | — | — | 12,285 |
| Total | $ 95,715 | $ 416,039 | $ 142,365 | $ 107,958 | $ 14,169 | $ 80,677 | $ 18,225 | $ 94,712 |

**Vericity, Inc.**
**Schedule IV**
**Reinsurance**
**As of and for the Years Ended December 31, 2022 and 2021**
**(dollars in thousands)**

| | Gross Amount | Ceded to Other Companies | Assumed From Other Companies | Net Amount | Percentage of Amount Assumed to Net |
|---|---|---|---|---|---|
| **2022** | | | | | |
| Life insurance face amount in-force (millions) | $ 35,139 | $ 33,815 | $ 3,188 | $ 4,512 | 70.7 % |
| Premiums | | | | | |
| Life insurance | $ 173,944 | $ 120,015 | $ 45,637 | $ 99,566 | 45.8 % |
| Accident and health | 656 | 147 | — | 509 | 0.0 % |
| Total premiums | $ 174,600 | $ 120,162 | $ 45,637 | $ 100,075 | 45.6 % |
| **2021** | | | | | |
| Life insurance face amount in-force (millions) | $ 34,854 | $ 33,845 | $ 3,975 | $ 4,984 | 79.8 % |
| Premiums | | | | | |
| Life insurance | $ 169,204 | $ 103,028 | $ 41,187 | $ 107,363 | 38.4 % |
| Accident and health | 754 | 159 | — | 595 | 0.0 % |
| Total premiums | $ 169,958 | $ 103,187 | $ 41,187 | $ 107,958 | 38.2 % |

**Vericity, Inc.**
**Schedule V**
**Valuation and Qualifying Accounts**
**For the Years Ended December 31, 2022 and 2021**
**(dollars in thousands)**

| | Balance at Beginning of Period | Additions: Charged to Costs and Expenses | Additions: Other | Deductions | Balance at End of Period |
|---|---|---|---|---|---|
| **2022** | | | | | |
| Allowance for losses on commercial mortgage | $ 69 | $ 14 | $ — | $ — | $ 83 |
| Allowance for uncollectible receivables | 581 | — | — | 117 | 464 |
| Valuation allowance on deferred tax asset | 20,059 | 3,301 | 1,066 | — | 24,426 |
| | $ 20,709 | $ 3,315 | $ 1,066 | $ 117 | $ 24,973 |
| **2021** | | | | | |
| Allowance for losses on commercial mortgage | $ 141 | $ — | $ — | $ 72 | $ 69 |
| Allowance for uncollectible receivables | 880 | — | — | 299 | 581 |
| Valuation allowance on deferred tax asset | 16,665 | 3,394 | — | — | 20,059 |
| | $ 17,686 | $ 3,394 | $ — | $ 371 | $ 20,709 |

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the SEC under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities Exchange Act and made known to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2022 based on the criteria related to internal control over financial reporting described in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2022.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(d) or 15d-15(d) of the Exchange Act) during 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

Not applicable

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

Not applicable

## Item 10. Directors, Executive Officers and Corporate Governance.

The table below provides information of our directors and executive officers as of March 30, 2023.

| Name | Age | Position |
|---|---|---|
| Eric Rahe | 54 | Director and Chairman |
| Neil Ashe | 55 | Director |
| Calvin Dong | 35 | Director |
| Richard A. Hemmings | 76 | Director |
| Scott Perry | 60 | Director |
| Laura R. Zimmerman | 64 | Director |
| James E. Hohmann | 67 | Chief Executive Officer, President and Director |
| Melissa Balsan | 40 | Executive Vice President, Chief Marketing Officer |
| John Buchanan | 52 | Executive Vice President, General Counsel and Corporate Secretary |
| David R. Drollette | 40 | Executive Vice President, Chief Data Officer & Chief Technology Officer |
| James C. Harkensee | 64 | Executive Vice President of Vericity, President and Chief Operating Officer of Fidelity Life |
| Chris S. Kim | 51 | Executive Vice President, Chief Financial Officer and Treasurer |

### *Directors*

Our directors were initially chosen based upon their individual skills, experiences and qualifications which collectively provide a balanced level of expertise to the Company. Additionally, we believe that each of our directors possess high professional and personal ethics and values, which are attributes that are important characteristics to the Company.

***Eric Rahe*** has served as Vericity's Chairman since August 7, 2019. Mr. Rahe has served as a Managing Director of J.C. Flowers & Co. LLC since 2014, a leading private investment firm dedicated to investing globally in the financial services industry and serves as a member of the firm's Management Committee. From 2008 to 2014, Mr. Rahe was a Managing Director at Clayton, Dubilier & Rice where he established and led the firm's financial services practice. Previously, he was a senior investment professional at the hedge fund SAB Capital, and before that a Partner at Capital Z Partners, the financial services focused private equity firm. Mr. Rahe began his career at Donaldson, Lufkin & Jenrette. Mr. Rahe serves on the Boards of Directors of ELMC Group, LLC.

He received an A.B. in Economics from Harvard College, where he graduated magna cum laude, and an M.B.A. from Harvard Business School.

Mr. Rahe was selected to serve on our Board of Directors because of his experience in the insurance and financial services industries. Mr. Rahe has been investing in the insurance industry for over 25 years and has served on the board of directors of a number of insurance companies.

***Richard A. Hemmings*** has served as a director of Vericity since 2013 and served as the Chairman of the Board of Directors of Members Mutual from its formation in 2007 until its conversion in 2019. From 2007 until 2014, Mr. Hemmings also served as the President and Chief Executive Officer of Members Mutual. Mr. Hemmings also served as the Chairman of the Board of Directors and Chief Executive Officer (and prior to 2012, President) of Fidelity Life, positions held by him from 2005 to 2014. Mr. Hemmings became a director of Fidelity Life in 2002. Prior to joining Fidelity Life in 2005, Mr. Hemmings was a partner in the Chicago law firm of Lord, Bissell & Brook LLP and was associated with the firm for 25 years.

Mr. Hemmings was selected to serve on our Board of Directors because of his experience in the life insurance industry; his knowledge of the legal and regulatory matters affecting our operations; and his executive experience with Members Mutual and Fidelity Life.

***James E. Hohmann*** has served as a director, Chief Executive Officer and President of Vericity since September 2014 and served as a director and Chief Executive Officer of Vericity from September 2014 until its conversion in 2019. For approximately two years prior thereto, Mr. Hohmann worked as a private consultant in the life insurance industry, including providing consulting services for Members Mutual. From April 2009 until June 2012, Mr. Hohmann served as a director, President, and Chief Executive Officer of FBL Financial Group, an individual life insurance and annuity products company. From January 2007 until January 2009, Mr. Hohmann was an executive officer of Allstate Corporation with accountabilities as President and Chief Executive Officer of Allstate Financial. From December 2004 until December 2006, Mr. Hohmann was President and Chief Operating Officer of Conseco, Inc. Earlier, he served as

President and Chief Executive Officer of a newly formed XL Life and Annuity business at XL Capital, was Chief Actuary and then President of the Financial Institutions business of Zurich (Kemper), and worked for nearly 13 years as a management consultant, first for KPMG Peat Marwick, followed by Tillinghast/Towers Perrin (now Willis Towers Watson) where he was Managing Principal of the Chicago Life Practice. Effective March 22, 2022, Mr. Hohmann reassumed the President and Chief Operating Officer role at eFinancial, a role he previously had prior to Mr. Campbell's arrival in 2017.

Mr. Hohmann also currently serves on the board of directors of American Council of Life Insurers, the board of directors of Bankers Trust (non-public) and is Chairman of MIB Group Inc., a life insurance industry membership organization. He also served as a former director of the Board of Governors for the Property Casualty Insurance Association of America. Mr. Hohmann is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.

Mr. Hohmann was selected to serve on our Board of Directors because of his executive leadership experience, his expertise in insurance and financial services, and his actuarial background.

***Calvin Dong*** has served as a director of Vericity since August 7, 2019. He is a Vice President at J.C. Flowers & Co. LLC, where he has been employed since 2013. Prior to joining J.C. Flowers & Co. LLC, Mr. Dong was a member of the Financial Institutions Group at Barclays Investment Bank in New York for three years, focusing on mergers and acquisitions and capital raising transactions in the insurance sector.

Mr. Dong received a B.S. (Honors) in Finance and Accounting with High Distinction from the Kelley School of Business, Indiana University.

Mr. Dong was selected to serve on our Board of Directors because of his experience in the insurance and financial services industries. Mr. Dong has over 11 years of experience as an investor and banker to the life insurance industry.

***Scott Perry*** has served as a director of Vericity since August 7, 2019. He joined AmeriLife Group Holdings as Chief Executive Officer in December 2016. AmeriLife is a distributor of annuity, life, and health insurance products and is a portfolio company of a fund advised by Thomas H. Lee Partners, L.P. He was previously the Chief Business Officer of CNO Financial Group, Inc., (formerly, Conseco, Inc.), where he oversaw the operations of Bankers Life, Colonial Penn and Washington National, from 2009 until 2016. Prior to that, Mr. Perry served as the President of Bankers Life from 2002 until 2009. Before joining Bankers Life, Mr. Perry worked for 12 years in sales, marketing, and management roles at Golden Rule, Anthem Blue Cross Blue Shield and Premera Blue Cross. Earlier in his career, he advised healthcare payers and providers on strategies to improve operational and financial performance with the Deloitte & Touche Integrated Health Care Group.

Mr. Perry has served on the boards of LL Global (LIMRA) and the American College. He also served as a board member and Chair of the Greater Illinois chapter of the Alzheimer's Association.

Mr. Perry was selected to serve on our Board of Directors because of his experience in the insurance industry. Mr. Perry has over 30 years of experience in the life insurance industry. As Chief Executive Officer of AmeriLife and former President of Bankers Life, Chief Business Officer of CNO, he brings particular expertise in the distribution of a wide variety of life and health products across various distribution channels.

***Neil Ashe*** has served as a director of Vericity since August 7, 2019. He is the Chief Executive officer of Acuity Brands which is a global technology manufacturer, driving an innovative and comprehensive portfolio of lighting products, controls, software, and services. Mr. Ashe also serves as the Chief Executive officer of Faster Horses LLC, which invests in, operates and advises companies that are embracing the power of digital to grow and change their businesses. Mr. Ashe has served in this position since 2017. From 2012 to 2017, Mr. Ashe was the President and Chief Executive Officer of Global eCommerce and Technology for Wal-Mart Stores, Inc. Mr. Ashe was with CNET Networks (NASDAQ: CNET) from 2002 to 2008, having been appointed as Chief Executive Officer in 2006, and, subsequently, the President of CBS Interactive from 2008 until 2011, following the sale of CNET to CBS. He has served on the boards of directors of numerous companies, including CNET and AMC Networks (NASDAQ: AMCX), and was a member of the Georgetown University Board of Regents.

Mr. Ashe has an M.B.A. from the Harvard Business School and a B.S. in Business Administration from Georgetown University.

Mr. Ashe was selected to serve on our Board of Directors because of his experience helping companies use and adopt technology to grow their businesses. Through his experience running several leading internet businesses, Mr. Ashe brings a breadth of experience that will be germane to the Company's internet agency, Efinancial.

***Laura R. Zimmerman*** served as Executive Vice President and Chief Marketing Officer of Vericity from February 2016 to January 2023. Ms. Zimmerman served as Executive Vice President and Chief Marketing Officer of Members Mutual from February 2016 until its conversion in 2019. Prior thereto, Ms. Zimmerman served as Vice President, Chief Marketing Officer, Group Worksite, at The Guardian Life Insurance Company of America from July 2014 to February 2016, where she led marketing and enrollment services for the employee benefits division. Prior thereto, Ms. Zimmerman served as the Managing Director at Bridgestar Solutions, LLC from July 2013 to June 2014. Prior thereto, Ms. Zimmerman served as Senior Vice President for Aon Hewitt from November 2011 to June 2012, where she led marketing and advertising strategy. Before joining Aon Hewitt, Ms. Zimmerman served as Managing Director, Head of Marketing and Product at Legg Mason Global Asset Management from June 2010 to June 2011. Prior thereto, Ms. Zimmerman served in various positions during a thirteen-year career at Allstate Insurance Company. Among other positions at Allstate, Ms. Zimmerman served as Chief Strategy Officer for Allstate's financial services division. Ms. Zimmerman earned her bachelor's degree from Dartmouth College and her MBA from the Kellogg School of Management at Northwestern University.

***Executive Officers***

Set forth below is biographical information for our executive officers (except for Mr. Hohmann, whose biographical information is set forth above):

***James C. Harkensee*** has served as Executive Vice President of Vericity since its conversion in 2019 and as President and Chief Operating Officer of Fidelity Life since November 2012. From July 1, 2013 to August 4, 2014, Mr. Harkensee served as Interim Chief Financial Officer of Members Mutual. Prior to that, Mr. Harkensee served in various capacities at Fidelity Life, including most recently as Vice President of Product and Corporate Development and prior to that as President of America Direct Insurance Agency, Inc., a subsidiary of Fidelity Life, which he joined in 2005. He was formerly President of Zurich Direct, a direct marketing insurance agency. Mr. Harkensee began his career at Bankers Life & Casualty in 1980, later joining Zurich Life, where he was promoted to Chief Actuary. Mr. Harkensee also serves as Executive Vice President of Vericity. He is a Fellow of the Society of Actuaries.

***Chris S. Kim*** has served as Chief Financial Officer of Vericity since August 2014 and served as Chief Financial Officer of Members Mutual from August 2014 until its conversion in 2019. He has served as Executive Vice President of Vericity since its conversion in 2019. Prior thereto, Mr. Kim served as Chief Accounting Officer of Members Mutual since June 2013. Mr. Kim has over 20 years of experience in public accounting and controllership with a focus on property and casualty and life insurers. He has extensive experience in advising public companies on accounting and financial reporting matters related to capital raising activities and advising clients on complex accounting matters. Mr. Kim also serves as Executive Vice President of Vericity. Prior to joining Members Mutual, he was employed by PricewaterhouseCoopers LLC for a total of seventeen years within the audit and transaction services practice in Kansas City, Chicago, and New York, from 1995-2002 and again from 2004-2013. From 2002-2004, Mr. Kim held the position of Assistant Controller with Employers Reinsurance Corporation, a subsidiary of GE Capital.

***John Buchanan*** has served as Executive Vice President, General Counsel and Corporate Secretary of Vericity since February, 2016. Mr. Buchanan served as Executive Vice President, General Counsel and Corporate Secretary of Members Mutual from February 2016 until its conversion in 2019. Prior thereto, from 1995 to February 2016, Mr. Buchanan served in various legal roles during a twenty-year career at Allstate Insurance Company most recently as Chief Counsel supporting Allstate's agency operations from July 2014 to February 2016, and prior to that as Corporate Counsel supporting direct sales from July 2009 until July 2014. Among other positions at Allstate, Mr. Buchanan led several legal teams within Allstate's P&C and life insurance operations, including acting as lead counsel for Allstate Life of New York. He also served as lead counsel to Allstate's Chief Marketing Officer and Lead Counsel to Allstate's Eastern Region President. Mr. Buchanan served as Secretary on NJ Life and Health Guaranty Fund boards. Mr. Buchanan began his career as a trial attorney with dozens of jury and bench trials on insurance matters.

***David R. Drollette*** has served as Executive Vice President and Chief Data Officer & Chief Technology Officer since September 1, 2020. Prior thereto, Mr. Drollette served as Vice President Product Analytics at athenahealth, Inc. from September 2018 through August 2020, where he led the product analytics team and set the research & development strategy for the data and artificial intelligence engineering teams across multiple geographies. Prior thereto, Mr. Drollette served in various leadership roles at Wayfair, Inc. from January 2006 through August 2018, where he led a 180+ person team of analysts, data scientists, and software engineers. He holds a bachelor's degree in Mathematics/Physics from Ithaca College in New York where he graduated Cum Laude.

***Melissa Balsan*** has served as Executive Vice President and Chief Marketing Officer since January 9, 2023. With more than 20 years of experience in direct-to-consumer marketing and branding, Melissa has built deep knowledge of customer acquisition and led digital transformation within insurance, education, and e-commerce businesses. She served as Chief Marketing Officer for GoHealth, a Medicare insurance broker, as well as Chief Marketing Officer for Endurance Warranty, a leader in auto protection services. At Perdoceo Education Corporation, Melissa held marketing leadership positions responsible for new student enrollment and retention; and as a digital native, helped establish search engine and social media marketing at CareerBuilder.com. She began her career in advertising guiding established brands like Ford Motor Company and La-Z-Boy through digital transformation. Melissa graduated from Adrian College in Adrian, Michigan with a BBA in Marketing where she also completed Public Relations studies.

## Corporate Governance

### *Overview of Our Board Structure*

As part of the conversion of Members Mutual in connection with our IPO, Apex Holdco purchased approximately 76.5% of the shares sold in the IPO pursuant to a standby stock purchase agreement under which Apex Holdco acted as the standby purchaser for the IPO. As such, we qualify as a "controlled company" within the meaning of the corporate governance rules of Nasdaq. "Controlled companies" under those rules are companies of which more than 50% of the voting power is held by an individual, a group or another company.

As we are a "controlled company" we have availed ourselves of the "controlled company" exception under the Nasdaq rules and will not be subject to the Nasdaq listing requirements that would otherwise require us to have a board of directors comprised of a majority of independent directors, a compensation committee composed solely of independent directors or a nominating committee composed solely of independent directors.

The standby purchase agreement and/or our bylaws contain provisions regarding our corporate governance and board structure and chief executive officer, including:

- the board of directors shall consist of designees appointed by the standby purchaser (the "standby purchaser designees") and designees appointed by Vericity (the "company designees"). The number of company designees shall not exceed six or at any time be less than two, and the number of standby purchaser designees at any given time shall be one more than the number of company designees, but in no event less than three, provided that the standby purchaser may designate the minimum additional number of designees as necessary to comply with SEC and Nasdaq Stock Market rules relating to the number of independent directors serving on the board of directors or any committee of the board. Messrs. Rahe, Dong, Perry and Ashe serve as the standby purchaser designees, and Messrs. Hemmings, Hohmann and Schacht serve as the company designees;
- the compensation payable to the company designees may not be decreased without the consent of a majority of the company designees, and may not be increased without the consent of a majority of the standby purchaser designees;
- in the event of any vacancy in the office of any standby purchaser designee or company designee, a majority of the remaining designees, as applicable, will have the right to nominate a replacement to fill the vacancy, provided that in the case of a vacancy of a company designee, the standby purchaser may elect to reduce the size of the board of directors by two so long as one of the standby purchaser designees resigns, and provided further that in the event that there are no remaining company designees to nominate a replacement, the Advisory Board shall have the right to designate a replacement company designee;
- at any election of directors of Vericity, a majority of the standby purchaser designees will have the right to nominate the successors of the standby purchaser designees, and a majority of the company designees will have the right to nominate the successors of the company designees, provided that in the event that there are no remaining company designees to nominate successors, the Advisory Board shall have the right to designate successor company designees;
- any transaction between the standby purchaser or any of its affiliates, on the one hand, and Vericity or any of its subsidiaries, on the other hand, shall be subject to approval by the company designees, other than ordinary course transactions on arm's length terms; and
- Mr. Hohmann shall serve as Chief Executive Officer of the Company for no less than three years after the closing of the offering, subject to his earlier death, retirement, resignation or removal for cause as defined in the standby purchase agreement.

### *Director Independence*

We have undertaken a review of the composition of our Board of Directors and considered whether any director has a relationship that could compromise that director independent judgment in carrying out his responsibilities and all other facts and circumstances that the Board of Directors deemed relevant in determining their independence. We have affirmatively determined that each of our directors, with the exception of Mr. Hohmann, Mr. Rahe and Ms. Zimmerman, is an independent director under the Nasdaq Marketplace Rules.

### *Committees of the Board of Directors*

We have the following committees of our Board of Directors in place: the audit committee; the compensation committee; and the nominating and governance committee. Each of these committees operates under a committee charter to be approved by our Board of Directors and available on our website at www.vericity.com. The composition, duties and responsibilities of our committees are as set forth below:

*Audit Committee*

The audit committee is responsible for the oversight of the integrity of our consolidated financial statements, our systems of internal control over financial reporting, our risk management, the qualifications, independence and performance of our independent registered public accounting firm, the performance of our internal auditor and our compliance with applicable legal and regulatory requirements. The audit committee has the sole authority and responsibility to select, determine the compensation for, evaluate and, when appropriate, replace our independent registered public accounting firm. All audit and non-audit services, other than *de minimis* non-audit services, to be provided to us by our independent registered public accounting firm must be approved in advance by our audit committee. The audit committee also approves related-party transactions.

Our audit committee is composed of Mr. Perry (chair), Mr. Hemmings, and Mr. Dong. Our Board of Directors has determined that each of the members of the audit committee meets the definition of "independent director" for purposes of serving on the audit committee under Exchange Act Rule 10A-3 and the Nasdaq Marketplace Rules. In addition, the Board of Directors has determined that Scott R. Perry qualifies as an "audit committee financial expert" as such term is defined in Item 407(d)(5) under Regulation S-K.

*Compensation Committee*

The compensation committee is responsible for annually reviewing and approving the corporate goals and objectives relevant to the compensation of our Chief Executive Officer and evaluating our Chief Executive Officer's performance in light of these goals; reviewing and approving the compensation of our executive officers and other appropriate officers; reviewing and reporting to the Board of Directors on compensation of directors and board committee members; and administering our incentive and equity-based compensation plans.

Our compensation committee is composed of Mr. Rahe (chair), Mr. Hemmings, Mr. Ashe, Mr. Dong and Mr. Hohmann.

*Nominating and Governance Committee*

Our nominating and corporate governance committee is composed of Mr. Dong (chair), Mr. Rahe, and Mr. Ashe and Mr. Hohmann. The nominating and governance committee is responsible for identifying and recommending candidates for election to our Board of Directors and each committee of our Board of Directors, developing and recommending corporate governance guidelines to the Board of directors and overseeing performance reviews of the Board of Directors, its committees and the individual members of the Board.

***Code of Ethics***

We have adopted a code of business conduct and ethics applicable to all of our directors and employees, including our principal executive, financial and accounting officers and all persons performing similar functions. A copy of that code is available on our website at www.vericity.com. We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of such provisions, on our website to the extent required by applicable rules and exchange requirements.

***Advisory Board***

Upon completion of the offerings, we established an Advisory Board to provide general policy advice to the Board of Directors. Only individuals who served as directors of Members Mutual as of the date of the standby stock purchase agreement are eligible to serve on our Advisory Board. Advisory board members are entitled to attend meetings of the Board of Directors but shall not vote. Members of the Advisory Board shall have the right to nominate individuals to be company designees in the event that there are no then-serving company designees. Members of the Advisory Board will receive the same compensation provided to company designees serving on the Board of Directors of Vericity. Advisory Board members will serve until the earlier of the sale of Vericity to a third party, the fifth anniversary of the closing of our 2019 offering or a member's death, resignation or removal for cause. The initial Advisory Board consists of Ms. Bynoe, Mr. Fibiger and Mr. Groot. Mr. Schacht was added to the Advisory Board in August of 2022 as he attained the age of 80 in 2022 and was no longer eligible to serve on the Vericity Board. Amount shown in Director Compensation represents total payments for 2022 which include compensation for participation on the Advisory Board.

Set forth below is biographical information for the members of the Advisory Board:

***Linda Walker Bynoe*** is the President and Chief Executive Officer of Telemat Ltd., a project management and consulting firm based in Chicago, Illinois. Ms. Bynoe has served in that position since 1995. From 1989 to 1995, Ms. Bynoe was the Chief Operating Officer of Telemat Ltd. From 1978 to 1989, Ms. Bynoe worked in executive capacities with the capital markets division of Morgan Stanley, serving as Vice President since 1985. Ms. Bynoe serves on the board of directors of Anixter International Inc., Prudential Retail Mutual Funds and the Northern Trust Corporation, and as a Trustee of Equity Residential. Ms. Bynoe became a director of Fidelity Life from 2002, and a director of Members Mutual from 2007 through the completion of the conversion in 2019.

***John A. Fibiger*** served in various positions, including President, Chief Financial Officer and Chairman of the board of directors, of the Transamerica Life Companies. Prior to his association with the Transamerica Life Companies, Mr. Fibiger served in various positions with New England Mutual Life Insurance Company, including as its President from 1982 to 1989. He recently served as an independent trustee with the following mutual fund complexes associated with Genworth Financial, Inc.: GPS Funds II (10 portfolios); since 2004, Genworth Financial Asset Management Funds (10 portfolios); and from 2008 to 2011, Genworth Variable Insurance Trust (20 portfolios). He served as a trustee of the Menninger Foundation, and was Chairman of the Menninger Fund.

Mr. Fibiger has been a member since 1956 and a Fellow since 1959 of the Society of Actuaries. He has been a Member since 1963 of the American Academy of Actuaries and served as its President from 1987 to 1988. He is also a trustee of the Austin Symphony Orchestra and a life trustee of the Museum of Science, Boston, Massachusetts. Mr. Fibiger became a director of Fidelity Life from 2004, and a director of Members Mutual from 2007, through the completion of the conversion in 2019.

***Steven L. Groot*** held a series of actuarial and executive management positions during a thirty-plus year career with Allstate Insurance Company. Among other positions at Allstate, Mr. Groot served as President of Allstate Insurance Companies of Canada, President of Allstate Indemnity, President of Allstate International and President of Allstate's direct distribution and e-commerce business. He was a member of the Allstate Insurance Company board of directors from 1994 to 2002 and served on the investment and executive committees of the Allstate Insurance Company board of directors.

Mr. Groot is a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries and also a member of the California State Bar Association. He currently serves as a member of the board of directors of CEM Insurance Company, a privately held property and casualty insurer, and was a life trustee of Lawrence Hall Youth Services in Chicago, Illinois. Since 2006, Mr. Groot has served on the board of directors of American Safety Insurance Holdings, Ltd., a specialty commercial insurer that was sold in 2013. Mr. Groot served as a director of Fidelity Life from 2006, and a director of Members Mutual from 2007, through the completion of the conversion in 2019.

***James W. Schacht*** has served as a director of Vericity since 2013 and as the President of The Schacht Group, Inc., which advises national and international clients with respect to insurance and regulatory matters, since its founding in 2008. Prior thereto, Mr. Schacht was for thirteen years a Managing Director at two international consulting firms. Mr. Schacht has over 45 years of broad-based experience in the insurance industry and all areas of insurance regulation. Mr. Schacht has served as an expert consultant and witness on a variety of insurance, reinsurance, and regulatory issues in litigation, and advises clients on new insurance products, organizing insurance companies, financial and reporting requirements, and securing regulatory approval for a variety of transactions. Mr. Schacht served as the Director of the Illinois Department of Insurance on three occasions. Mr. Schacht serves on the board of directors of Spinnaker Insurance Company, a property and casualty insurer. Mr. Schacht has served on the Board of Directors of Members Mutual from 2007 through its conversion in 2019.

Mr. Schacht was selected to serve on our original board and now our Advisory Board because of his experience in the insurance industry and his knowledge of legal and regulatory matters affecting our operations.

**Item 11. Executive Compensation.**

The following table shows the compensation information for our President and Chief Executive Officer, our Executive Vice President and President and Chief Operating Officer of Fidelity Life and our Executive Vice President and President and Chief Operating Officer of Efinancial based on compensation earned for the years ended December 31, 2022 and December 31, 2021 (our "named executive officers").

| Name and Principal Position | Year | Salary ($) | Non-Equity Incentive Plan Compensation ($)(1) | All Other Compensation (2)(3) | Total ($) |
|---|---|---|---|---|---|
| James Hohmann | 2022 | 767,350 | 411,491 | 41,181 | 1,220,022 |
| President and Chief Executive Officer of Vericity | 2021 | 767,350 | 425,419 | 46,235 | 1,239,004 |
| James Harkensee | 2022 | 450,000 | 177,086 | 31,312 | 658,398 |
| Executive Vice President of Vericity, President and Chief Operating Officer of Fidelity Life | 2021 | 450,000 | 189,536 | 36,613 | 676,149 |
| Laura Zimmerman | 2022 | 382,500 | 141,451 | 30,836 | 554,787 |
| Executive Vice President, Chief Marketing Officer | 2021 | 367,500 | 140,356 | 30,767 | 538,623 |
| Chris Campbell (4) | 2022 | 111,406 | — | 484,428 | 595,834 |
| Executive Vice President of Vericity, President and Chief Operating Officer of Efinancial | 2021 | 412,000 | 141,806 | 33,819 | 587,625 |

(1) See "Executive Compensation—Short-Term Incentive Program" below for additional information. Note that compensation earned for annual performance is paid in March of the following year.

(2) All other compensation consists of the following: (i) company portion of health, dental, life, disability and vision insurance premiums and (ii) 401(k) company matching contributions.

(3) Following the closing of the IPO, the named executive officers also received grants under an equity incentive plan adopted, maintained and administered by the standby purchaser. See "—Apex Holdco Equity Incentive Plan" below for additional information.

(4) As disclosed in the Company's 8k filing of March 25, 2022, effective March 22, 2022, Chris Campbell is no longer employed with the Company.

***Short-Term Incentive Program***

2022 Short-Term Incentive Program

Under the annual bonus program, the compensation committee established 2022 bonus opportunities. Mr. Hohmann's annual bonus opportunity was 0% to 140% of his base salary, with his target bonus opportunity equal to 80% of base salary. The bonus opportunity for each of Messrs. Harkensee and Ms. Zimmerman was 0% to 96.25% of their base salary, with the target bonus opportunity equal to 55% of their respective base salaries. The amount of bonus paid depended on achievement of performance measures recommended by management and approved by the compensation committee.

The performance award for each of our named executive officers was based on the following performance categories:

- Corporate (Fidelity Life pre-tax GAAP earnings and Efinancial EBITDA combined; Cash Management at Holding Company level, research & technology initiatives;
- Fidelity Life (pre-tax statutory operating income; pre-tax GAAP income; 3rd party business growth
- Efinancial (EBITDA; net revenue; and gross contribution margin).

Mr. Hohmann's bonus opportunity was weighted 50% Corporate, 25% Fidelity Life, and 25% Efinancial. Mr. Harkensee's bonus opportunity was weighted 30% Corporate, 40% Fidelity Life, and 30% Efinancial. Ms. Zimmerman's bonus opportunity was weighted 40% Corporate, 30% Fidelity Life, and 30% Efinancial.

In 2022, we achieved 66% of target for Corporate, 109% for Fidelity Life, and 27% for Efinancial. Based on this performance, 2022 annual bonuses for our named executive officers are reflected in the table above.

2021 Short-Term Incentive Program

Under the annual bonus program, the compensation committee established 2021 bonus opportunities. Mr. Hohmann's annual bonus opportunity was 0% to 140% of his base salary, with his target bonus opportunity equal to 80% of base salary. The bonus opportunity for each of Messrs. Harkensee and Ms. Zimmerman was 0% to 96.25% of their base salary, with the target bonus opportunity equal to 55% of their respective base salaries. The amount of bonus paid depended on achievement of performance measures recommended by management and approved by the compensation committee.

The performance award for each of our named executive officers was based on the following performance categories:

- Corporate (Fidelity Life pre-tax GAAP earnings and Efinancial EBITDA combined; Next Level Growth initiative, technology stability, and number of new affinity group policyholders);
- Fidelity Life (pre-tax statutory operating income; pre-tax GAAP income; retirement of legacy applications and new digital product launches); and
- Efinancial (EBITDA; retail FLA production; and gross contribution margin).

Mr. Hohmann’s bonus opportunity was weighted 50% Corporate, 25% Fidelity Life, and 25% Efinancial. Mr. Harkensee’s bonus opportunity was weighted 30% Corporate, 40% Fidelity Life, and 30% Efinancial. Ms. Zimmerman's bonus opportunity was weighted 40% Corporate, 30% Fidelity Life, and 30% Efinancial.

In 2021, we achieved 69% of target for Corporate, 140% for Fidelity Life, and 0% for Efinancial. Based on this performance, 2021 annual bonuses for our named executive officers are reflected in the table above.

**Deferred Compensation Plan**

We offer a non-qualified deferred compensation plan to our named executive officers, directors and certain other executive officers. Deferred compensation plan participants can elect to defer a portion of their annual compensation into the deferred compensation plan, with the deferrals generally not subject to current income tax. Deferred compensation plan balances are credited with interest, computed monthly, using the yield rate that we earn on our invested assets. Net gains (losses) on investments are not considered in determining earnings on deferred compensation accounts. There are currently no participants in this plan.

**Apex Holdco Equity Incentive Plan**

Following the closing of the IPO, the standby purchaser established the Apex Holdco L.P. 2019 Equity Incentive Plan (the “EI Plan”) under the terms of the amended and restated limited partnership agreement of the standby purchaser. Under the EI Plan, Class B units representing 20.6% of the fully diluted units of the standby purchaser at the closing of the IPO were reserved for issuance to employees, directors, advisory board members and other service providers of the Company. Following the closing, awards under the EI Plan were made to the executive officers, certain directors, certain other employees, and advisory board members of the Company in an aggregate amount of approximately 85.4% of the available pool of Class B units under the EI Plan. Class B units are non-voting profits interests in the standby purchaser that entitle the holders thereof to participate in the appreciation in the value of the standby purchaser, as represented by its ownership of the Company’s common stock, above a per share threshold representing the amount of the standby purchaser’s investment in the Company’s common stock, subject to certain customary adjustments, and are payable in the event of a future sale of the Company. The grants of Class B Units made to the named executive officers, directors and advisory board members represented the following percentages of the fully diluted units of the standby purchaser at the closing of the IPO: Mr. Hohmann, 5.00%; Mr. Harkensee, 1.75%; Mr. Ashe, 1.00%; Mr. Hemmings, 0.80%; Mr. Perry, 0.25%; Mr. Schacht, 0.80%, Ms. Bynoe, 0.80%; Mr. Fibiger, 0.80%; and Mr. Groot, 0.80%.

Under the EI Plan, for all of our directors and our executive officers other than Mr. Hohmann, the grants of Class B units vest ratably over five years, subject to forfeiture under certain conditions. Mr. Hohmann’s grant was fully vested upon grant, subject to recoupment ratably over five years and forfeiture under certain conditions. The grants to the directors of Vericity are not subject to forfeiture. The EI Plan is adopted, maintained and administered by the standby purchaser, not the Company.

**Employment Agreements**

We have entered into employment agreements with Messrs. Hohmann, Harkensee, Kim and Buchanan. The employment agreements provide for a base salary, subject to increase as determined by the Company. Pursuant to the employment agreements, these executives are eligible to participate in all employee profit sharing and welfare benefit plans for executives as well as our annual short term incentive program, and Change in Control Severance Benefits Plan (the “CIC Plan”). The employment agreements require the Company to indemnify any executive who is made a party or is threatened to be made a party to any action, suit or proceeding because he or she is or was a director or officer of the Company, subject to certain conditions. In such case, the Company will provide for the advancement of certain expenses.

Under the employment agreements, the agreement and an executive's employment thereunder may be terminated due to (i) death; (ii) total disability; (iii) by the Company for Cause; (iv) by the Company at any time without Cause; (v) or by an executive on at least thirty days' notice. In the event an executive is terminated by the Company without Cause and there has not been a Change in Control under the Company's CIC Plan, the executive will be entitled to the following (x) an amount equal to eighteen months of executive's then current base salary; (y) an amount equal to the executive's target bonus percentage for the current year multiplied by the amount payable pursuant to (x); and (z) COBRA coverage for eighteen months provided the executive makes the appropriate election and continues to pay the relevant premiums at the same level as when employed. The amounts payable pursuant to (x) and (y) shall be paid in monthly installments. Pursuant to the employment agreements, the executives are subject to certain restrictions regarding confidential information and trade secrets. In addition, for a period of up to eighteen months, the executives are prohibited from soliciting the Company's customers and employees and from engaging in certain activities which compete with the Company.

**Change in Control Severance Benefits Plan**

Our named executive officers, among others, participate in the Vericity Holdings Change in Control Severance Benefits Plan (the "CIC plan"). The CIC plan provides for the payment of severance benefits to certain eligible employees whose employment is terminated without Cause or who voluntarily terminates for Good Reason following a Change in Control as those terms are defined in the CIC plan.

Pursuant to the CIC Plan, if our named executive officers are terminated without Cause or voluntarily terminate their employment due to Constructive Termination within 12 months of a Change in Control, they would be entitled to receive 24 months of base salary. Also, our named executive officers would receive payment of a bonus computed as the average of their short-term annual bonus as a percentage of base salary for the past three complete years in which a bonus plan was in effect. The annual bonus payout would be multiplied to be consistent with the period covered by the base salary award (2 times for 24 months). Base salary payments would continue to be paid on the same frequency as before the termination, while the bonus payment would be made in a lump sum. Following the termination of employment, we would pay the employee's share of any health insurance premiums as were paid before the termination if the employee elects to continue coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") for the continuation period under COBRA. The Company would also reimburse the named executive officer the cost of obtaining comparable life and long-term disability insurance coverage that the employee was provided before the termination for 24 months. In addition, our named executive officers would be entitled to receive the immediate payment of all outstanding (vested and un-vested) awards under the Company's incentive and bonus plans, including the annual bonus program.

In the event that any payments made under the CIC plan would cause our named executive officers to be considered the recipient of an excess parachute payment within the meaning of Section 280G(b) of the Code, the amount of such payments would be reduced to an amount necessary to avoid application of Section 280G(b) of the Code.

**Director Compensation**

In 2022, each non-employee director and advisory director of Vericity, Inc. received an annual retainer of $100,000 which was paid on a quarterly basis. Messrs. Rahe, Dong and Perry do not receive cash compensation from the Company for service as a director of Vericity, Inc. Following the closing of the IPO, each director other than Messrs. Rahe and Dong also received a grant of Class B Units under the EI Plan. See "—Apex Holdco Equity Incentive Plan" above for additional information.

The table below summarizes the total compensation earned from the Company and its subsidiaries by our non-employee directors for service as a director for the fiscal year ended December 31, 2022.

| | Fees Earned or Paid in Cash | Non-Equity Incentive Plan Compensation | Total |
|---|---|---|---|
| Linda Walker Bynoe | $ 100,000 | $ — | $ 100,000 |
| John A. Fibiger | 100,000 | — | 100,000 |
| Richard A. Hemmings | 100,000 | — | 100,000 |
| Steven L. Groot | 100,000 | — | 100,000 |
| James W. Schacht [1] | 100,000 | — | 100,000 |
| Neil Ashe | 100,000 | — | 100,000 |
| Eric Rahe | — | — | — |
| Calvin Dong | — | — | — |
| Scott Perry | — | — | — |

[1] Mr.Schacht moved to the Advisory Board in August of 2022. The amount shown represents total payments for 2022 which include compensation for participation on the Advisory Board.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.**

The tables below provide information regarding the beneficial ownership of the Company's common stock for:

- each beneficial owner known by us to be the beneficial owner of more than five percent of the Company's common stock;
- each of our directors;
- each of our named executive officers; and
- all directors and executive officers as a group.

We have based our calculations of the percentage of beneficial ownership on 14,875,000 shares of common stock outstanding on March 31, 2023.

**Five Percent Shareholders**

The following table sets forth information regarding all persons known by the Company to be the beneficial owner of more than 5% of the Company's common stock as of March 30, 2023.

| Five Percent (5%) Shareholders | Number of Shares and Nature of Beneficial Ownership | Percentage of Class (%) |
|---|---|---|
| Apex Holdco, L.P. (1) 767 Fifth Avenue New York, NY 10153 | 11,373,352 | 76.5% |

(1) Represents shares held by Apex Holdco L.P. ("Apex Holdco"). We understand that: (1) Apex Holdco GP LLC, a Delaware limited liability company ("Apex Holdco GP") is the sole general partner of Apex Holdco and has control over its affairs and investment decisions, including the power to vote or dispose of the shares of Common Stock held by Apex Holdco; (2) JCF Associates IV L.P., a Cayman Islands exempted limited partnership ("JCF IV LP") is the sole member-manager of Apex Holdco GP and has control over its affairs and investment decisions, including, indirectly, the power to vote or dispose of the shares of Common Stock held by Apex Holdco; (3) JCF Associates IV Ltd., a Cayman Islands exempted company ("JCF IV GP") is the sole general partner of JCF IV LP and has control over its affairs and investment decisions, including, indirectly, including the power to vote or dispose of the shares of Common Stock held by Apex Holdco; and (4) J. Christopher Flowers controls JCF IV GP and thus may be deemed to be in control of and therefore the beneficial owner of Apex Holdco.

**Directors and Executive Officers**

The following table sets forth information regarding our common stock beneficially owned as of March 30, 2023 by (i) each director, (ii) each of the named executive officers, and (iii) all current directors and executive officers as a group.

| Directors & Executive Officers | Number of Shares and Nature of Beneficial Ownership | Percentage of Class (%) |
|---|---|---|
| Neil Ashe | - | 0 |
| Calvin Dong | 453 | *(1) |
| Richard A. Hemmings | 193,500 | 1.3 |
| James E. Hohmann | 625,532 | 4.2 |
| Scott Perry | - | 0 |
| Eric Rahe | - | 0 |
| James C. Harkensee | 327,782 | 2 |
| Laura Zimmerman | 120,104 | *(1) |
| All current directors and executive officers as a group (12 persons) | 1,553,296 | 10.4 |

(1) Ownership percentage is less than 1.0%.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The Company has no related party transactions.

**Item 14. Principal Accountant Fees and Services.**

The following table provides information regarding the fees incurred to Deloitte & Touche LLP during the years ended December 31, 2022 and 2021. All fees described below were approved by the audit committee.

| (dollars in thousands) | 2022 | | 2021 | |
|---|---|---|---|---|
| Audit Fees (1) | $ | 1,200 | $ | 1,100 |
| Audit Related Fees (2) | | — | | 7 |
| Tax Fees (3) | | — | | — |
| All Other Fees (4) | | — | | — |
| Total | $ | 1,200 | $ | 1,107 |

(1) Audit Fees of Deloitte & Touche LLP for 2022 and 2021 were for professional services associated with the annual audit of our consolidated financial statements, the reviews of our quarterly condensed consolidated financial statements and the issuance of consents and comfort letters in connection with registration statement filings with the SEC.

(2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." No such services were incurred in 2022 and 2021.

(3) Tax Fees consist of fees for tax compliance, tax advice and tax planning. No such services were incurred in 2022 and 2021.

(4) All Other Fees include any fees billed that are not audit, audit-related or tax fees. No such services were incurred in 2022 and 7 in 2021.

Before an independent registered public accounting firm is engaged by the Company to render audit or non-audit services, our audit committee must review the terms of the proposed engagement and pre-approve the engagement. The audit committee may delegate authority to one or more of the members of the audit committee to provide these pre-approvals for audit or non-audit services, provided that the person or persons to whom authority is delegated must report the pre-approvals to the full audit committee at its next scheduled meeting. Audit committee pre-approval of non-audit services (other than review and attest services) are not required if those services fall within available exceptions established by the SEC. The audit committee pre-approved all audit, audit-related, tax and other services provided by Deloitte & Touche LLP for the fiscal years 2022 and 2021 and the estimated costs of those services. Actual amounts billed, to the extent in excess of the estimated amounts, were periodically reviewed and approved by the audit committee.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

(a) We have filed the following documents as part of this Form 10-K:

(1) Consolidated Financial Statements

See Item 8, Index to Financial Statements

(2) Financial Statement Schedules

NOTE: The financial statement schedules have been omitted as they are deemed inapplicable or not required by Regulation S-X.

(b) Exhibits: The following are exhibits to this report, and if incorporated by reference, we have indicated the document previously filed with the SEC in which the exhibit was included:

## Exhibit Index

| Exhibit Number | Description |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Vericity, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2019) |
| 3.2 | Amended and Restated Bylaws of Vericity, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2019) |
| 4.1 | Form of Stock Certificate of Vericity, Inc. (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 4.2* | Description of Capital Stock |
| 10.1 | Fidelity Life Association Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.2 | Form of Executive Employment Agreement (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.3 | Vericity Holdings, Inc. Change in Control Severance Benefits Plan (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.4 | Form of Indemnification Agreement for Directors and Certain Officers of Vericity, Inc. (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.5 | Automatic Coinsurance Agreement dated as of January 1, 2012 between Fidelity Life Association and Hannover Life Reassurance Company of America (as amended by Amendment I effective January 20, 2014 and Amendment II effective January 1, 2015) (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.6 | Indemnity Reinsurance Agreement (Combined Block) effective as of October 1, 2012 by and between Combined Insurance Company of America and Fidelity Life Association (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.7 | Indemnity Reinsurance Agreement (Transition Block) effective as of October 1, 2012 by and between Combined Insurance Company of America and Fidelity Life Association (as amended by Amendment Number One dated August 27, 2013 and Amendment Number Two effective January 1, 2014.) (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.8 | License Agreement dated October 1, 2012 by and between Fidelity Life Association, James Harkensee and Combined Insurance Company of America (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.9 | Amended and Restated Reinsurance Agreement effective July 1, 2016 between Fidelity Life Association and Hannover Life Reassurance Company of America (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.10 | Automatic Self-Administered Accidental Death Benefit Rider Policy Coinsurance Reinsurance Agreement between Fidelity Life Association and Swiss Re Life and Health America Inc. effective June 1, 2013 (including Amendment 1 dated September 22, 2014, Amendment 2 dated December 23, 2014, Amendment 3 dated March 31, 2015, Amendment 4 dated April 7, 2015, Amendment 5 January 29, 2016, Amendment 6 dated March 23, 2016, and Amendment 7 dated March May 16, 2016) (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |

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| 10.11 | Automatic Self-Administered Coinsurance Reinsurance Agreement effective February 21, 2014 between Fidelity Life Association and Swiss Re Life & Health America Inc. (incorporated by reference to Exhibit 10.11 to the Company’s Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.12 | Amended and Restated Purchase and Sale Agreement dated as of April 20, 2018 by and between Hannover Life Reassurance Company of America (Bermuda) LTD., Fidelity Life Association, and Efinancial, LLC (incorporated by reference to Exhibit 10.12 to the Company’s Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.13 | Amended and Restated Standby Stock Purchase Agreement dated as of March 26, 2019 by and among Apex Holdco L.P., Vericity, Inc., Members Mutual Holding Company, and Fidelity Life Association (incorporated by reference to Exhibit 10.13 to the Company’s Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.14 | Amended and Restated Guaranty dated March 26, 2019 by J.C. Flowers IV L.P. in favor of Members Mutual Holding Company and Vericity, Inc. (incorporated by reference to Exhibit 10.14 to the Company’s Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.15 | Amendment No. 1 dated as of December 17, 2018 to the Amended and Restated Purchase and Sale Agreement dated as of April 20, 2018 by and between Hannover Life Reassurance Company of America (Bermuda) LTD., Fidelity Life Association, and Efinancial, LLC (incorporated by reference to Exhibit 10.17 to the Company’s Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 10.16 | Apex Holdco L.P. 2019 Equity Incentive Plan (incorporated by reference to Exhibit 10.18 to the Company’s Quarterly Report on Form 10-Q filed on November 14, 2019) |
| 10.17 | Form of Employee-Consultant Award Agreement (incorporated by reference to Exhibit 10.19 to the Company’s Quarterly Report on Form 10-Q filed on November 14, 2019) |
| 10.18 | Form of Director Award Agreement (incorporated by reference to Exhibit 10.20 to the Company’s Quarterly Report on Form 10-Q filed on November 14, 2019) |
| 10.19 | Form of CEO Award Agreement (incorporated by reference to Exhibit 10.21 to the Company’s Quarterly Report on Form 10-Q filed on November 14, 2019) |
| 21.1 | Subsidiaries of Vericity, Inc. (incorporated by reference to Exhibit 10.21 to the Company’s Registration Statement on Form S-1 (No. 333-231952) filed on June 4, 2019) |
| 31.1* | Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended |
| 31.2* | Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended |
| 32.1* | Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2* | Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS* | Inline XBRL Instance Document |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase |

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| 101.LAB* | Inline Taxonomy Extension Label Linkbase |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) |

* Filed herewith.

**Item 16. Form 10-K Summary**

None.

**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: March 31, 2023

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

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James E. Hohmann and John Buchanan, and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

| Name | Title | Date |
|---|---|---|
| /s/ James E. Hohmann<br>**James E. Hohmann** | Director, Chief Executive Officer, and President | March 31, 2023 |
| /s/ Chris S. Kim<br>**Chris S. Kim** | Executive Vice President, Chief Financial Officer and Treasurer | March 31, 2023 |
| /s/ Eric Rahe<br>**Eric Rahe** | Director and Chairman | March 31, 2023 |
| /s/ Neil Ashe<br>**Neil Ashe** | Director | March 31, 2023 |
| /s/ Calvin Dong<br>**Calvin Dong** | Director | March 31, 2023 |
| /s/ Richard A. Hemmings<br>**Richard A. Hemmings** | Director | March 31, 2023 |
| /s/ Scott Perry<br>**Scott Perry** | Director | March 31, 2023 |
| /s/ Laura R. Zimmerman<br>**Laura R. Zimmerman** | Director | March 31, 2023 |

**Exhibit 4.2**

## DESCRIPTION OF CAPITAL STOCK

***Authorized Capital Stock.*** Our authorized capital stock consists of 30,000,000 shares of common stock, par value $0.001 per share.

***Voting Rights*.** Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders, including the election of directors. Holders of our common stock are not entitled to cumulative voting in the election of directors. Directors of the Company are elected by a plurality of the shares of our common stock present in person or by proxy and entitled to vote thereon. Other than for the election of directors, matters to be voted on by stockholders must generally be approved by the affirmative vote of the majority of the shares of our common stock present in person or by proxy and entitled to vote thereon.

***Dividends*.** Holders of our common stock are entitled to receive ratably, on a per share basis, the dividends, if any, as may be declared from time to time by our board of directors out of funds legally available therefor.

***Transfer Restrictions*.** The shares of common stock purchased by our directors and officers pursuant to subscription rights granted to them in connection with our conversion from mutual to stock form and related initial public offering completed in August 2019 ("IPO") will be restricted for a period of one year from the effective date of the conversion pursuant to the plan of conversion and Section 59.1(7)(a)(iii) of the Illinois Insurance Code. The shares purchased by the standby purchaser in our IPO will be restricted securities and subject to trading limitations under applicable law and our agreement with the standby purchaser.

***Liquidation*.** If there is a liquidation, dissolution or winding up of Vericity, holders of our common stock would be entitled to share in our assets remaining after the payment of liabilities, ratably on a per share basis.

***Other Characteristics*.** Holders of our common stock have no preemptive or conversion rights or other subscription rights, and no redemption or sinking fund provisions apply to our common stock.

***Advance Notice Requirements for Stockholder Proposals and Director Nominations.*** Our bylaws provide that stockholders seeking to bring business before a meeting of stockholders, or to nominate candidates for election as directors at a meeting of shareholders, must provide timely notice of their intent in writing. Our bylaws also specify certain requirements as to the form and content of a stockholder's notice. Our bylaws also require that such stockholder provide information concerning each item of business proposed by the stockholder and individuals nominated for election as a director, as applicable.

These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders. These provisions could also have an anti-takeover effect and make the following transactions more difficult: acquisition of us by means of a tender offer; acquisition of us by means of a proxy contest or otherwise; or removal of our incumbent officers and directors.

***Stockholder Action by Written Consent.*** Our charter and bylaws do not prohibit action by written consent of our stockholders, and therefore any action required or permitted to be taken by our stockholders may be taken by written consent. Our standby purchaser acquired a majority of our shares of common stock in the IPO, and as a result will be able to approve most corporate actions requiring stockholder approval by written consent without a duly-noticed and duly-held meeting of stockholders.

***Corporate Governance and Board Structure.*** Our bylaws and/or our agreement with the standby purchaser contain provisions regarding our corporate governance and board structure, including that the board of directors shall consist of designees appointed by the standby purchaser (the "standby purchaser designees") and designees appointed by Vericity (the "company designees"). The number of company designees shall not exceed six or at any time be less than two, and the number of standby purchaser designees at any given time shall be one more than the number of company designees, but in no event less than three, provided that the standby purchaser may designate the minimum additional number of designees as necessary to comply with SEC and Nasdaq Stock Market rules relating to the number of independent directors serving on the board of directors or any committee of the board.

**Exhibit 31.1**

I, James Hohmann, certify that:

1. I have reviewed this report on Form 10-K 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: March 31, 2023

/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 report on Form 10-K 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: March 31, 2023

/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 report on Form 10-K of Vericity for the period ended December 31, 2022 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-K fairly presents, in all material respects, the financial condition and results of operations of Vericity.

| | | |
|---|---|---|
| Dated: March 31, 2023 | 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 report on Form 10-K of Vericity for the period ended December 31, 2022 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-K fairly presents, in all material respects, the financial condition and results of operations of Vericity.

Dated: March 31, 2023

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