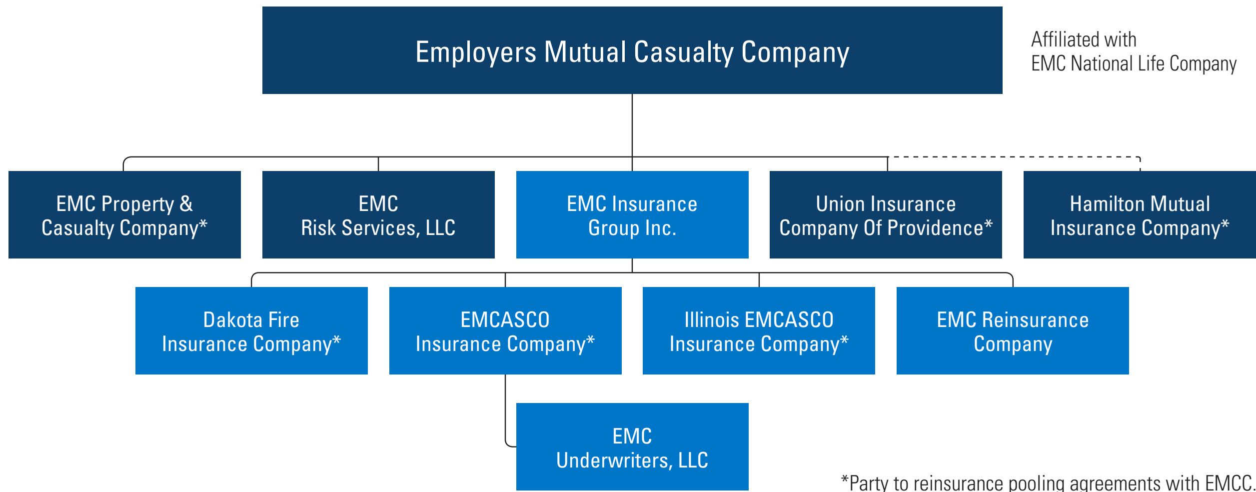
EMC
INSURANCE GROUP INC.

2014 ANNUAL REPORT



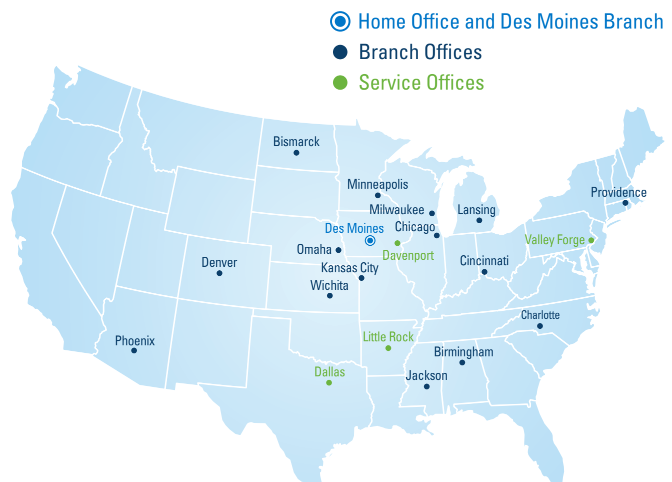
CORPORATE PROFILE

EMC Insurance Group Inc. (EMCI) is a publicly held insurance holding company with operations in property and casualty insurance and reinsurance. EMCI was formed in 1974 and became publicly held in 1982. The Company's common stock trades on the NASDAQ OMX Global Select Market tier of the NASDAQ OMX Stock Market under the symbol EMCI. EMCI is a controlled company in that its parent owns greater than 50 percent of its outstanding stock. As of December 31, 2014, EMCI's parent company, Employers Mutual Casualty Company, owned 58 percent of EMCI's outstanding stock, and public stockholders owned the remaining 42 percent. EMCI has no employees of its own.

Employers Mutual Casualty Company (EMCC) is a mutual insurance company founded in 1911 and is headquartered in Des Moines, Iowa. EMCC employs approximately 2,100 people countrywide and markets its products exclusively through a network of independent insurance agents.

EMC Insurance Companies (EMC) EMCI and EMCC, together with each entity's subsidiary and affiliated companies, operate collectively under the trade name EMC Insurance Companies. The companies that comprise EMC write both commercial and personal lines property and casualty insurance, with a focus on medium-sized commercial accounts. Reinsurance business is also written, with an emphasis on property business. Products and services are offered through independent insurance agents who are supported by a network of 16 local branch offices. EMC is licensed in all 50 states and the District of Columbia and actively markets insurance products in 41 states; however, the majority of its business is generated in the Midwest.

LOCAL OFFICES



FROM LEFT:
Scott Jean, *Executive Vice President for Finance and Analytics*
Kevin Hovick, *Executive Vice President and Chief Operating Officer*
Bruce Kelley, *President, Chief Executive Officer and Treasurer*
Mick Lovell, *Executive Vice President for Corporate Development*

LETTER TO OUR STOCKHOLDERS

Following two years of incremental improvement in underwriting profitability, we were optimistic that we would achieve an underwriting profit in 2014, as 2013 rate level increases were earned and the increase in loss costs remained relatively low. However, we experienced above-average losses, resulting in a GAAP combined ratio for the year of 101.9 percent. This does not change our expectation of achieving an underwriting profit in 2015. We will continue to benefit from rate level increases implemented in previous years and expect losses to revert to more normal levels. Operating income for the year was $2.02 per share, and book value per share increased from $34.21 to $37.08, aided by an 8.0 percent increase in investment income and a substantial reduction in the amount of net periodic pension and postretirement benefit costs allocated to the Company.

PREMIUM GROWTH

Over the past few years, the Company's net written premium growth in the property and casualty insurance segment has outpaced that of our peer companies. We are comfortable with this level of growth because the overwhelming majority is attributed to rate level increases implemented on retained policies. Our rate level increases have exceeded the industry average since 2011, so it makes sense that our top-line growth would exceed the industry average during this time period. New business has grown marginally during this period and generally approximates the amount of business that we do not retain through normal attrition. As pricing increased, we were pleased that we maintained a consistent overall retention level above 85 percent.

We are confident our underlying book of business is sound. Past loss experience, more adequate rates, and sophisticated underwriting and pricing capabilities allow us to appropriately price each exposure for future profit potential. As we expand our product offerings, we will rely on our agency relationships to provide us with new opportunities that meet our stringent underwriting standards.

REINSURANCE SEGMENT

The reinsurance marketplace is becoming more challenging as premium rate levels are under pressure due to the influx of nontraditional capital. Catastrophe excess of loss business has experienced the most price competition; however, this business only accounts for approximately 20 percent of the reinsurance segment's total book of business. Having more than 60 years of experience and success in the reinsurance business provides us with valuable insights to help navigate the current market cycle.

CATASTROPHE AND STORM LOSSES

In 2014, the United States experienced a mild hurricane season for the second consecutive year, and the frequency of convective storms was also down compared to the long-term average. However, storms impacted areas in the Midwest where we have sizable exposures, resulting in catastrophe and storm losses that were slightly above our expectations. New business is growing at a slightly faster clip in regions outside the Midwest, and we generally expect this trend to continue as we geographically diversify our business into areas that are less prone to weather-related events.

Experiencing a Large Loss

On March 29, 2014, a devastating fire destroyed a building across the street from EMC's headquarters in downtown Des Moines, Iowa, causing significant damage to two EMC buildings. Fortunately, no one was injured. EMC's emergency response team was well prepared with a disaster plan, and we pulled in our claim professionals who are experts in handling large complex claims. EMC was up and running throughout the ordeal with minimal interruption, and our 16 branch offices continued to do business. EMC does a great job of educating our commercial policyholders about disaster and emergency planning, and this experience proved that EMC can effectively implement its own crisis management plans when the unexpected happens.

FOCUSED IMPROVEMENT

Our focus remains on building and maintaining strong, stable partnerships with our independent agents. An important part of the value we bring to our independent agents is to provide a full range of insurance products, including personal lines coverages. Our personal lines profitability has been inconsistent over the years, and we have been actively reducing policy count to reduce exposure and improve underwriting results. But to be successful in personal lines, we need to do more. So in August 2014, we created a new personal lines operation that will eventually assume responsibility for the growth and profitability of our personal lines business throughout the country. This will take some time to implement, but in the end, we expect improved performance in our personal lines business. This change in structure will also allow our 16 local branch offices to focus their efforts on commercial lines insurance, which accounts for approximately 90 percent of the property and casualty insurance segment's net written premiums.

Another area of focus has been our commercial auto line of business. We have seen, as have other commercial insurance carriers, an increase in large commercial auto losses. We continue to analyze our commercial auto accounts to identify any trends or issues we need to address. Significant losses are being reviewed early in their life cycles by litigation specialists in order to establish adequate reserves in a timely manner. As these policies renew, we are evaluating the underlying exposures to determine if we are getting an adequate price for the risks we are insuring. We recognize there is room for improvement and are confident the steps we are taking will help improve future underwriting results.

GROWTH IN NET INVESTMENT INCOME

Net investment income increased 8.0 percent, despite the prolonged low interest rate environment, buoyed by considerable growth in the fixed maturity portfolio and strong dividend income from the equity portfolio. Following the significant appreciation in equities in 2013, we invested in a limited partnership during the first quarter of 2014 designed to help protect the Company from a sudden and significant decline in the value of the equity portfolio. We view the cost associated with this protection similar to the cost of an insurance policy. Although the equity portfolio has not suffered a significant decline since this investment was made, it has provided the protection we needed to maintain a sizable exposure to the equity market and allowed us to fully participate in the attractive equity returns achieved during the past year.

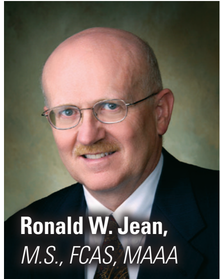
EMC LEADERSHIP DEVELOPMENT

For the third consecutive year, EMC Insurance Companies is listed as one of the 40 best companies for leaders by *Chief Executive* magazine. EMC ranks 4th this year, jumping from

26th in 2014. The annual ranking is based on a worldwide survey of organizations conducted by the magazine, scored on criteria such as having a formal leadership process in place and commitment of the chief executive officer to leadership development. We are very proud of this ranking, which comes as no surprise as we have created a culture that emphasizes leadership development and employee advancement at all levels of our organization.

This culture of leadership development was put to the test recently when former Executive Vice President for Corporate Development Ron Jean announced his plan to retire. In the process of replacing a valued senior executive, the EMCC Board of Directors and I took the opportunity to review the executive management structure and make improvements that would spread the workload, combine related functions and use the skill sets of our executives to the fullest. While the expanded executive management team is under a new structure, it is filled with familiar faces–top executives whose priorities include delivering exceptional customer service to our agents and policyholders and delivering an attractive return to our stockholders. We look forward to the executive management team's valuable contributions to our success.

Ronald W. Jean Retires


Ronald W. Jean, *M.S., FCAS, MAAA*

Ron Jean, Executive Vice President for Corporate Development, retired on January 2, 2015, after 35 years with EMC. After a nationwide search, EMCC recruited Jean to start an actuarial department in 1979. Originally a department of one (Jean), the department expanded over the years to include 35 actuaries. In 2000, Jean moved into the position of Executive Vice President for Corporate Development, the position he held until his retirement. Jean was elected to the EMCC Board of Directors in 2009 and will continue in that capacity.

MOMENTUM FOR THE FUTURE

We were pleased with the affirmation of our "A" rating by A.M. Best Company in April 2014 for the financial strength ratings of the EMC Insurance Companies pool members and EMC Reinsurance Company. This demonstrates our ability to navigate the varying conditions of the insurance market and recognizes our proficiency in enterprise risk management. The strength of our financial condition and confidence in our long-term outlook enabled us to increase the quarterly cash dividend 8.7 percent from $0.23 per share to $0.25 per share during the fourth quarter. We have consistently paid a quarterly dividend since becoming a public company, as this remains an effective method of providing returns to our stockholders.

EMC is a near national insurance carrier ranked among the 50 largest insurance organizations in the country. We have the capabilities of a national insurance company, while maintaining a regional focus through our 16 branch offices that work closely with local independent agents to provide the right products to meet the insurance needs of the policyholders we serve. We are focused on returning to underwriting profitability in 2015 and remain intent on increasing the value of our stockholders' investments.

Thank you for your continued interest in EMC Insurance Group Inc.

Sincerely,

Bruce G. Kelley, J.D., CPCU, CLU
President & Chief Executive Officer

*THE COMPANY IS ON FORBES **50 MOST TRUSTWORTHY** FINANCIAL COMPANIES LIST IN THE SMALL CAP CATEGORY*

FINANCIAL HIGHLIGHTS

	2014	2013	2012
($ in thousands)			
Revenues	$ 590,118	$ 558,988	$ 503,825
Realized Investment Gains	$ 4,349	$ 8,997	$ 8,017
Income Before Income Taxes	$ 40,907	$ 60,853	$ 51,633
Net Income	$ 29,992	$ 43,519	$ 37,966
(per share)			
Net Income	$ 2.23	$ 3.33	$ 2.95
Catastrophe and Storm Losses	$ 2.76	$ 2.41	$ 2.70
Dividends Paid	$ 0.94	$ 0.86	$ 0.81
Book Value	$ 37.08	$ 34.21	$ 31.08
($ in thousands)			
Average Return on Equity (ROE)	6.3%	10.2%	10.1%
Total Assets	$ 1,497,820	$ 1,374,501	$ 1,290,709
Stockholders' Equity	$ 502,886	$ 455,210	$ 401,209

Common Stock Performance

	2014			2013		
	High	Low	Dividend	High	Low	Dividend
1st Quarter	$ 36.49	$ 26.23	$ 0.23	$ 27.40	$ 23.18	$ 0.21
2nd Quarter	$ 36.50	$ 30.01	$ 0.23	$ 29.29	$ 25.27	$ 0.21
3rd Quarter	$ 33.12	$ 28.14	$ 0.23	$ 30.77	$ 25.43	$ 0.21
4th Quarter	$ 35.71	$ 28.34	$ 0.25	$ 35.48	$ 27.04	$ 0.23
Close at Dec. 31	$ 35.46			$ 30.62		

Cautionary Statement

FORWARD-LOOKING STATEMENTS: The Private Securities Litigation Reform Act of 1995 provides issuers the opportunity to make cautionary statements regarding forward-looking statements. Accordingly, any forward-looking statement contained in this report is based on management's current beliefs, assumptions and expectations of the Company's future performance, taking into account all information currently available to management. These beliefs, assumptions and expectations can change as the result of many possible events or factors, not all of which are known to management. If a change occurs, the Company's business, financial condition, liquidity, results of operations, plans and objectives may vary materially from those expressed in the forward-looking statements. The risks and uncertainties that may affect the actual results of the Company include, but are not limited to, the following:

- catastrophic events and the occurrence of significant severe weather conditions;
- the adequacy of loss and settlement expense reserves;
- state and federal legislation and regulations;
- changes in the property and casualty insurance industry, interest rates or the performance of financial markets and the general economy;
- rating agency actions;
- "other-than-temporary" investment impairment losses; and
- other risks and uncertainties inherent to the Company's business, including those discussed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K.

Management intends to identify forward-looking statements when using the words "believe," "expect," "anticipate," "estimate," "project," or similar expressions. Undue reliance should not be placed on these forward-looking statements.

COMMON STOCK

EMC Insurance Group Inc.'s common stock trades on the NASDAQ OMX Global Select Market tier of the NASDAQ OMX Stock Market under the symbol EMCI. As of February 20, 2015, the number of registered stockholders was 793.

There are certain regulatory restrictions relating to the payment of dividends by the Company's insurance subsidiaries (see Note 6 of Notes to Consolidated Financial Statements in this Annual Report). It is the present intention of the Company's Board of Directors to declare quarterly cash dividends, but the amount and timing thereof, if any, are determined by the Board of Directors at its discretion.

DIVIDEND REINVESTMENT AND COMMON STOCK PURCHASE PLAN

A dividend reinvestment and common stock purchase plan provides stockholders with the option of receiving additional shares of common stock instead of cash dividends. Participants may also purchase additional shares of common stock without incurring broker commissions by making optional cash contributions to the plan and sell shares of common stock through the plan (see Note 13 of Notes to Consolidated Financial Statements in this Annual Report). More information about the plan can be obtained by calling American Stock Transfer & Trust Company, LLC, the Company's stock transfer agent and plan administrator.

ANNUAL MEETING

We welcome attendance at our annual meeting on May 13, 2015, at 1:30 p.m. CDT.

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Information Availability
Interested parties can request news releases, annual reports, Forms 10-Q and 10-K, quarterly financial brochures and other information at no cost by contacting:

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2014 FINANCIAL INFORMATION

CONTENTS

Eight-Year Summary of Selected Financial Data	1
Management's Discussion and Analysis of Financial Condition and Results of Operations	3
Management's Report on Internal Control Over Financial Reporting	48
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	49
Report of Independent Registered Public Accounting Firm	50
Consolidated Balance Sheets	51
Consolidated Statements of Income	53
Consolidated Statements of Comprehensive Income	54
Consolidated Statements of Stockholders' Equity	55
Consolidated Statements of Cash Flows	56
Notes to Consolidated Financial Statements	58
Glossary	106

ITEM 6. **SELECTED FINANCIAL DATA**

	Year ended December 31,							
	2014	2013	2012	2011	2010	2009	2008	2007
INCOME STATEMENT DATA								
Insurance premiums earned	$ 540,722	$ 515,506	$ 458,846	$ 416,402	$ 389,122	$ 384,011	$ 389,318	$ 393,059
Investment income, net	46,465	43,022	44,145	46,111	49,489	47,759	48,403	48,482
Realized investment gains (losses)	4,349	8,997	8,017	9,303	3,869	17,922	(24,456)	3,724
Other income	2,931	460	834	828	783	756	627	545
Total revenues	594,467	567,985	511,842	472,644	443,263	450,448	413,892	445,810
Losses and expenses	553,560	507,132	460,209	483,636	400,814	389,021	425,132	387,171
Income (loss) before income tax expense (benefit)	40,907	60,853	51,633	(10,992)	42,449	61,427	(11,240)	58,639
Income tax expense (benefit)	10,915	17,334	13,667	(8,255)	11,100	16,770	(8,917)	16,343
Net income (loss)	$ 29,992	$ 43,519	$ 37,966	$ (2,737)	$ 31,349	$ 44,657	$ (2,323)	$ 42,296
Net income (loss) per common share - basic and diluted:	$ 2.23	$ 3.33	$ 2.95	$ (0.21)	$ 2.40	$ 3.38	$ (0.17)	$ 3.07
Premiums earned by segment:								
Property and casualty insurance	$ 422,381	$ 392,719	$ 357,139	$ 321,649	$ 305,647	$ 308,079	$ 315,598	$ 320,836
Reinsurance	118,341	122,787	101,707	94,753	83,475	75,932	73,720	72,223
Total	$ 540,722	$ 515,506	$ 458,846	$ 416,402	$ 389,122	$ 384,011	$ 389,318	$ 393,059
BALANCE SHEET DATA								
Total assets	$ 1,497,820	$ 1,374,501	$ 1,290,709	$ 1,224,031	$ 1,182,006	$ 1,159,997	$ 1,103,022	$ 1,198,254
Stockholders' equity	$ 502,886	$ 455,210	$ 401,209	$ 352,341	$ 362,853	$ 336,627	$ 277,840	$ 355,893

	Year ended December 31,							
	2014	2013	2012	2011	2010	2009	2008	2007
OTHER DATA								
Average return on equity	6.3%	10.2%	10.1%	(0.8)%	9.0%	14.5%	(0.7)%	12.8%
Book value per share	$ 37.08	$ 34.21	$ 31.08	$ 27.37	$ 28.07	$ 25.67	$ 20.94	$ 25.83
Dividends paid per share	$ 0.94	$ 0.86	$ 0.81	$ 0.77	$ 0.73	$ 0.72	$ 0.72	$ 0.69
Property and casualty insurance subsidiaries' aggregate pool percentage	30.0%	30.0%	30.0%	30.0 %	30.0%	30.0%	30.0 %	30.0%
Reinsurance subsidiary's quota share percentage	100%	100%	100%	100 %	100%	100%	100 %	100%
Closing stock price	$ 35.46	$ 30.62	$ 23.88	$ 20.57	$ 22.64	$ 21.51	$ 25.65	$ 23.67
Net investment yield (pre-tax)	3.81%	3.80%	4.17%	4.49 %	4.89%	4.87%	5.00 %	5.02%
Cash dividends to closing stock price	2.7%	2.8%	3.4%	3.7 %	3.2%	3.3%	2.8 %	2.9%
Common shares outstanding	13,562,980	13,306,027	12,909,457	12,875,591	12,927,678	13,114,481	13,267,668	13,777,880
Statutory trade combined ratio	101.6%	97.5%	99.0%	115.6 %	102.1%	100.3%	109.1 %	96.8%

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

($ in thousands, except per share amounts)

The term "Company" is used below interchangeably to describe EMC Insurance Group Inc. (Parent Company only) and EMC Insurance Group Inc. and its subsidiaries. The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included under Part II, Item 8 of the Company's Annual Report on Form 10-K.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides issuers the opportunity to make cautionary statements regarding forward-looking statements. Accordingly, any forward-looking statement contained in this report is based on management's current beliefs, assumptions and expectations of the Company's future performance, taking all information currently available into account. These beliefs, assumptions and expectations can change as the result of many possible events or factors, not all of which are known to management. If a change occurs, the Company's business, financial condition, liquidity, results of operations, plans and objectives may vary materially from those expressed in the forward-looking statements. The risks and uncertainties that may affect the actual results of the Company include, but are not limited to, the following:

- catastrophic events and the occurrence of significant severe weather conditions;
- the adequacy of loss and settlement expense reserves;
- state and federal legislation and regulations;
- changes in the property and casualty insurance industry, interest rates or the performance of financial markets and the general economy;
- rating agency actions;
- "other-than-temporary" investment impairment losses; and
- other risks and uncertainties inherent to the Company's business, including those discussed under the heading "Risk Factors" in Part I, Item 1A, of the Company's Annual Report on Form 10-K.

Management intends to identify forward-looking statements when using the words "believe", "expect", "anticipate", "estimate", "project" or similar expressions. Undue reliance should not be placed on these forward-looking statements. The Company disclaims any obligation to update such statements or to announce publicly the results of any revisions that it may make to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

COMPANY OVERVIEW

The Company, a majority owned subsidiary of Employers Mutual Casualty Company (Employers Mutual), is an insurance holding company with operations in property and casualty insurance and reinsurance. The operations of the Company are highly integrated with those of Employers Mutual through participation in a property and casualty reinsurance pooling agreement (the "pooling agreement"), a reinsurance retrocessional quota share agreement (the "quota share agreement") and an excess of loss reinsurance agreement (the "excess of loss agreement"). All transactions occurring under the pooling agreement, quota share agreement and excess of loss agreement are based on statutory accounting principles. Certain adjustments are made to the statutory-basis amounts assumed by the property and casualty insurance subsidiaries and the reinsurance subsidiary to bring the amounts into compliance with U.S. generally accepted accounting principles (GAAP).

Property and casualty insurance operations are conducted through three subsidiaries and represent the most significant segment of the Company's business, totaling 78 percent of consolidated premiums earned in 2014. The Company's three property and casualty insurance subsidiaries and two subsidiaries and an affiliate of Employers Mutual (Union Insurance Company of Providence, EMC Property & Casualty Company and Hamilton Mutual Insurance Company) are parties to a pooling agreement with Employers Mutual. Under the terms of the pooling agreement, each company cedes to Employers Mutual all of its insurance business, with the exception of any voluntary reinsurance business assumed from nonaffiliated insurance companies, and assumes from Employers Mutual an amount equal to its participation in the pool. All premiums, losses, settlement expenses, and other underwriting and administrative expenses, excluding the voluntary reinsurance business assumed by Employers Mutual from nonaffiliated insurance companies, are prorated among the parties on the basis of participation in the pool. Employers Mutual negotiates reinsurance agreements that provide protection to the pool and each of its participants, including protection against losses arising from catastrophic events. The aggregate participation of the Company's property and casualty insurance subsidiaries in the pool is 30 percent.

Operations of the pool give rise to inter-company balances with Employers Mutual, which are settled within 45 days after the end of each month. The investment and income tax activities of the pool participants are not subject to the pooling agreement. The pooling agreement provides that Employers Mutual will make up any shortfall or difference resulting from an error in its systems and/or computation processes that would otherwise result in the required restatement of the pool participants' financial statements.

The purpose of the pooling agreement is to spread the risk of an exposure insured by any of the pool participants among all the companies. The pooling agreement produces a more uniform and stable underwriting result from year to year for all companies in the pool than might be experienced individually. In addition, each company benefits from the capacity of the entire pool, rather than being limited to policy exposures of a size commensurate with its own assets, and from the wide range of policy forms, lines of insurance written, rate filings and commission plans offered by each of the companies.

Reinsurance operations are conducted through EMC Reinsurance Company and accounted for 22 percent of consolidated premiums earned in 2014. The Company's reinsurance subsidiary is party to a quota share agreement and an excess of loss reinsurance agreement with Employers Mutual. Under the terms of the quota share agreement, the reinsurance subsidiary assumes 100 percent of Employers Mutual's assumed reinsurance business, subject to certain exceptions. The reinsurance subsidiary also writes a small amount of reinsurance business on a direct basis outside the quota share agreement. Under the terms of the excess of loss agreement (covering both business assumed from Employers Mutual through the quota share agreement, as well as business obtained outside the quota share agreement), the reinsurance subsidiary retains the first $4,000 of losses per event, and also retains 20.0 percent of any losses between $4,000 and $10,000 and 10.0 percent of any losses between $10,000 and $50,000. During 2012, all losses associated with any one event above $4,000 were ceded to Employers Mutual. The cost of the excess of loss reinsurance protection is 8.0 percent (9.0 percent in 2013 and10 percent in 2012) of the reinsurance subsidiary's total assumed reinsurance premiums written.

The reinsurance subsidiary does not directly reinsure any of the insurance business written by Employers Mutual or the other pool participants; however, Employers Mutual assumes reinsurance business from the Mutual Reinsurance Bureau underwriting association (MRB), which provides a small amount of reinsurance protection to the members of the EMC Insurance Companies pooling agreement. As a result, the reinsurance subsidiary's assumed exposures include a small portion of the EMC Insurance Companies' direct business, after ceded reinsurance protections purchased by MRB are applied. In addition, the reinsurance subsidiary does not reinsure any "involuntary" facility or pool business that Employers Mutual assumes pursuant to state law. The reinsurance subsidiary assumes all foreign currency exchange gain/loss associated with contracts incepting on January 1, 2006 and thereafter that are subject to the quota share agreement. Operations of the quota share agreement and excess of loss agreement give rise to inter-company balances with Employers Mutual, which are settled within 45 days after the end of each quarter. The investment and income tax activities of the reinsurance subsidiary are not subject to the quota share agreement or the excess of loss agreement.

Under the terms of the quota share agreement, the reinsurance subsidiary receives reinstatement premium income that is collected by Employers Mutual from the ceding companies when reinsurance coverage is reinstated after a loss event; however, the cap on losses assumed per event contained in the excess of loss agreement is automatically reinstated without cost.

Effective January 1, 2013, Church Mutual Insurance Company (Church Mutual) became a member of MRB. As a result, Employers Mutual became a one-fifth participant in MRB at that time.

INDUSTRY OVERVIEW

An insurance company's underwriting results reflect the profitability of its insurance operations, excluding investment income. Underwriting profit or loss is calculated by subtracting losses and expenses incurred from premiums earned.

Insurance companies collect cash in the form of insurance premiums and pay out cash in the form of loss and settlement expense payments. Additional cash outflows occur through the payment of acquisition and underwriting costs such as commissions, premium taxes, salaries and general overhead. During the loss settlement period, which varies by line of business and by the circumstances surrounding each claim and may cover several years, insurance companies invest the cash premiums; thereby earning interest and dividend income. This investment income supplements underwriting results and contributes to net earnings. Funds from called and matured fixed maturity securities are reinvested at current interest rates. The low interest rate environment that has existed during the past several years has had a negative impact on the insurance industry's investment income.

Insurance pricing has historically been cyclical in nature. Periods of excess capital and increased competition encourage price reductions and liberal underwriting practices (referred to as a soft market) as insurance companies compete for market share, while attempting to cover the inevitable underwriting losses from these actions with investment income. A prolonged soft market generally leads to a reduction in the adequacy of capital in the insurance industry. To cure this condition, underwriting practices are tightened, premium rate levels increase and competition subsides as companies strive to strengthen their balance sheets (referred to as a hard market). At the end of 2013, premium rate level increases were beginning to decline, after increasing consistently during the three previous years, and this trend continued during 2014. It is important to note that the hardening of the market that occurred during 2011, 2012 and 2013 was somewhat unusual in that it was not driven by a reduction in capital adequacy, but rather by a persistent decline in investment income and an increase in severe weather events. The outlook for 2015 is that overall premium rate levels will continue to increase, though the increases are expected to be smaller than those implemented during 2014.

A substantial determinant of an insurance company's underwriting results is its loss and settlement expense reserving practices. Insurance companies must estimate the amount of losses and settlement expenses that will ultimately be paid to settle claims that have occurred to date (loss and settlement expense reserves). This estimation process is inherently subjective with the possibility of widely varying results, particularly for certain highly volatile types of claims (i.e., asbestos, environmental and various casualty exposures, such as products liability, where the loss amount and the parties responsible are difficult to determine). During a soft market, inadequate premium rates put pressure on insurance companies to under-estimate their loss and settlement expense reserves in order to report better results. Correspondingly, inadequate reserves can play an integral part in bringing about a hard market, because increased profitability from higher premium rate levels can be used to strengthen inadequate reserves.

The Company closely monitors the activities of the United States Congress and federal agencies through its membership in various organizations. In particular, our trade organizations are working to monitor and ensure appropriate implementation of the federal terrorism risk insurance program, to shape the activities of the Federal Insurance Office as it continues to evolve and exercise its authority to monitor the insurance industry, to pass appropriate tax reform legislation, and to extend the judicial relief from the remand to an exemption for property and hazard and homeowners insurance from application of the Department of Housing and Urban Development's Disparate Impact Rule.

MANAGEMENT ISSUES AND PERSPECTIVES

Amendment to Employers Mutual's postretirement benefit plan

During the fourth quarter of 2013, Employers Mutual announced that effective January 1, 2015, it would be replacing its retiree healthcare plan with a new Employers Mutual-funded Health Reimbursement Arrangement. As a result of this plan amendment, the postretirement benefit plan's projected benefit obligation decreased $96,704 as of December 31, 2013. The Company's share of this decline in projected benefit obligation ($26,937) was recognized as other comprehensive income in its December 31, 2013 financial statements. The prior service credit resulting from this plan amendment is being amortized into net periodic benefit cost over ten years, beginning in 2014. As this amortization is reflected in net income, it is being reclassified out of accumulated other comprehensive income so that stockholders' equity is not impacted. In addition, the service cost and interest cost components of the net periodic benefit cost of the new plan declined significantly. The amortization of the prior service credit, coupled with declines in both the service cost and interest cost components of the new plan, generated net periodic benefit income of approximately $3,000 for the Company in 2014, compared to approximately $3,000 of net periodic benefit expense in 2013. A similar amount of net periodic benefit income is expected in 2015.

Low interest rate environment

The interest rate environment has an influence on several operational areas that have the potential to materially impact the Company's financial condition and results of operations. Following is a brief discussion of the major operational areas being monitored by management in light of the current low interest rate environment.

Investment portfolio

The majority of the Company's investment portfolio is invested in fixed maturity securities. The prolonged low interest rate environment has had a positive impact on the Company's financial condition because the portfolio of fixed maturity securities available-for-sale had net unrealized holding gains of $30,870 at December 31, 2014, reflecting the fact that the average yield on the Company's portfolio is higher than the yields currently available in the fixed maturity marketplace. However, proceeds from maturing securities and cash from operating activities are being invested at the current low yields, which has had a negative impact on investment income over the past several years. Interest rates decreased approximately 80 basis points during 2014, which significantly increased the amount of unrealized gains on the Company's fixed maturity portfolio. If the current low interest rate environment continues, future growth in investment income will be negatively impacted.

Underwriting results

The Company's portfolio of fixed maturity securities provides a substantial amount of investment income that supplements underwriting results and contributes to net earnings. A prolonged low interest rate environment could result in limited growth in future investment income, which would increase the need to achieve a consistent underwriting profit. Management continually stresses the importance of striving for an underwriting profit, and is working diligently with the branch offices to maintain prudent underwriting and pricing standards, and establish long-term business plans with the Company's agency force.

Benefit plan liabilities

The low interest rate environment has resulted in a significant decline in the discount rates used to value the obligations the Company has under Employers Mutual's pension and postretirement benefit plans during the past several years. During this time period, the projected benefit obligation of these plans has increased, which had a negative impact on the funded status of those plans and resulted in a higher level of annual cash contributions and net periodic benefit expenses. As a result of the moderate decrease in interest rates in 2014, the discount rates used in the December 31, 2014 actuarial valuations of those plans decreased approximately 60 basis points. This had a negative impact on the funded status of the plans; however, the plans remain in an over funded position. Although discount rates remain low by historical standards, the impact of the low discount rates on the actuarial valuations has been mitigated somewhat by the strong investment returns that have been earned on the plans' assets in recent years.

Equity portfolio market risk

Approximately 14.2 percent of the Company's investment portfolio is invested in equity securities. Net unrealized investment gains on the equity portfolio totaled approximately $47,492 at December 31, 2014, which is reflected as accumulated other comprehensive income in the Company's financial statements and represents $3.50 per share of the Company's December 31, 2014 book value of $37.08 per share. To help protect the Company from a sudden and significant decline in the value of its equity portfolio, management invested in limited partnership during the first quarter of 2014 to implement an equity tail-risk hedging strategy. This hedging strategy will help protect the Company from significant monthly downside price volatility in the equity markets. By implementing this hedging strategy, management was able to reduce the level of risk contained in the Company's financial statements without reducing the size of the equity portfolio. While there is a cost associated with this protection, management views this cost similar to the cost of an insurance policy. The cost of the hedging strategy is equal to the decline in the carrying value of the limited partnership that the Company invested in to implement the strategy, and is reported as a realized investment loss in the Company's financial statements. The decline in the carrying value of the limited partnership primarily reflects the cost of hedging contracts that expired without value during the year, but also includes changes in the value of contracts that were still in effect at year-end.

Change in personal lines operation

In August, management created a new personal lines operation that will eventually assume responsibility and accountability for the growth and profitability of personal lines business throughout the country. This will take some time to implement, but in the end management expects improved performance of the personal lines business. This change will also allow the 16 local branch offices to focus their efforts on commercial lines business, which accounts for approximately 90 percent of the property and casualty insurance segment's net written premiums.

Discontinuance of personal lines business in Rhode Island, Connecticut and Massachusetts

On February 20, 2015, management announced that personal lines business will be discontinued in the states of Rhode Island, Connecticut and Massachusetts. There are no plans to discontinue writing personal lines business in any other states. This change is being implemented in support of the Providence branch's five-year business plan, which identified the need to focus on commercial lines of business for future profitable growth in its territory. Management plans to continue writing personal lines business in the 20 remaining states where personal lines coverage is currently offered. Management is committed to profitably growing personal lines business, and is developing short and long-term strategies to accomplish this goal.

Catastrophe and storm losses

Prior to 2013, the Company experienced five consecutive years of above average catastrophe and storm losses, and experienced record levels of catastrophe and storm losses in two of those five years (2008 and 2011). Based on an analysis of nationwide storm activity, management does not believe that overall storm activity or intensity is trending upward. Rather, it appears that in recent years more of the storms have occurred in more heavily-populated urban areas instead of less-populated rural areas, which has impacted the number of claims submitted. It should be noted that the Company has experienced periods of increased catastrophe and storm losses in the past, the most recent period being from 1998 to 2001. Management continues to monitor and make adjustments to the Company’s book of business to lessen exposure concentrations, and is prepared to make additional adjustments to exposure concentrations if warranted.

Premium rate levels

Prior to 2011, the Company’s overall premium rate level had declined for five consecutive years. Management was able to implement moderate rate level increases in the personal lines of business during this time period, but rate levels in the commercial lines of business, which accounted for more than 80 percent of the property and casualty insurance segment’s premium income at that time, remained very competitive. During 2011, in recognition of the above average amount of catastrophe and storm losses incurred during the prior three years and a projected decline in investment income due to the persistent low interest rate environment, the commercial lines marketplace began to harden and the Company was able to implement small rate level increases. Rate levels have steadily improved during the past three years, and management has worked diligently with the sixteen branch offices to stress the importance of achieving modest, but consistent, commercial lines rate level increases whenever possible. These efforts have been successful, as the Company was able to implement high-single-digit rate level increases during 2012 and 2013, and more modest increases during 2014. Commercial lines rate levels are expected to continue to increase in 2015, but at a lower level than experienced in 2014. Management will continue to work with the branch offices to ensure that all opportunities for additional rate level increases are pursued.

Possible changes in GAAP

The Financial Accounting Standards Board (FASB) is expected to propose several significant changes to current GAAP during the next several years, including the prescribed accounting for leases and financial instruments. Depending on the outcome of these initiatives, the accounting rules and required disclosures for public companies could change significantly. Management is closely monitoring developments in this area and will evaluate any proposed accounting standards that are exposed for public comment during 2015. The evaluations will identify changes that would be required in the Company’s data/systems to comply with the new accounting standards, as well as the financial impact of any proposed changes.

The FASB issued an exposure draft on accounting for insurance contracts on June 27, 2013 that would have had a significant impact on insurance companies that issue short-duration contracts, which would include most property and casualty insurance contracts. On February 20, 2014, the FASB announced that it was scaling back the scope of its insurance contracts project in response to feedback from constituents that the costs of implementation would outweigh any benefits to be achieved from applying the proposed guidance to all contracts that met a new definition of an insurance contract. The FASB also noted that insurers and users of the financial statements indicated the current accounting model for short-duration contracts provides reasonable measurement and recognition guidance. As a result, the FASB indicated that it will focus on improving disclosures for short-duration contracts. However, it should be noted that any change to the definition of insurance that the FASB makes for long-duration contracts could affect an entity's ability to use the current short-duration accounting model.

Reserving methodology

The Company’s reserving methodology is focused on maintaining a consistent level of overall reserve adequacy. Management does not use accident year loss picks to establish the property and casualty insurance segment's carried reserves. Case and incurred but not reported (IBNR) loss reserves, as well as settlement expense reserves, are established independently of each other and added together to get the total loss and settlement expense reserve. The property and casualty insurance segment's reserving methodology also includes bulk case loss reserves, which supplement the aggregate case loss reserves and are used by management to establish its best estimate of the liability for reported claims.

There is an inherent amount of uncertainty involved in the establishment of insurance liabilities. This uncertainty is greatest in the current and more recent accident years because a smaller percentage of the expected ultimate claims have been reported, adjusted and settled compared to more mature accident years. For this reason, the property and casualty insurance segment's carried reserves for these accident years reflect prudently conservative assumptions. As the carried reserves for these accident years run off, the overall expectation is that, more often than not, favorable development will occur. However, there is also the possibility that the ultimate settlement of liabilities associated with these accident years will show adverse development, and such adverse development could be substantial.

The property and casualty insurance segment's bulk reserves (formula IBNR loss reserve, bulk case loss reserve and settlement expense reserve) are initially established for all accident years combined, and the total is then allocated to the various accident years. During this allocation process, a portion of the total bulk reserves may be reallocated from the current accident year to prior accident years, or from prior accident years to the current accident year, to achieve the actuarial department's desired reserve level by accident year. When reserves are moved to, or from, prior accident years, the change is reported as development on prior years' reserves. However, this type of development is "mechanical" in nature, and does not have an impact on earnings because the total amount of carried reserves did not change. Management identifies, quantifies and discloses this "mechanical" development so that users of the Company's financial statements can better understand how development on prior years' reserves impacts the Company's results of operations.

For the reasons noted above, development amounts reported on prior accident years’ reserves are less meaningful under the property and casualty insurance segment’s reserving methodology than reserving methodologies utilized by other insurers. Accordingly, from management’s perspective, whether the Company has maintained a consistent level of overall reserve adequacy is more relevant to understanding the Company’s results of operations than the composition of the underwriting results between the current and prior accident years.

MEASUREMENT OF RESULTS

The Company’s consolidated financial statements are prepared on the basis of GAAP. The Company also prepares financial statements for each of its insurance subsidiaries based on statutory accounting principles that are filed with insurance regulatory authorities in the states where they do business. Statutory accounting principles are designed to address the concerns of state regulators and stress the measurement of the insurer’s ability to satisfy its obligations to its policyholders and creditors.

Management evaluates the Company’s operations by monitoring key measures of growth and profitability. Management measures the Company’s growth by examining direct premiums written and, perhaps more importantly, premiums written assumed from affiliates. Management generally measures the Company’s operating results by examining the Company’s net income and return on equity, as well as the loss and settlement expense, acquisition expense and combined ratios. The following provides further explanation of the key measures management uses to evaluate the Company’s results:

Direct Premiums Written. Direct premiums written is the sum of the total policy premiums, net of cancellations, associated with policies underwritten and issued by the Company's property and casualty insurance subsidiaries. These direct premiums written are transferred to Employers Mutual under the terms of the pooling agreement and are reflected in the Company's consolidated financial statements as premiums written ceded to affiliates. See note 3 of Notes to Consolidated Financial Statements.

Premiums Written Assumed From Affiliates and *Premiums Written Assumed From Nonaffiliates.* For the property and casualty insurance segment, premiums written assumed from affiliates and nonaffiliates reflects the property and casualty insurance subsidiaries' aggregate 30 percent participation interest in 1) the total direct premiums written by all the participants in the pooling arrangement, and 2) the involuntary business assumed by the pool participants pursuant to state law, respectively. For the reinsurance segment, premiums written assumed from nonaffiliates reflects the reinsurance business assumed through the quota share agreement (including "fronting" activities initiated by Employers Mutual) and reinsurance business assumed outside the quota share agreement. See note 3 of Notes to Consolidated Financial Statements. Management uses premiums written assumed from affiliates and nonaffiliates, which excludes the impact of written premiums ceded to reinsurers, as a measure of the underlying growth of the Company's insurance business from period to period.

Net Premiums Written. Net premiums written is calculated by summing direct premiums written, premiums written assumed from affiliates and nonaffiliates, and then subtracting from that result premiums written ceded to affiliates and nonaffiliates. For the property and casualty insurance segment, premiums written ceded to nonaffiliates is the portion of the direct and assumed premiums written that is transferred to 1) reinsurers in accordance with the terms of the underlying reinsurance contracts, based upon the risks they accept, and 2) state organizations on a mandatory basis in connection with various workers' compensation and assigned risk programs. For the reinsurance segment, premiums written ceded to nonaffiliates reflects reinsurance business that is ceded to other insurance companies in connection with "fronting" activities initiated by Employers Mutual. Premiums written ceded to affiliates includes both the cession of the Company's property and casualty insurance subsidiaries' direct business to Employers Mutual under the terms of the pooling agreement, and premiums ceded by the Company's reinsurance subsidiary to Employers Mutual under the terms of the excess of loss agreement with Employers Mutual. See note 3 of Notes to Consolidated Financial Statements. Management uses net premiums written to measure the amount of business retained after cessions to reinsurers.

Loss and Settlement Expense Ratio. The loss and settlement expense ratio is the ratio (expressed as a percentage) of losses and settlement expenses incurred to premiums earned, and measures the underwriting profitability of a company's insurance business. The loss and settlement expense ratio is generally measured on both a gross (direct and assumed) and net (gross less ceded) basis. Management uses the gross loss and settlement expense ratio as a measure of the Company's overall underwriting profitability of the insurance business it writes and to assess the adequacy of the Company's pricing. The net loss and settlement expense ratio is meaningful in evaluating the Company's financial results, which are net of ceded reinsurance, as reflected in the consolidated financial statements. The loss and settlement expense ratios are generally calculated in the same way for GAAP and statutory accounting purposes.

Acquisition Expense Ratio. The acquisition expense ratio is the ratio (expressed as a percentage) of net acquisition and other expenses incurred to premiums earned, and measures a company's operational efficiency in producing, underwriting and administering its insurance business. For statutory accounting purposes, acquisition and other expenses of an insurance company exclude investment expenses. There is no such industry definition for determining an acquisition expense ratio for GAAP purposes. As a result, management applies the statutory definition to calculate the Company's acquisition expense ratio on a GAAP basis. The net acquisition expense ratio is meaningful in evaluating the Company's financial results, which are net of ceded reinsurance, as reflected in the consolidated financial statements.

GAAP Combined Ratio. The combined ratio (expressed as a percentage) is the sum of the loss and settlement expense ratio and the acquisition expense ratio, and measures a company's overall underwriting profit/loss. If the combined ratio is at or above 100, an insurance company cannot be profitable without investment income (and may not be profitable if investment income is insufficient). Management uses the GAAP combined ratio in evaluating the Company's overall underwriting profitability and as a measure for comparison of the Company's profitability relative to the profitability of its competitors who prepare GAAP-basis financial statements.

Statutory Combined Ratio. The statutory combined ratio (expressed as a percentage) is calculated in the same manner as the GAAP combined ratio, but is based on results determined pursuant to statutory accounting rules and regulations. The statutory "trade combined ratio" differs from the statutory combined ratio in that the acquisition expense ratio is based on net premiums written rather than net premiums earned. Management uses the statutory trade combined ratio as a measure for comparison of the Company's profitability relative to the profitability of its competitors, all of whom must file statutory-basis financial statements with insurance regulatory authorities.

Catastrophe and storm losses. For the property and casualty insurance segment, catastrophe and storm losses include losses attributed to events that have occurred in the United States which have been assigned an occurrence number by the Property & Liability Resource Bureau (PLRB) Catastrophe Services. According to PLRB, an occurrence number is assigned when an event has produced conditions severe enough to have caused, or to be likely to have caused, property damage. For the reinsurance segment, catastrophe and storm losses include losses that have occurred in the United States, Puerto Rico and the U.S. Virgin Islands which have been designated as catastrophes by Property Claims Services (PCS), as well as non-U.S. catastrophe and storm losses reported by the ceding companies. According to PCS, catastrophe serial numbers are assigned to events that cause $25,000 or more in direct insured losses to property, and affect a significant number of policyholders and insurers.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Company's financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements and related disclosures. The Company's significant accounting policies are described in note 1, Summary of Significant Accounting Policies, of Notes to Consolidated Financial Statements under Part II, Item 8 of this Form 10-K. The following estimates and assumptions are considered by management to be critically important in the preparation and understanding of the Company's financial statements and related disclosures. The estimates and assumptions utilized are complex and require subjective judgment.

Loss and settlement expense reserves

Processes and assumptions for establishing loss and settlement expense reserves

In the property and casualty insurance segment, liabilities for losses are based upon case-basis estimates of reported losses supplemented with bulk case loss reserves, and estimates of IBNR losses. Case loss reserves are established independently of the IBNR loss reserves and the two amounts are added together to determine the total liability for losses. Under this methodology, adjustments to the individual case loss reserve estimates do not result in corresponding adjustments to IBNR loss reserves. An estimate of the expected expenses to be incurred in the settlement of the claims provided for in the loss reserves is established as the liability for settlement expenses.

In the reinsurance segment, Employers Mutual records the case and IBNR loss reserves reported by the ceding companies for the Home Office Reinsurance Assumed Department (“HORAD”) book of business. Since many ceding companies in the HORAD book of business do not report IBNR loss reserves, Employers Mutual establishes a bulk IBNR loss reserve, which is based on an actuarial reserve analysis, to cover a lag in reporting. For MRB, Employers Mutual records the case and IBNR loss reserves reported to it by the management of the association, along with a relatively small IBNR loss reserve to cover a one month reporting lag. To verify the adequacy of the reported reserves, an actuarial evaluation of MRB’s reserves is performed at each year-end.

Property and Casualty Insurance Segment

Following is a summary of the carried loss and settlement expense reserves for the property and casualty insurance segment at December 31, 2014 and 2013.

	December 31, 2014			
Line of business	Case	IBNR	Settlement expense	Total
Commercial lines:				
Automobile	$ 63,434	$ 7,077	$ 14,765	$ 85,276
Property	24,309	1,570	4,797	30,676
Workers' compensation	119,817	16,708	20,067	156,592
Liability	69,928	43,412	52,360	165,700
Bonds	2,033	810	1,020	3,863
Total commercial lines	279,521	69,577	93,009	442,107
Personal lines:				
Automobile	12,716	840	1,948	15,504
Property	3,732	993	1,122	5,847
Total personal lines	16,448	1,833	3,070	21,351
Total property and casualty insurance segment	$ 295,969	$ 71,410	$ 96,079	$ 463,458

	December 31, 2013			
Line of business	Case	IBNR	Settlement expense	Total
Commercial lines:				
Automobile	$ 45,055	$ 7,158	$ 11,129	$ 63,342
Property	18,019	762	3,459	22,240
Workers' compensation	119,964	18,688	19,302	157,954
Liability	60,951	42,260	50,443	153,654
Bonds	977	824	876	2,677
Total commercial lines	244,966	69,692	85,209	399,867
Personal lines:				
Automobile	16,971	1,012	1,986	19,969
Property	3,982	835	1,105	5,922
Total personal lines	20,953	1,847	3,091	25,891
Total property and casualty insurance segment	$ 265,919	$ 71,539	$ 88,300	$ 425,758

The claims department establishes individual case loss reserves for direct business. Branch claims personnel establish case loss reserves for individual claims, with mandatory home office claims department review of reserves that exceed a specified threshold. The philosophy utilized to establish case loss reserves is exposure based, and implicitly assumes a consistent inflationary and legal environment. When claims department personnel establish case loss reserves, they take into account various factors that influence the potential exposure.

The claims department has implemented specific line-of-business guidelines that are used to establish the individual case loss reserve estimates. These guidelines, which are used for both short-tail and long-tail claims, require the claims department personnel to reserve for the probable (most likely) exposure for each claim. Probable exposure is defined as what is likely to be awarded if the case were to be decided by a civil court in the applicable venue or, in the case of a workers' compensation case, by that state's Workers' Compensation Commission. This evaluation process is repeated throughout the life of the claim at regular intervals, and as additional information becomes available. While performing these regular reviews, the branch claims personnel are able to make adjustments to the case loss reserves for location and time specific factors, such as legal venue, inflation, and changes in applicable laws.

To provide consistency in the reserving process, the claims department utilizes established claims management processes and an automated claims system. Claims personnel conduct periodic random case loss reserve reviews to verify the accuracy of the reserve estimates and adherence to the reserving guidelines. In addition, the claims department has specific line-of-business management controls for case loss reserves. For example, all workers' compensation claim files are reviewed by management before benefits are declined, and all casualty case loss reserves are reviewed every 60 days for reserve adequacy.

The automated claims system utilizes an automatic diary process that helps ensure that case loss reserve estimates are reviewed on a regular basis. The claims system requires written documentation each time a case loss reserve is established or modified, and provides management with the information necessary to perform individual reserve reviews and monitor reserve development. In addition, the claims system produces monthly reports that allow management to analyze case loss reserve development in the aggregate, by branch, by line of business, or by claims adjuster.

The goal of the claims department is to establish and maintain case loss reserves that are sufficient, but not excessive. Since specific guidelines are utilized for establishing case loss reserves, the claims department does not incorporate a provision for uncertainty (either implicitly or explicitly) when setting individual case loss reserve estimates. The Employers Mutual's actuaries do, however, review the adequacy of the aggregate case loss reserves on a quarterly basis and, if deemed appropriate, make recommendations for adjustments to management. Management reviews all recommendations submitted by the actuaries and considers such recommendations in the determination of its best estimate of overall liability. Adjustments to the aggregate case loss reserves, when approved by management, are accomplished through the establishment of bulk case loss reserves in the applicable line(s) of business, which supplement the aggregate case loss reserves. For financial reporting purposes, bulk case loss reserves are included in case loss reserves.

At December 31, 2014, IBNR loss reserves accounted for $71,410, or 15.4 percent, of the property and casualty insurance segment's total loss and settlement expense reserves, compared to $71,539, or 16.8 percent, at December 31, 2013. IBNR loss reserves are, by nature, less precise than case loss reserves. A five percent change in IBNR loss reserves at December 31, 2014 would equate to $2,321, net of tax, which represents 7.7 percent of the net income reported for 2014 and 0.5 percent of stockholders' equity.

The property and casualty insurance segment's formula IBNR loss reserves are established for each line of business by applying actuarially derived "IBNR factors" to the latest twelve months premiums earned. These factors are developed using a methodology that utilizes historical ratios of (1) actual IBNR claims that have emerged after prior year-ends to (2) corresponding prior years' premiums earned that have been adjusted to the current level of rate adequacy. In order to minimize the volatility that naturally exists in the early stages of IBNR claims emergence, IBNR claims are not utilized in this process until 18 months after the end of a respective calendar year. For example, during 2014 the actual IBNR claims reported in the 18 months following year-end 2012 were compared to the adjusted 2012 premiums earned. The 2012 ratios, together with the ratios for several prior years, were then used to develop the 2014 "IBNR factors" that were applied to premiums earned for each line of business. Included in the rate adequacy adjustment noted above is consideration of current frequency and severity trends compared to the trends underlying prior years' calculations. The selected trends are based on an analysis of industry and Company loss data.

The methodology used in estimating formula IBNR loss reserves assumes consistency in claims reporting patterns and immaterial changes in loss development patterns. Implicit in this assumption is that future IBNR claims emergence, relative to IBNR claims that have emerged following prior year-ends, will reflect the change in frequency and severity trends underlying the rate adequacy adjustments. If this projected relationship proves to be inaccurate, future IBNR claims may differ substantially from the estimated IBNR loss reserves. The following table displays the impact that a five percent variance in future IBNR emergence from the projected level reflected in the December 31, 2014 IBNR factors would have on the Company's results of operations. This variance in future IBNR emergence could occur in one year or over multiple years, depending when the claims were reported. A variance in future IBNR emergence would also affect the Company's financial position in that the Company's equity would be impacted by an amount equivalent to the change in net income. A variance of this type would typically be recognized in loss and settlement expense reserves and, accordingly, would not have a material effect on liquidity because the claims have not been paid. A five percent variance in future IBNR emergence is considered reasonably likely based on the range of actuarial indications developed during the analysis of the property and casualty insurance segment's carried reserves.

Line of business	After-tax impact on earnings from a five percent variance in future IBNR emergence from frequency and severity trends underlying rate adequacy adjustments		
Personal auto liability	$(45)	to	$45
Commercial auto liability	(257)	to	257
Auto physical damage	(25)	to	25
Workers' compensation	(497)	to	497
Other liability	(1,461)	to	1,461
Property	(99)	to	99
Homeowners	(18)	to	18
All Other	(36)	to	36

Ceded loss reserves are derived by applying the ceded contract terms to the direct loss reserves. For excess of loss contracts (excluding the catastrophe contract), this is accomplished by applying the ceded contract terms to the case loss reserves of the ceded claims. For the catastrophe excess of loss contract, ceded loss reserves are calculated by applying the contract terms to (1) the aggregate case loss reserves on claims stemming from catastrophes and (2) the estimate of IBNR loss reserves developed for each individual catastrophe. For quota share contracts, ceded loss reserves are calculated as the quota share percentage multiplied by both case and IBNR loss reserves on the direct business.

The methodology used for reserving settlement expenses is based on an analysis of historical ratios of paid expenses to paid losses. Assumptions underlying this methodology include stability in the mix of business, consistent claims processing procedures, immaterial impact of loss cost trends on development patterns, and a consistent philosophy regarding the defense of lawsuits. Based on this actuarial analysis, factors are derived for each line of business, which are then applied to loss reserves to generate the settlement expense reserves. The following table displays the impact on the Company’s results of operations, for the latest ten accident years, of a one percent variance in the ratio of ultimate settlement expenses to ultimate losses due to departures from any of the above assumptions. This variance in the ultimate settlement expense ratio could occur in one year or over multiple years, depending on the loss and settlement expense payment patterns. A variance in the ultimate settlement expense ratio would also affect the Company’s financial position in that the Company’s equity would be impacted by an amount equivalent to the change in net income. A variance of this type would typically be recognized in loss and settlement expense reserves and, accordingly, would not have a material effect on liquidity because the expenses have not been paid. A one percent variance in the ratio of ultimate settlement expenses to ultimate losses is considered reasonably likely based on the range of actuarial indications developed during the analysis of the property and casualty insurance segment’s carried reserves.

Line of business	After-tax impact on earnings from a one percent variance in the ultimate settlement expense ratio		
Personal auto liability	$(31)	to	$31
Commercial auto liability	(195)	to	195
Auto physical damage	(27)	to	27
Workers' compensation	(237)	to	237
Other liability	(673)	to	673
Property	(144)	to	144
Homeowners	(66)	to	66
All Other	(33)	to	33

Internal actuarial evaluations of the prior quarter’s overall loss reserve levels are performed each quarter for all direct lines of business. There is a certain amount of random variation in loss development patterns, which results in some uncertainty regarding projected ultimate losses, particularly for longer-tail lines such as workers’ compensation, other liability and commercial auto liability. Therefore, the reasonability of the actuarial projections is regularly monitored through an examination of loss ratio and claims severity trends implied by these projections. Following is a discussion of the major assumptions underlying the quarterly internal actuarial loss reserve evaluations.

One assumption underlying aggregate reserve estimation methods is that the claims inflation trends implicitly built into the historical loss and settlement expense development patterns will continue into the future. To estimate the sensitivity of the estimated ultimate loss and settlement expense payments to an unexpected change in inflationary trends, the actuarial department derived expected payment patterns separately for each major line of business. These patterns were applied to the December 31, 2014 loss and settlement expense reserves to generate estimated annual incremental loss and settlement expense payments for each subsequent calendar year. Then, for the purpose of sensitivity testing, an explicit annual inflationary variance of one percent was added to the inflationary trend that is implicitly embedded in the estimated payment pattern, and revised incremental loss and settlement expense payments were calculated. This unexpected claims inflation trend could arise from a variety of sources including a change in economic inflation, social inflation and, especially for the workers' compensation line of business, the introduction of new medical technologies and procedures, changes in the utilization of procedures and changes in life expectancy. The estimated cumulative impact that this unexpected one percent variance in the inflationary trend would have on the Company's results of operations over the lifetime of the underlying claims is shown below. A variance in the inflationary trend would also affect the Company's financial position in that the Company's equity would be impacted by an amount equivalent to the change in net income. A variance of this type would typically be recognized in loss and settlement expense reserves and, accordingly, would not have a material effect on liquidity because the claims have not been paid. A one percent variance in the projected inflationary trend is considered reasonably likely based on the range of actuarial indications developed during the analysis of the property and casualty insurance segment's carried reserves.

Line of business	After-tax impact on earnings from a one percent variance in the projected inflationary trend		
Personal auto liability	$(123)	to	$121
Commercial auto liability	(925)	to	905
Auto physical damage	(14)	to	13
Workers' compensation	(5,856)	to	5,062
Other liability	(3,566)	to	3,309
Property	(177)	to	175
Homeowners	(28)	to	27

A second assumption is that historical loss payment patterns have not changed. In other words, the percentage of ultimate losses that are not yet paid at any given stage of accident year development is consistent over time. The following table displays the impact on the Company's results of operations, for the latest ten accident years, of a five percent variance in unpaid losses to date from the percentages anticipated in the paid loss projection factors. That is, future loss payments under this scenario would be expected to differ from the original actuarial loss reserve estimates by these amounts. This variance in future loss payments could occur in one year or over multiple years. A variance in future loss payments would also affect the Company's financial position in that the Company's equity would be impacted by an amount equivalent to the change in net income. A variance of this type would typically be recognized in loss and settlement expense reserves and, accordingly, would not have a material effect on liquidity because the claims have not been paid. A five percent variance in projected future loss payments is considered reasonably likely based on the range of actuarial indications developed during the analysis of the property and casualty insurance segment's carried reserves.

Line of business	After-tax impact on earnings from a five percent variance in future loss payments		
Personal auto liability	$(382)	to	$345
Commercial auto liability	(2,342)	to	2,120
Auto physical damage	(135)	to	122
Workers' compensation	(3,662)	to	3,312
Other liability	(3,536)	to	3,200
Property	(966)	to	875
Homeowners	(149)	to	136
All Other	(104)	to	95

A third assumption is that individual case loss reserve adequacy is consistent over time. The following table displays the impact on the Company's results of operations, for the latest ten accident years, of a five percent variance in individual case loss reserve adequacy from the level anticipated in the incurred loss projection factors. In other words, future loss payments under this scenario would be expected to vary from actuarial reserve estimates by these amounts. This variance in expected loss payments could occur in one year or over multiple years. A change in individual case loss reserve adequacy would also affect the Company's financial position in that the Company's equity would be impacted by an amount equivalent to the change in net income. A variance of this type would typically be recognized in loss and settlement expense reserves and, accordingly, would not have a material effect on liquidity because the claims have not been paid. A five percent variance in individual case loss reserve adequacy is considered reasonably likely based on the range of actuarial indications developed during the analysis of the property and casualty insurance segment's carried reserves.

Line of business	After-tax impact on earnings from a five percent variance in individual case loss reserve adequacy		
Personal auto liability	$(330)	to	$301
Commercial auto liability	(2,151)	to	1,945
Auto physical damage	(99)	to	88
Workers' compensation	(2,957)	to	2,677
Other liability	(2,992)	to	2,706
Property	(1,045)	to	945
Homeowners	(145)	to	131
All Other	(106)	to	95

A fourth assumption is that IBNR emergence as a percentage of reported losses is historically consistent and will continue at the historical level. The following table displays the estimated impact on the Company's results of operations, for the latest ten accident years, of a five percent variance in IBNR losses from the level anticipated in the loss projection factors. Under this scenario, future loss payments would be expected to vary from actuarial reserve estimates by these amounts. This variance in IBNR emergence could occur in one year or over multiple years. A variance in IBNR emergence would also affect the Company's financial position in that the Company's equity would be impacted by an amount equivalent to the change in net income. A variance of this type would typically be recognized in loss and settlement expense reserves and, accordingly, would not have a material effect on liquidity because the claims have not been paid. A five percent variance in IBNR emergence is considered reasonably likely based on the range of actuarial indications developed during the analysis of the property and casualty insurance segment's carried reserves.

Line of business	After-tax impact on earnings from a five percent variance in IBNR emergence		
Personal auto liability	$(1)	to	$1
Commercial auto liability	(274)	to	274
Auto physical damage	(31)	to	31
Workers' compensation	(396)	to	396
Other liability	(1,279)	to	1,279
Property	(244)	to	244
Homeowners	(49)	to	49

An actuarial evaluation of the prior quarter's case and bulk case loss reserve adequacy is performed each quarter. If that analysis indicates that the aggregate reserves of the individual claim files established by the claims department combined with the carried bulk case loss reserve (if any) is not within a few percentage points of a benchmark established by the actuarial department, the actuarial department will recommend that an adjustment be made to the current quarter's bulk case loss reserve. Management reviews all recommendations submitted by the actuarial department and considers such recommendations in the determination of its best estimate of the Company's overall liability.

One of the variables impacting the estimation of IBNR loss reserves is the assumption that the vast majority of future construction defect losses will continue to occur in those states in which most construction defect claims have historically arisen. Since the vast majority of these losses have been confined to a relatively small number of states, which is consistent with industry experience, there is no provision in the IBNR loss reserve for a significant spread of construction defect claims to other states. It is also assumed that various underwriting initiatives implemented in recent years will gradually mitigate the amount of construction defect losses experienced. These initiatives include exclusionary endorsements, increased care regarding additional insured endorsements, a general reduction in the amount of contractor business written relative to the total commercial lines book of business, and underwriting restrictions on the writing of residential contractors. The estimation of the Company's IBNR loss reserves also does not contemplate substantial losses from potential mass torts such as Methyl Tertiary Butyl Ether (a gasoline additive that reduces emissions, but causes pollution), tobacco, silicosis, cell phones and lead. Further, consistent with general industry practice, the IBNR loss reserve for all liability lines does not provide for any significant retroactive expansion of coverage through judicial interpretation. If these assumptions prove to be incorrect, ultimate paid amounts on emerged IBNR claims may differ substantially from the carried IBNR loss reserves.

As previously noted, the estimation of settlement expense reserves assumes a consistent claims department philosophy regarding the defense of lawsuits. If the pool participants should in the future take a more aggressive defense posture, defense costs would increase and it is likely that the Company's carried settlement expense reserves would be deficient. However, such a change in philosophy would likely reduce losses, generating some offsetting redundancy in the loss reserves.

The property and casualty insurance subsidiaries have exposure to environmental and asbestos claims arising primarily from the other liability line of business. These exposures are closely monitored by management, and IBNR loss reserves have been established to cover estimated ultimate losses. The asbestos IBNR loss reserves were increased in each of the last seven years based on examinations of the implied three-year survival ratio (ratio of loss and settlement expense reserves to the three-year average of loss and settlement expense payments), which has deteriorated due to an increase in both paid losses and paid settlement expenses. Settlement expense payments have increased significantly since 2008 and have been the primary driver behind recently implemented reserve increases.

Environmental IBNR loss reserves are established in consideration of the implied three-year survival ratio. Estimation of ultimate liabilities for these exposures is unusually difficult due to unresolved issues such as whether coverage exists, the definition of an occurrence, the determination of ultimate damages and the allocation of such damages to financially responsible parties. Therefore, any estimation of these liabilities is subject to greater than normal variation and uncertainty, and ultimate payments for losses and settlement expenses for these exposures may differ significantly from the carried reserves.

Reinsurance Segment

Following is a summary of the carried loss and settlement expense reserves for the reinsurance segment at December 31, 2014 and 2013.

	December 31, 2014			
Line of business	Case	IBNR	Settlement expense	Total
Pro rata reinsurance:				
Property and liability	$ 7,715	$ 799	$ 214	$ 8,728
Property	9,284	6,184	439	15,907
Crop	959	1,060	24	2,043
Liability	1,945	9,673	188	11,806
Marine/Aviation	7,563	13,609	238	21,410
Total pro rata reinsurance	27,466	31,325	1,103	59,894
Excess of loss reinsurance:				
Property	34,391	17,402	1,077	52,870
Liability	28,903	53,078	3,046	85,027
Surety	19	—	41	60
Total excess of loss reinsurance	63,313	70,480	4,164	137,957
Total reinsurance segment	$ 90,779	$ 101,805	$ 5,267	$ 197,851

	December 31, 2013			
Line of business	Case	IBNR	Settlement expense	Total
Pro rata reinsurance:				
Property and liability	$ 5,223	$ 783	$ 141	$ 6,147
Property	8,645	8,878	477	18,000
Crop	1,407	1,055	28	2,490
Liability	957	6,138	101	7,196
Marine/Aviation	1,993	7,850	128	9,971
Total pro rata reinsurance	18,225	24,704	875	43,804
Excess of loss reinsurance:				
Property	27,802	16,812	1,013	45,627
Liability	31,004	60,014	3,004	94,022
Surety	646	274	50	970
Total excess of loss reinsurance	59,452	77,100	4,067	140,619
Total reinsurance segment	$ 77,677	$ 101,804	$ 4,942	$ 184,423

The reinsurance book of business is comprised of two major components. The first is HORAD, which includes the reinsurance business assumed by the reinsurance subsidiary through the quota share agreement and the business written directly by the reinsurance subsidiary outside of the quota share agreement. The second is MRB, which is a voluntary reinsurance pool in which Employers Mutual participates with four other unaffiliated insurers.

The primary actuarial methods used to project ultimate policy year losses on the assumed reinsurance business are paid development, incurred development and Bornhuetter-Ferguson. The assumptions underlying the various projection methods include stability in the mix of business, consistent claims processing procedures, immaterial impact of loss cost trends on development patterns, consistent case loss reserving practices and appropriate Bornhuetter-Ferguson expected loss ratio selections.

At December 31, 2014, the carried reserves for HORAD and MRB combined were in the upper quartile of the range of actuarial reserve indications. This selection reflects the fact that there are inherent uncertainties involved in establishing reserves for assumed reinsurance business. Such uncertainties include the fact that a reinsurance company generally has less knowledge than the ceding company about the underlying book of business and the ceding company's reserving practices. Because of these uncertainties, there is a risk that the reinsurance segment's reserves for losses and settlement expenses could prove to be inadequate, with a consequential adverse impact on the Company's future earnings and stockholders' equity.

At December 31, 2014, there was no backlog in the processing of assumed reinsurance information. Approximately $129,143, or 65 percent, of the reinsurance segment's carried reserves were reported by the ceding companies. Employers Mutual receives loss reserve and paid loss data from its ceding companies on individual excess of loss contracts. If a claim involves a single or small group of claimants, a summary of the loss and claim outlook is normally provided. Summarized data is provided for catastrophe claims and pro rata business, which is subject to closer review if inconsistencies are suspected.

Carried reserves established in addition to those reported by the ceding companies totaled approximately $68,708 at December 31, 2014. Since many ceding companies in the HORAD book of business do not report IBNR loss reserves, Employers Mutual establishes a bulk IBNR loss reserve to cover the lag in reporting. For the few ceding companies that do report IBNR loss reserves, Employers Mutual carries them as reported. These reported IBNR loss reserves are subtracted from the total IBNR loss reserve calculated by Employers Mutual's actuaries, with the difference carried as bulk IBNR loss reserves. Except for the small IBNR loss reserve established to cover the one-month lag in reporting, the MRB IBNR loss reserve is established by the management of MRB. Employers Mutual rarely records additional case loss reserves.

Assumed reinsurance losses tend to be reported later than direct losses. This lag is reflected in loss projection factors for assumed reinsurance that tend to be higher than for direct business. The result is that assumed reinsurance IBNR loss reserves as a percentage of total reserves tend to be higher than for direct loss reserves. IBNR loss reserves totaled $101,805 and $101,804 at December 31, 2014 and 2013, respectively, and accounted for approximately 51 percent and 55 percent, respectively, of the reinsurance segment's total loss and settlement expense reserves. IBNR loss reserves are, by nature, less precise than case loss reserves. A five percent change in IBNR loss reserves at December 31, 2014 would equate to $3,300, net of tax, which represents 11.0 percent of the net income reported for 2014 and 0.7 percent of stockholders' equity.

As previously noted, the assumptions implicit in the methodologies utilized to establish reserves for the reinsurance segment are stability in the mix of business, consistent claims processing procedures, immaterial impact of loss cost trends on development patterns, consistent case loss reserving practices and appropriate Bornhuetter-Ferguson expected loss ratio selections. The tables below display the impact on the Company's results of operations from (1) a five percent variance in case loss reserve adequacy from the level anticipated in the incurred loss projection factors, (2) a one percent variance in the implicit annual claims inflation rate, (3) a five percent variance in IBNR losses as a percentage of reported incurred losses (due, for example, to changes in mix of business or claims processing procedures) and (4) a five percent variance in the expected loss ratios used with the Bornhuetter-Ferguson method. In other words, under each scenario, future loss and settlement expense payments would be expected to vary from actuarial reserve estimates by the amounts shown below. These variances in future loss and settlement expense payments could occur in one year or over multiple years. Variances in future loss and settlement payments would also affect the Company's financial position in that the Company's equity would be impacted by an amount equivalent to the change in net income. Variances of this type would typically be recognized in loss and settlement expense reserves and, accordingly, would not have a material effect on liquidity because the claims have not been paid. Such variances are considered reasonably likely based on the range of actuarial indications developed during the analysis of the reinsurance segment's carried reserves.

The after-tax impact on the Company's earnings under each scenario is as follows:

	Reinsurance segment					
	MRB			HORAD		
(1) Five percent variance in case loss reserve adequacy from the level anticipated in the incurred loss projection factors	$(488)	to	$442	$(5,357)	to	$5,010
(2) One percent variance in the implicit annual claims inflation rate	(854)	to	769	(3,101)	to	2,850
(3) Five percent variance in IBNR losses from the level anticipated in the loss projection factors	(337)	to	337	(2,705)	to	2,705
(4) Five percent variance in the expected loss ratios used with the Bornhuetter-Ferguson method	(491)	to	491	(3,166)	to	3,166

To ensure the accuracy and completeness of the information received from the ceding companies, Employers Mutual's actuarial department reviews the latest five HORAD policy years on a quarterly basis, and all policy years on an annual basis. Any significant unexplained departures from historical reporting patterns are brought to the attention of the reinsurance department's staff, who contacts the ceding company or broker for clarification.

Employers Mutual's actuarial department annually reviews the MRB reserves for reasonableness. These analyses use a variety of actuarial techniques, which are applied at a line-of-business level. MRB staff supplies the reserve analysis data, which is verified for accuracy by Employers Mutual's actuaries. This review process is replicated by certain other MRB member companies, using actuarial techniques they deem appropriate. Based on these reviews, Employers Mutual and the other MRB member companies have consistently found the MRB reserves to be adequate.

For the HORAD book of business, paid and incurred loss development patterns for relatively short-tail lines of business (property and marine) are based on data reported by the ceding companies. Employers Mutual has determined that there is sufficient volume and stability in the reported losses to base projections of ultimate losses on these patterns. For longer tail lines of business (casualty), industry incurred development patterns supplement the data reported by ceding companies due to the instability of the development patterns based on reported historical losses.

For long-tail lines of business, unreliable estimates of unreported losses can result from the application of loss projection factors to reported losses. To some extent, this is also true for short-tail lines of business in the early stages of a policy year's development. Therefore, in addition to loss-based projections, Employers Mutual generates estimates of unreported losses based on premiums earned. The latter estimates are sometimes more stable and reliable than projections based on losses.

Disputes with ceding companies do not occur often. Employers Mutual performs claims audits and encourages prompt reporting of reinsurance claims. Employers Mutual also reviews claim reports for accuracy, completeness and adequate reserving. Most reinsurance contracts contain arbitration clauses to resolve disputes, but such disputes are generally resolved without arbitration due to the long-term and ongoing relationships that exist with those companies. There were no matters in dispute at December 31, 2014.

Toxic tort (primarily asbestos), environmental and other uncertain exposures (property and casualty insurance segment and reinsurance segment)

Toxic tort claims include those where the claimant seeks compensation for harm allegedly caused by exposure to a toxic substance or a substance that increases the risk of contracting a serious disease, such as cancer. Typically the injury is caused by latent effects of direct or indirect exposure to a substance or combination of substances through absorption, contact, ingestion, inhalation, implantation or injection. Examples of toxic tort claims include injuries arising out of exposure to asbestos, silica, mold, drugs, carbon monoxide, chemicals and lead.

Since 1989, the pool participants have included an asbestos exclusion in liability policies issued for most lines of business. The exclusion prohibits liability coverage for "bodily injury", "personal injury" or "property damage" (including any associated clean-up obligations) arising out of the installation, existence, removal or disposal of asbestos or any substance containing asbestos fibers. Therefore, the pool participants' current asbestos exposures are primarily limited to commercial policies issued prior to 1989. At present, the pool participants are defending approximately 1,849 asbestos bodily injury lawsuits, some of which involve multiple plaintiffs. Claims activity associated with eight policyholders dominates the pool participants' asbestos claims, representing an aggregate 1,796 lawsuits with 4,068 claimants. Most of the lawsuits are subject to express reservation of rights based upon the lack of an injury within the applicable policy periods, because many asbestos lawsuits do not specifically allege dates of asbestos exposure or dates of injury. The pool participants' policyholders named as defendants in these asbestos lawsuits are typically peripheral defendants who have little or no exposure and are routinely dismissed from asbestos litigation with nominal or no payment (i.e., small contractors, supply companies, and a furnace manufacturer).

Prior to 2008, actual losses paid for asbestos-related claims had been minimal due to the plaintiffs' failure to identify an exposure to any asbestos-containing products associated with the pool participants' current and former policyholders. However, paid losses and settlement expenses have increased significantly since 2008 as a result of claims attributed to one former policyholder. During the period 2009 through 2014, the Company's share of paid losses and settlement expenses attributed to this former policyholder, a furnace manufacturer, was $7,294 (primarily settlement expenses). The asbestos exposure associated with this former policyholder has increased in recent years, and this trend may possibly continue into the future with increased per plaintiff settlements. Settlement expense payments associated with this former policyholder have increased significantly since 2008 and have been the primary driver behind recently implemented reserve increases. The primary cause of this increase in paid settlement expenses is the retention of a national coordinating counsel in 2008 due to this former policyholder's exposure in numerous jurisdictions. The national coordinating counsel has provided, and continues to provide, significant services in the areas of document review, discovery, deposition and trial preparation. Approximately 690 asbestos exposure claims associated with this former policyholder remain open. Whenever possible, the pool participants have participated in cost sharing agreements with other insurance companies to reduce overall expenses.

The pool participants are defending approximately 80 claim files as a result of lawsuits alleging "silica" exposure in Texas and Mississippi jurisdictions, some of which involve multiple plaintiffs. The plaintiffs allege employment exposure to "airborne respirable silica dust," causing "serious and permanent lung injuries" (i.e., silicosis). Silicosis injuries are identified in the upper lobes of the lungs, while asbestos injuries are localized in the lower lobes.

The plaintiffs in the silicosis lawsuits are sandblasters, gravel and concrete workers, ceramic workers and road construction workers. All of these lawsuits are subject to express reservation of rights based upon the lack of an injury within the applicable policy periods because many silica lawsuits, like asbestos lawsuits, do not specifically allege dates of exposure or dates of injury. The pool participants' policyholders (a refractory product manufacturer, small local concrete and gravel companies and a concrete cutting machine manufacturer) that have been named as defendants in these silica lawsuits have had little or no exposure, and are routinely dismissed from silica litigation with nominal or no payment. While the expense of handling these lawsuits is high, it is not proportional to the number of plaintiffs, and is mitigated through cost sharing agreements with other insurance companies.

Since 2004, the pool participants have included a "pneumoconiosis dust" exclusion to their commercial lines liability policies in the majority of jurisdictions where such action was warranted. This exclusion precludes liability coverage due to "mixed dust" pneumoconiosis, pleural plaques, pleural effusion, mesothelioma, lung cancer, emphysema, bronchitis, tuberculosis or pleural thickening, or other pneumoconiosis-related ailments such as arthritis, cancer (other than lung), lupus, heart, kidney or gallbladder disease. "Mixed dust" includes dusts composed of asbestos, silica, fiberglass, coal, cement, or various other elements. It is anticipated that this mixed dust exclusion will further limit the pool participants' exposure in silica claims, and may be broad enough to limit exposure in other dust claims.

The Company's environmental claims are defined as 1) claims for bodily injury, personal injury, property damage, loss of use of property, diminution of property value, etc., allegedly due to contamination of air, and/or contamination of surface soil or surface water, and/or contamination of ground water, aquifers, wells, etc.; or 2) any/all claims for remediation or clean-up of hazardous waste sites by the United States Environmental Protection Agency, or similar state and local environmental or government agencies, usually presented in conjunction with Federal or local clean up statutes (i.e., CERCLA, RCRA, etc.).

Examples include, but are not limited to: chemical waste; hazardous waste treatment, storage and/or disposal facilities; industrial waste disposal facilities; landfills; superfund sites; toxic waste spills; and underground storage tanks. Widespread use of pollution exclusions since 1970 in virtually all lines of business, except personal lines, has resulted in limited exposure to environmental claims. Absolute pollution exclusions have been used since the 1980's; however, the courts in the State of Indiana have ruled that the absolute pollution exclusion is ambiguous.

The Company's current exposures to environmental claims include losses involving petroleum haulers, lead contamination, and soil and groundwater contamination in the State of Indiana. Claims from petroleum haulers are generally caused by overturned commercial vehicles and overfills at commercial and residential properties. Exposures for accident year losses preceding the 1980s include municipality exposures for closed landfills, small commercial businesses involved with disposing waste at landfills, leaking underground storage tanks and contamination from dry cleaning operations. As of December 31, 2014, all Methyl Tertiary Butyl Ether ("MTBE") claims related to the pool participants' policyholders had been dismissed.

During 2009, the Company completed a comprehensive policy search and coverage review, and began defending (pursuant to policies issued 1969-1975) a lawsuit filed against a municipalities' sewerage commission in United States District Court in Wisconsin in 2008. The Company has a joint defense agreement with two other companies, but currently retains the majority share. The lawsuit is potentially one of the largest CERCLA actions pending against numerous parties in the United States and seeks in excess of $1.5 billion from the defendants. The pool participants reached a tentative settlement with the insured and issued payment for approximately $625 (the Company's share) during 2014, but continues to wait for final court approval of the settlement.

The Company's exposure to asbestos and environmental claims through assumed reinsurance is very limited due to the fact that the Company's reinsurance subsidiary entered into the reinsurance marketplace in the early 1980's, after much attention had already been brought to these issues.

At December 31, 2014, the Company carried asbestos and environmental reserves for direct insurance and assumed reinsurance business totaling $9,420, which represents 1.4 percent of total loss and settlement expense reserves. The asbestos and environmental reserves include $5,071 of case loss reserves, $2,556 of IBNR loss reserves and $1,793 of bulk settlement expense reserves. Ceded reinsurance on these reserves totaled $124. Loss and settlement expense reserves were increased in 2014 because of deterioration in the implied survival ratio.

The pool participants' non-asbestos direct product liability claims are considered to be highly uncertain exposures due to the many uncertainties inherent in determining the loss, and the significant periods of time that can elapse between the occurrence of the loss and the ultimate settlement of the claim. The majority of the pool participants' product liability claims arise from small to medium-sized manufacturers, contractors, petroleum distributors, and mobile home and auto dealerships. No specific claim trends are evident from the pool participants' manufacturing clients, as the claims activity on these policies is generally isolated and can be severe. Specific product liability coverage is provided to the pool participants' mobile home and auto dealership policyholders, and the claims from these policies tend to be relatively small. Certain construction defect claims are also reported under product liability coverage. During 2014, 40 of these claims were reported to the pool participants.

The Company has exposure to construction defect claims arising from general liability policies issued by the pool participants to contractors. Most of the pool participants' construction defect claims are concentrated in a limited number of states, and the pool participants have taken steps to mitigate this exposure. Construction defect is a highly uncertain exposure due to such issues as whether coverage exists, definition of an occurrence, determination of ultimate damages, and allocation of such damages to financially responsible parties. Newly reported construction defect claims numbered 385, 232 and 209 in 2014, 2013 and 2012, respectively, and produced incurred losses and paid settlement expenses of approximately $2,883, $5,066 and $2,008 in each respective period. Incurred losses and paid settlement expenses on all construction defect claims totaled approximately $3,874 in 2014. At December 31, 2014, the Company carried case loss reserves of approximately $4,212 on 389 open construction defect claims.

The Company's assumed casualty excess reinsurance business is also considered a highly uncertain exposure due to the significant periods of time that can elapse during the settlement of the underlying claims, and the fact that a reinsurance company generally has less knowledge than the ceding company about the underlying book of business and the ceding company's reserving practices. Employers Mutual attempts to account for this uncertainty by establishing bulk IBNR loss reserves, using conservative assumed treaty limits and, to a much lesser extent, booking of individual treaty IBNR loss reserves (if reported by the ceding company) or establishing additional case loss reserves if the reported case loss reserves appear inadequate on an individual claim. While Employers Mutual is predominantly a property reinsurer, it does write casualty excess business oriented mainly towards shorter-tail casualty lines of coverage. Employers Mutual avoids reinsuring large company working layer casualty risks, and does not write risks with heavy product liability exposures, risks with obvious latent injury manifestation and medical malpractice. Casualty excess business on large companies is written, but generally on a "clash" basis only (layers above the limits written for any individual policyholder) or specialty casualty written with claims-made forms.

Following is a summary of loss and settlement expense reserves and payments associated with asbestos, environmental, products liability and casualty excess reinsurance exposures for 2014, 2013 and 2012:

	Property and casualty insurance segment			Reinsurance segment		
	Case	IBNR	Settlement expense	Case	IBNR	Settlement expense
Reserves at:						
December 31, 2014						
Asbestos	$ 4,725	$ 1,363	$ 1,624	$ 131	$ 281	$ —
Environmental	92	297	169	123	615	—
Products[1]	7,416	5,643	6,902	—	—	—
Casualty excess[2]	—	—	—	27,992	52,935	2,971
December 31, 2013						
Asbestos	$ 4,737	$ 1,375	$ 1,502	$ 104	$ 324	$ —
Environmental	311	400	164	136	591	—
Products[1]	7,112	5,428	6,285	—	—	—
Casualty excess[2]	—	—	—	28,976	59,994	2,943
December 31, 2012						
Asbestos	$ 3,778	$ 1,834	$ 1,711	$ 99	$ 353	$ —
Environmental	237	572	121	67	660	—
Products[1]	6,044	5,309	5,212	—	—	—
Casualty excess[2]	—	—	—	27,759	52,127	2,730
Paid during:						
2014						
Asbestos	$ 624		$ 960	$ 16		$ —
Environmental	197		36	(11)		(1)
Products[1]	1,465		1,876	—		—
Casualty excess[2]	—		—	8,091		1,589
2013						
Asbestos	$ 1,030		$ 1,212	$ 23		$ —
Environmental	19		87	—		—
Products[1]	1,737		2,304	—		—
Casualty excess[2]	—		—	7,766		1,249
2012						
Asbestos	$ 468		$ 1,585	$ 32		$ —
Environmental	—		87	1		—
Products[1]	1,768		3,065	—		—
Casualty excess[2]	—		—	6,291		1,227

[1] Products includes the portion of asbestos and environmental claims reported that are non-premises/operations claims.
[2] Casualty excess includes the asbestos and environmental claims reported above.

Following is a summary of the claim activity associated with asbestos, environmental and products liability exposures for 2014, 2013 and 2012:

	Asbestos	Environmental	Products
2014			
Open claims at year-end	4,267	3	112
Reported	516	—	141
Disposed	521	2	123
2013			
Open claims at year-end	4,272	5	94
Reported	415	—	448
Disposed	612	—	461
2012			
Open claims at year-end	4,469	5	107
Reported	363	—	414
Disposed	4,748	2	411

Variability of loss and settlement expense reserves

The Company does not determine a range of estimates for all components of the loss and settlement expense reserve at the time the reserves are established. During each quarter, however, an actuarially determined range of estimates is developed for the major components of the loss and settlement expense reserves as of the preceding quarter-end. All reserves are reviewed with the exception of reserves for involuntary workers' compensation pools, which are set by the National Council on Compensation Insurance (NCCI) and are assumed to be adequate (the impact of potential variability of this segment on overall reserve adequacy is considered immaterial). Shown below are the actuarially determined ranges of reserve estimates as of December 31, 2014 along with the statutory-basis carried reserves, which are displayed net of ceded reinsurance. The GAAP-basis loss and settlement expense reserves contained in the Company's financial statements are reported gross of ceded reinsurance, and contain a small number of adjustments from the statutory-basis amounts presented here. The last two columns display the estimated after-tax impact on earnings if the reserves were moved to the high end-point or low end-point of the ranges.

	Range of reserve estimates			After-tax impact on earnings	
	High	Low	Carried	Reserves at high	Reserves at low
Property and casualty insurance segment	$ 450,638	$ 406,244	$ 444,909	$ (3,724)	$ 25,132
Reinsurance segment	194,761	154,449	194,290	(306)	25,897
	$ 645,399	$ 560,693	$ 639,199	$ (4,030)	$ 51,029

The precise location of total carried reserves within the actuarial range is unknown at the time the reserves are established because the actuarial evaluation of reserve adequacy is conducted after the establishment of the reserves.

Changes in loss and settlement expense reserve estimates of prior periods

Loss and settlement expense reserves are estimates at a given time of what an insurer expects to pay on incurred losses, based on facts and circumstances then known. During the loss settlement period, which may be many years, additional facts regarding individual claims become known, and accordingly, it often becomes necessary to refine and adjust the estimates of liability. Such changes in the reserves for losses and settlement expenses are reflected in operating results in the year such changes are recorded.

For a detailed discussion of the development experienced on prior accident years' reserves during the past three years, see the discussion entitled "Loss and Settlement Expense Reserves" under the "Narrative Description of Business" heading in the Business Section under Part I, Item 1 of the Company's Annual Report on Form 10-K.

Investments

Fair Value Measurement

Fair value is defined as the 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 following fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value:

Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Prices or valuation techniques that require significant unobservable inputs because observable inputs are not available. The unobservable inputs may reflect the Company's own judgments about the assumptions that market participants would use.

The Company uses an independent pricing source to obtain the estimated fair values of a majority of its securities, subject to an internal validation. The fair values are based on quoted market prices, where available. This is typically the case for equity securities and money market funds, which are accordingly classified as Level 1 fair value measurements. In cases where quoted market prices are not available, fair values are based on a variety of valuation techniques depending on the type of security. Fixed maturity securities, non-redeemable preferred stocks and various short-term investments in the Company's portfolio may not trade on a daily basis; however, observable inputs are utilized in their valuations, and these securities are therefore classified as Level 2 fair value measurements. Following is a brief description of the various pricing techniques used by the independent pricing source for different asset classes.

- U.S. Treasury securities (including bonds, notes, and bills) are priced according to a number of live data sources, including active market makers and inter-dealer brokers. Prices from these sources are reviewed based on the sources' historical accuracy for individual issues and maturity ranges.
- U.S. government-sponsored agencies and corporate securities (including fixed-rate corporate bonds and medium-term notes) are priced by determining a bullet (non-call) spread scale for each issuer for maturities going out to forty years. These spreads represent credit risk and are obtained from the new issue market, secondary trading, and dealer quotes. An option adjusted spread model is incorporated to adjust spreads of issues that have early redemption features. The final spread is then added to the U.S. Treasury curve.
- Obligations of states and political subdivisions are priced by tracking and analyzing actively quoted issues and reported trades, material event notices and benchmark yields. Municipal bonds with similar characteristics are grouped together into market sectors, and internal yield curves are constructed daily for these sectors. Individual bond evaluations are extrapolated from these sectors, with the ability to make individual spread adjustments for attributes such as discounts, premiums, alternative minimum tax, and/or whether or not the bond is callable.
- Mortgage-backed and asset-backed securities are first reviewed for the appropriate pricing speed (if prepayable), spread, yield and volatility. The securities are priced with models using spreads and other information solicited from Wall Street buy- and sell-side sources, including primary and secondary dealers, portfolio managers, and research analysts. To determine a tranche's price, first the benchmark yield is determined and adjusted for collateral performance, tranche level attributes and market conditions. Then the cash flow for each tranche is generated (using consensus prepayment speed assumptions including, as appropriate, a prepayment projection based on historical statistics of the underlying collateral). The tranche-level yield is used to discount the cash flows and generate the price. Depending on the characteristics of the tranche, a volatility-driven, multi-dimensional single cash flow stream model or an option-adjusted spread model may be used. When cash flows or other security structure or market information is not available, broker quotes may be used.

On a quarterly basis, the Company receives from its independent pricing service a list of fixed maturity securities, if any, that were priced solely from broker quotes. For these securities, fair value may be determined using the broker quotes, or by the Company using similar pricing techniques as the Company's independent pricing service. Depending on the level of observable inputs, these securities would be classified as Level 2 or Level 3 fair value measurements. At December 31, 2014 the Company had no securities priced solely from broker quotes (seven at December 31, 2013). At December 31, 2013 all of these securities were reported as Level 2 fair value measurements due to the broker quote prices approximating the Company's price estimates obtained by applying pricing techniques with observable inputs.

Essentially all securities in the Company's investment portfolios have transparent pricing. All equity securities (with one exception) are traded on national exchanges with observable prices. Fixed maturity securities are typically high quality, liquid issues with daily pricing from the Company's independent pricing source. Prices are validated through a variety of techniques. When performing these validations, the Company uses graduated tolerance levels for determining exceptions. Equity securities and U.S. treasury and government-sponsored agency fixed maturity securities have the highest transparency in pricing, and therefore have the smallest tolerance levels for variance. These are followed by (in order of decreasing transparency/increasing tolerance levels) mortgage-backed, corporate, municipal, and finally high-yield fixed maturity securities. The validations performed include:

1. Comparisons of the prices reported by the independent pricing source to daily runs of offerings and bids from several brokers for a sample of securities.
2. Comparison of the prices reported by the independent pricing source to prices realized from the Company's own purchase and sale transactions.
3. Comparison of the prices reported by the independent pricing source to prices from the Company's investment custodian. It should be noted that the independent pricing source used by the Company is often the same source used by the Company's investment custodian, thus limiting the confidence gained from this validation technique.

Rarely are the independent pricing source's prices outside of tolerance levels. This is most likely to occur in less frequently traded municipal fixed maturity securities, where the price reported by the independent pricing source may have become stale due to a lack of recent trading activity. If it is believed that the price reported by the independent pricing source does not reflect the quality, maturity, optionality and liquidity characteristics of the fixed maturity security, alternative pricing sources are examined, including Bloomberg matrix pricing, regression pricing, and broker runs for offering prices of similar securities. A judgment is then made as to what price best reflects the characteristics of the security, and if the result is materially different than the fair value reported by the independent pricing source for that security, then management's judgment of the fair value is used in the financial statements.

Investment Impairments

The Company regularly monitors its investments which have a fair value that is less than the amortized cost for indications of "other-than-temporary" impairment. Several factors are used to determine whether the amortized cost of an individual security has been "other-than-temporarily" impaired. Such factors include, but are not limited to (1) the security's value and performance in the context of the overall markets, (2) length of time and extent the security's fair value has been below amortized cost, (3) key corporate events, and (4) for equity securities, the ability and intent to hold the security until recovery to its cost basis.

The evaluation of an impaired fixed maturity security includes an assessment of whether the Company has the intent to sell the security, and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. In addition, if the present value of cash flows expected to be collected is less than the amortized cost of the security, a credit loss is deemed to exist and the security is considered "other-than-temporarily" impaired. The portion of the impairment related to credit loss is recognized through earnings, and the portion of the impairment related to other factors, if any, is recognized through "other comprehensive income".

When an equity security is deemed to be "other-than-temporarily" impaired, the amortized cost is reduced to fair value and a realized loss is recognized through earnings.

Deferred policy acquisition costs and related amortization

Acquisition costs, consisting of commissions, premium taxes, and salary and benefit expenses of employees directly involved in the underwriting of insurance policies that are successfully issued, are deferred and amortized to expense as premium revenue is recognized. Deferred policy acquisition costs and related amortization are calculated separately for the property and casualty insurance segment and the reinsurance segment. The methodology followed in computing deferred policy acquisition costs limits the amount of such deferred costs to the estimated realizable value. In determining estimated realizable value, the computation gives effect to the premium to be earned, related investment income, anticipated losses and settlement expenses, anticipated policyholder dividends, and certain other costs expected to be incurred to administer the insurance policies as the premium is earned. The anticipated losses and settlement expenses are based on the segment's projected loss and settlement expense ratios for the next twelve months, which include provisions for anticipated catastrophe and storm losses based on historical results adjusted for recent trends. Utilizing these projections, deferred policy acquisition costs for the property and casualty insurance segment and the reinsurance segment were not subject to limitation at December 31, 2014. Based on an analysis performed by management, the actuarial projections of the expected loss and settlement expense ratios for the next twelve months would have needed to increase 20.1 percentage points in the property and casualty insurance segment and 5.6 percentage points in the reinsurance segment before deferred policy acquisition costs would have been subject to limitation. Such increases in the expected loss and settlement expense ratios would likely be driven by many factors, including higher provisions for anticipated catastrophe and storm losses.

Deferred income taxes

The realization of the deferred income tax asset is based upon projections indicating that a sufficient amount of future taxable income will be earned to utilize the tax deductions that will reverse in the future. These projections are based on the Company's history of producing significant amounts of taxable income, the current premium rate environment for both the property and casualty insurance segment and the reinsurance segment, and expense control initiatives that have been implemented in recent years. In addition, management has formulated tax-planning strategies that could be implemented to generate taxable income if needed. Should the projected taxable income and tax planning strategies not provide sufficient taxable income to recover the deferred tax asset, a valuation allowance would be required.

Benefit Plans

Employers Mutual sponsors two defined benefit pension plans (a qualified plan and a non-qualified supplemental plan) and two postretirement benefit plans that provide retiree healthcare and life insurance coverage. Although the Company has no employees of its own, it is responsible for its share of the expenses and related prepaid assets and liabilities of these plans, as determined under the terms of the pooling agreement and the cost allocation methodologies applicable to its subsidiaries that do not participate in the pooling agreement.

The net periodic pension and postretirement benefit costs, as well as the prepaid assets and liabilities of these plans, are determined by actuarial valuations. Inherent in these valuations are key assumptions regarding the discount rate, the expected long-term rate of return on plan assets, and the rate of future compensation increases (pension plans only). Due to the planned conversion of the postretirement health care plan to an Employers Mutual-funded Health Reimbursement Arrangement (HRA) effective January 1, 2015, an assumption for the health care cost trend rate is no longer necessary. The assumptions used in the actuarial valuations are updated annually. Material changes in the net periodic pension and postretirement benefit costs may occur in the future due to changes in these assumptions or changes in other factors, such as the number of plan participants, the level of benefits provided, asset values and applicable legislation or regulations.

The discount rate utilized in the valuations is based on an analysis of the total rate of return that could be generated by a hypothetical portfolio of high-quality bonds created to generate cash flows that match the plans' expected benefit payments. No callable bonds are used in this analysis and the discount rate produced by this analysis is compared to interest rates of applicable published indices for reasonableness. The discount rates used in the pension benefit obligation valuations at December 31, 2014, 2013 and 2012 were 3.57 percent, 4.17 percent and 3.24 percent, respectively. The discount rates used in the postretirement benefit obligation valuations at December 31, 2014, 2013 and 2012 were 4.04 percent, 4.71 percent and 4.03 percent, respectively. The discount rates used in the pension and postretirement benefit obligation valuations are also used in the calculation of the net periodic benefit costs for the subsequent year. A 0.25 percentage point decrease in the discount rates used in the 2014 valuations would increase the Company's net periodic pension and postretirement benefit costs for 2015 by approximately $97. Conversely, a 0.25 percentage point increase in the 2014 discount rates would decrease the Company's net periodic pension and postretirement benefit costs for 2015 by approximately $91.

The expected long-term rate of return on plan assets is developed considering actual historical results, current and expected market conditions, the mix of plan assets and investment strategy. The expected long-term rate of return on plan assets produced by this analysis and used in the calculation of the net periodic pension benefit costs for the years ended December 31, 2014 and 2013 was 7.25 percent. The expected long-term rate of return on plan assets used in the calculation of the net periodic postretirement benefit costs for the years ended December 31, 2014 and 2013 was 6.75 percent and 6.50 percent, respectively. The expected rate of return on plan assets to be used in the calculation of the 2015 net periodic benefit costs for the pension and postretirement benefit plans will be 7.00 percent and 6.50 percent, respectively. The actual rate of return earned on plan assets during 2014 was approximately 5 percent for the pension plan and 7 percent for the postretirement benefit plans. The expected long-term rate of return assumption is subject to the general movement of the economy, but is generally less volatile than the discount rate assumption. A decrease in the expected long-term rate of return assumption increases future expenses, whereas an increase in the assumption reduces future expenses. A 0.25 percentage point change in the expected long-term rate of return assumption for 2015 would change the Company's net periodic pension and postretirement benefit costs by approximately $269. For detailed information regarding the current allocation of assets within the pension and postretirement benefit plans, see note 12 of Notes to Consolidated Financial Statements under Part II, Item 8 of the Company's Annual Report on Form 10-K.

In accordance with GAAP, actuarial gains/losses contained in the valuations that result from (1) actual experience that differs from that assumed, or (2) a change in actuarial assumptions, is accumulated and, if in excess of a specified corridor, amortized to expense over future periods. As of December 31, 2014, all of the benefit plans had accumulated actuarial losses in excess of the corridor that will be partially amortized into expense in 2015. The Company's share of the accumulated actuarial losses that will be amortized into expense during 2015 amounts to $1,135. Prior service costs/credits for plan amendments are also contained in the valuations, and are amortized into expense/income over the future service periods of the participants. As of December 31, 2014, the postretirement benefit plans have prior service credits that are being amortized into income in future periods, while the qualified defined benefit pension plan has prior service costs that are being amortized into expense in future periods. The net amount of prior service credit being amortized into income during 2015 is $3,307.

In accordance with GAAP, the funded status of defined benefit pension and other postretirement plans is recognized as an asset or liability on the balance sheet. Changes in the funded status of the plans are recognized through other comprehensive income.

RESULTS OF OPERATIONS

Results of operations by segment and on a consolidated basis for the three years ended December 31, 2014 are as follows:

	Year ended December 31,		
	2014	2013	2012
Property and casualty insurance			
Premiums earned	$ 422,381	$ 392,719	$ 357,139
Losses and settlement expenses	298,033	260,917	233,892
Acquisition and other expenses	136,657	142,237	131,454
Underwriting loss	$ (12,309)	$ (10,435)	$ (8,207)
Loss and settlement expense ratio	70.6%	66.4%	65.5%
Acquisition expense ratio	32.3%	36.3%	36.8%
Combined ratio	102.9%	102.7%	102.3%
Losses and settlement expenses:			
Insured events of current year	$ 306,143	$ 268,198	$ 246,949
Decrease in provision for insured events of prior years	(8,110)	(7,281)	(13,057)
Total losses and settlement expenses	$ 298,033	$ 260,917	$ 233,892
Catastrophe and storm losses	$ 40,226	$ 37,262	$ 34,372

The following table presents the reported amounts of favorable development experienced on prior years' reserves and the portion of the reported development amounts that resulted solely from changes in the allocation of bulk reserves between the current and prior accident years in the property and casualty insurance segment (no impact on earnings). The result is an approximation of the implied amount of favorable development that had an impact on earnings.

	Year ended December 31,		
	2014	2013	2012
Reported amount of favorable development experienced on prior years' reserves	$ (8,110)	$ (7,281)	$ (13,057)
Adjustment for (adverse) favorable development included in the reported development amount that had no impact on earnings	2,151	6,526	(4,551)
Approximation of the implied amount of favorable development that had an impact on earnings	$ (5,959)	$ (755)	$ (17,608)

	Year ended December 31,		
	2014	2013	2012
Reinsurance			
Premiums earned	$ 118,341	$ 122,787	$ 101,707
Losses and settlement expenses	87,441	72,370	69,496
Acquisition and other expenses	28,715	29,109	22,370
Underwriting profit	$ 2,185	$ 21,308	$ 9,841
Loss and settlement expense ratio	73.9%	58.9%	68.3%
Acquisition expense ratio	24.3%	23.7%	22.0%
Combined ratio	98.2%	82.6%	90.3%
Losses and settlement expenses:			
Insured events of current year	$ 100,123	$ 77,874	$ 82,172
Decrease in provision for insured events of prior years	(12,682)	(5,504)	(12,676)
Total losses and settlement expenses	$ 87,441	$ 72,370	$ 69,496
Catastrophe and storm losses	$ 17,025	$ 11,316	$ 19,088

	Year ended December 31,		
	2014	2013	2012
Consolidated			
REVENUES			
Premiums earned	$ 540,722	$ 515,506	$ 458,846
Net investment income	46,465	43,022	44,145
Realized investment gains	4,349	8,997	8,017
Other income	2,931	460	834
	594,467	567,985	511,842
LOSSES AND EXPENSES			
Losses and settlement expenses	385,474	333,287	303,388
Acquisition and other expenses	165,372	171,346	153,824
Interest expense	337	384	900
Other expense	2,377	2,115	2,097
	553,560	507,132	460,209
Income before income tax expense	40,907	60,853	51,633
Income tax expense	10,915	17,334	13,667
Net income	$ 29,992	$ 43,519	$ 37,966
Net income per share	$ 2.23	$ 3.33	$ 2.95
Loss and settlement expense ratio	71.3%	64.7%	66.1%
Acquisition expense ratio	30.6%	33.2%	33.5%
Combined ratio	101.9%	97.9%	99.6%
Losses and settlement expenses:			
Insured events of current year	$ 406,266	$ 346,072	$ 329,121
Decrease in provision for insured events of prior years	(20,792)	(12,785)	(25,733)
Total losses and settlement expenses	$ 385,474	$ 333,287	$ 303,388
Catastrophe and storm losses	$ 57,251	$ 48,578	$ 53,460

The following table presents the reported amounts of favorable development experienced on prior years' reserves and the portion of the reported development amounts that resulted solely from changes in the allocation of bulk reserves between the current and prior accident years in the property and casualty insurance segment (no impact on earnings). The result is an approximation of the implied amount of favorable development that had an impact on earnings.

	Year ended December 31,		
	2014	2013	2012
Reported amount of favorable development experienced on prior years' reserves	$ (20,792)	$ (12,785)	$ (25,733)
Adjustment for (adverse) favorable development included in the reported development amount that had no impact on earnings	2,151	6,526	(4,551)
Approximation of the implied amount of favorable development that had an impact on earnings	$ (18,641)	$ (6,259)	$ (30,284)

Year ended December 31, 2014 compared to year ended December 31, 2013

The Company reported net income of $29,992 ($2.23 per share) in 2014 compared to $43,519 ($3.33 per share) in 2013. Both the property and casualty insurance segment and the reinsurance segment produced underwriting profits in the fourth quarter of 2014, providing a strong finish to a somewhat challenging year. Although net income was down in 2014, the Company benefited from improved premium rate adequacy in the property and casualty insurance segment, an increase in investment income stemming from a larger invested asset base and a significant increase in dividend income, as well as a significant reduction in the amount of net periodic pension and postretirement benefit costs allocated to the Company. These favorable conditions are expected to continue to benefit the Company in 2015.

Premium income

Premiums earned increased 4.9 percent to $540,722 in 2014 from $515,506 in 2013. The increase is attributable to the property and casualty insurance segment, as the reinsurance segment experienced a decline in premium income due to a reduction in the amount of earned but not reported (EBNR) premiums recognized on pro rata contracts at December 31, 2014. The majority of the increase in the property and casualty insurance segment's premiums is from rate level increases on renewal business and growth in insured exposures. Management continues to implement premium rate increases in the property and casualty insurance segment, but the level of rate increases has declined steadily during 2014. Premium rate levels in the reinsurance market declined during 2014, but those declines did not have a significant impact on the reinsurance segment's operations since the majority of its reinsurance contracts renewed in the beginning of the year.

Premiums earned for the property and casualty insurance segment increased 7.6 percent to $422,381 in 2014 from $392,719 in 2013. The increase is primarily associated with renewal business, which increased seven percent during 2014 due to a combination of rate level increases, and to a lesser extent, growth in insured exposures. Renewal rates increased approximately 4.5 percent in commercial lines of business and 3.5 percent in personal lines during 2014, though it should be noted that the level of rate increases slowed as the year progressed, and this trend is expected to continue through 2015. The pool participants have not implemented broad-based rate level increases across the entire book of business, but have instead implemented rate level increases based on the loss history and risk exposures associated with each renewing policy, in order to achieve a more adequate overall rate level. This approach has allowed the property and casualty insurance segment to retain its core book of business, while working to improve underwriting margins. While renewal rates for personal lines of business increased, written premiums were down due to an intentional reduction in policy count to lessen exposure concentrations. During 2014, the overall policy retention rate continued to be strong at 85.9 percent (commercial lines at 86.7 percent and personal lines at 84.8 percent), which is slightly higher than the retention rate at the end of 2013. Although new business continues to account for a relatively small portion (just 14 percent) of the pool participants' direct written premiums, the pool participants were able to capitalize on some new business opportunities outside of the core Midwest market to further diversify into areas less prone to weather-related events, while at the same time staying consistent with the industry and line of business mix of the existing book of business. New business in the Northwest, Southwest and Southeast parts of the United States grew, and is generally expected to continue to grow, at a slightly faster pace than other regions. New business premium increased six percent in the commercial lines of business (corresponding policy count was down), while personal lines new business premium was down six percent.

Premiums earned for the reinsurance segment declined 3.6 percent to $118,341 in 2014 from $122,787 in 2013. This decline was not caused by rate level decreases or a loss of business, but rather is generally attributed to a $7,733 reduction in the amount of EBNR premiums recognized on pro rata contracts in 2014, as discussed below. Without this reduction, earned premiums would have increased approximately 2.7 percent in 2014 due to growth in existing accounts and the addition of some new business. As previously reported, the premium recognition period of two large facility contracts in the property line of business was changed during the third quarter after it was determined that the vast majority of the underlying risks do not attach until January 1, 2015, or later. During the fourth quarter, the premium recognition period of all remaining pro rata contracts was reviewed on a contract-by-contract basis, and it was determined that the total amount of EBNR premiums established for those contracts, also primarily in the property line of business, should be reduced. The total of these corrections, which was partially offset by an increase in EBNR premiums in the marine line of business due to a difference in the timing of reports received from a ceding company, resulted in the reduction in EBNR premiums noted above. The reduction in EBNR premiums did not have a material impact on 2014 net income because corresponding corrections were made to IBNR loss reserves, commission expense reserves and the cost of the excess of loss reinsurance protection. These corrections do not impact the ultimate amount of premiums that will be earned.

The growth in existing accounts noted above primarily occurred in a pro rata casualty account first written in 2013. Premium growth was limited by a decline in rate levels for catastrophe excess of loss business (which comprises approximately 20 percent of the reinsurance segment's book of business). Rates-on-line for catastrophe excess of loss business declined approximately seven to eight percent during the January 1, 2014 renewal season, but those declines were partially offset by a slight increase in retentions and an increase in limits purchased by ceding companies. Other trends noted during the January 1, 2014 renewal season included the liberalization of contract terms generally favorable to the buyer, including, but not limited to, an expansion of the hours clause (which provides a longer time period for losses to be attributed to a named catastrophic event); expansion of terrorism coverage to include, in many contracts, all acts other than nuclear, biological, chemical and radiation; and multi-year commitments on pricing. Premiums earned for 2014 reflect a reduction in the cost of the excess of loss reinsurance protection provided by Employers Mutual, from 9.0 percent of total assumed reinsurance premiums written in 2013 to 8.0 percent in 2014.

Effective January 1, 2013, Church Mutual became a member of the MRB underwriting association. As a result, Employers Mutual became a one-fifth participant in MRB, down from its previous one-fourth participation. In connection with Employers Mutual’s decreased participation in MRB, the reinsurance segment recorded a $585 portfolio adjustment decrease in premiums written in the first quarter of 2013. This portfolio adjustment did not affect earned premium since there was a corresponding decrease in unearned premiums. Nine percent of this amount ($53) was recorded as a reduction in the cost of the excess of loss coverage provided by Employers Mutual, and the reinsurance segment recognized $223 of negative commission allowance (commission income) to compensate for the acquisition costs incurred to generate the business ceded to Church Mutual.

Losses and settlement expenses

Losses and settlement expenses increased 15.7 percent to $385,474 in 2014 from $333,287 in 2013, and the loss and settlement expense ratio increased to 71.3 percent in 2014 from 64.7 percent in 2013. Both segments experienced increases in their loss and settlement expense ratios during 2014, but the increase was especially large in the reinsurance segment due to increases in both loss severity and catastrophe and storm losses, and the unusually low loss and settlement expense ratio reported for 2013. The improved premium rate adequacy achieved over the past several years helped reduce the impact that the elevated level of losses would have otherwise had on the loss and settlement expense ratios. The actuarial analysis of the Company’s carried reserves at December 31, 2014 indicates that the level of reserve adequacy is consistent with other recent evaluations. From management’s perspective, this measure is more relevant to an understanding of the Company’s results of operations than the composition of underwriting results between the current and prior accident years.

The loss and settlement expense ratio for the property and casualty insurance segment increased to 70.6 percent in 2014 from 66.4 percent in 2013. The primary reasons for the higher ratio in 2014 include an increase in large losses, which the Company defines as losses greater than $500 for the EMC Insurance Companies’ pool, excluding catastrophe and storm losses, and a decline in the performance of the core book of business (excluding catastrophe and storm losses, large losses and development on prior years' reserves). Large losses accounted for 8.4 percentage points of the loss and settlement expense ratio in 2014, compared to 5.7 percentage points in 2013. The increase in large losses is primarily attributed to liability losses in the commercial auto line of business, and to a lesser extent, fire-related losses in the commercial property line of business. There are several factors contributing to the decline in the performance of the core book of business, including the severe winter weather losses experienced in the first quarter, and increases in loss severity in the commercial auto, commercial property and homeowners' lines of business. Many of the first quarter severe winter weather losses were not classified as catastrophe and storm losses because cold weather events are generally not assigned an occurrence code by the Property & Liability Resource Bureau (PLRB); however, losses attributed to the polar vortex that impacted the eastern United States in early January were classified as catastrophe and storm losses because the PLRB assigned an occurrence code to that event. Catastrophe and storm losses accounted for 9.5 percentage points of the loss and settlement expense ratios in both 2014 and 2013, which approximates the most recent 10-year average of 9.7 percentage points. The large losses amount reported for 2014 includes $1,500 of damages to two home office buildings owned by the Company's parent, Employers Mutual, that resulted from a fire at an adjacent building under renovation. At the time of the loss, Employers Mutual was self-insured for the first $5,000 of loss to its campus, and the loss was subject to the EMC Insurance Companies' inter-company pooling agreement.

The property and casualty insurance segment's loss and settlement expense ratios for 2014 and 2013 reflect $5,959 (1.4 percent of earned premiums) and $755 (0.2 percent of earned premiums), respectively, of implied favorable development on prior years' reserves that had an impact on earnings (implied favorable development). The implied favorable development amounts exclude $2,151 and $6,526, respectively, of favorable development included in the reported amounts of favorable development for 2014 and 2013 that resulted solely from changes in the allocation of bulk reserves between the current and prior accident years, and therefore had no impact on net income. Net income is only impacted by changes in the total amount of carried reserves.

The loss and settlement expense ratio for the reinsurance segment increased to 73.9 percent in 2014 from 58.9 percent in 2013. While this increase is significant, it is important to note that the 2013 ratio was unusually low. The increase is primarily attributed to an increase in catastrophe and storm losses, as well as loss severity. Catastrophe and storm losses contributed 14.4 percentage points to the 2014 loss and settlement expense ratio, compared to 9.2 percentage points in 2013. The most significant loss event was a severe Midwest storm that slightly exceeded the $4,000 retention amount under the excess of loss agreement. The increase in loss severity is attributed to a number of fire losses, as well as some snow and ice collapse incidents. Favorable development on prior years' reserves increased substantially during 2014, primarily due to a reduction in the amount of IBNR loss reserves carried for accident years 2010 and prior because the amount previously carried was no longer indicated in the actuarial analysis. The total amount of IBNR loss reserves carried at December 31, 2014 declined in conjunction with the decline in EBNR premiums noted above, however, this did not produce any meaningful impact on the loss and settlement expense ratio.

Acquisition and other expenses

Acquisition and other expenses decreased 3.5 percent to $165,372 in 2014 from $171,346 in 2013. The acquisition expense ratio decreased to 30.6 percent in 2014 from 33.2 percent in 2013. The decrease in the acquisition expense ratio is primarily attributed to large declines in the amount of net periodic pension and postretirement benefit costs allocated to the Company, as well as declines in contingent commission and policyholder dividend expenses, and an overall improvement in premium rate adequacy. Net periodic pension benefit cost declined to $680 in 2014, from $3,013 in 2013. This decrease reflects an increase in the expected return on plan assets, due to an increase in plan assets, and a decline in the amount of net actuarial loss amortized into expense. Net periodic postretirement benefit cost changed significantly as a result of the plan amendment that was announced in the fourth quarter of 2013. The Company recognized net periodic postretirement benefit income of $3,083 in 2014, compared to net periodic postretirement benefit expense of $2,912 in 2013. The Company will be allocated approximately $1,683 of net periodic pension benefit cost and $3,047 of net periodic postretirement benefit income in 2015. The plan amendment created a large prior service credit that is being amortized into benefit expense over a period of 10 years. In addition, the service cost and interest cost components of the revised plan's net periodic benefit cost are significantly lower than those of the prior plan.

For the property and casualty insurance segment, the acquisition expense ratio decreased to 32.3 percent in 2014 from 36.3 percent in 2013. As mentioned above, this decrease is primarily attributed to the large decline in retirement benefit expenses and, to a lesser extent, declines in policyholder dividend and contingent commission expenses and an increase in premium income. During 2014, the property and casualty insurance segment was allocated $2,341 of net periodic benefit income for the pension and postretirement benefit plans, compared to $5,701 of net periodic benefit expense during the same period in 2013.

For the reinsurance segment, the acquisition expense ratio increased to 24.3 percent in 2014 from 23.7 percent in 2013. During the first quarter of 2013, the reinsurance segment recognized a $223 negative commission allowance in conjunction with the addition of Church Mutual to the MRB underwriting association. A portion of this negative commission allowance was offset by the amortization of the related deferred policy acquisition cost asset, resulting in an immediate expense reduction of approximately $105 during the first quarter of 2013. The total amount of commission expense reserves carried at December 31, 2014 declined in conjunction with the decline in EBNR premiums noted above, however, this did not produce any meaningful impact on the acquisition expense ratio.

Investment results

Net investment income increased 8.0 percent to $46,465 in 2014 from $43,022 in 2013. The increase reflects a higher average invested balance in fixed maturity securities and an increase in dividend income; however, the early payoff of a commercial mortgage-backed security during the first quarter of 2014 that was purchased at a significant discount to par value, which accelerated the accretion of the discount to par value and therefore increased investment income, also added to the increase. Current interest rate levels remain below the average coupon rate of the fixed maturity portfolio, and will therefore likely continue to limit future growth in net investment income. The average coupon rate on the fixed maturity portfolio, excluding interest-only securities, declined slightly to 3.9 percent at December 31, 2014 from 4.0 percent at December 31, 2013. The effective duration of the fixed maturity portfolio, excluding interest-only securities, decreased to 4.6 at December 31, 2014 from 5.7 at December 31, 2013, reflecting the decline in interest rates that occurred during 2014. The Company's equity security holdings produced dividend income of $6,007 in 2014 compared to $4,619 in 2013.

The Company reported net realized investment gains of $4,349 in 2014 compared to $8,997 in 2013. Included in the 2014 amount is $2,846 of realized losses attributed to the decline in the carrying value of a limited partnership that the Company invested in during the first quarter of 2014 to help protect it from a sudden and significant decline in the value of its equity portfolio (an equity tail-risk hedging strategy). Also contributing to the decline in net realized investment gains was the fact that during the fourth quarter of 2013 the Company took advantage of the outsized equity returns that occurred during the year by selling some stocks. The Company recognized "other-than-temporary" impairment losses of $878 and $63 during 2014 and 2013, respectively.

Other income and interest expense

Included in other income is foreign currency exchange gains and losses recognized on the reinsurance segment’s foreign currency denominated reinsurance business. The reinsurance segment had a foreign currency exchange gain of $2,180 in 2014 compared to a foreign currency exchange loss of $366 in 2013. The decline in interest expense during 2014 is due to a reduction in the interest rate on the property and casualty insurance segment's outstanding surplus notes from 3.60 percent to 1.35 percent that became effective February 1, 2013.

Income tax

Income tax expense decreased 37.0 percent to $10,915 in 2014 from $17,334 in 2013. The effective tax rate for 2014 was 26.7 percent, compared to 28.5 percent in 2013. The primary contributor to the differences between these effective tax rates and the United States federal corporate tax rate of 35 percent is tax-exempt interest income earned.

Year ended December 31, 2013 compared to year ended December 31, 2012

The Company reported net income of $43,519 ($3.33 per share) in 2013 compared to $37,966 ($2.95 per share) in 2012. The reinsurance segment produced exceptionally good results in 2013, and the property and casualty insurance segment's results were in line with expectations. The increase in net income was primarily attributed to an overall increase in premium rate adequacy in 2013 as a result of the rate level increases implemented during 2012 and 2013. High-single-digit rate level increases in the property and casualty insurance segment outpaced the industry average and the increase in loss costs. The Company continued to seek good opportunities for new business in the Northwest, Southwest and Southeast parts of the United States. This growth outside of the Company's core market in the Midwest, if achieved, will help diversify the Company's book of business geographically, while maintaining the current industry and line-of-business mix.

Premium income

Premiums earned increased 12.3 percent to $515,506 in 2013 from $458,846 in 2012. In the property and casualty insurance segment, the majority of the increase was attributable to rate level increases on renewal business and growth in insured exposures on existing accounts. In the reinsurance segment, the increase was attributable to a large increase in the amount of premiums earned on the offshore energy and liability proportional account, moderate rate level increases and the addition of some new business. Premium rates in the property and casualty insurance market were expected to continue to rise in 2014, though at a somewhat lower level than seen during 2013. Premium rates in the reinsurance market were expected to decline during 2014, especially for catastrophe excess business; however, this business only accounted for approximately 20 percent of the reinsurance segment's total book of business. Despite the decline in premium rate levels, premium income for the reinsurance segment was expected to grow in 2014, but at a more modest level than 2013.

Premiums earned for the property and casualty insurance segment increased 10.0 percent to $392,719 in 2013 from $357,139 in 2012. The increase in premiums earned was primarily associated with renewal business, which increased nine percent, and reflected a combination of rate level increases, growth in insured exposures and an increase in retained policies. Renewal rates across both commercial and personal lines of business increased approximately seven percent during 2013, and were expected to continue to rise in 2014, though at a lower level. The pool participants did not implement broad-based rate level increases across the entire book of business, but had instead implemented rate level increases based on the loss history and risk exposures associated with each renewing policy, in order to achieve a more adequate overall rate level. This approach allowed the property and casualty insurance segment to retain its core book of business, while improving underwriting margins. While renewal rates for personal lines of business increased, premiums were down slightly due to an intentional reduction in policy count to lessen exposure concentrations. Due to the decrease in personal lines policy count and the continued emphasis on rate increases, overall policy retention declined slightly during 2013, but remained strong at 85.0 percent (commercial lines at 86.3 percent and personal lines at 83.5 percent). New business continued to account for a relatively small portion (just 14 percent) of the pool participants' direct written premiums. New business premium increased eight percent in the commercial lines of business (policy count increased one percent), but total new business premium only increased six percent due to a significant decline in personal lines new business premium.

Premiums earned for the reinsurance segment increased 20.7 percent to $122,787 in 2013 from $101,707 in 2012. The increase was primarily attributed to a large increase in the amount of premiums earned on the offshore energy and liability proportional account, moderate rate level increases implemented during the January 1 renewal season, and the addition of some new business. Premiums earned during 2013 reflected a reduction in the cost of the excess of loss coverage provided by Employers Mutual from 10.0 percent of total assumed reinsurance premiums written in 2012 to 9.0 percent in 2013; however, the total amount of premiums ceded to Employers Mutual for this coverage increased due to a large increase in assumed reinsurance premiums written.

Effective January 1, 2013, Church Mutual became a member of MRB. As a result, Employers Mutual became a one-fifth participant in MRB, down from its previous one-fourth participation. This resulted in a 11.3 percent decline in earned premiums assumed from MRB in 2013. In connection with Employers Mutual's decreased participation in MRB, the reinsurance segment recorded a $585 portfolio adjustment decrease in premiums written in the first quarter of 2013. This portfolio adjustment did not affect earned premium since there was a corresponding decrease in unearned premiums. Nine percent of this amount ($53) was recorded as a reduction in the cost of the excess of loss coverage provided by Employers Mutual, and the reinsurance segment recognized $223 of negative commission allowance (commission income) to compensate for the acquisition costs incurred to generate the business ceded to Church Mutual.

Effective January 1, 2012, MRB canceled a large pro rata account with poor experience. As a result, the reinsurance segment recorded a $3,406 portfolio adjustment decrease in premiums written in the first quarter of 2012 that offset a corresponding decrease in unearned premiums. Ten percent of this amount ($341) was recorded as a reduction in the cost of the excess of loss coverage provided by Employers Mutual, and the reinsurance segment recognized $1,362 of negative commission allowance (commission income) to compensate for the acquisition costs incurred to generate this business.

Losses and settlement expenses

Losses and settlement expenses increased 9.9 percent to $333,287 in 2013 from $303,388 in 2012, but the loss and settlement expense ratio decreased to 64.7 percent in 2013 from 66.1 percent in 2012. The decrease in the loss and settlement expense ratio was attributed to an overall improvement in rate adequacy, as well as a decline in catastrophe and storm losses; however, these improvements were partially offset by a decline in favorable development on prior years' reserves. Development amounts can vary significantly from year to year depending on a number of factors, including the number of claims settled and the settlement terms, and should therefore not be considered a reliable factor in assessing the adequacy of the Company's carried reserves. The actuarial analysis of the Company's carried reserves as of December 31, 2013 indicated that the level of reserve adequacy was consistent with other recent evaluations.

The loss and settlement expense ratio for the property and casualty insurance segment increased to 66.4 percent in 2013 from 65.5 percent in 2012. This increase was primarily attributed to a decline in the implied amount of favorable development on prior years' reserves that had an impact on earnings, which totaled $755 (0.2 percent of earned premiums) in 2013 compared to $17,608 (4.9 percent of earned premiums) in 2012. The lower amount of favorable development in 2013 was primarily attributed to unfavorable outcomes on a few large prior year claims. The implied amounts of favorable development that had an impact on earnings did not include $6,526 of favorable development in 2013 and $4,551 of adverse development in 2012 that were included in the reported amounts of favorable development, because these amounts resulted solely from changes in the allocation of bulk reserves between the current and prior accident years, and therefore did not have an impact on earnings. Earnings are only impacted by changes in the total amount of carried reserves. The increase in the loss and settlement expense ratio was mitigated by an improvement in overall premium rate adequacy. Excluding the impact of catastrophe and storm losses, large losses, and related development, claims frequency increased 0.6 percent, and claims severity increased 2.9 percent during 2013. As a result, the increase in loss costs was more than offset by the rate level increases implemented during the year. Catastrophe and storm losses, while higher in amount, declined as a percentage of premiums earned (9.5 percentage points in 2013, compared to 9.6 percentage points in 2012 and 9.4 percentage points for the most recent 10-year average). Large losses (which the Company defines as losses greater than $500 for the EMC Insurance Companies' pool, excluding catastrophe and storm losses) increased to $22,240 in 2013 (5.7 percent of premiums earned) from $21,241 in 2012 (5.9 percent of premiums earned).

The loss and settlement expense ratio for the reinsurance segment decreased to 58.9 percent in 2013 from 68.3 percent in 2012. This decrease was primarily attributed to significant declines in both crop reinsurance losses and catastrophe and storm losses; however, the impact of these declines on the loss and settlement expense ratio was partially offset by a decline in the amount of favorable development experienced on prior years' reserves. The decline in favorable development was primarily attributed to three factors. First, a large amount of favorable development was experienced in 2012 due to a reduction in the amount of IBNR reserves carried for the unusually large number of catastrophe and storm events that occurred in 2011. Second, reported losses associated with prior accident years were higher in 2013 than 2012. And third, the "expected loss ratios" used in the development methodologies applied to the 2012 contract year were somewhat lower than previous contract years due to an extensive actuarial study completed during 2012 (prior contract years' "expected loss ratios" were not adjusted). Carried reserves for the 2013 contract year were also established using the lower "expected loss ratios" produced by the new development methodology, and will continue to be used to establish carried reserves for subsequent contract years (pending actuarial review). This was expected to result in a decline in the amount of favorable development reported by the reinsurance segment in future years. Catastrophe and storm losses were above average in 2012, as the reinsurance segment had three events, including Superstorm Sandy, which exceeded the $4,000 retention amount under the excess of loss agreement. Losses from these three events totaled $23,722, with $12,000 retained by the reinsurance segment and the remaining $11,722 ($11,000 from Superstorm Sandy alone) ceded to Employers Mutual. During 2012, the reinsurance segment also incurred $6,057 of losses on U.S. multi-peril crop reinsurance programs that resulted from the severe drought conditions that existed in much of the United States. Because the losses from the crop reinsurance programs were not attributed to a specific event, they were not subject to the $4,000 cap on losses per event under the excess of loss agreement.

Acquisition and other expenses

Acquisition and other expenses increased 11.4 percent to $171,346 in 2013 from $153,824 in 2012. However, the acquisition expense ratio decreased to 33.2 percent in 2013 from 33.5 percent in 2012. The increase in acquisition expenses was primarily attributed to an increase in commission expense (including contingent commissions) and policyholder dividend expense; however, the acquisition expense ratio declined due to the increase in premium income. The decrease in the acquisition expense ratio was limited somewhat by a large negative commission adjustment recorded in the reinsurance segment during the first quarter of 2012 in connection with the cancellation of a large MRB account.

For the property and casualty insurance segment, the acquisition expense ratio decreased to 36.3 percent in 2013 from 36.8 percent in 2012. This decrease was primarily attributed to the increase in premium income; however, the decrease was somewhat limited by higher policyholder dividend expense, and to a lesser extent, higher contingent commission expense. The higher policyholder dividend expense was produced by large increases in a few safety dividend groups that experienced improved underwriting results in 2013.

For the reinsurance segment, the acquisition expense ratio increased to 23.7 percent in 2013 from 22.0 percent in 2012. The increase was primarily attributed to the combination of higher contingent commission expense and a $1,362 negative commission allowance recorded in the first quarter of 2012 in connection with the cancellation of a large MRB account. However, a portion of this negative commission allowance was offset by the amortization of the related deferred policy acquisition cost asset, resulting in an immediate expense reduction of approximately $654 during the first quarter of 2012. During the first quarter of 2013, the reinsurance segment recognized a $223 negative commission allowance in conjunction with the addition of Church Mutual to MRB. A portion of this negative commission allowance was offset by the amortization of the related deferred policy acquisition cost asset, resulting in an immediate expense reduction of approximately $105 during the first quarter of 2013. The higher contingent commission expense was largely from new contracts that carry contingent commission provisions. The increase in premium income helped mitigate the impact that the increased expenses had on the acquisition expense ratio.

Investment results

Net investment income decreased 2.5 percent to $43,022 in 2013 from $44,145 in 2012. This decline was primarily attributed to the prolonged low interest rate environment, but was mitigated by considerable growth in the fixed maturity portfolio, strong dividend earnings on the equity portfolio, and a slight increase in interest rates. Interest rate levels remained below the average coupon rate of the fixed maturity portfolio, and would therefore likely limit future growth in net investment income. It should be noted that the decline in investment income reported for 2013 reflected a $160 increase in the amount of funds received from settlements of securities litigation. Excluding this amount from the calculation, the decline in investment income would have been 2.9 percent. The average coupon rate on the fixed maturity portfolio, excluding interest-only securities, declined slightly to 4.03 percent at December 31, 2013 from 4.23 percent at December 31, 2012. Management was actively pursuing ways to minimize the decline in investment income without increasing overall risk, such as the implementation of the new equity strategy in 2012 that emphasized dividend income (see discussion below). The effective duration of the fixed maturity portfolio, excluding interest-only securities, increased to 5.65 at December 31, 2013 from 4.20 at December 31, 2012. Duration extended as interest rates rose during 2013.

At the end of the first quarter of 2012, management reinvested approximately $35,000 from the core equity portfolio and $10,000 of cash into a new equity portfolio with an emphasis on dividend income. In addition to a higher dividend return, this new equity strategy was expected to have less price volatility than the overall market. The Company's equity security holdings produced dividend income of $4,619 in 2013 and $3,852 in 2012.

The Company reported net realized investment gains of $8,997 in 2013 compared to $8,017 in 2012. During the fourth quarter of 2013, the Company took advantage of the outsized equity returns realized during the year by selling some stocks. The Company experienced an unusually large amount of realized investment gains in the first quarter of 2012, primarily from the sale of securities from the core equity portfolio to fund the new equity portfolio that emphasized dividend income.

Other income and interest expense

Included in other income was foreign currency exchange gains and losses recognized on the reinsurance segment's foreign currency denominated reinsurance business. The reinsurance segment had foreign currency exchange losses of $366 and $25 in 2013 and 2012, respectively. The decline in interest expense during 2013 was due to a reduction in the interest rate on the property and casualty insurance segment's outstanding surplus notes from 3.60 percent to 1.35 percent that became effective February 1, 2013.

Income tax

Income tax expense increased 26.8 percent to $17,334 in 2013 from $13,667 in 2012. The effective tax rate for 2013 was 28.5 percent, compared to 26.5 percent in 2012. The primary contributor to the differences between these effective tax rates and the United States federal corporate tax rate of 35 percent was tax-exempt interest income earned.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet cash obligations. The Company had positive cash flows from operations of $91,815 in 2014, $86,833 in 2013 and $55,038 in 2012. The Company typically generates substantial positive cash flows from operations because cash from premium payments is generally received in advance of cash payments made to settle claims. These positive cash flows provide the foundation of the Company's asset/liability management program and are the primary driver of the Company's liquidity. The Company invests in high quality, liquid securities to match the anticipated payments of losses and settlement expenses of the underlying insurance policies. Because the timing of the losses is uncertain, the majority of the portfolio is maintained in short to intermediate maturity securities that can be easily liquidated or that generate adequate cash flow to meet liabilities.

The Company is a holding company whose principal asset is its investment in its property and casualty insurance subsidiaries and its reinsurance subsidiary ("insurance subsidiaries"). As a holding company, the Company is dependent upon cash dividends from its insurance subsidiaries to meet all its obligations, including cash dividends to stockholders and the funding of the Company's stock repurchase programs. State insurance regulations restrict the maximum amount of dividends insurance companies can pay without prior regulatory approval. The maximum amount of dividends that the insurance subsidiaries can pay to the Company in 2015 without prior regulatory approval is approximately $45,480. The Company received $378, $9,974 and $12,050 of dividends from its insurance subsidiaries and paid cash dividends to its stockholders totaling $12,588, $11,275 and $10,439 in 2014, 2013 and 2012, respectively.

The Company's insurance subsidiaries must maintain adequate liquidity to ensure that their cash obligations are met; however, because of the property and casualty insurance subsidiaries' participation in the pooling agreement and the reinsurance subsidiary's participation in the quota share agreement, they do not have the daily liquidity concerns normally associated with an insurance company. This is because under the terms of the pooling and quota share agreements, Employers Mutual receives all premiums and pays all losses and expenses associated with the insurance business produced by the pool participants and the assumed reinsurance business ceded to the Company's reinsurance subsidiary, and then settles inter-company balances generated by these transactions with the participating companies on a monthly (pool participants) or quarterly (reinsurance subsidiary) basis.

At the insurance subsidiary level, the primary sources of cash are premium income, investment income and proceeds from called or matured investments. The principal outflows of cash are payments of claims, commissions, premium taxes, operating expenses, income taxes, dividends, interest and principal payments on debt, and investment purchases. Cash outflows vary because of uncertainties regarding settlement dates for unpaid losses and the potential for large losses, either individually or in the aggregate. Accordingly, the insurance subsidiaries maintain investment and reinsurance programs intended to provide adequate funds to pay claims without forced sales of investments. The insurance subsidiaries also have the ability to borrow funds on a short-term basis (180 days) from Employers Mutual and its subsidiaries and affiliate under an Inter-Company Loan Agreement. In addition, Employers Mutual maintains access to a line of credit with the Federal Home Loan Bank that could be used to provide the insurance subsidiaries additional liquidity if needed.

The Company maintains a portion of its investment portfolio in relatively short-term and highly liquid investments to ensure the availability of funds to pay claims and expenses. A variety of maturities are maintained in the Company's investment portfolio to assure adequate liquidity. The maturity structure of the fixed maturity portfolio is also established by the relative attractiveness of yields on short, intermediate and long-term securities. The Company does not invest in non-investment grade debt securities. Any non-investment grade securities held by the Company are the result of rating downgrades subsequent to their purchase.

The Company invests for the long term and generally purchases fixed maturity securities with the intent to hold them to maturity. Despite this intent, the Company currently classifies fixed maturity securities as available-for-sale to provide flexibility in the management of its investment portfolio. At December 31, 2014 and 2013, the Company had net unrealized holding gains, net of deferred taxes, on its fixed maturity securities available-for-sale of $30,870 and $11,968, respectively. The fluctuation in the fair value of these investments is primarily due to changes in the interest rate environment during this time period, but also reflects fluctuations in risk premium spreads over U.S. Treasuries. Since the Company intends to hold fixed maturity securities to maturity, such fluctuations in the fair value of these investments are not expected to have a material impact on the operations of the Company, as forced liquidations of investments are not anticipated. The Company closely monitors the bond market and makes appropriate adjustments in its portfolio as conditions warrant.

The majority of the Company's assets are invested in fixed maturity securities. These investments provide a substantial amount of investment income that supplements underwriting results and contributes to net earnings. As these investments mature, or are called, the proceeds are reinvested at current interest rates, which may be higher or lower than those now being earned; therefore, more or less investment income may be available to contribute to net earnings. Due to the prolonged low interest rate environment, proceeds from calls and maturities in recent years have been reinvested at lower yields, which has had a negative impact on investment income.

The Company held $6,227 and $2,392 in minority ownership interests in limited partnerships and limited liability companies at December 31, 2014 and 2013, respectively. During the first quarter of 2014, the Company invested $4,367 in a limited partnership that is designed to help protect the Company from a sudden and significant decline in the value of its equity portfolio. This investment is included in "other long-term investments" in the Company's financial statements and is carried under the equity method of accounting.

The Company's cash balance was $383 and $239 at December 31, 2014 and 2013, respectively.

Employers Mutual contributed $7,000, $14,000 and $15,000 to its qualified pension plan in 2014, 2013 and 2012, respectively, and plans to contribute approximately $7,000 to the qualified pension plan in 2015. The Company reimbursed Employers Mutual $2,161, $4,321 and $4,589 for its share of the pension contributions in 2014, 2013 and 2012, respectively. Employers Mutual contributed $500 and $1,500 to its postretirement benefit plans in 2013 and 2012, respectively, but did not make any contributions during 2014 and does not expect to make any contributions in 2015 due to the plan amendment that was announced during 2013. The Company reimbursed Employers Mutual $144 and $434 for its share of the postretirement benefit plan contributions in 2013 and 2012, respectively.

Capital Resources

Capital resources consist of stockholders' equity and debt, representing funds deployed or available to be deployed to support business operations. For the Company's insurance subsidiaries, capital resources are required to support premium writings. Regulatory guidelines suggest that the ratio of a property and casualty insurer's annual net premiums written to its statutory surplus should not exceed three to one. All of the Company's property and casualty insurance subsidiaries were well under this guideline at December 31, 2014.

The Company's insurance subsidiaries are required to maintain a certain minimum level of surplus on a statutory basis, and are subject to regulations under which the payment of dividends from statutory surplus is restricted and may require prior approval of their domiciliary insurance regulatory authorities. The Company's insurance subsidiaries are also subject to annual Risk Based Capital (RBC) requirements that may further impact their ability to pay dividends. RBC requirements attempt to measure minimum statutory capital needs based upon the risks in a company's mix of products and investment portfolio. At December 31, 2014, the Company's insurance subsidiaries had total adjusted statutory capital of $454,799, which is well in excess of the minimum risk-based capital requirement of $73,243.

The Company's total cash and invested assets at December 31, 2014 and 2013 are summarized as follows:

	December 31, 2014			
	Amortized cost	Fair value	Percent of total fair value	Carrying value
Fixed maturity securities available-for-sale	$ 1,080,006	$ 1,127,499	81.5%	$ 1,127,499
Equity securities available-for-sale	123,972	197,036	14.2	197,036
Cash	383	383	—	383
Short-term investments	53,262	53,262	3.9	53,262
Other long-term investments	6,227	6,227	0.4	6,227
	$ 1,263,850	$ 1,384,407	100.0%	$ 1,384,407

	December 31, 2013			
	Amortized cost	Fair value	Percent of total fair value	Carrying value
Fixed maturity securities available-for-sale	$ 1,009,572	$ 1,027,984	81.8%	$ 1,027,984
Equity securities available-for-sale	113,835	169,848	13.5	169,848
Cash	239	239	—	239
Short-term investments	56,166	56,166	4.5	56,166
Other long-term investments	2,392	2,392	0.2	2,392
	$ 1,182,204	$ 1,256,629	100.0%	$ 1,256,629

The amortized cost and estimated fair value of fixed maturity and equity securities at December 31, 2014 were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available-for-sale:				
Fixed maturity securities:				
U.S. treasury	$ 9,574	$ 129	$ —	$ 9,703
U.S. government-sponsored agencies	215,425	2,313	2,122	215,616
Obligations of states and political subdivisions	299,258	26,840	40	326,058
Commercial mortgage-backed	42,996	3,766	—	46,762
Residential mortgage-backed	100,296	1,402	3,745	97,953
Other asset-backed	14,798	1,213	6	16,005
Corporate	397,659	18,485	742	415,402
Total fixed maturity securities	1,080,006	54,148	6,655	1,127,499
Equity securities:				
Common stocks:				
Financial services	22,586	11,835	42	34,379
Information technology	15,755	11,110	—	26,865
Healthcare	14,673	12,179	—	26,852
Consumer staples	10,584	6,112	2	16,694
Consumer discretionary	11,304	11,420	33	22,691
Energy	15,837	7,458	432	22,863
Industrials	9,658	8,596	33	18,221
Other	11,493	4,563	—	16,056
Non-redeemable preferred stocks	12,082	617	284	12,415
Total equity securities	123,972	73,890	826	197,036
Total securities available-for-sale	$ 1,203,978	$ 128,038	$ 7,481	$ 1,324,535

The Company's property and casualty insurance subsidiaries have $25,000 of surplus notes issued to Employers Mutual. Effective February 1, 2013, the interest rate on the surplus notes was reduced to 1.35 percent from the previous rate of 3.60 percent. Reviews of the interest rate are conducted by the Inter-Company Committees of the boards of directors of the Company and Employers Mutual every five years, with the next review due in 2018. Payments of interest and repayments of principal can only be made out of the applicable subsidiary's statutory surplus and are subject to prior approval by the insurance commissioner of the respective states of domicile. The surplus notes are subordinate and junior in right of payment to all obligations or liabilities of the applicable insurance subsidiaries. Total interest expense incurred on these surplus notes was $337, $384 and $900 in 2014, 2013 and 2012, respectively. At December 31, 2014, the Company's property and casualty insurance subsidiaries had received approval for the payment of interest accrued on the surplus notes during 2014.

As of December 31, 2014, the Company had no material commitments for capital expenditures.

Off-Balance Sheet Arrangements

Employers Mutual collects from agents, policyholders and ceding companies all written premiums associated with the insurance business produced by the pool participants and the assumed reinsurance business ceded to the reinsurance subsidiary. Employers Mutual also collects from its reinsurers all losses and settlement expenses recoverable under the reinsurance contracts covering the pool participants and the fronting business ceded to the reinsurance subsidiary. Employers Mutual settles with the pool participants (monthly) and the reinsurance subsidiary (quarterly) the premiums written from these insurance policies and the paid losses and settlement expenses, recoverable under the reinsurance contracts, providing full credit for the premiums written and the paid losses and settlement expenses recoverable under the reinsurance contracts generated during the period (not just the collected portion). Due to this arrangement, and since a significant portion of the premium balances are collected over the course of the coverage period, Employers Mutual carries a substantial receivable balance for insurance and reinsurance premiums in process of collection, and to a lesser extent, paid losses and settlement expenses recoverable from the reinsurance companies. Any of these receivable amounts that are ultimately deemed to be uncollectible are charged-off by Employers Mutual and the expense is charged to the reinsurance subsidiary or allocated to the pool members on the basis of pool participation. As a result, the Company has off-balance sheet arrangements with an unconsolidated entity that results in credit-risk exposures (Employers Mutual's insurance and reinsurance premium receivable balances, and paid loss and settlement expense recoverable amounts) that are not reflected in the Company's financial statements. The average annual expense for such charge-offs allocated to the Company over the past ten years is $354. Based on this historical data, this credit-risk exposure is not considered to be material to the Company's results of operations or financial position, and accordingly, no loss contingency liability has been recorded.

Investment Impairments and Considerations

The Company recorded "other-than-temporary" investment impairment losses totaling $878 on three securities (two equity securities and one fixed maturity security) during 2014, compared to $63 on three equity securities during 2013.

At December 31, 2014, the Company had unrealized losses on available-for-sale securities as presented in the following table. The estimated fair value is based on quoted market prices, where available. In cases where quoted market prices are not available, fair values are based on a variety of valuation techniques depending on the type of security. None of these securities are considered to be in concentrations by either security type or industry. The Company uses several factors to determine whether the carrying value of an individual security has been "other-than-temporarily" impaired. Such factors include, but are not limited to, the security's value and performance in the context of the overall markets, length of time and extent the security's fair value has been below carrying value, key corporate events and collateralization of fixed maturity securities. Based on these factors, the absence of management's intent to sell these securities prior to recovery or maturity, and the fact that management does not anticipate that it will be forced to sell these securities prior to recovery or maturity, it was determined that the carrying value of these securities were not "other-than-temporarily" impaired at December 31, 2014. Risks and uncertainties inherent in the methodology utilized in this evaluation process include interest rate risk, equity price risk, and the overall performance of the economy, all of which have the potential to adversely affect the value of the Company's investments. Should a determination be made at some point in the future that these unrealized losses are "other-than-temporary", the Company's earnings would be reduced by approximately $4,863, net of tax; however, the Company's financial position would not be affected because unrealized losses on available-for-sale securities are reflected in the Company's financial statements as a component of stockholders' equity, net of deferred taxes.

Following is a schedule of the length of time securities have continuously been in an unrealized loss position as of December 31, 2014.

	Less than twelve months		Twelve months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Fixed maturity securities:						
U.S. government-sponsored agencies	$ 24,473	$ 94	$ 97,446	$ 2,028	$ 121,919	$ 2,122
Obligations of states and political subdivisions	—	—	3,757	40	3,757	40
Commercial mortgage-backed	1,102	—	—	—	1,102	—
Residential mortgage-backed	21,451	1,252	21,163	2,493	42,614	3,745
Other asset-backed	1,889	6	—	—	1,889	6
Corporate	16,740	281	28,257	461	44,997	742
Total fixed maturity securities	65,655	1,633	150,623	5,022	216,278	6,655
Equity securities:						
Common stocks:						
Financial services	1,162	9	187	33	1,349	42
Consumer staples	1,051	2	—	—	1,051	2
Consumer discretionary	822	33	—	—	822	33
Energy	4,298	432	—	—	4,298	432
Industrials	1,406	33	—	—	1,406	33
Non-redeemable preferred stocks	—	—	1,716	284	1,716	284
Total equity securities	8,739	509	1,903	317	10,642	826
Total temporarily impaired securities	$ 74,394	$ 2,142	$ 152,526	$ 5,339	$ 226,920	$ 7,481

Following is a schedule of the maturity dates of the fixed maturity securities presented in the above table.

	Book value	Fair value	Gross unrealized loss
Due in one year or less	$ —	$ —	$ —
Due after one year through five years	26,047	25,875	172
Due after five years through ten years	36,138	35,269	869
Due after ten years	113,288	111,419	1,869
Mortgage-backed securities	47,460	43,715	3,745
	$ 222,933	$ 216,278	$ 6,655

The Company does not purchase non-investment grade fixed maturity securities. Any non-investment grade fixed maturity securities held are the result of rating downgrades that occurred subsequent to their purchase. At December 31, 2014, the Company held $7,768 of non-investment grade fixed maturity securities in a net unrealized gain position of $265.

Following is a schedule of gross realized losses recognized in 2014. The schedule is aged according to the length of time the underlying securities were in an unrealized loss position.

	Realized losses from sales			"Other-than-temporary" impairment losses	Other realized losses (1)	Total gross realized losses
	Book value	Sales price	Gross realized losses			
Fixed maturity securities:						
Three months or less	$ —	$ —	$ —	$ 1	$ —	$ 1
Over three months to six months	—	—	—	—	—	—
Over six months to nine months	—	—	—	—	—	—
Over nine months to twelve months	—	—	—	—	—	—
Over twelve months	1,990	1,898	92	—	—	92
Subtotal, fixed maturity securities	1,990	1,898	92	1	—	93
Equity securities:						
Three months or less	14,685	13,729	956	216	—	1,172
Over three months to six months	733	706	27	394	—	421
Over six months to nine months	355	281	74	—	—	74
Over nine months to twelve months	642	465	177	—	—	177
Over twelve months	1,594	1,101	493	267	—	760
Subtotal, equity securities	18,009	16,282	1,727	877	—	2,604
Other long-term investments:						
Three months or less	—	—	—	—	2,846	2,846
Over three months to six months	—	—	—	—	—	—
Over six months to nine months	—	—	—	—	—	—
Over nine months to twelve months	—	—	—	—	—	—
Over twelve months	—	—	—	—	—	—
Subtotal, other long-term investments	—	—	—	—	2,846	2,846
Total realized losses	$ 19,999	$ 18,180	$ 1,819	$ 878	$ 2,846	$ 5,543

(1) The amount reported for other long-term investments represents changes in the carrying value of a limited partnership that is utilized in the Company's equity tail-risk hedging strategy. Because of the nature of this investment, which was made solely to implement the equity tail-risk hedging strategy, changes in the carrying value of the limited partnership are recorded as realized investment gains/losses.

LEASES, COMMITMENTS AND CONTINGENT LIABILITIES

The following table reflects the Company's contractual obligations as of December 31, 2014. Included in the table are the estimated payments that the Company expects to make in the settlement of its loss and settlement expense reserves and with respect to its long-term debt. One of the Company’s property and casualty insurance subsidiaries leases office facilities in Bismarck, North Dakota with lease terms that expired in 2014 (new lease agreement is in place for 2015 through 2024). Employers Mutual has entered into various leases for branch and service office facilities with lease terms expiring through 2024. All of these lease costs are included as expenses under the pooling agreement. Included in the following table is the Company's current 30.0 percent aggregate participation percentage of all operating lease obligations of the parties to the pooling agreement.

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years
Contractual obligations					
Loss and settlement expense reserves (1)	$ 661,309	$ 266,599	$ 245,663	$ 84,995	$ 64,052
Long-term debt (2)	25,000	—	—	—	25,000
Interest expense on long-term debt (3)	3,375	337	675	675	1,688
Real estate operating leases	8,632	1,341	2,510	2,287	2,494
Total	$ 698,316	$ 268,277	$ 248,848	$ 87,957	$ 93,234

(1) The amounts presented are estimates of the dollar amounts and time periods in which the Company expects to pay out its gross loss and settlement expense reserves. These amounts are based on historical payment patterns and do not represent actual contractual obligations. The actual payment amounts and the related timing of those payments could differ significantly from these estimates.

(2) Long-term debt reflects the surplus notes issued by the Company's property and casualty insurance subsidiaries to Employer Mutual, which have no maturity date. Excluded from long-term debt are pension and other postretirement benefit obligations.

(3) Interest expense on long-term debt reflects the interest expense on the surplus notes issued by the Company's property and casualty insurance subsidiaries to Employers Mutual. The interest rate on the surplus notes is subject to change every five years (rate was decreased to 1.35 percent effective February 1, 2013, with the next review scheduled for 2018). Interest payments on the surplus notes are subject to prior approval of the regulatory authorities of the issuing company's state of domicile. The balance shown under the heading "More than 5 years" represents estimated interest expense for years six through ten. Since the surplus notes have no maturity date and the interest rate is subject to change every five years, interest expense could be greater than the amounts shown.

The participants in the pooling agreement are subject to guaranty fund assessments by states in which they write business. Guaranty fund assessments are used by states to pay policyholder liabilities of insolvent insurers domiciled in those states. Many states allow assessments to be recovered through premium tax offsets. The Company has accrued estimated guaranty fund assessments of $931 and $894 as of December 31, 2014 and 2013, respectively. Premium tax offsets of $969 and $894, which are related to prior guarantee fund payments and current assessments, have been accrued as of December 31, 2014 and 2013, respectively. The guaranty fund assessments are expected to be paid over the next two years and the premium tax offsets are expected to be realized within ten years of the payments. The participants in the pooling agreement are also subject to second-injury fund assessments, which are designed to encourage employers to employ workers with pre-existing disabilities. The Company has accrued estimated second-injury fund assessments of $1,694 and $1,747 as of December 31, 2014 and 2013, respectively. The second-injury fund assessment accruals are based on projected loss payments. The periods over which the assessments will be paid is not known.

The participants in the pooling agreement have purchased annuities from life insurance companies, under which the claimant is payee, to fund future payments that are fixed pursuant to specific claim settlement provisions. The Company's share of case loss reserves eliminated by the purchase of those annuities was $110 at December 31, 2014. The Company had a contingent liability for the aggregate guaranteed amount of the annuities of $183 at December 31, 2014 should the issuers of those annuities fail to perform. The probability of a material loss due to failure of performance by the issuers of these annuities is considered remote.

MARKET RISK

The main objectives in managing the Company's investment portfolios are to maximize after-tax investment return while minimizing risk, in order to provide maximum support for the underwriting operations. Investment strategies are developed based upon many factors including underwriting results, regulatory requirements, fluctuations in interest rates and consideration of other market risks. Investment decisions are centrally managed by investment professionals and are supervised by the investment committees of the respective boards of directors for each of the Company's subsidiaries.

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments, and is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The market risks of the financial instruments owned by the Company relate to the investment portfolio, which exposes the Company to interest rate (inclusive of credit spreads) and equity price risk and, to a lesser extent, credit quality and prepayment risk. Monitoring systems and analytical tools are in place to assess each of these elements of market risk; however, there can be no assurance that future changes in interest rates, creditworthiness of issuers, prepayment activity, liquidity available in the market and other general market conditions will not have a material adverse impact on the Company's results of operations, liquidity or financial position.

Interest rate risk (inclusive of credit spreads) includes the price sensitivity of a fixed maturity security to changes in interest rates, and the affect on the Company's future earnings from short-term investments and maturing long-term investments given a change in interest rates. The following table illustrates the sensitivity of the Company's portfolio of fixed maturity securities available-for-sale to hypothetical changes in market rates and prices.

December 31, 2014	Estimated fair value	Hypothetical change in interest rate (bp=basis points)	Estimated fair value after hypothetical change in interest rate	Hypothetical percentage increase (decrease) in stockholders' equity
Securities available-for-sale:				
Fixed maturity securities:				
U.S. treasury	$ 9,703	200 bp decrease	$ 10,646	0.12%
		100 bp decrease	10,156	0.06
		100 bp increase	9,284	(0.05)
		200 bp increase	8,896	(0.10)
U.S. government-sponsored agencies	$ 215,616	200 bp decrease	$ 223,122	0.97%
		100 bp decrease	220,957	0.69
		100 bp increase	200,863	(1.91)
		200 bp increase	185,252	(3.92)
Obligations of states and political subdivisions	$ 326,058	200 bp decrease	$ 363,635	4.86%
		100 bp decrease	344,405	2.37
		100 bp increase	306,403	(2.54)
		200 bp increase	284,042	(5.43)
Commercial mortgage-backed	$ 46,762	200 bp decrease	$ 49,042	0.29%
		100 bp decrease	47,871	0.14
		100 bp increase	45,712	(0.14)
		200 bp increase	44,716	(0.26)
Residential mortgage-backed	$ 97,953	200 bp decrease	$ 100,188	0.29%
		100 bp decrease	99,773	0.24
		100 bp increase	95,083	(0.37)
		200 bp increase	91,731	(0.80)
Other asset-backed	$ 16,005	200 bp decrease	$ 17,591	0.20%
		100 bp decrease	16,768	0.10
		100 bp increase	15,297	(0.09)
		200 bp increase	14,641	(0.18)
Corporate	$ 415,402	200 bp decrease	$ 455,230	5.15%
		100 bp decrease	434,647	2.49
		100 bp increase	397,295	(2.34)
		200 bp increase	380,325	(4.53)
Total fixed maturity securities	$ 1,127,499	200 bp decrease	$ 1,219,454	11.89%
		100 bp decrease	1,174,577	6.09
		100 bp increase	1,069,937	(7.44)
		200 bp increase	1,009,603	(15.24)

The Company monitors interest rate risk through an analysis of interest rate simulations, and adjusts the average duration of its fixed maturity portfolio by investing in either longer or shorter term instruments given the results of interest rate simulations and judgments of cash flow needs. The effective duration of the Company's fixed maturity portfolio, excluding interest-only securities, at December 31, 2014 was 4.58. Duration shortened as interest rates fell during 2014.

The valuation of the Company's marketable equity portfolio is subject to equity price risk. In general, equities have more year-to-year price variability than bonds. However, returns from equity securities have been consistently higher over longer time frames. The Company invests in a diversified portfolio of readily marketable equity securities. A hypothetical 10 percent decrease in the S&P 500 index as of December 31, 2014 would result in a corresponding pre-tax decrease in the fair value of the Company's equity portfolio of approximately $16,228. To help protect the Company from a sudden and significant decline in the value of its equity portfolio, management implemented an equity tail-risk hedging strategy during the first quarter of 2014 to protect the Company from significant monthly downside price volatility in the equity markets. The cost of this protection (recorded as a realized investment loss) totaled $2,846 during 2014. This hedging strategy may be discontinued in the future depending on market conditions and/or the cost of the protection.

Fixed maturity securities held by the Company generally have an investment quality rating of "A" or better by independent rating agencies. The following table shows the composition of the Company's fixed maturity securities, by rating, as of December 31, 2014.

	Securities available-for-sale (at fair value)	
December 31, 2014	Amount	Percent
Rating:		
AAA	$ 404,376	35.8%
AA	369,570	32.8
A	267,865	23.8
BAA	77,921	6.9
BA	5,609	0.5
B	1,010	0.1
CAA	998	0.1
C	150	—
Total fixed maturities	$ 1,127,499	100.0%

Ratings for preferred stocks and fixed maturity securities are assigned by nationally recognized statistical rating organizations (referred to generically as NRSROs, which includes such organizations as Moody's Investors Services, Inc., Standard and Poor's, etc.). The NRSROs' rating processes seek to evaluate the quality of a security by examining the factors that affect returns to investors. NRSROs' ratings are based on quantitative and qualitative factors, as well as the economic, social and political environment in which the issuing entity operates. For further discussion of credit risk and related topics (i.e., "other-than-temporary" impairment losses, residential mortgage-backed securities, unrealized losses in the investment portfolios, and non-investment grade securities held by the Company) see the section entitled "Investment Impairments and Considerations" within this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Municipal fixed maturity securities, including taxable, tax-exempt and pre-refunded securities, totaled $326,058 as of December 31, 2014. Municipal securities are well diversified between general obligation and revenue bonds, as well as geographically. The Company's credit analysis of municipal securities is predominantly based on the underlying credit quality of the obligor. Therefore, although a portion of the Company's municipal securities are guaranteed by financial guaranty insurers, reliance is placed on the underlying obligor to pay all contractual cash flows. The ratings of insured municipal securities generally reflect the rating of the underlying primary obligor. The average quality of the municipal fixed maturity securities portfolio is Aa2/AA with over 99 percent of securities rated A3/A- or higher. Approximately $27,596 of the Company's municipal securities have been pre-refunded, which means that funds have been set aside in escrow to satisfy the future interest and principal obligations of the securities.

Prepayment risk refers to changes in prepayment patterns that can shorten or lengthen the expected timing of principal repayments and thus the average life and the effective yield of a security. Such risk exists within the portfolio of mortgage-backed securities. Prepayment risk is monitored regularly through the analysis of interest rate simulations. At December 31, 2014, the effective duration of the mortgage-backed securities, excluding interest-only securities, is 3.6 with an average life of 4.6 years and a yield to worst of 2.5 percent. At December 31, 2013, the effective duration of the mortgage-backed securities, excluding interest-only securities, was 3.9, with an average life of 4.6 years and a yield to worst of 3.0 percent.

IMPACT OF INFLATION

Inflation has a widespread effect on the Company's results of operations, primarily through increased losses and settlement expenses. The Company considers inflation, including social inflation that reflects an increasingly litigious society and increasing jury awards, when setting loss and settlement expense reserve amounts. Premiums are also affected by inflation, although they are often restricted or delayed by competition and the regulatory rate-setting environment.

NEW ACCOUNTING PRONOUNCEMENTS

See note 1 of Notes to Consolidated Financial Statements under Part II, Item 8 of the Company's Annual Report on Form 10-K for a description of new accounting pronouncements not yet adopted by the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption "Market Risk" in "Management's Discussion and Analysis of Financial Condition and Results of Operations", which is included in Part II, Item 7 of the Company's Annual Report on Form 10-K, is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

Management of EMC Insurance Group Inc. and Subsidiaries is responsible for the preparation, integrity and objectivity of the accompanying Consolidated Financial Statements, as well as all other financial information in this report. The Consolidated Financial Statements and the accompanying notes have been prepared in accordance with U.S. generally accepted accounting principles and include amounts that are based on management's estimates and judgments where necessary.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, including safeguarding of assets and reliability of financial records. The Company's internal control over financial reporting, designed by or under the supervision of management, includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. This control structure is further reinforced by a program of internal audits, including audits of the Company's decentralized branch locations, which requires responsive management action.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, adequate internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting based on criteria established in "Internal Control – Integrated Framework (1992)," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2014, the Company maintained effective internal control over financial reporting.

The Audit Committee of the Board of Directors is comprised of three directors who are independent of the Company's management. The Audit Committee is responsible for the selection of the independent registered public accounting firm. It meets periodically with management, the independent registered public accounting firm, and the internal auditors to ensure that they are carrying out their responsibilities. In addition to reviewing the Company's financial reports, the Audit Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of the Company. The independent registered public accounting firm and the internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.

The Company's financial statements and internal control over financial reporting have been audited by Ernst & Young LLP, an independent registered public accounting firm. Management has made available to Ernst & Young LLP all of the Company's financial records and related data, as well as the minutes of the stockholders' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate. Their reports with respect to the fairness of presentation of the Company's financial statements and the effectiveness of the Company's internal control over financial reporting appear elsewhere in this annual report.

/s/ Bruce G. Kelley	/s/ Mark E. Reese
Bruce G. Kelley	Mark E. Reese
President, Chief Executive Officer and Treasurer	Senior Vice President and Chief Financial Officer
(Principal Executive Officer)	(Principal Accounting Officer)

Report of Independent Registered Public Accounting Firm
on Internal Control Over Financial Reporting

The Board of Directors and Stockholders
EMC Insurance Group Inc.

We have audited EMC Insurance Group Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). EMC Insurance Group Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, EMC Insurance Group Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of EMC Insurance Group Inc. and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014 of EMC Insurance Group Inc. and Subsidiaries and our report dated March 6, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Des Moines, Iowa
March 6, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
EMC Insurance Group Inc.

We have audited the accompanying consolidated balance sheets of EMC Insurance Group Inc. and Subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of EMC Insurance Group Inc. and Subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), EMC Insurance Group Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 6, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Des Moines, Iowa
March 6, 2015

EMC INSURANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

($ in thousands, except share and per share amounts)	December 31, 2014	December 31, 2013
ASSETS		
Investments:		
Fixed maturity securities available-for-sale, at fair value (amortized cost $1,080,006 and $1,009,572)	**$ 1,127,499**	$ 1,027,984
Equity securities available-for-sale, at fair value (cost $123,972 and $113,835)	**197,036**	169,848
Other long-term investments	**6,227**	2,392
Short-term investments	**53,262**	56,166
Total investments	**1,384,024**	1,256,390
Cash	**383**	239
Reinsurance receivables due from affiliate	**28,603**	30,328
Prepaid reinsurance premiums due from affiliate	**8,865**	9,717
Deferred policy acquisition costs (affiliated $38,930 and $37,414)	**39,343**	37,792
Prepaid pension and postretirement benefits due from affiliate	**17,360**	23,121
Accrued investment income	**10,295**	9,984
Accounts receivable	**1,767**	1,080
Goodwill	**942**	942
Other assets (affiliated $4,900 and $4,780)	**6,238**	4,908
Total assets	**$ 1,497,820**	$ 1,374,501

All affiliated balances presented above are the result of related party transactions with Employers Mutual.

See accompanying Notes to Consolidated Financial Statements.

EMC INSURANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
($ in thousands, except share and per share amounts)	**2014**	2013
LIABILITIES		
Losses and settlement expenses (affiliated $650,652 and $600,313)	**$ 661,309**	$ 610,181
Unearned premiums (affiliated $230,460 and $218,788)	**232,093**	220,627
Other policyholders' funds (all affiliated)	**10,153**	8,491
Surplus notes payable to affiliate	**25,000**	25,000
Amounts due affiliate to settle inter-company transaction balances	**8,559**	9,090
Pension benefits payable to affiliate	**4,162**	3,401
Income taxes payable	**3**	1,530
Deferred income taxes	**28,654**	12,822
Other liabilities (affiliated $23,941 and $25,161)	**25,001**	28,149
Total liabilities	**994,934**	919,291
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, authorized 20,000,000 shares; issued and outstanding, 13,562,980 shares in 2014 and 13,306,027 shares in 2013	**13,563**	13,306
Additional paid-in capital	**106,672**	99,309
Accumulated other comprehensive income	**81,662**	59,010
Retained earnings	**300,989**	283,585
Total stockholders' equity	**502,886**	455,210
Total liabilities and stockholders' equity	**$ 1,497,820**	$ 1,374,501

All affiliated balances presented above are the result of related party transactions with Employers Mutual.

See accompanying Notes to Consolidated Financial Statements.

EMC INSURANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

($ in thousands, except share and per share amounts)	Year ended December 31, 2014	2013	2012
REVENUES			
Premiums earned (affiliated $534,105, $509,704 and $452,334)	**$ 540,722**	$ 515,506	$ 458,846
Investment income, net	**46,465**	43,022	44,145
Net realized investment gains, excluding impairment losses on securities available-for-sale	**5,227**	9,060	8,203
Total "other-than-temporary" impairment losses on securities available-for-sale	**(878)**	(63)	(186)
Portion of "other-than-temporary" impairment losses on fixed maturity securities available-for-sale reclassified from other comprehensive income (before taxes)	**—**	—	—
Net impairment losses on securities available-for-sale	**(878)**	(63)	(186)
Net realized investment gains	**4,349**	8,997	8,017
Other income (affiliated $1,784, $834 and $912)	**2,931**	460	834
Total revenues	**594,467**	567,985	511,842
LOSSES AND EXPENSES			
Losses and settlement expenses (affiliated $378,263, $326,130 and $298,798)	**385,474**	333,287	303,388
Dividends to policyholders (all affiliated)	**9,504**	10,864	8,630
Amortization of deferred policy acquisition costs (affiliated $97,551, $93,116 and $82,540)	**99,042**	94,728	84,275
Other underwriting expenses (affiliated $57,148, $65,575 and $60,981)	**56,826**	65,754	60,919
Interest expense (all affiliated)	**337**	384	900
Other expense (affiliated $1,570, $1,356 and $2,097)	**2,377**	2,115	2,097
Total losses and expenses	**553,560**	507,132	460,209
Income before income tax expense	**40,907**	60,853	51,633
INCOME TAX EXPENSE			
Current	**7,280**	16,927	11,594
Deferred	**3,635**	407	2,073
Total income tax expense	**10,915**	17,334	13,667
Net income	**$ 29,992**	$ 43,519	$ 37,966
Net income per common share - basic and diluted	**$ 2.23**	$ 3.33	$ 2.95
Average number of common shares outstanding - basic and diluted	**13,470,623**	13,086,612	12,886,667

All affiliated balances presented above are the result of related party transactions with Employers Mutual.

See accompanying Notes to Consolidated Financial Statements.

EMC INSURANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in thousands)	Year ended December 31, 2014	2013	2012
Net income	**$ 29,992**	$ 43,519	$ 37,966
OTHER COMPREHENSIVE INCOME (LOSS)			
Change in unrealized holding gains (losses) on investment securities, net of deferred income tax expense (benefit) of $18,664, $(8,390) and $12,849	**34,663**	(15,582)	23,863
Reclassification adjustment for realized investment gains included in net income, net of income tax expense of $(2,518), $(3,149) and $(2,806)	**(4,677)**	(5,848)	(5,211)
Reclassification adjustment for amounts amortized into net periodic pension and postretirement benefit cost (income), net of deferred income tax (expense) benefit of $(955), $765 and $950:			
Net actuarial loss	**375**	1,882	2,108
Prior service credit	**(2,149)**	(460)	(344)
Total reclassification adjustment associated with affiliate's pension and postretirement benefit plans	**(1,774)**	1,422	1,764
Change in funded status of affiliate's pension and postretirement benefit plans, net of deferred income tax expense (benefit) of $(2,994), $16,836 and $(2):			
Net actuarial gain (loss)	**(5,525)**	13,718	(736)
Prior service (cost) credit	**(35)**	17,548	732
Total change in funded status of affiliate's pension and postretirement benefit plans	**(5,560)**	31,266	(4)
Other comprehensive income	**22,652**	11,258	20,412
Total comprehensive income	**$ 52,644**	$ 54,777	$ 58,378

All affiliated balances presented above are the result of related party transactions with Employers Mutual.

See accompanying Notes to Consolidated Financial Statements.

EMC INSURANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

($ in thousands, except per share amounts)	Common stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balance at December 31, 2011	$ 12,876	$ 88,311	$ 27,340	$ 223,814	$ 352,341
Issuance of common stock through affiliate's stock plans	34	658			692
Increase resulting from stock-based compensation expense associated with affiliate's stock plans allocated to the Company		237			237
Other comprehensive income			20,412		20,412
Net income				37,966	37,966
Dividends paid to public stockholders ($.81 per share)				(4,082)	(4,082)
Dividends paid to affiliate ($.81 per share)				(6,357)	(6,357)
Balance at December 31, 2012	12,910	89,206	47,752	251,341	401,209
Issuance of common stock through affiliate's stock plans	396	9,812			10,208
Increase resulting from stock-based compensation expense associated with affiliate's stock plans allocated to the Company		291			291
Other comprehensive income			11,258		11,258
Net income				43,519	43,519
Dividends paid to public stockholders ($.86 per share)				(4,526)	(4,526)
Dividends paid to affiliate ($.86 per share)				(6,749)	(6,749)
Balance at December 31, 2013	13,306	99,309	59,010	283,585	455,210
Issuance of common stock through affiliate's stock plans	**257**	**7,135**			**7,392**
Increase resulting from stock-based compensation expense associated with affiliate's stock plans allocated to the Company		**228**			**228**
Other comprehensive income			**22,652**		**22,652**
Net income				**29,992**	**29,992**
Dividends paid to public stockholders ($.94 per share)				**(5,211)**	**(5,211)**
Dividends paid to affiliate ($.94 per share)				**(7,377)**	**(7,377)**
Balance at December 31, 2014	**$ 13,563**	**$ 106,672**	**$ 81,662**	**$ 300,989**	**$ 502,886**

All affiliated balances presented above are the result of related party transactions with Employers Mutual.

See accompanying Notes to Consolidated Financial Statements.

EMC INSURANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)	Year ended December 31, 2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 29,992**	$ 43,519	$ 37,966
Adjustments to reconcile net income to net cash provided by operating activities:			
Losses and settlement expenses (affiliated $50,339, $22,836 and $(11,370))	**51,128**	27,084	(10,203)
Unearned premiums (affiliated $11,672, $22,572 and $15,526)	**11,466**	24,412	15,526
Other policyholders' funds due to affiliate	**1,662**	2,436	994
Amounts due to/from affiliate to settle inter-company transaction balances	**(531)**	(7,261)	(1,907)
Net pension and postretirement benefits due from affiliate	**(4,761)**	1,267	2,338
Reinsurance receivables due from affiliate	**1,725**	1,174	5,239
Prepaid reinsurance premiums due from affiliate	**852**	(4,521)	4,182
Commissions payable (affiliated $(196), $2,078 and $2,606)	**(408)**	2,227	2,587
Deferred policy acquisition costs (affiliated $(1,516), $(2,988) and $(3,576))	**(1,551)**	(3,367)	(3,576)
Accrued investment income	**(311)**	(46)	318
Current income tax	**(1,424)**	3,213	8,080
Deferred income tax	**3,635**	407	2,073
Net realized investment gains	**(4,349)**	(8,997)	(8,017)
Other, net (affiliated $(1,122), $1,369 and $509)	**4,690**	5,286	(562)
Total adjustments to reconcile net income to net cash provided by operating activities	**61,823**	43,314	17,072
Net cash provided by operating activities	**$ 91,815**	$ 86,833	$ 55,038

All affiliated balances presented above are the result of related party transactions with Employers Mutual.

See accompanying Notes to Consolidated Financial Statements.

EMC INSURANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

($ in thousands)	Year ended December 31, 2014	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed maturity securities available-for-sale	**$ (209,885)**	$ (264,178)	$ (246,492)
Disposals of fixed maturity securities available-for-sale	**131,942**	175,664	226,672
Purchases of equity securities available-for-sale	**(50,154)**	(40,580)	(84,762)
Disposals of equity securities available-for-sale	**45,698**	47,479	71,008
Purchases of other long-term investments	**(7,613)**	(1,798)	(855)
Disposals of other long-term investments	**530**	246	6
Net purchases of short-term investments	**2,904**	(2,786)	(10,790)
Net cash used in investing activities	**(86,578)**	(85,953)	(45,213)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock through affiliate's stock plans	**7,392**	10,208	692
Excess tax benefit associated with affiliate's stock plans	**103**	96	(3)
Dividends paid to stockholders (affiliated $(7,377), $(6,749) and $(6,357))	**(12,588)**	(11,275)	(10,439)
Net cash used in financing activities	**(5,093)**	(971)	(9,750)
NET INCREASE (DECREASE) IN CASH	**144**	(91)	75
Cash at the beginning of the year	**239**	330	255
Cash at the end of the year	**$ 383**	$ 239	$ 330
Income taxes paid	**$ 8,703**	$ 13,714	$ 3,514
Interest paid to affiliate	**$ 384**	$ 900	$ 900

All affiliated balances presented above are the result of related party transactions with Employers Mutual.

See accompanying Notes to Consolidated Financial Statements.

($ in thousands, except share and per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

EMC Insurance Group Inc., a majority owned subsidiary of Employers Mutual Casualty Company (Employers Mutual), is an insurance holding company with operations in property and casualty insurance and reinsurance. The Company conducts its property and casualty insurance operations through the following subsidiaries: EMCASCO Insurance Company, Illinois EMCASCO Insurance Company and Dakota Fire Insurance Company, and its reinsurance operations through its subsidiary, EMC Reinsurance Company. The Company also has an excess and surplus lines insurance agency subsidiary, EMC Underwriters, LLC. The term "Company" is used interchangeably to describe EMC Insurance Group Inc. (Parent Company only) and EMC Insurance Group Inc. and its subsidiaries.

The Company writes property and casualty insurance in both commercial and personal lines of insurance, with a focus on medium-sized commercial accounts. Approximately 37 percent of the premiums written are in Iowa and contiguous states. The Company's reinsurance business is primarily written through a quota share reinsurance agreement with Employers Mutual. A small portion of the assumed reinsurance business is written on a direct basis, outside the quota share reinsurance agreement.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements have been prepared on the basis of U.S. generally accepted accounting principles (GAAP), which differ in some respects from those followed in reports to insurance regulatory authorities. All significant inter-company balances and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The Company has evaluated all subsequent events through the date the financial statements were issued.

Property and Casualty Insurance and Reinsurance Operations

Property and casualty insurance premiums are recognized as revenue ratably over the terms of the respective policies. Unearned premiums are calculated on the daily pro rata method. Both domestic and foreign assumed reinsurance premiums are recognized as revenues ratably over the terms of the related contracts and underlying policies. Amounts paid as ceded reinsurance premiums are reported as prepaid reinsurance premiums and are amortized over the remaining contract period in proportion to the amount of reinsurance protection provided. Reinsurance reinstatement premiums are recognized in the same period as the loss event that gave rise to the reinstatement premiums.

Costs related to the acquisition of insurance contracts are deferred and amortized to expense as the associated premium revenue is recognized. Only incremental costs or costs directly related to the successful acquisition of new or renewal insurance contracts are to be capitalized. Accordingly, acquisition costs consist of commissions, premium taxes, and salary and benefit expenses of employees directly involved in the underwriting of insurance policies that are successfully issued.

The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to the estimated realizable value. In determining estimated realizable value, the computation gives effect to the premium to be earned, related investment income, anticipated losses and settlement expenses, anticipated policyholder dividends, and certain other costs expected to be incurred to administer the insurance policies as the premium is earned. The anticipated losses and settlement expenses are not discounted and are based on the Company's projected loss and settlement expense ratios for the next twelve months, which include catastrophe loads based on historical results adjusted for recent trends. The occurrence of a significant catastrophe, and/or accumulation of catastrophes would not have a direct impact on the determination of premium deficiencies; however, such occurrences would be included in the historical results that are used to establish the catastrophe loads. A premium deficiency is first recognized by expensing the amount of unamortized deferred policy acquisition costs necessary to eliminate the deficiency. If the premium deficiency is greater than the unamortized deferred policy acquisition costs, a liability is accrued for the excess deficiency. The Company did not record a premium deficiency for the years ended December 31, 2014, 2013 and 2012.

Certain commercial lines of business written by the property and casualty insurance subsidiaries, including workers' compensation, are eligible for policyholder dividends in accordance with provisions of the underlying insurance policies. Net premiums written subject to policyholder dividends represented approximately 26 percent of the property and casualty insurance subsidiaries' total net commercial premiums written in 2014. Policyholder dividends are accrued over the terms of the underlying policy periods.

Liabilities for losses reflect losses incurred through the balance sheet date and are based upon case-basis estimates of reported losses supplemented with bulk case loss reserves, estimates of unreported losses based upon prior experience adjusted for current trends, and estimates of losses expected to be paid under assumed reinsurance contracts. Liabilities for settlement expenses are provided by estimating expenses expected to be incurred in settling the claims provided for in the loss reserves. Changes in estimates are reflected in current operating results (see note 4).

Ceded reinsurance amounts with nonaffiliated reinsurers relating to reinsurance receivables for unpaid losses and settlement expenses and prepaid reinsurance premiums are reported on the balance sheet on a gross basis. Amounts ceded to Employers Mutual relating to the affiliated reinsurance pooling and excess of loss agreements (see note 2) have not been grossed up because the contracts provide that receivables and payables may be offset upon settlement.

Based on current information, the liabilities for losses and settlement expenses are considered to be adequate. Since the provisions are necessarily based on estimates, the ultimate liability may be more or less than such provisions.

Investments

Currently, all securities are classified as available-for-sale and are carried at fair value, with unrealized holding gains and losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity, net of deferred income taxes. Other long-term investments consist of holdings in limited partnerships that are carried under the equity method of accounting, and holdings in limited partnerships and limited liability companies designed for the distribution of tax credits that are carried at amortized cost. The Company has an investment in a limited partnership that is designed to help protect the Company from a sudden and significant decline in the value of its equity portfolio. This limited partnership is carried under the equity method of accounting. Because of the nature of this investment, which was made solely to implement the equity tail-risk hedging strategy, changes in the carrying value of the limited partnership are recorded as realized investment gains (losses), rather than as a component of investment income. Short-term investments generally include money market funds, U.S. Treasury bills and commercial paper that are carried at fair value, which approximates cost.

The Company uses independent pricing sources to obtain the estimated fair value of securities. The fair value is based on quoted market prices, where available. In cases where quoted market prices are not available, the fair value is based on a variety of valuation techniques depending on the type of investment. The fair values obtained from independent pricing sources are reviewed for reasonableness and any discrepancies are investigated for final valuation (see note 8).

Premiums and discounts on fixed maturity securities are amortized over the life of the security as an adjustment to yield using the effective interest method. Amortization of premiums and discounts on mortgage-backed securities incorporates prepayment assumptions to estimate expected lives. Gains and losses realized on the disposition of investments are included in net income. The cost of investments sold is determined on the specific identification method using the highest cost basis first. Included in investments at December 31, 2014 and 2013 are securities on deposit with various regulatory authorities as required by law amounting to $11,685 and $11,533, respectively.

The Company regularly monitors its investments that have a fair value that is less than the carrying value for indications of "other-than-temporary" impairment. Several factors are used to determine whether the carrying value of an individual security has been "other-than-temporarily" impaired. Such factors include, but are not limited to (1) the security's value and performance in the context of the overall markets, (2) length of time and extent the security's fair value has been below carrying value, (3) key corporate events, and (4) for equity securities, the ability and intent to hold the security until recovery to its cost basis. When an equity security is deemed to be "other-than-temporarily" impaired, the carrying value is reduced to fair value and a realized loss is recognized and charged to income. For fixed maturity securities, if the present value of cash flows expected to be collected is less than the amortized cost of the security, a credit loss is deemed to exist and the security is considered "other-than-temporarily" impaired. The portion of the impairment related to a credit loss is recognized through earnings and the portion of the impairment related to other factors, if any, is recognized through "other comprehensive income". Alternatively, if the Company has the intent to sell a fixed maturity security that is in an unrealized loss position, or determines that it will "more likely than not" be required to sell a fixed maturity security that is in an unrealized loss position before recovery of its amortized cost basis, then the carrying value is reduced to fair value and the entire amount of the impairment is recognized through earnings.

Income Taxes

The Company files a consolidated Federal income tax return with its subsidiaries. Consolidated income taxes/benefits are allocated among the entities based upon separate tax liabilities.

Deferred income taxes are provided for temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes. 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. Income tax expense provisions increase or decrease in the same period in which a change in tax rates is enacted. A valuation allowance is established to reduce deferred tax assets to their net realizable value if it is "more likely than not" that a tax benefit will not be realized.

An assessment of the Company's current tax positions indicated no uncertainties that would warrant different recognition and valuation from that applied in the Company's tax returns.

Stock-Based Compensation

The Company has no stock-based compensation plans of its own; however, Employers Mutual has several stock plans that utilize the common stock of the Company. The Company receives the current fair value for all shares issued under these plans. Employers Mutual also has a stock appreciation rights (SAR) agreement in effect with a former executive officer of the Company. The SAR agreement is based upon the market price of the Company's common stock and is considered to be a liability-classified award because it will be settled in cash. A portion of the compensation expense recognized by Employers Mutual (as the requisite service period for granted options and restricted stock awards is rendered, or the fair value of the SAR agreement changes) is allocated to the Company's property and casualty insurance subsidiaries though their participation in the pooling agreement (see note 2). Because a portion of Employers Mutual's stock compensation expense is reflected in the Company's financial statements and issuances of the Company's stock under Employers Mutual's stock plans have an impact on the Company's capital accounts, the disclosures required by the Compensation – Stock Compensation Topic 718 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (Codification or ASC) are included in the Company's consolidated financial statements.

Employee Retirement Plans

Employers Mutual has various employee benefit plans, including two defined benefit pension plans, and two postretirement benefit plans that provide retiree healthcare and life insurance benefits. Although the Company has no employees of its own, it is responsible for its share of the expenses and related prepaid assets and liabilities of these plans as determined under the terms of the pooling agreement, and the costs allocated by Employers Mutual to subsidiaries that do not participate in the pooling agreement (see note 2). Accordingly, the Company recognizes its share of the funded status of Employers Mutual's pension and postretirement benefit plans on its balance sheet, with changes in the funded status of the plans recognized through "other comprehensive income."

Accounts Receivable

The accounts receivable balance consists of assumed reinsurance premiums receivable (net of any commissions) on business written directly by the reinsurance subsidiary, and commission income receivable on excess and surplus lines business marketed by EMC Underwriters, LLC. These receivables are carried at their initial recognition amounts. It is the Company's policy to reflect the impairment of receivables through a valuation allowance until ultimately collected or charged-off. No valuation allowance is currently carried, as no amounts are deemed impaired. No interest income, other fees, or deferred costs related to these receivables are assessed or recognized.

Off-Balance-Sheet Credit Exposure

Employers Mutual collects from agents, policyholders and ceding companies all written premiums associated with the insurance business produced by the pool participants and the assumed reinsurance business ceded to the reinsurance subsidiary. Employers Mutual also collects from its reinsurers all losses and settlement expenses recoverable under the reinsurance contracts covering the pool participants and the fronting business ceded to the reinsurance subsidiary. Employers Mutual settles with the pool participants (monthly) and the reinsurance subsidiary (quarterly) the premiums written from these insurance and reinsurance policies and the paid losses and settlement expenses recoverable under the reinsurance contracts, providing full credit for the premiums written and the paid losses and settlement expenses recoverable under the reinsurance contracts generated during the period (not just the collected portion). Due to this arrangement, and since a significant portion of the premium balances are collected over the course of the coverage period, Employers Mutual carries a substantial receivable balance for insurance and reinsurance premiums in process of collection, and to a lesser extent, paid losses and settlement expenses recoverable from the reinsurance companies. Any of these receivable amounts that are ultimately deemed to be uncollectible are charged-off by Employers Mutual and the expense is charged to the reinsurance subsidiary or allocated to the pool members on the basis of pool participation. As a result, the Company has off-balance sheet arrangements with an unconsolidated entity that results in credit-risk exposures (Employers Mutual's insurance and reinsurance premium receivable balances, and paid loss and settlement expense recoverable amounts) that are not reflected in the Company's financial statements. The average annual expense for such charge-offs allocated to the Company over the past ten years is $354. Based on this historical data, this credit-risk exposure is not considered to be material to the Company's results of operations or financial position, and accordingly, no loss contingency liability has been recorded.

Foreign Currency Transactions

Included in the underlying reinsurance business assumed by the reinsurance subsidiary are reinsurance transactions conducted with foreign cedants denominated in their local functional currencies. In accordance with the terms of the quota share agreement (see note 2), the reinsurance subsidiary assumes all foreign currency exchange gains/losses associated with contracts incepting on January 1, 2006 and thereafter that are subject to the quota share agreement. The reinsurance subsidiary also has foreign currency exchange gains/losses associated with the business assumed outside the quota share agreement. The assets and liabilities resulting from these foreign reinsurance transactions are reported in U.S. dollars based on the foreign currency exchange rates that existed at the balance sheet dates. The foreign currency exchange rate gains/losses reported in the consolidated statements of income that resulted from these foreign reinsurance transactions are reported in U.S. dollars re-measured from the foreign currency exchange rates that existed at the inception of each reinsurance contract. The foreign currency exchange rate gains/losses resulting from these re-measurements to U.S. dollars are reported as a component of other income in the consolidated statements of income.

Net Income Per Share - Basic and Diluted

The Company's basic and diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during each period. As previously noted, the Company receives the current fair value for all shares issued under Employers Mutual's stock plans. As a result, the Company had no potential common shares outstanding during 2014, 2013 and 2012 that would have been dilutive to the calculation of net income per share.

Goodwill

Goodwill represents the excess of cost over the fair value of net assets of acquired subsidiaries. Goodwill is not amortized, but is subject to impairment if the carrying value of the goodwill exceeds the estimated fair value of net assets. If the carrying amount of the subsidiary (including goodwill) exceeds the computed fair value, an impairment loss is recognized through the income statement equal to the excess amount, but not greater than the balance of the goodwill. Goodwill was not deemed to be impaired in 2014, 2013 or 2012.

New Accounting Pronouncements

In January 2014, the FASB updated its guidance related to the Investments-Equity Method and Joint Ventures Topic 323 of the ASC. The objective of this update is to improve the reporting of investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for low-income housing tax credits. This updated guidance allows an entity to elect to account for its investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Current accounting guidance contains similar, but more restrictive, conditions to elect to use the effective yield method to account for these investments. This guidance is to be applied retrospectively to annual and interim reporting periods beginning after December 15, 2014. Early adoption is permitted. The Company will adopt this guidance during the first quarter of 2015. Adoption of this guidance is not expected to have an impact on the consolidated financial condition or operating results of the Company.

In May 2014, the FASB updated its guidance related to the Revenue from Contracts with Customers Topic 606 of the ASC. The objective of this update is to improve the reporting of revenue by providing a more robust framework for addressing revenue issues, and improved disclosure requirements. Current revenue recognition guidance in U.S. GAAP is comprised of broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes result in different accounting for economically similar transactions. This guidance is to be applied retrospectively to annual and interim reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company will adopt this guidance during the first quarter of 2017. Since premium revenue from insurance contracts is excluded from the scope of this updated guidance, adoption is expected to have little or no impact on the consolidated financial condition or operating results of the Company (the Company's largest non-premium revenue item is service charges related to the billing of the pool participants' direct written premiums to policyholders, which is included in "Other income" in the consolidated statements of income).

2. AFFILIATION AND TRANSACTIONS WITH AFFILIATES

The operations of the Company are highly integrated with those of Employers Mutual through participation in a property and casualty reinsurance pooling agreement (the "pooling agreement"), a reinsurance retrocessional quota share agreement (the "quota share agreement") and an excess of loss reinsurance agreement (the “excess of loss agreement”). All transactions occurring under the pooling agreement, quota share agreement and excess of loss agreement are based on statutory accounting principles. Certain adjustments are made to the statutory-basis amounts assumed by the property and casualty insurance subsidiaries and the reinsurance subsidiary to bring the amounts into compliance with GAAP.

Property and Casualty Insurance Subsidiaries

The Company’s three property and casualty insurance subsidiaries and two subsidiaries and an affiliate of Employers Mutual are parties to a pooling agreement with Employers Mutual. Under the terms of the pooling agreement, each company cedes to Employers Mutual all of its insurance business, with the exception of any voluntary reinsurance business assumed from nonaffiliated insurance companies, and assumes from Employers Mutual an amount equal to its participation in the pool. All premiums, losses, settlement expenses, and other underwriting and administrative expenses, excluding the voluntary reinsurance business assumed by Employers Mutual from nonaffiliated insurance companies, are prorated among the parties on the basis of participation in the pool. Employers Mutual negotiates reinsurance agreements that provide protection to the pool and each of its participants, including protection against losses arising from catastrophic events. The aggregate participation of the Company’s property and casualty insurance subsidiaries in the pool is 30 percent.

Operations of the pool give rise to inter-company balances with Employers Mutual, which are settled within 45 days after the end of each month. The investment and income tax activities of the pool participants are not subject to the pooling agreement. The pooling agreement provides that Employers Mutual will make up any shortfall or difference resulting from an error in its systems and/or computation processes that would otherwise result in the required restatement of the pool participants’ financial statements.

The purpose of the pooling agreement is to spread the risk of an exposure insured by any of the pool participants among all the companies. The pooling agreement produces a more uniform and stable underwriting result from year to year for all companies in the pool than might be experienced individually. In addition, each company benefits from the capacity of the entire pool, rather than being limited to policy exposures of a size commensurate with its own assets, and from the wide range of policy forms, lines of insurance written, rate filings and commission plans offered by each of the companies.

Reinsurance Subsidiary

The Company's reinsurance subsidiary is party to a quota share agreement and an excess of loss reinsurance agreement with Employers Mutual. Under the terms of the quota share agreement, the reinsurance subsidiary assumes 100 percent of Employers Mutual's assumed reinsurance business, subject to certain exceptions. Under the terms of the excess of loss agreement (covering both business assumed from Employers Mutual through the quota share agreement, as well as business obtained outside the quota share agreement), the reinsurance subsidiary retains the first $4,000 of losses per event, and also retains 20.0 percent of any losses between $4,000 and $10,000 and 10.0 percent of any losses between $10,000 and $50,000. During 2012, all losses associated with any one event above $4,000 were ceded to Employers Mutual. The cost of the excess of loss reinsurance protection is 8.0 percent (9.0 percent in 2013 and 10.0 percent in 2012) of the reinsurance subsidiary's total assumed reinsurance premiums written.

The reinsurance subsidiary does not directly reinsure any of the insurance business written by Employers Mutual or the other pool participants; however, Employers Mutual assumes reinsurance business from the Mutual Reinsurance Bureau underwriting association (MRB), which provides a small amount of reinsurance protection to the members of the EMC Insurance Companies pooling agreement. As a result, the reinsurance subsidiary's assumed exposures include a small portion of the EMC Insurance Companies' direct business, after ceded reinsurance protections purchased by MRB are applied. In addition, the reinsurance subsidiary does not reinsure any "involuntary" facility or pool business that Employers Mutual assumes pursuant to state law. The reinsurance subsidiary assumes all foreign currency exchange gain/loss associated with contracts incepting on January 1, 2006 and thereafter that are subject to the quota share agreement. Operations of the quota share agreement and excess of loss agreement give rise to inter-company balances with Employers Mutual, which are settled within 45 days after the end of each quarter. The investment and income tax activities of the reinsurance subsidiary are not subject to either the quota share agreement or the excess of loss agreement.

Under the terms of the quota share agreement, the reinsurance subsidiary receives reinstatement premium income that is collected by Employers Mutual from the ceding companies when reinsurance coverage is reinstated after a loss event; however, the cap on losses assumed per event contained in the excess of loss agreement is automatically reinstated without cost. The reinsurance subsidiary recognized $2,256, $2,542 and $2,344 of reinstatement premium in 2014, 2013 and 2012, respectively.

Premiums earned assumed by the reinsurance subsidiary from Employers Mutual, including reinstatement premiums, amounted to $122,064, $129,746 and $107,112 in 2014, 2013 and 2012, respectively. The reinsurance subsidiary ceded 8.0 percent (9.0 percent in 2013 and 10.0 percent in 2012) of its total assumed reinsurance premiums written to Employers Mutual as payment for the excess of loss protection, which totaled $10,339, $12,761 and $11,916 in 2014, 2013 and 2012, respectively. Losses and settlement expenses assumed by the reinsurance subsidiary from Employers Mutual amounted to $79,499, $66,126 and $74,832 in 2014, 2013 and 2012, respectively. Losses and settlement expenses ceded to Employers Mutual under the excess of loss agreement totaled ($720), $823 and $9,926 in 2014, 2013 and 2012, respectively.

It is customary in the reinsurance business for the assuming company to compensate the ceding company for the acquisition expenses incurred in the generation of the business. Commissions incurred by the reinsurance subsidiary under the quota share agreement with Employers Mutual amounted to $25,621, $26,114 and $19,537 in 2014, 2013 and 2012, respectively.

The net foreign currency exchange gain/(loss) assumed by the reinsurance subsidiary from Employers Mutual was $1,033 in 2014, $8 in 2013 and $53 in 2012. The total amount of net foreign currency exchange gain/(loss) assumed by the reinsurance subsidiary, including the business written on a direct basis outside the quota share agreement, was $2,180 in 2014, $(366) in 2013 and $(25) in 2012.

Services Provided by Employers Mutual

The Company does not have any employees of its own. Employers Mutual performs all operations for all of its subsidiaries and affiliate. Such services include data processing, claims, financial, actuarial, legal, auditing, marketing and underwriting. Employers Mutual allocates a portion of the cost of these services to its subsidiaries that do not participate in the pooling agreement based upon a number of criteria, including usage of the services and the number of transactions. The remaining costs are charged to the pooling agreement and each pool participant shares in the total cost in accordance with its pool participation percentage. Costs allocated to the Company by Employers Mutual for services provided to the holding company and its subsidiaries that do not participate in the pooling agreement amounted to $3,540, $3,588 and $3,325 in 2014, 2013 and 2012, respectively. Costs allocated to the Company through the operation of the pooling agreement amounted to $76,041, $83,332 and $76,074 in 2014, 2013 and 2012, respectively.

Investment expenses are based on actual expenses incurred by the Company plus an allocation of other investment expenses incurred by Employers Mutual, which is based on a weighted-average of total invested assets and number of investment transactions. Investment expenses allocated to the Company by Employers Mutual amounted to $1,300, $1,568 and $1,297 in 2014, 2013 and 2012, respectively.

3. REINSURANCE

The parties to the pooling agreement cede insurance business to other insurers in the ordinary course of business for the purpose of limiting their maximum loss exposure through diversification of their risks. In its consolidated financial statements, the Company treats risks to the extent they are reinsured as though they were risks for which the Company is not liable. Insurance ceded by the pool participants does not relieve their primary liability as the originating insurers. Employers Mutual evaluates the financial condition of the reinsurers of the parties to the pooling agreement and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers to minimize exposure to significant losses from reinsurer insolvencies.

As of December 31, 2014 and 2013, amounts recoverable from nonaffiliated reinsurers (three in 2014 and four in 2013) totaled $16,308 and $24,261 respectively, which represents a significant portion of the total prepaid reinsurance premiums and reinsurance receivables for losses and settlement expenses. The largest balance due is from the Mutual Reinsurance Bureau (MRB) underwriting association, of which the Company (through Employers Mutual) is a member with other unaffiliated reinsurers. All members of MRB have joint and several liability for MRB's obligations. For one of the other nonaffiliated reinsurers (two at December 31, 2013), the amounts reflect the property and casualty insurance subsidiaries' aggregate pool participation percentage of amounts ceded by Employers Mutual to the organizations on a mandatory basis. Credit risk associated with these amounts are minimal, as all companies participating in the organizations are responsible for the liabilities of the organizations on a pro rata basis.

The effect of reinsurance on premiums written and earned, and losses and settlement expenses incurred, for the three years ended December 31, 2014 is presented below. The classification of the assumed and ceded reinsurance amounts between affiliates and nonaffiliates is based on the participants in the underlying reinsurance agreements, and is intended to provide an understanding of the actual source of the reinsurance activities. This presentation differs from the classifications used in the consolidated financial statements, where all amounts flowing through the pooling, quota share and excess of loss agreements with Employers Mutual are reported as "affiliated" balances.

	Year ended December 31, 2014		
	Property and casualty insurance	Reinsurance	Total
Premiums written			
Direct	**$ 367,732**	**$ —**	**$ 367,732**
Assumed from nonaffiliates	**3,955**	**143,564**	**147,519**
Assumed from affiliates	**455,183**	**—**	**455,183**
Ceded to nonaffiliates	**(25,431)**	**(14,322)**	**(39,753)**
Ceded to affiliates	**(367,732)**	**(10,339)**	**(378,071)**
Net premiums written	**$ 433,707**	**$ 118,903**	**$ 552,610**
Premiums earned			
Direct	**$ 372,658**	**$ —**	**$ 372,658**
Assumed from nonaffiliates	**3,787**	**144,439**	**148,226**
Assumed from affiliates	**443,440**	**—**	**443,440**
Ceded to nonaffiliates	**(24,846)**	**(15,759)**	**(40,605)**
Ceded to affiliates	**(372,658)**	**(10,339)**	**(382,997)**
Net premiums earned	**$ 422,381**	**$ 118,341**	**$ 540,722**
Losses and settlement expenses incurred			
Direct	**$ 227,382**	**$ —**	**$ 227,382**
Assumed from nonaffiliates	**2,201**	**96,281**	**98,482**
Assumed from affiliates	**304,579**	**1,278**	**305,857**
Ceded to nonaffiliates	**(8,747)**	**(10,838)**	**(19,585)**
Ceded to affiliates	**(227,382)**	**720**	**(226,662)**
Net losses and settlement expenses incurred	**$ 298,033**	**$ 87,441**	**$ 385,474**

	Year ended December 31, 2013		
	Property and casualty insurance	Reinsurance	Total
Premiums written			
Direct	$ 368,532	$ —	$ 368,532
Assumed from nonaffiliates	3,501	162,291	165,792
Assumed from affiliates	425,218	—	425,218
Ceded to nonaffiliates	(23,670)	(20,502)	(44,172)
Ceded to affiliates	(368,532)	(12,761)	(381,293)
Net premiums written	$ 405,049	$ 129,028	$ 534,077
Premiums earned			
Direct	$ 361,010	$ —	$ 361,010
Assumed from nonaffiliates	3,275	151,978	155,253
Assumed from affiliates	412,665	—	412,665
Ceded to nonaffiliates	(23,221)	(16,430)	(39,651)
Ceded to affiliates	(361,010)	(12,761)	(373,771)
Net premiums earned	$ 392,719	$ 122,787	$ 515,506
Losses and settlement expenses incurred			
Direct	$ 237,109	$ —	$ 237,109
Assumed from nonaffiliates	2,281	80,854	83,135
Assumed from affiliates	267,292	1,199	268,491
Ceded to nonaffiliates	(8,656)	(8,860)	(17,516)
Ceded to affiliates	(237,109)	(823)	(237,932)
Net losses and settlement expenses incurred	$ 260,917	$ 72,370	$ 333,287

	Year ended December 31, 2012		
	Property and casualty insurance	Reinsurance	Total
Premiums written			
Direct	$ 341,306	$ —	$ 341,306
Assumed from nonaffiliates	2,459	121,500	123,959
Assumed from affiliates	390,982	—	390,982
Ceded to nonaffiliates	(22,206)	(2,338)	(24,544)
Ceded to affiliates	(341,306)	(11,916)	(353,222)
Net premiums written	$ 371,235	$ 107,246	$ 478,481
Premiums earned			
Direct	$ 328,227	$ —	$ 328,227
Assumed from nonaffiliates	2,297	119,502	121,799
Assumed from affiliates	377,690	—	377,690
Ceded to nonaffiliates	(22,848)	(5,879)	(28,727)
Ceded to affiliates	(328,227)	(11,916)	(340,143)
Net premiums earned	$ 357,139	$ 101,707	$ 458,846
Losses and settlement expenses incurred			
Direct	$ 191,282	$ —	$ 191,282
Assumed from nonaffiliates	1,718	83,988	85,706
Assumed from affiliates	237,723	962	238,685
Ceded to nonaffiliates	(5,549)	(5,528)	(11,077)
Ceded to affiliates	(191,282)	(9,926)	(201,208)
Net losses and settlement expenses incurred	$ 233,892	$ 69,496	$ 303,388

Individual lines in the above tables are defined as follows:

- "Direct" represents business produced by the property and casualty insurance subsidiaries.
- "Assumed from nonaffiliates" for the property and casualty insurance subsidiaries represents their aggregate 30 percent pool participation percentage of involuntary business assumed by the pool participants pursuant to state law. For the reinsurance subsidiary, this line represents the reinsurance business assumed through the quota share agreement (including "fronting" activities initiated by Employers Mutual) and the business assumed outside the quota share agreement. Contractual changes in 2012 on selected accounts resulted in a reduction in "fronting" activity for that year.
- "Assumed from affiliates" for the property and casualty insurance subsidiaries represents their aggregate 30 percent pool participation percentage of all the pool members' direct business. The amounts reported under the caption "Losses and settlement expenses incurred" also include claim-related services provided by Employers Mutual that are allocated to the property and casualty insurance subsidiaries and the reinsurance subsidiary.
- "Ceded to nonaffiliates" for the property and casualty insurance subsidiaries represents their aggregate 30 percent pool participation percentage of 1) the amounts ceded to nonaffiliated reinsurance companies in accordance with the terms of the reinsurance agreements providing protection to the pool and each of its participants, and 2) the amounts ceded on a mandatory basis to state organizations in connection with various programs. For the reinsurance subsidiary, this line includes reinsurance business that is ceded to other insurance companies in connection with "fronting" activities initiated by Employers Mutual. Contractual changes in 2012 on selected accounts resulted in a reduction in "fronting" activity for that year.
- "Ceded to affiliates" for the property and casualty insurance subsidiaries represents the cession of their direct business to Employers Mutual under the terms of the pooling agreement. For the reinsurance subsidiary this line represents amounts ceded to Employers Mutual under the terms of the excess of loss reinsurance agreement.

4. LIABILITY FOR LOSSES AND SETTLEMENT EXPENSES

The following table sets forth a reconciliation of beginning and ending reserves for losses and settlement expenses of the Company. Amounts presented are on a net basis, with a reconciliation of beginning and ending reserves to the gross amounts presented in the consolidated financial statements.

	Year ended December 31,		
	2014	2013	2012
Gross reserves at beginning of year	**$ 610,181**	$ 583,097	$ 593,300
Less re-valuation due to foreign currency exchange rates	**333**	(2)	—
Less ceded reserves at beginning of year	**30,118**	31,390	36,842
Net reserves at beginning of year	**579,730**	551,709	556,458
Incurred losses and settlement expenses related to:			
Current year	**406,266**	346,072	329,121
Prior years	**(20,792)**	(12,785)	(25,733)
Total incurred losses and settlement expenses	**385,474**	333,287	303,388
Paid losses and settlement expenses related to:			
Current year	**162,905**	137,998	145,103
Prior years	**167,182**	167,268	163,034
Total paid losses and settlement expenses	**330,087**	305,266	308,137
Net reserves at end of year	**635,117**	579,730	551,709
Plus ceded reserves at end of year	**28,253**	30,118	31,390
Plus re-valuation due to foreign currency exchange rates	**(2,061)**	333	(2)
Gross reserves at end of year	**$ 661,309**	$ 610,181	$ 583,097

Development on prior years' reserves resulting solely from changes in the allocation of bulk reserves between the current and prior accident years in the property and casualty insurance segment does not have an impact on earnings. This is due to the fact that such development is simply a mathematical by-product of the mechanical process used to reallocate bulk reserves to the various accident years. Earnings are only impacted by changes in the total amount of carried reserves.

The following table presents the reported amounts of favorable development experienced on prior years' reserves and the portion of the reported development amounts that resulted solely from changes in the allocation of bulk reserves between the current and prior accident years in the property and casualty insurance segment (no impact on earnings). The result is an approximation of the implied amounts of favorable development that had an impact on earnings.

	Year ended December 31,		
	2014	2013	2012
Reported amount of favorable development experienced on prior years' reserves	**$ (20,792)**	$ (12,785)	$ (25,733)
Adjustment for (adverse) favorable development included in the reported development amount that had no impact on earnings	**2,151**	6,526	(4,551)
Approximation of the implied amount of favorable development that had an impact on earnings	**$ (18,641)**	$ (6,259)	$ (30,284)

There is an inherent amount of uncertainty involved in the establishment of insurance liabilities. This uncertainty is greatest in the current and more recent accident years because a smaller percentage of the expected ultimate claims have been reported, adjusted and settled compared to more mature accident years. For this reason, carried reserves for these accident years reflect prudently conservative assumptions. As the carried reserves for these accident years run off, the overall expectation is that, more often than not, favorable development will occur. However, there is also the possibility that the ultimate settlement of liabilities associated with these accident years will show adverse development, and such adverse development could be substantial.

Changes in reserve estimates are reflected in operating results in the year such changes are recorded. Following is an analysis of the reserve development the Company has experienced during the past three years. Care should be exercised when attempting to analyze the financial impact of the reported development amounts because, as noted above, the overall expectation is that, more often than not, favorable development will occur as the prior accident years' reserves run off.

2014 Development

For the property and casualty insurance segment, the December 31, 2014 estimate of loss and settlement expense reserves for accident years 2013 and prior decreased $8,110 from the estimate at December 31, 2013. This decrease represents 1.9 percent of the December 31, 2013 gross carried reserves and is primarily attributed to better than expected outcomes on claims reported in prior years and favorable development on prior years' settlement expenses. No changes were made in the key actuarial assumptions utilized to estimate loss and settlement expense reserves during 2014; however, the accident year allocation factors applied to incurred but not reported (IBNR) loss, bulk case loss and a portion of defense and cost containment expense reserves were revised at December 31, 2014 as part of the annual review. This change resulted in the movement of $2,151 of reserves from prior accident years to the current accident year, and hence, was reported as favorable development on prior years' reserves. Development on prior years' reserves resulting solely from changes in the allocation of bulk reserves between the current and prior accident years does not have an impact on earnings.

For the reinsurance segment, the December 31, 2014 estimate of loss and settlement expense reserves for accident years 2013 and prior decreased $12,682 from the estimate at December 31, 2013. This decrease represents 6.9 percent of the December 31, 2013 gross carried reserves and is largely attributable to reported losses being lower than what was expected as of December 2014 for accident years 2012 and prior, and a take down of IBNR on older accident years because the amount previously carried was no longer indicated in the actuarial analysis.

2013 Development

For the property and casualty insurance segment, the December 31, 2013 estimate of loss and settlement expense reserves for accident years 2012 and prior decreased $7,281 from the estimate at December 31, 2012. This decrease represented 1.8 percent of the December 31, 2012 gross carried reserves and was primarily attributed to favorable development on settlement expense reserves and ceded reinsurance reserves. No changes were made in the key actuarial assumptions utilized to estimate loss and settlement expense reserves during 2013; however, the accident year allocation factors applied to IBNR loss, bulk case loss and a portion of defense and cost containment expense reserves were revised at December 31, 2013 as part of the annual review. This change resulted in the movement of $6,526 of reserves from prior accident years to the current accident year, and hence, was reported as favorable development on prior years' reserves. Development on prior years' reserves resulting solely from changes in the allocation of bulk reserves between the current and prior accident years does not have an impact on earnings.

For the reinsurance segment, the December 31, 2013 estimate of loss and settlement expense reserves for accident years 2012 and prior decreased $5,504 from the estimate at December 31, 2012. This decrease represented 3.2 percent of the December 31, 2012 gross carried reserves and was largely attributed to reported losses that were below the December 2012 implicit projections for policy year 2012 in the Home Office Reinsurance Assumed Department ("HORAD") book of business.

2012 Development

For the property and casualty insurance segment, the December 31, 2012 estimate of loss and settlement expense reserves for accident years 2011 and prior decreased $13,057 from the estimate at December 31, 2011. This decrease represented 3.1 percent of the December 31, 2011 gross carried reserves and was primarily attributed to decreased severity associated with the final settlement of prior accident years' claims, and favorable development on settlement expense reserves. No changes were made in the key actuarial assumptions utilized to estimate loss and settlement expense reserves during 2012; however, the accident year allocation factors applied to IBNR loss, bulk case loss and a portion of defense and cost containment expense reserves were revised at December 31, 2012 as part of the annual review. This change resulted in the movement of $4,551 of reserves from the current accident year to prior accident years, and hence, was reported as adverse development on prior years' reserves. Development on prior years' reserves resulting solely from changes in the allocation of bulk reserves between the current and prior accident years does not have an impact on earnings.

For the reinsurance segment, the December 31, 2012 estimate of loss and settlement expense reserves for accident years 2011 and prior decreased $12,676 from the estimate at December 31, 2011. This decrease represented 7.3 percent of the December 31, 2011 gross carried reserves and was largely attributed to reported losses that were below the December 2011 implicit projections for policy year 2011 in the HORAD book of business.

5. ASBESTOS AND ENVIRONMENTAL CLAIMS

The Company has exposure to asbestos and environmental related claims associated with the insurance business written by the parties to the pooling agreement and the reinsurance business assumed from Employers Mutual by the reinsurance subsidiary. These exposures are not considered to be significant. Asbestos and environmental losses paid by the Company have averaged $1,720 per year over the past five years. Reserves for asbestos and environmental related claims for direct insurance and assumed reinsurance business totaled $9,420 and $9,643 ($9,296 and $8,950 net of reinsurance) at December 31, 2014 and 2013, respectively.

Estimating loss and settlement expense reserves for asbestos and environmental claims is very difficult due to the many uncertainties surrounding these types of claims. These uncertainties exist because the assignment of responsibility varies widely by state and claims often emerge long after a policy has expired, which makes assignment of damages to the appropriate party and to the time period covered by a particular policy difficult. In establishing reserves for these types of claims, management monitors the relevant facts concerning each claim, the current status of the legal environment, social and political conditions, and claim history and trends within the Company and the industry.

At present, the pool participants are defending approximately 1,849 asbestos bodily injury lawsuits, some of which involve multiple plaintiffs. Most of the lawsuits are subject to express reservation of rights based upon the lack of an injury within the applicable policy periods, because many asbestos lawsuits do not specifically allege dates of asbestos exposure or dates of injury. The pool participants' policyholders named as defendants in these asbestos lawsuits are typically peripheral defendants who have little or no exposure and are routinely dismissed from asbestos litigation with nominal or no payment (i.e., small contractors, supply companies, and a furnace manufacturer).

Prior to 2008, actual losses paid for asbestos-related claims has been minimal due to the plaintiffs' failure to identify an exposure to any asbestos-containing products associated with the pool participants' current and former policyholders. However, paid losses and settlement expenses have increased significantly since 2008 as a result of claims attributed to one former policyholder. During the period 2009 through 2014, the Company's share of paid losses and settlement expenses attributed to this former policyholder, a furnace manufacturer, was $7,294 (primarily settlement expenses). The asbestos exposure associated with this former policyholder has increased in recent years, and this trend may possibly continue into the future with increased per plaintiff settlements. Approximately 690 asbestos exposure claims associated with this former policyholder remain open.

The Company continues to run-off ultimate asbestos and environmental reserves established from an outside consultant's ground-up study completed a number of years ago. The direct IBNR and bulk settlement expense reserves associated with asbestos has been increased each year for the last several years in response to new information. In particular, bulk settlement expense reserves have been increased to cover the costs associated with the retention of a national coordinating counsel to address the multi-state litigation issues of the Company's largest asbestos defendant (the furnace manufacturer discussed above). Additionally, in 2012 the Company jointly settled a long-term asbestos case representing the Company's share of 20 years' worth of defense costs. Increased settlement expense payments have been the main driver of the reserve increases over the past several years.

6. STATUTORY INFORMATION AND DIVIDEND RESTRICTIONS

The Company's insurance subsidiaries are required to file financial statements with state regulatory authorities. The accounting principles used to prepare these statutory financial statements follow prescribed or permitted accounting practices that differ from GAAP. Prescribed statutory accounting principles include state laws, regulations and general administrative rules issued by the state of domicile, as well as a variety of publications and manuals of the National Association of Insurance Commissioners (NAIC). Permitted accounting practices encompass all accounting practices not prescribed, but allowed by the state of domicile. The Company's insurance subsidiaries had no permitted accounting practices during 2014, 2013 or 2012.

Statutory surplus of the Company's insurance subsidiaries was $454,799 and $416,718 at December 31, 2014 and 2013, respectively. Statutory net income of the Company's insurance subsidiaries was $32,159, $41,162 and $38,102 for 2014, 2013 and 2012, respectively.

The NAIC utilizes a risk-based capital model to help state regulators assess the capital adequacy of insurance companies and identify insurers that are in, or are perceived as approaching, financial difficulty. This model establishes minimum capital needs based on the risks applicable to the operations of the individual insurer. The risk-based capital requirements for property and casualty insurance companies measure three major areas of risk: asset risk, credit risk and underwriting risk. Companies having less statutory surplus than required by the risk-based capital requirements are subject to varying degrees of regulatory scrutiny and intervention, depending on the severity of the inadequacy. At December 31, 2014, the Company's insurance subsidiaries had total adjusted statutory capital of $454,799, which is well in excess of the minimum risk-based capital requirement of $73,243.

The amount of dividends available for distribution to the Company by its insurance subsidiaries is limited by law to a percentage of the statutory unassigned surplus of each of the subsidiaries as of the previous December 31, as determined in accordance with accounting practices prescribed by insurance regulatory authorities of the state of domicile of each subsidiary. Subject to this limitation, the maximum dividend that may be paid within a 12 month period without prior approval of the insurance regulatory authorities is generally restricted to the greater of 10 percent of statutory surplus as regards policyholders as of the preceding December 31, or net income of the preceding calendar year on a statutory basis, not greater than earned statutory surplus. At December 31, 2014, $45,480 was available for distribution to the Company in 2015 without prior approval.

7. SEGMENT INFORMATION

The Company's operations consist of a property and casualty insurance segment and a reinsurance segment. The property and casualty insurance segment writes both commercial and personal lines of insurance, with a focus on medium-sized commercial accounts. The reinsurance segment provides reinsurance for other insurers and reinsurers. The segments are managed separately due to differences in the insurance products sold and the business environments in which they operate. The accounting policies of the segments are described in note 1, Summary of Significant Accounting Policies.

Summarized financial information for the Company's segments is as follows:

Year ended December 31, 2014	Property and casualty insurance	Reinsurance	Parent company	Consolidated
Premiums earned	**$ 422,381**	**$ 118,341**	**$ —**	**$ 540,722**
Underwriting profit (loss)	**(12,309)**	**2,185**	**—**	**(10,124)**
Net investment income (loss)	**33,509**	**12,968**	**(12)**	**46,465**
Realized investment gains	**2,938**	**1,411**	**—**	**4,349**
Other income (loss)	**695**	**2,236**	**—**	**2,931**
Interest expense	**337**	**—**	**—**	**337**
Other expenses	**793**	**—**	**1,584**	**2,377**
Income (loss) before income tax expense (benefit)	**$ 23,703**	**$ 18,800**	**$ (1,596)**	**$ 40,907**
Assets	**$ 1,057,429**	**$ 434,139**	**$ 503,008**	**$ 1,994,576**
Eliminations	**—**	**—**	**(495,288)**	**(495,288)**
Reclassifications	**(909)**	**—**	**(559)**	**(1,468)**
Total assets	**$ 1,056,520**	**$ 434,139**	**$ 7,161**	**$ 1,497,820**

Year ended December 31, 2013	Property and casualty insurance	Reinsurance	Parent company	Consolidated
Premiums earned	$ 392,719	$ 122,787	$ —	$ 515,506
Underwriting profit (loss)	(10,435)	21,308	—	10,873
Net investment income (loss)	31,397	11,635	(10)	43,022
Realized investment gains	7,525	1,472	—	8,997
Other income (loss)	765	(305)	—	460
Interest expense	384	—	—	384
Other expenses	751	—	1,364	2,115
Income (loss) before income tax expense (benefit)	$ 28,117	$ 34,110	$ (1,374)	$ 60,853
Assets	$ 974,743	$ 386,855	$ 455,368	$ 1,816,966
Eliminations	—	—	(441,984)	(441,984)
Reclassifications	—	—	(481)	(481)
Total assets	$ 974,743	$ 386,855	$ 12,903	$ 1,374,501

Year ended December 31, 2012	Property and casualty insurance	Reinsurance	Parent company	Consolidated
Premiums earned	$ 357,139	$ 101,707	$ —	$ 458,846
Underwriting profit (loss)	(8,207)	9,841	—	1,634
Net investment income (loss)	32,214	11,941	(10)	44,145
Realized investment gains	7,348	669	—	8,017
Other income (loss)	774	60	—	834
Interest expense	900	—	—	900
Other expenses	798	—	1,299	2,097
Income (loss) before income tax expense (benefit)	$ 30,431	$ 22,511	$ (1,309)	$ 51,633

The following table displays the net premiums earned of the property and casualty insurance segment and the reinsurance segment for the three years ended December 31, 2014, by line of insurance.

	Year ended December 31,		
	2014	2013	2012
Property and casualty insurance segment			
Commercial lines:			
Automobile	**$ 96,908**	$ 86,230	$ 76,362
Property	**97,155**	87,446	77,726
Workers' compensation	**88,356**	83,172	75,697
Liability	**86,108**	77,983	68,661
Other	**7,416**	7,487	7,614
Total commercial lines	**375,943**	342,318	306,060
Personal lines:			
Automobile	**25,094**	27,408	28,437
Property	**20,562**	22,285	22,020
Liability	**782**	708	622
Total personal lines	**46,438**	50,401	51,079
Total property and casualty insurance	**$ 422,381**	$ 392,719	$ 357,139
Reinsurance segment			
Pro rata reinsurance:			
Property and liability	**$ 8,552**	$ 7,489	$ 6,232
Property	**4,793**	15,775	13,509
Crop	**3,636**	4,455	3,841
Liability	**9,919**	5,172	1,171
Marine	**14,983**	14,757	5,708
Total pro rata reinsurance	**41,883**	47,648	30,461
Excess of loss reinsurance:			
Property	**64,956**	64,069	59,537
Liability	**11,408**	11,070	11,698
Surety	**94**	—	11
Total excess of loss reinsurance	**76,458**	75,139	71,246
Total reinsurance	**$ 118,341**	$ 122,787	$ 101,707
Consolidated	**$ 540,722**	$ 515,506	$ 458,846

8. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Company's financial instruments is summarized below.

	Carrying amount	Estimated fair value
December 31, 2014		
Assets:		
Fixed maturity securities available-for-sale:		
U.S. treasury	$ **9,703**	$ **9,703**
U.S. government-sponsored agencies	**215,616**	**215,616**
Obligations of states and political subdivisions	**326,058**	**326,058**
Commercial mortgage-backed	**46,762**	**46,762**
Residential mortgage-backed	**97,953**	**97,953**
Other asset-backed	**16,005**	**16,005**
Corporate	**415,402**	**415,402**
Total fixed maturity securities available-for-sale	**1,127,499**	**1,127,499**
Equity securities available-for-sale:		
Common stocks:		
Financial services	**34,379**	**34,379**
Information technology	**26,865**	**26,865**
Healthcare	**26,852**	**26,852**
Consumer staples	**16,694**	**16,694**
Consumer discretionary	**22,691**	**22,691**
Energy	**22,863**	**22,863**
Industrials	**18,221**	**18,221**
Other	**16,056**	**16,056**
Non-redeemable preferred stocks	**12,415**	**12,415**
Total equity securities available-for-sale	**197,036**	**197,036**
Short-term investments	**53,262**	**53,262**
Liabilities:		
Surplus notes	**25,000**	**12,308**

	Carrying amount	Estimated fair value
December 31, 2013		
Assets:		
Fixed maturity securities available-for-sale:		
U.S. treasury	$ 9,412	$ 9,412
U.S. government-sponsored agencies	146,946	146,946
Obligations of states and political subdivisions	357,052	357,052
Commercial mortgage-backed	68,939	68,939
Residential mortgage-backed	94,179	94,179
Other asset-backed	12,648	12,648
Corporate	338,808	338,808
Total fixed maturity securities available-for-sale	1,027,984	1,027,984
Equity securities available-for-sale:		
Common stocks:		
Financial services	28,498	28,498
Information technology	18,917	18,917
Healthcare	21,945	21,945
Consumer staples	13,011	13,011
Consumer discretionary	21,031	21,031
Energy	21,117	21,117
Industrials	17,264	17,264
Other	17,811	17,811
Non-redeemable preferred stocks	10,254	10,254
Total equity securities available-for-sale	169,848	169,848
Short-term investments	56,166	56,166
Liabilities:		
Surplus notes	25,000	10,040

The estimated fair value of fixed maturity and equity securities is based on quoted market prices, where available. In cases where quoted market prices are not available, fair values are based on a variety of valuation techniques depending on the type of security.

Short-term investments generally include money market funds, U.S. Treasury bills and commercial paper. Short-term investments are carried at fair value, which approximates cost, due to the highly liquid nature of the securities. Short-term securities are classified as Level 1 fair value measurements when the fair value can be validated by recent trades. When recent trades are not available, fair value is deemed to be the cost basis and the securities are classified as Level 2 fair value measurements.

The estimated fair value of the surplus notes is derived by discounting future expected cash flows at a rate deemed appropriate. The discount rate was set at the average of current yields-to-maturity on several insurance company surplus notes that are traded in observable markets, adjusted upward by 50 basis points to reflect illiquidity and perceived risk premium differences. Other assumptions include a 25-year term (the surplus notes have no stated maturity date) and an interest rate that continues at the current 1.35 percent interest rate. The rate is typically adjusted every five years and is based upon the then-current Federal Home Loan Bank borrowing rate for 5-year funds available to Employers Mutual.

Fair value is defined as the 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 following fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value:

Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Prices or valuation techniques that require significant unobservable inputs because observable inputs are not available. The unobservable inputs may reflect the Company's own judgments about the assumptions that market participants would use.

The Company uses an independent pricing source to obtain the estimated fair values of a majority of its securities, subject to an internal validation. The fair values are based on quoted market prices, where available. This is typically the case for equity securities and money market funds, which are accordingly classified as Level 1 fair value measurements. In cases where quoted market prices are not available, fair values are based on a variety of valuation techniques depending on the type of security. Fixed maturity securities, non-redeemable preferred stocks and various short-term investments in the Company's portfolio may not trade on a daily basis; however, observable inputs are utilized in their valuations, and these securities are therefore classified as Level 2 fair value measurements. Following is a brief description of the various pricing techniques used by the independent pricing source for different asset classes.

- U.S. Treasury securities (including bonds, notes, and bills) are priced according to a number of live data sources, including active market makers and inter-dealer brokers. Prices from these sources are reviewed based on the sources' historical accuracy for individual issues and maturity ranges.
- U.S. government-sponsored agencies and corporate securities (including fixed-rate corporate bonds and medium-term notes) are priced by determining a bullet (non-call) spread scale for each issuer for maturities going out to forty years. These spreads represent credit risk and are obtained from the new issue market, secondary trading, and dealer quotes. An option adjusted spread model is incorporated to adjust spreads of issues that have early redemption features. The final spread is then added to the U.S. Treasury curve.
- Obligations of states and political subdivisions are priced by tracking and analyzing actively quoted issues and reported trades, material event notices and benchmark yields. Municipal bonds with similar characteristics are grouped together into market sectors, and internal yield curves are constructed daily for these sectors. Individual bond evaluations are extrapolated from these sectors, with the ability to make individual spread adjustments for attributes such as discounts, premiums, alternative minimum tax, and/or whether or not the bond is callable.
- Mortgage-backed and asset-backed securities are first reviewed for the appropriate pricing speed (if prepayable), spread, yield and volatility. The securities are priced with models using spreads and other information solicited from Wall Street buy- and sell-side sources, including primary and secondary dealers, portfolio managers, and research analysts. To determine a tranche's price, first the benchmark yield is determined and adjusted for collateral performance, tranche level attributes and market conditions. Then the cash flow for each tranche is generated (using consensus prepayment speed assumptions including, as appropriate, a prepayment projection based on historical statistics of the underlying collateral). The tranche-level yield is used to discount the cash flows and generate the price. Depending on the characteristics of the tranche, a volatility-driven, multi-dimensional single cash flow stream model or an option-adjusted spread model may be used. When cash flows or other security structure or market information is not available, broker quotes may be used.

On a quarterly basis, the Company receives from its independent pricing service a list of fixed maturity securities, if any, that were priced solely from broker quotes. For these securities, fair value may be determined using the broker quotes, or by the Company using similar pricing techniques as the Company's independent pricing service. Depending on the level of observable inputs, these securities would be classified as Level 2 or Level 3 fair value measurements. At December 31, 2014 the Company had no securities priced solely from broker quotes. At December 31, 2013, seven securities were priced solely from broker quotes, but all of the securities were reported as Level 2 fair value measurements due to the broker quote prices approximating the Company's price estimates obtained by applying pricing techniques with observable inputs.

A small number of the Company's securities are not priced by the independent pricing service. One is an equity security that is reported as a Level 3 fair value measurement at December 31, 2014 and 2013, since no reliable observable inputs are used in its valuation. This equity security continues to be reported at the fair value obtained from the Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC). The SVO establishes a per share price for this security based on an annual review of that company's financial statements, typically performed during the second quarter. The other securities not priced by the Company's independent pricing service at December 31, 2014 include ten fixed maturity securities (six at December 31, 2013). Two of these fixed maturity securities, classified as Level 3 fair value measurements, are corporate securities that convey premium tax benefits and are not publicly traded. The fair values for these securities are based on discounted cash flow analyses. The other fixed maturity securities are classified as Level 2 fair value measurements. The fair values for these fixed maturity securities were obtained from either the SVO or the Company's investment custodian using similar pricing techniques as the Company's independent pricing service.

Presented in the table below are the estimated fair values of the Company's financial instruments as of December 31, 2014 and 2013.

		Fair value measurements using		
December 31, 2014	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial instruments reported at fair value on recurring basis:				
Assets:				
Fixed maturity securities available-for-sale:				
U.S. treasury	$ **9,703**	$ **—**	$ **9,703**	$ **—**
U.S. government-sponsored agencies	**215,616**	**—**	**215,616**	**—**
Obligations of states and political subdivisions	**326,058**	**—**	**326,058**	**—**
Commercial mortgage-backed	**46,762**	**—**	**46,762**	**—**
Residential mortgage-backed	**97,953**	**—**	**97,953**	**—**
Other asset-backed	**16,005**	**—**	**16,005**	**—**
Corporate	**415,402**	**—**	**413,740**	**1,662**
Total fixed maturity securities available-for-sale	**1,127,499**	**—**	**1,125,837**	**1,662**
Equity securities available-for-sale:				
Common stocks:				
Financial services	**34,379**	**34,376**	**—**	**3**
Information technology	**26,865**	**26,865**	**—**	**—**
Healthcare	**26,852**	**26,852**	**—**	**—**
Consumer staples	**16,694**	**16,694**	**—**	**—**
Consumer discretionary	**22,691**	**22,691**	**—**	**—**
Energy	**22,863**	**22,863**	**—**	**—**
Industrials	**18,221**	**18,221**	**—**	**—**
Other	**16,056**	**16,056**	**—**	**—**
Non-redeemable preferred stocks	**12,415**	**7,745**	**4,670**	**—**
Total equity securities available-for-sale	**197,036**	**192,363**	**4,670**	**3**
Short-term investments	**53,262**	**53,262**	**—**	**—**
Financial instruments not reported at fair value:				
Liabilities:				
Surplus notes	**12,308**	**—**	**—**	**12,308**

December 31, 2013	Total	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial instruments reported at fair value on recurring basis:				
Assets:				
Fixed maturity securities available-for-sale:				
U.S. treasury	$ 9,412	$ —	$ 9,412	$ —
U.S. government-sponsored agencies	146,946	—	146,946	—
Obligations of states and political subdivisions	357,052	—	357,052	—
Commercial mortgage-backed	68,939	—	68,939	—
Residential mortgage-backed	94,179	—	94,179	—
Other asset-backed	12,648	—	12,648	—
Corporate	338,808	—	336,832	1,976
Total fixed maturity securities available-for-sale	1,027,984	—	1,026,008	1,976
Equity securities available-for-sale:				
Common stocks:				
Financial services	28,498	28,495	—	3
Information technology	18,917	18,917	—	—
Healthcare	21,945	21,945	—	—
Consumer staples	13,011	13,011	—	—
Consumer discretionary	21,031	21,031	—	—
Energy	21,117	21,117	—	—
Industrials	17,264	17,264	—	—
Other	17,811	17,811	—	—
Non-redeemable preferred stocks	10,254	5,795	4,459	—
Total equity securities available-for-sale	169,848	165,386	4,459	3
Short-term investments	56,166	56,166	—	—
Financial instruments not reported at fair value:				
Liabilities:				
Surplus notes	10,040	—	—	10,040

Presented in the table below is a reconciliation of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013. Any unrealized gains or losses on these securities are recognized in other comprehensive income. Any gains or losses from disposals or impairments of these securities are reported as realized investment gains or losses in net income.

	Fair value measurements using significant unobservable inputs (Level 3)		
	Fixed maturity securities available-for-sale, corporate	Equity securities available-for-sale, financial services	Total
Balance at December 31, 2012	$ —	$ 2	$ 2
Purchases	1,972	—	1,972
Settlements	(1)	—	(1)
Unrealized gains included in other comprehensive income (loss)	5	1	6
Balance at December 31, 2013	1,976	3	1,979
Settlements	(322)	—	(322)
Unrealized gains included in other comprehensive income (loss)	8	—	8
Balance at December 31, 2014	$ 1,662	$ 3	$ 1,665

There were no transfers into or out of Levels 1 or 2 during 2014 or 2013. It is the Company's policy to recognize transfers between levels at the beginning of the reporting period.

9. INVESTMENTS

Investments of the Company's insurance subsidiaries are subject to the insurance laws of the state of their incorporation. These laws prescribe the kind, quality and concentration of investments that may be made by insurance companies. In general, these laws permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, preferred and common stocks and real estate mortgages. The Company believes that it is in compliance with these laws.

The amortized cost and estimated fair value of securities available-for-sale as of December 31, 2014 and 2013 are as follows. All securities are classified as available-for-sale and are carried at fair value.

December 31, 2014	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available-for-sale:				
Fixed maturity securities:				
U.S. treasury	$ 9,574	$ 129	$ —	$ 9,703
U.S. government-sponsored agencies	215,425	2,313	2,122	215,616
Obligations of states and political subdivisions	299,258	26,840	40	326,058
Commercial mortgage-backed	42,996	3,766	—	46,762
Residential mortgage-backed	100,296	1,402	3,745	97,953
Other asset-backed	14,798	1,213	6	16,005
Corporate	397,659	18,485	742	415,402
Total fixed maturity securities	1,080,006	54,148	6,655	1,127,499
Equity securities:				
Common stocks:				
Financial services	22,586	11,835	42	34,379
Information technology	15,755	11,110	—	26,865
Healthcare	14,673	12,179	—	26,852
Consumer staples	10,584	6,112	2	16,694
Consumer discretionary	11,304	11,420	33	22,691
Energy	15,837	7,458	432	22,863
Industrials	9,658	8,596	33	18,221
Other	11,493	4,563	—	16,056
Non-redeemable preferred stocks	12,082	617	284	12,415
Total equity securities	123,972	73,890	826	197,036
Total securities available-for-sale	$ 1,203,978	$ 128,038	$ 7,481	$ 1,324,535

December 31, 2013	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available-for-sale:				
Fixed maturity securities:				
U.S. treasury	$ 9,540	$ 191	$ 319	$ 9,412
U.S. government-sponsored agencies	156,981	1,356	11,391	146,946
Obligations of states and political subdivisions	346,554	15,040	4,542	357,052
Commercial mortgage-backed	63,185	5,842	88	68,939
Residential mortgage-backed	96,058	1,073	2,952	94,179
Other asset-backed	11,456	1,192	—	12,648
Corporate	325,798	16,542	3,532	338,808
Total fixed maturity securities	1,009,572	41,236	22,824	1,027,984
Equity securities:				
Common stocks:				
Financial services	19,273	9,374	149	28,498
Information technology	12,645	6,301	29	18,917
Healthcare	12,801	9,144	—	21,945
Consumer staples	9,162	3,849	—	13,011
Consumer discretionary	10,722	10,309	—	21,031
Energy	14,102	7,341	326	21,117
Industrials	11,190	6,075	1	17,264
Other	13,358	4,489	36	17,811
Non-redeemable preferred stocks	10,582	316	644	10,254
Total equity securities	113,835	57,198	1,185	169,848
Total securities available-for-sale	$ 1,123,407	$ 98,434	$ 24,009	$ 1,197,832

The following table sets forth the estimated fair value and gross unrealized losses associated with investment securities that were in an unrealized loss position as of December 31, 2014 and 2013, listed by length of time the securities were in an unrealized loss position.

December 31, 2014	Less than twelve months		Twelve months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Fixed maturity securities:						
U.S. government-sponsored agencies	**$ 24,473**	**$ 94**	**$ 97,446**	**$ 2,028**	**$ 121,919**	**$ 2,122**
Obligations of states and political subdivisions	**—**	**—**	**3,757**	**40**	**3,757**	**40**
Commercial mortgage-backed	**1,102**	**—**	**—**	**—**	**1,102**	**—**
Residential mortgage-backed	**21,451**	**1,252**	**21,163**	**2,493**	**42,614**	**3,745**
Other asset-backed	**1,889**	**6**	**—**	**—**	**1,889**	**6**
Corporate	**16,740**	**281**	**28,257**	**461**	**44,997**	**742**
Total fixed maturity securities	**65,655**	**1,633**	**150,623**	**5,022**	**216,278**	**6,655**
Equity securities:						
Common stocks:						
Financial services	**1,162**	**9**	**187**	**33**	**1,349**	**42**
Consumer staples	**1,051**	**2**	**—**	**—**	**1,051**	**2**
Consumer discretionary	**822**	**33**	**—**	**—**	**822**	**33**
Energy	**4,298**	**432**	**—**	**—**	**4,298**	**432**
Industrials	**1,406**	**33**	**—**	**—**	**1,406**	**33**
Non-redeemable preferred stocks	**—**	**—**	**1,716**	**284**	**1,716**	**284**
Total equity securities	**8,739**	**509**	**1,903**	**317**	**10,642**	**826**
Total temporarily impaired securities	**$ 74,394**	**$ 2,142**	**$ 152,526**	**$ 5,339**	**$ 226,920**	**$ 7,481**

December 31, 2013	Less than twelve months		Twelve months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Fixed maturity securities:						
U.S. treasury	$ 4,507	$ 319	$ —	$ —	$ 4,507	$ 319
U.S. government-sponsored agencies	93,856	8,120	24,053	3,271	117,909	11,391
Obligations of states and political subdivisions	74,523	4,335	3,008	207	77,531	4,542
Commercial mortgage-backed	10,551	88	—	—	10,551	88
Residential mortgage-backed	44,243	2,482	4,600	470	48,843	2,952
Corporate	81,292	2,704	10,547	828	91,839	3,532
Total fixed maturity securities	308,972	18,048	42,208	4,776	351,180	22,824
Equity securities:						
Common stocks:						
Financial services	2,801	149	—	—	2,801	149
Information technology	610	29	—	—	610	29
Consumer staples	30	—	—	—	30	—
Energy	1,450	326	—	—	1,450	326
Industrials	625	1	—	—	625	1
Other	1,499	36	—	—	1,499	36
Non-redeemable preferred stocks	2,121	128	1,484	516	3,605	644
Total equity securities	9,136	669	1,484	516	10,620	1,185
Total temporarily impaired securities	$ 318,108	$ 18,717	$ 43,692	$ 5,292	$ 361,800	$ 24,009

Unrealized losses on fixed maturity securities decreased in nearly every asset class at December 31, 2014 due to the decline in interest rates during 2014. Most of these securities are considered investment grade by credit rating agencies. Because management does not intend to sell these securities, does not believe it will be required to sell these securities before recovery, and believes it will collect the amounts due on these securities, it was determined that these securities were not "other-than-temporarily" impaired at December 31, 2014.

No particular sector or individual security accounted for a material amount of unrealized losses on commons stocks at December 31, 2014. The Company believes the unrealized losses on common stocks are primarily due to general fluctuations in the equity markets. Because the Company has the ability and intent to hold these securities for a reasonable amount of time to allow for recovery, it was determined that these securities were not "other-than-temporarily" impaired at December 31, 2014.

All of the Company's preferred stock holdings are perpetual preferred stocks. The Company evaluates perpetual preferred stocks with unrealized losses for "other-than-temporary" impairment similar to fixed maturity securities since they have debt-like characteristics such as periodic cash flows in the form of dividends and call features, are rated by rating agencies and are priced like other long-term callable fixed maturity securities. There was no evidence of any credit deterioration in the issuers of the preferred stocks and the Company does not intend to sell these securities before recovery, nor does it believe it will be required to sell these securities before recovery; therefore, it was determined that these securities were not "other-than-temporarily" impaired at December 31, 2014.

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2014, by contractual maturity, are shown below. Expected 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	Estimated fair value
Securities available-for-sale:		
Due in one year or less	**$ 33,469**	**$ 33,945**
Due after one year through five years	**194,140**	**204,973**
Due after five years through ten years	**223,145**	**229,778**
Due after ten years	**485,960**	**514,088**
Mortgage-backed securities	**143,292**	**144,715**
Totals	**$ 1,080,006**	**$ 1,127,499**

A summary of realized investment gains and (losses) is as follows:

	Year ended December 31,		
	2014	2013	2012
Fixed maturity securities available-for-sale:			
Gross realized investment gains	**$ 979**	$ 1,226	$ 795
Gross realized investment losses	**(92)**	(725)	(10)
"Other-than-temporary" impairments	**(1)**	—	—
Equity securities available-for-sale:			
Gross realized investment gains	**8,913**	9,458	9,984
Gross realized investment losses	**(1,727)**	(899)	(2,566)
"Other-than-temporary" impairments	**(877)**	(63)	(186)
Other long-term investments:			
Gross realized investment losses	**(2,846)**	—	—
Totals	**$ 4,349**	$ 8,997	$ 8,017

Gains and losses realized on the disposition of investments are included in net income. The cost of investments sold is determined on the specific identification method using the highest cost basis first. The realized investment losses recognized on other long-term investments during 2014 represent changes in the carrying value of a limited partnership that was purchased to implement an equity tail-risk hedging strategy. The amounts reported as "other-than-temporary" impairments do not include any individually significant items. The Company did not have any outstanding cumulative credit losses on fixed maturity securities that have been recognized in earnings from "other-than-temporary" impairments during any of the reported periods.

A summary of net investment income is as follows:

	Year ended December 31,		
	2014	2013	2012
Interest on fixed maturity securities	**$ 41,932**	$ 40,062	$ 41,699
Dividends on equity securities	**6,007**	4,619	3,852
Interest on short-term investments	**—**	27	129
Return on long-term investments	**297**	22	12
Total investment income	**48,236**	44,730	45,692
Securities litigation income	**107**	219	58
Investment expenses	**(1,878)**	(1,927)	(1,605)
Net investment income	**$ 46,465**	$ 43,022	$ 44,145

A summary of net changes in unrealized holding gains (losses) on securities available-for-sale is as follows:

	Year ended December 31,		
	2014	2013	2012
Fixed maturity securities	**$ 29,081**	$ (60,540)	$ 20,687
Deferred income tax expense (benefit)	**10,179**	(21,189)	7,240
Total fixed maturity securities	**18,902**	(39,351)	13,447
Equity securities	**17,051**	27,571	8,008
Deferred income tax expense	**5,967**	9,650	2,803
Total equity securities	**11,084**	17,921	5,205
Total available-for-sale securities	**$ 29,986**	$ (21,430)	$ 18,652

10. INCOME TAXES

Temporary differences between the consolidated financial statement carrying amount and tax basis of assets and liabilities that give rise to significant portions of the deferred income tax asset (liability) at December 31, 2014 and 2013 are as follows:

	December 31,	
	2014	2013
Loss reserve discounting	**$ 15,681**	$ 17,690
Unearned premium reserve limitation	**15,648**	14,764
Other policyholders' funds payable	**3,553**	2,972
Other, net	**1,145**	1,761
Total deferred income tax asset	**36,027**	37,187
Net unrealized holding gains on investment securities	**(42,195)**	(26,049)
Deferred policy acquisition costs	**(13,770)**	(13,227)
Retirement benefits	**(5,712)**	(8,234)
Other, net	**(3,004)**	(2,499)
Total deferred income tax liability	**(64,681)**	(50,009)
Net deferred income tax liability	**$ (28,654)**	$ (12,822)

Based upon anticipated future taxable income and consideration of all other available evidence, management believes that it is “more likely than not” that the Company’s deferred income tax assets will be realized.

The actual income tax expense for the years ended December 31, 2014, 2013 and 2012 differed from the "expected" income tax expense for those years (computed by applying the United States federal corporate tax rate of 35 percent to income before income tax expense) as follows:

	Year ended December 31,		
	2014	2013	2012
Computed "expected" income tax expense	**$ 14,318**	$ 21,298	$ 18,072
Increases (decreases) in tax resulting from:			
Tax-exempt interest income	**(3,285)**	(3,828)	(4,433)
Dividends received deduction	**(828)**	(876)	(723)
Proration of tax-exempt interest and dividends received deduction	**617**	706	773
Other, net	**93**	34	(22)
Total income tax expense	**$ 10,915**	$ 17,334	$ 13,667

Comprehensive income tax expense included in the consolidated financial statements for the years ended December 31, 2014, 2013 and 2012 is as follows:

	Year ended December 31,		
	2014	2013	2012
Income tax expense (benefit) on:			
Operations	**$ 10,915**	$ 17,334	$ 13,667
Change in unrealized holding gains on investment securities	**16,146**	(11,539)	10,043
Change in funded status of retirement benefit plans:			
Pension plans	**(2,619)**	5,498	598
Postretirement benefit plans	**(1,330)**	12,103	350
Comprehensive income tax expense	**$ 23,112**	$ 23,396	$ 24,658

The Company had no provision for uncertain income tax positions at December 31, 2014 or 2013. The Company recognized $1 and $3 of interest income related to U.S. federal income taxes during 2014 and 2012, respectively. The Company did not recognize any interest expense or other penalties related to U.S. federal or state income taxes during 2014, 2013 or 2012. It is the Company's accounting policy to reflect income tax penalties as other expense, and interest as interest expense.

The Company files a U.S. federal income tax return, along with various state income tax returns. The Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2011. The Company's 2011 income tax return has been audited and no adjustments were proposed.

11. SURPLUS NOTES

The Company's property and casualty insurance subsidiaries have $25,000 of surplus notes issued to Employers Mutual. Effective February 1, 2013, the interest rate on the surplus notes was reduced to 1.35 percent from the previous rate of 3.60 percent. Reviews of the interest rate are conducted by the Inter-Company Committees of the boards of directors of the Company and Employers Mutual every five years, with the next review due in 2018. Payments of interest and repayments of principal can only be made out of the applicable subsidiary's statutory surplus and are subject to prior approval by the insurance commissioner of the respective states of domicile. The surplus notes are subordinate and junior in right of payment to all obligations or liabilities of the applicable insurance subsidiaries. Total interest expense on these surplus notes was $337 in 2014, $384 in 2013 and $900 in 2012. At December 31, 2014, the Company's property and casualty insurance subsidiaries had received approval for the payment of the 2014 interest expense on the surplus notes.

12. EMPLOYEE RETIREMENT PLANS

Employers Mutual has various employee benefit plans, including two defined benefit pension plans and two postretirement benefit plans that provide retiree healthcare and life insurance benefits.

Employers Mutual's pension plans include a qualified defined benefit pension plan and a non-qualified defined benefit supplemental pension plan. The qualified defined benefit plan covers substantially all of its employees. This plan is funded by employer contributions and provides benefits under two different formulas, depending on an employee's age and date of service. Benefits generally vest after three years of service or the attainment of 55 years of age. It is Employers Mutual's funding policy to make contributions sufficient to be in compliance with minimum regulatory funding requirements plus additional amounts as determined by management.

Employers Mutual's non-qualified defined benefit supplemental pension plan provides retirement benefits for a select group of management and highly-compensated employees. This plan enables select employees to receive retirement benefits without the limit on compensation imposed on qualified defined benefit pension plans by the Internal Revenue Service (IRS) and to recognize compensation that has been deferred in the determination of retirement benefits. The plan is unfunded and benefits generally vest after three years of service.

Employers Mutual also offers postretirement benefit plans which provide certain health care and life insurance benefits for retired employees. Substantially all of its employees may become eligible for those benefits if they reach normal retirement age and have attained the required length of service while working for Employers Mutual. Through 2014, the health care postretirement plan required contributions from participants and contained certain cost sharing provisions such as coinsurance and deductibles. On December 2, 2013, Employers Mutual notified its employees and retirees that effective January 1, 2015, the health care plan would be replaced with a new Employers Mutual - funded Health Reimbursement Arrangement (HRA). Under the HRA, Employers Mutual will reimburse participants for amounts expended to enroll in publicly available health care plans and/or pay for qualifying out-of-pocket health care costs, up to a pre-determined maximum per participant. The obligations of the HRA are based on the total amount of reimbursements expected to be made by Employers Mutual over the lives of the participants, rather than the total amount of medical benefits expected to be paid over the participants' lives. Therefore, the obligations of the HRA are not impacted by changes in the cost of health care. As a result of this change, the postretirement benefit plans' benefit obligation decreased by $96,704 (the Company's share was $26,937) as of December 31, 2013. The life insurance plan is noncontributory. The benefits provided under both plans are subject to change.

Employers Mutual maintains a Voluntary Employee Beneficiary Association (VEBA) trust that has historically been used to accumulate funds for the payment of postretirement health care and life insurance benefits. Contributions to the VEBA trust have been used to fund the projected postretirement benefit obligation, as well as pay benefits. Due to the significant reduction in the projected benefit obligation that occurred at December 31, 2013 with the announcement of the conversion to the HRA, the funded status of the postretirement benefit plans moved from a large underfunded position to an overfunded position. Future contributions to the VEBA trust are not anticipated for the foreseeable future.

The following table sets forth the funded status of Employers Mutual's pension and postretirement benefit plans as of December 31, 2014 and 2013, based upon measurement dates of December 31, 2014 and 2013, respectively.

	Pension plans		Postretirement benefit plans	
	2014	2013	**2014**	2013
Change in projected benefit obligation:				
Benefit obligation at beginning of year	**$ 239,109**	$ 247,290	**$ 50,006**	$ 155,102
Service cost	**12,863**	13,213	**1,260**	6,300
Interest cost	**9,664**	7,656	**2,254**	6,172
Actuarial (gain) loss	**19,257**	(14,459)	**3,516**	(18,582)
Benefits paid	**(13,764)**	(14,591)	**(2,533)**	(2,588)
Medicare subsidy reimbursements	**—**	—	**—**	306
Plan amendments	**—**	—	**—**	(96,704)
Projected benefit obligation at end of year	**267,129**	239,109	**54,503**	50,006
Change in plan assets:				
Fair value of plan assets at beginning of year	**288,750**	240,034	**67,276**	57,815
Actual return on plan assets	**15,029**	48,623	**4,547**	11,549
Employer contributions	**7,833**	14,684	**—**	500
Benefits paid	**(13,764)**	(14,591)	**(2,533)**	(2,588)
Fair value of plan assets at end of year	**297,848**	288,750	**69,290**	67,276
Funded status	**$ 30,719**	$ 49,641	**$ 14,787**	$ 17,270

The following tables set forth the amounts recognized in the Company's financial statements as a result of the property and casualty insurance subsidiaries' aggregate 30 percent participation in the pooling agreement and amounts allocated to the reinsurance subsidiary as of December 31, 2014 and 2013:

Amounts recognized in the Company's consolidated balance sheets:

	Pension plans		Postretirement benefit plans	
	2014	2013	**2014**	2013
Assets:				
Prepaid pension and postretirement benefits	**$ 13,267**	$ 18,310	**$ 4,093**	$ 4,811
Liability:				
Pension and postretirement benefits	**(4,162)**	(3,401)	**—**	—
Net amount recognized	**$ 9,105**	$ 14,909	**$ 4,093**	$ 4,811

Amounts recognized in the Company's consolidated balance sheets under the caption "accumulated other comprehensive income", before deferred income taxes:

	Pension plans		Postretirement benefit plans	
	2014	2013	**2014**	2013
Net actuarial loss	**$ (15,097)**	$ (7,606)	**$ (7,258)**	$ (6,827)
Prior service (cost) credit	**(25)**	(34)	**27,458**	30,828
Net amount recognized	**$ (15,122)**	$ (7,640)	**$ 20,200**	$ 24,001

During 2015, the Company will amortize $641 of net actuarial loss and $10 of prior service cost associated with the pension plans into net periodic benefit cost. In addition, the Company will amortize $494 of net actuarial loss and $3,317 of prior service credit associated with the postretirement benefit plans into net periodic postretirement benefit income in 2015.

Amounts recognized in the Company's consolidated statements of comprehensive income, before deferred income taxes:

	Pension plans		Postretirement benefit plans	
	2014	2013	**2014**	2013
Net actuarial gain (loss)	**$ (7,492)**	$ 15,694	**$ (431)**	$ 8,306
Prior service (cost) credit	**10**	15	**(3,370)**	26,274
Net amount recognized	**$ (7,482)**	$ 15,709	**$ (3,801)**	$ 34,580

The following table sets forth the projected benefit obligation, accumulated benefit obligation and fair value of plan assets of Employers Mutual's non-qualified pension plan. The amounts related to the qualified pension plan are not included since the plan assets exceeded the accumulated benefit obligation.

	Year ended December 31,	
	2014	2013
Projected benefit obligation	**$ 13,057**	$ 10,856
Accumulated benefit obligation	**12,121**	10,485
Fair value of plan assets	**—**	—

The components of net periodic benefit cost (income) for Employers Mutual's pension and postretirement benefit plans is as follows:

	Year ended December 31,		
	2014	2013	2012
Pension plans:			
Service cost	**$ 12,863**	$ 13,213	$ 12,386
Interest cost	**9,664**	7,656	8,819
Expected return on plan assets	**(20,733)**	(17,150)	(14,926)
Amortization of net actuarial loss	**366**	5,962	6,809
Amortization of prior service cost	**31**	50	291
Net periodic pension benefit cost	**$ 2,191**	$ 9,731	$ 13,379
Postretirement benefit plans:			
Service cost	**$ 1,260**	$ 6,300	$ 6,150
Interest cost	**2,254**	6,172	6,537
Expected return on plan assets	**(4,396)**	(3,631)	(3,219)
Amortization of net actuarial loss	**1,651**	3,694	4,008
Amortization of prior service credit	**(11,466)**	(2,491)	(2,131)
Net periodic postretirement benefit cost (income)	**$ (10,697)**	$ 10,044	$ 11,345

The net periodic postretirement benefit income recognized on Employers Mutual's postretirement benefit plans during 2014 is due to a plan amendment that was announced in the fourth quarter of 2013. This plan amendment generated a large prior service credit that is being amortized into net periodic benefit cost over a period of 10 years. In addition, the service cost and interest cost components of net periodic benefit cost of the revised plan declined significantly.

Net periodic pension benefit cost allocated to the Company amounted to $680, $3,013 and $4,115 in 2014, 2013 and 2012, respectively. Net periodic postretirement benefit cost (income) allocated to the Company for the years ended December 31, 2014, 2013 and 2012 amounted to $(3,083), $2,912, and $3,287, respectively.

The weighted-average assumptions used to measure the benefit obligations are as follows:

	Year ended December 31,	
	2014	2013
Pension plans:		
Discount rate	**3.57%**	4.17%
Rate of compensation increase:		
Qualified pension plan	**4.73%**	4.73%
Non-qualified pension plan	**4.68%**	4.68%
Postretirement benefit plans:		
Discount rate	**4.04%**	4.71%

The weighted-average assumptions used to measure the net periodic benefit costs are as follows:

	Year ended December 31,		
	2014	2013	2012
Pension plans:			
Discount rate	**4.17%**	3.24%	4.13%
Expected long-term rate of return on plan assets	**7.25%**	7.25%	7.25%
Rate of compensation increase:			
Qualified pension plan	**4.73%**	4.73%	4.73%
Non-qualified pension plan	**4.68%**	4.68%	4.68%
Postretirement benefit plans:			
Discount rate	**4.71%**	4.03%	4.59%
Expected long-term rate of return on plan assets	**6.75%**	6.50%	6.25%

The expected long-term rates of return on plan assets were developed considering actual historical results, current and expected market conditions, plan asset mix and management's investment strategy. Due to the planned conversion of the postretirement health care plan to an HRA effective January 1, 2015, an assumption for the health care cost trend rate is no longer necessary.

	Year ended December 31,	
	2014	2013
Assumed health care cost trend rate:		
Health care cost trend rate assumed for next year	**N/A**	7.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**N/A**	5.00%
Year that the rate reaches the ultimate trend rate	**N/A**	2024

The following benefit payments, which reflect expected future service, are expected to be paid from the plans over the next ten years:

	Pension benefits	Postretirement benefits
2015	$ 23,982	$ 2,698
2016	21,655	2,861
2017	21,601	2,966
2018	22,418	3,172
2019	23,668	3,259
2020 - 2024	119,109	16,966

The Company manages its VEBA trust assets internally. Assets contained in the VEBA trust to fund Employers Mutual's postretirement benefit obligations are currently invested in universal life insurance policies (issued by EMC National Life Company, an affiliate of Employers Mutual), mutual funds and an exchange-traded fund (ETF). The mutual funds are fixed income, international equity and domestic equity funds. The ETF is an emerging markets fund.

See Note 8 for a discussion on fair value measurement. The following is a description of the fair value pricing techniques used for the asset classes of Employers Mutual's VEBA trust.

- Money Market Fund: Valued at amortized cost, which approximates fair value. Under this method, investments purchased at a discount or premium are valued by accreting or amortizing the difference between the original purchase price and maturity value of the issue over the period to maturity. The net asset value of each share held by the trust at year-end was $1.00.
- Mutual Funds: Valued at the net asset value of shares held by the trust at year-end. For purposes of calculating the net asset value, portfolio securities and other assets for which market quotes are readily available are valued at fair value. Fair value is generally determined on the basis of last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or independent pricing services.
- ETF: Valued at the closing price from the applicable exchange.
- Life Insurance Contract: Valued at the cash accumulation value, which approximates fair value.

The fair values of the assets held in Employers Mutual's VEBA trust are as follows:

		Fair value measurements using		
December 31, 2014	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money market fund	**$ 4,644**	**$ 4,644**	**$ —**	**$ —**
Emerging markets ETF	**4,187**	**4,187**	**—**	**—**
Mutual funds:				
Equity	**36,451**	**36,451**	**—**	**—**
Tax-exempt fixed income	**3,425**	**3,425**	**—**	**—**
International equity	**7,175**	**7,175**	**—**	**—**
Life insurance contracts	**13,408**	**—**	**—**	**13,408**
Total benefit plan assets	**$ 69,290**	**$ 55,882**	**$ —**	**$ 13,408**

December 31, 2013	Total	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money market fund	$ 575	$ 575	$ —	$ —
Emerging markets ETF	3,224	3,224	—	—
Mutual funds:				
Equity	39,710	39,710	—	—
Tax-exempt fixed income	2,865	2,865	—	—
International equity	7,675	7,675	—	—
Life insurance contracts	13,227	—	—	13,227
Total benefit plan assets	$ 67,276	$ 54,049	$ —	$ 13,227

Presented below is a reconciliation of the assets measured at fair value using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013.

	Fair value measurements using significant unobservable inputs (Level 3)	
	Life insurance contracts	
	2014	2013
Balance at beginning of year	**$ 13,227**	$ 12,872
Actual return on plan assets:		
Increase in cash accumulation value of life insurance contracts	**367**	355
Gain on life insurance death benefit	**89**	—
Settlement of life insurance death benefit	**(275)**	—
Balance at end of year	**$ 13,408**	$ 13,227

Employers Mutual uses Global Portfolio Strategies, Inc. to advise on the asset allocation strategy for its qualified pension plan. The asset allocation strategy and process of Global Portfolio Strategies, Inc. uses a diversified allocation of equity, debt and real estate exposures that is customized to the plan's payment risk and return targets.

Global Portfolio Strategies, Inc. reviews the plan's assets and liabilities in relation to expectations of long-term market performance and liability development to determine the appropriate asset allocation. The data for the contributions and emerging liabilities is provided from the plan's actuarial valuation, while the current asset and monthly benefit payment data is provided by the plan record keeper.

The following is a description of the fair value pricing techniques used for the asset classes of Employers Mutual's qualified pension plan.

- Pooled Separate Accounts: Each of the funds held by the Plan is in a pooled or commingled investment vehicle that is maintained by the fund sponsor, each with many investors. The Plan asset is represented by a "unit of account" and a per unit value, much like a mutual fund, whose value is the accumulated value of the underlying investments. The sponsor of the fund specifies the source(s) used for the underlying investment asset prices and the protocol used to value each fund. These underlying investments are valued in the following ways:
    - Short-Term Funds are comprised of short-term securities that are valued initially at cost and thereafter adjusted for amortization of any discount or premium.
    - U.S. Stock Funds are comprised of domestic equity securities that are priced using the closing price from the applicable exchange.
    - International Stock Funds are comprised of international equity securities that are priced using the closing price from the appropriate local stock exchange(s). An independent pricing service is also used to seek updated prices in the event there are material market movements between local stock exchange closing time and portfolio valuation time.
    - U.S. Bond Funds are comprised of domestic fixed income securities. These securities are priced using inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. Market indices and industry and economic events are monitored.
- Real Estate Securities Fund: Valued at the net asset value of shares held by the Plan at year-end. For purposes of calculating the net asset value, portfolio securities and other assets for which market quotes are readily available are valued at fair value. Fair value is generally determined on the basis of last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or independent pricing services.
- Bond and Mortgage Separate Account: Invests mainly in fixed income securities such as asset-backed securities, residential mortgage-backed securities, commercial mortgage-backed securities and corporate bonds. Securities are priced by an independent pricing service using inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. Market indices and industry and economic events are also monitored.

The fair values of the assets held in Employers Mutual's defined benefit retirement plan are as follows:

		Fair value measurements using		
December 31, 2014	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Bond and mortgage separate account	**$ 34,901**	**$ —**	**$ 34,901**	**$ —**
Pooled separate accounts:				
U.S. stock funds	**119,577**	**—**	**119,577**	**—**
International stock funds	**57,955**	**—**	**57,955**	**—**
U.S. bond funds	**63,443**	**—**	**63,443**	**—**
Real estate fund	**17,735**	**—**	**17,735**	**—**
Short-term funds	**4,237**	**—**	**4,237**	**—**
Total benefit plan assets	**$ 297,848**	**$ —**	**$ 297,848**	**$ —**

December 31, 2013	Total	Fair value measurements using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Bond and mortgage separate account	$ 32,843	$ —	$ 32,843	$ —
Pooled separate accounts:				
U.S. stock funds	110,279	—	110,279	—
International stock funds	62,840	—	62,840	—
U.S. bond funds	60,200	—	60,200	—
Real estate fund	13,758	—	13,758	—
Short-term funds	7,672	—	7,672	—
Real estate securities fund	1,158	1,158	—	—
Total benefit plan assets	$ 288,750	$ 1,158	$ 287,592	$ —

Employers Mutual plans to contribute approximately $7,000 to the pension plan in 2015. No contributions are expected to be made to the VEBA trust in 2015.

The Company participates in other benefit plans sponsored by Employers Mutual, including its 401(k) Plan, Board and Executive Non-Qualified Excess Plans and Defined Contribution Supplemental Executive Retirement Plan. The Company's share of expenses for these plans amounted to $1,688, $1,457 and $1,823 in 2014, 2013 and 2012, respectively.

13. STOCK-BASED COMPENSATION

The Company has no stock-based compensation plans of its own; however, Employers Mutual has several stock plans which utilize the common stock of the Company. Employers Mutual can provide the common stock required under its plans by: 1) using shares of common stock that it currently owns; 2) purchasing common stock on the open market; or 3) directly purchasing common stock from the Company at the current fair value. Employers Mutual has historically purchased common stock from the Company for use in its stock plans and its non-employee director stock plans. Beginning with the second quarter 2014 purchase, Employers Mutual is also purchasing common stock from the Company to fulfill its obligations under its employee stock purchase plan (previously the shares needed for this were purchased on the open market).

Stock Plans

Employers Mutual currently maintains two separate stock plans for the benefit of officers and key employees of Employers Mutual and its subsidiaries. A total of 1,500,000 shares of the Company's common stock have been reserved for issuance under the 2003 Employers Mutual Casualty Company Incentive Stock Option Plan (2003 Plan) and a total of 2,000,000 shares have been reserved for issuance under the 2007 Employers Mutual Casualty Company Stock Incentive Plan (2007 Plan). A third stock plan, the 1993 Employers Mutual Casualty Company Incentive Stock Option Plan (1993 Plan), is no longer active. The time period for exercising options granted under the 1993 Plan expired during 2012. A total of 105,120 shares reserved for issuance under the 1993 Plan were deregistered on April 26, 2013.

The 2003 Plan permits the issuance of incentive stock options only, while the 2007 Plan permits the issuance of performance shares, performance units, and other stock-based awards, in addition to qualified (incentive) and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units. Both plans provide for a ten-year time limit for granting awards. No additional options can be granted under the 2003 Plan due to the expiration of the term of the plan. Options granted under the plans generally have a vesting period of five years, with options becoming exercisable in equal annual cumulative increments commencing on the first anniversary of the option grant. Option prices cannot be less than the fair value of the common stock on the date of grant.

Beginning in 2013, Employers Mutual's compensation committee began issuing restricted stock, rather than stock options. With the exception of death or permanent disability, any unvested shares of restricted stock are forfeited on termination of employment, including retirement. Restricted stock awards granted under the 2007 Plan generally have a vesting period of four years, with shares vesting in equal annual cumulative increments commencing on the first anniversary of the grant. Holders of unvested shares receive compensation income equal to the amount of any dividends declared.

The Senior Executive Compensation and Stock Option Committee (the "Committee") of Employers Mutual's Board of Directors (the "Board") grants the awards and is the administrator of the plans. The Company's Compensation Committee must consider and approve all awards granted to the Company's executive officers.

The Company recognized compensation expense from these plans of $357 ($233 net of tax), $289 ($190 net of tax) and $240 ($174 net of tax) in 2014, 2013 and 2012, respectively.

A summary of the stock option activity under Employers Mutual's stock plans for 2014, 2013 and 2012 is as follows:

	Year ended December 31,								
	2014			2013			2012		
	Number of options		Weighted-average exercise price	Number of options		Weighted-average exercise price	Number of options		Weighted-average exercise price
Outstanding, beginning of year	**1,135,207**	**$**	**22.17**	1,588,958	$	21.89	1,437,095	$	21.92
Granted	**—**		**—**	—		—	263,162		20.98
Exercised	**(200,304)**		**21.36**	(406,532)		21.26	(42,619)		17.97
Expired	**(22,945)**		**22.52**	(47,219)		20.35	(68,680)		21.51
Forfeited	**(10,825)**		**22.94**	—		—	—		—
Outstanding, end of year	**901,133**	**$**	**22.34**	1,135,207	$	22.17	1,588,958	$	21.89
Exercisable, end of year	**642,464**	**$**	**22.41**	686,863	$	22.37	894,706	$	21.96

Employers Mutual uses the average of the high and low trading prices of the Company's stock on the date of grant to determine the fair value of its restricted stock awards. Employers Mutual estimated the fair value of the 2012 option grant on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted-average assumptions:

	Year ended December 31,
	2012
Estimated dividend yield	3.81%
Expected volatility	25.2% - 44.7%
Weighted-average volatility	35.61%
Risk-free interest rate	0.06% - 1.51%
Expected term (years)	0.25 - 6.40

The expected term of the options granted to individuals who were not eligible to retire as of the grant date was estimated using historical data that excluded certain option exercises that occurred prior to the normal vesting period due to the retirement of the option holders. The expected term used for options granted to individuals who were eligible to retire as of the grant date was three months, reflecting the fact that upon retirement all unvested options immediately become vested, and the option holder has 90 days to exercise his or her outstanding options.

The expected volatility of options granted to individuals who were not eligible to retire as of the grant date was computed by using the historical daily prices of the Company's common stock for a period covering the most recent 6.4 years, which approximates the average term of the options. The expected volatility of options granted to individuals who were eligible to retire as of the grant date was computed by using the historical daily prices for the most recent 90 days.

At December 31, 2014, the Company's portion of the unrecognized compensation cost associated with option awards issued under Employers Mutual's stock plans that are not currently vested was $194, with a 1.56 year weighted-average period over which the compensation expense is expected to be recognized. At December 31, 2014, the Company's portion of the unrecognized compensation cost associated with restricted stock awards issued under Employers Mutual's stock plans that are not currently vested was $690, with a 2.76 year weighted-average period over which the compensation expense is expected to be recognized. A summary of non-vested restricted stock activity under Employers Mutual's stock plans for 2014 and 2013 is as follows:

	Year ended December 31,			
	2014		2013	
	Number of awards	Weighted-average grant-date fair value	Number of awards	Weighted-average grant-date fair value
Non-vested, beginning of year	**56,668**	**$ 25.90**	—	$ —
Granted	**62,764**	**30.74**	57,720	25.90
Vested	**(14,117)**	**25.90**	—	—
Forfeited	**(1,375)**	**26.61**	(1,052)	25.90
Non-vested, end of year	**103,940**	**$ 28.81**	56,668	$ 25.90

The Company's portion of the total intrinsic value of options exercised under Employers Mutual's stock plans was $606, $844 and $54 in 2014, 2013 and 2012, respectively. Under the terms of the pooling and quota share agreements, these amounts were paid to Employers Mutual. The Company receives the full fair value, as of the exercise date, for all shares issued in connection with option exercises. The Company also receives the full fair value, as of the grant date, for all shares issued in connection with the grant of restricted stock awards. The Company's portion of the total fair value of restricted stock awards that vested in 2014 was $110 (no restricted stock awards vested prior to 2014). Additional information relating to options outstanding and options vested (exercisable) at December 31, 2014 is as follows:

	December 31, 2014			
	Number of options	Weighted-average exercise price	Aggregate intrinsic value	Weighted-average remaining term
Options outstanding	**901,133**	**$ 22.34**	**$ 11,164**	**4.30**
Options exercisable	**642,464**	**$ 22.41**	**$ 7,912**	**3.61**

The 2003 Plan does not generally generate income tax deductions for the Company because only incentive stock options could be issued under the plan. The Company has recorded a deferred income tax benefit for a portion of the compensation expense associated with the March 2008 grant and for all subsequent grants (all made under the 2007 Plan) because non-qualified options and restricted stock awards were issued. The Company's portion of the current income tax deduction realized from exercises of non-qualified stock options was $152, $165 and $2 in 2014, 2013 and 2012, respectively. These actual deductions are generally in excess of the deferred tax benefits recorded in conjunction with the compensation expense (referred to as excess tax benefits) and are reflected in the statement of cash flows as a financing cash inflow (outflow if less) with an offsetting cash flow from operating activities of $103, $96 and $(3) as the Company's portion in 2014, 2013 and 2012, respectively. The income tax benefit that results from disqualifying dispositions of stock purchased through the exercise of incentive stock options is deemed immaterial.

Employee Stock Purchase Plan

On May 30, 2008, the Company registered 500,000 shares of the Company's common stock for use in the Employers Mutual Casualty Company 2008 Employee Stock Purchase Plan. All employees are eligible to participate in the plan. An employee may participate in the plan by delivering, during the first twenty days of the calendar month preceding the first day of an election period, a payroll deduction authorization to the plan administrator; or making a cash contribution (employees designated as "Insiders" are required to give six months advance notice prior to participating in the plan). Participants pay 85 percent of the fair market value of the stock on the date of purchase. The plan is administered by the Board of Employers Mutual, and the Board has the right to amend or terminate the plan at any time; however, no such amendment or termination shall adversely affect the rights and privileges of participants. Expenses allocated to the Company in connection with this plan totaled $35, $45 and $39 in 2014, 2013 and 2012, respectively.

During 2014, shares were purchased under the plan at prices ranging from $24.93 to $30.32. Activity under the plan was as follows:

	Year ended December 31,		
	2014	2013	2012
Shares available for purchase, beginning of year	**339,166**	370,400	407,102
Shares purchased under the plan	**(24,860)**	(31,234)	(36,702)
Shares available for purchase, end of year	**314,306**	339,166	370,400

Non-Employee Director Stock Purchase Plan

On March 14, 2013, the Company registered 200,000 shares of the Company's common stock for issuance under the 2013 Employers Mutual Casualty Company Non-Employee Director Stock Purchase Plan. All non-employee directors of Employers Mutual and its subsidiaries and affiliates are eligible to participate in the plan. Each eligible director can purchase shares of common stock at 75 percent of the fair value of the stock on the exercise date in an amount equal to a minimum of 25 percent and a maximum of 100 percent of their annual cash retainer. The plan will continue through the period of the 2023 annual meetings. The plan is administered by the Corporate Governance and Nominating Committee of the Board of Directors of Employers Mutual. The Board may amend or terminate the plan at any time; however, no such amendment or termination shall adversely affect the rights and privileges of the participants. The 2003 Employers Mutual Casualty Company Non-Employee Director Stock Option Plan is no longer active. All outstanding options granted under this plan expired in May, 2013, and no further options can be granted due to the expiration of the term of the plan. On April 26, 2013, a total of 148,204 shares reserved for issuance under the 2003 Employers Mutual Casualty Company Non-Employee Director Stock Option Plan were deregistered. Expenses allocated to the Company in connection with this plan totaled $49, $36 and $22 in 2014, 2013 and 2012, respectively.

During 2014, shares were purchased under the plan at prices ranging from $21.56 to $24.31. Activity under the plan was as follows:

	Year ended December 31,		
	2014	2013	2012
Shares available for purchase, beginning of year	**196,165**	149,404	155,467
Shares registered for use in the 2013 plan	**—**	200,000	—
Shares deregistered under the 2003 plan	**—**	(148,204)	—
Shares purchased under the plan	**(9,626)**	(5,035)	(6,063)
Shares available for purchase, end of year	**186,539**	196,165	149,404

Dividend Reinvestment Plan

The Company maintains a dividend reinvestment and common stock purchase plan (the "Plan") which provides stockholders with the option of reinvesting cash dividends in additional shares of the Company's common stock. Participants can also purchase additional shares of common stock without incurring broker commissions by making optional cash contributions to the plan, and sell shares of common stock through the plan.

Effective March 14, 2012, the Company's Board of Directors temporarily suspended the issuance of shares of common stock under the Plan. Accordingly, on March 26, 2012, a total of 161,185 shares reserved under the Company's dividend reinvestment and common stock purchase plan were deregistered. As a result, dividend reinvestments and optional cash purchases were temporarily not permitted under the Plan. The temporary suspension of the issuance of shares of common stock under the Plan was due to a late filing of an amendment to a Current Report on Form 8-K. On March 29, 2013, the Company filed a Form S-3 Registration Statement with the Securities and Exchange Commission registering 661,185 shares of common stock for use in the Plan, which was reinstated for the third quarter dividend payment.

Employers Mutual did not participate in this plan in 2014, 2013 or 2012. Activity under the plan was as follows:

	Year ended December 31,		
	2014	2013	2012
Shares available for purchase, beginning of year	**658,957**	—	161,236
Shares registered for use in the plan	**—**	661,185	—
Shares deregistered under the plan	**—**	—	(161,185)
Shares purchased under the plan	**(4,139)**	(2,228)	(51)
Shares available for purchase, end of year	**654,818**	658,957	—
Lowest purchase price	**$ 28.03**	$ 28.11	$ 21.38
Highest purchase price	**$ 35.39**	$ 31.47	$ 23.22

Stock Appreciation Rights (SAR) agreement

On October 19, 2006, Employers Mutual entered into a stock appreciation rights (SAR) agreement with the Company's Executive Vice President and Chief Operating Officer (Mr. Murray) at that time. Because the SAR agreement will be settled in cash, it is considered to be a liability-classified award under ASC Topic 718. As a result, the value of this agreement must be re-measured at fair value at each financial statement reporting date, subject to a minimum fair value stipulated in the SAR agreement. The full value of this agreement was expensed in 2006 because Mr. Murray was eligible for retirement and was entitled to keep the award at retirement, and as a result, the award did not have any subsequent service requirements. Subsequent changes in the fair value of this agreement are reflected as compensation expense, until the agreement is ultimately settled in 2016. Expenses allocated to the Company during 2014 associated with this award totaled $15. The Company did not recognize any compensation expense related to this award during either 2013 or 2012 because the fair value of the award did not exceed the floor amount in the agreement.

14. ACCUMULATED OTHER COMPREHENSIVE INCOME

The Company has available-for-sale securities and receives an allocation of the actuarial losses and net prior service credits associated with Employers Mutual's pension and postretirement benefit plans, both of which generate accumulated other comprehensive income (loss) amounts. The following table reconciles, by component, the beginning and ending balances of accumulated other comprehensive income.

	Accumulated other comprehensive income by component (1)		
	Unrealized gains (losses) on available-for-sale securities	Unrecognized pension and postretirement benefit obligations	Total
Balance at December 31, 2012	$ 69,806	$ (22,054)	$ 47,752
Other comprehensive income (loss) before reclassifications	(15,582)	31,266	15,684
Amounts reclassified from accumulated other comprehensive income	(5,848)	1,422	(4,426)
Other comprehensive income (loss)	(21,430)	32,688	11,258
Balance at December 31, 2013	48,376	10,634	59,010
Other comprehensive income (loss) before reclassifications	**34,663**	**(5,560)**	**29,103**
Amounts reclassified from accumulated other comprehensive income	**(4,677)**	**(1,774)**	**(6,451)**
Other comprehensive income (loss)	**29,986**	**(7,334)**	**22,652**
Balance at December 31, 2014	**$ 78,362**	**$ 3,300**	**$ 81,662**

(1) All amounts are net of tax. Amounts in parentheses indicate debits.

The following tables display amounts reclassified out of accumulated other comprehensive income during the years ended December 31, 2014 and 2013, respectively.

Accumulated other comprehensive income components	Amounts reclassified from accumulated other comprehensive income (1) **Year ended December 31, 2014**	Affected line item in the consolidated statements of income
Unrealized gains on investments:		
Reclassification adjustment for realized investment gains included in net income	**$ 7,195**	Net realized investment gains
Deferred income tax expense	**(2,518)**	Income tax expense, current
Net reclassification adjustment	**4,677**	
Unrecognized pension and postretirement benefit obligations:		
Reclassification adjustment for amounts amortized into net periodic pension and postretirement benefit cost (income):		
Net actuarial loss	**(578)**	(2)
Prior service credit	**3,307**	(2)
Total before tax	**2,729**	
Deferred income tax expense	**(955)**	Income tax expense, current
Net reclassification adjustment	**1,774**	
Total reclassification adjustment	**$ 6,451**	

(1) Amounts in parentheses indicate debits to net income

(2) These accumulated other comprehensive income components are included in the computation of net periodic pension and postretirement benefit cost (income) (see Note 12, Employee Retirement Plans, for additional details).

Accumulated other comprehensive income components	Amounts reclassified from accumulated other comprehensive income (1) Year ended December 31, 2013	Affected line item in the consolidated statements of income
Unrealized gains on investments:		
Reclassification adjustment for realized investment gains included in net income	$ 8,997	Net realized investment gains
Deferred income tax expense	(3,149)	Income tax expense, current
Net reclassification adjustment	5,848	
Unrecognized pension and postretirement benefit obligations:		
Reclassification adjustment for amounts amortized into net periodic pension and postretirement benefit cost (income):		
Net actuarial loss	(2,895)	(2)
Prior service credit	708	(2)
Total before tax	(2,187)	
Deferred income tax expense	765	Income tax expense, current
Net reclassification adjustment	(1,422)	
Total reclassification adjustment	$ 4,426	

(1) Amounts in parentheses indicate debits to net income

(2) These accumulated other comprehensive income components are included in the computation of net periodic pension and postretirement benefit cost (income) (see Note 12, Employee Retirement Plans, for additional details).

15. STOCK REPURCHASE PROGRAMS

Stock Repurchase Plans

On November 3, 2011, the Company's Board of Directors authorized a $15,000 stock repurchase program. This program became effective immediately and does not have an expiration date. The timing and terms of the purchases are determined by management based on market conditions and are conducted in accordance with the applicable rules of the Securities and Exchange Commission. Common stock repurchased under this program will be retired by the Company. No purchases have been made under this program.

Stock Purchase Plan

During the second quarter of 2005, Employers Mutual initiated a new $15,000 stock purchase program under which Employers Mutual will purchase shares of the Company's common stock in the open market. This purchase program does not have an expiration date; however, this program is currently dormant and will remain so while the Company's repurchase program is in effect. The timing and terms of the purchases are determined by management based on market conditions and are conducted in accordance with the applicable rules of the Securities and Exchange Commission. No purchases were made during 2014, 2013 and 2012. As of December 31, 2014, $4,491 remained available under this plan for additional purchases.

16. LEASES, COMMITMENTS AND CONTINGENT LIABILITIES

One of the Company's property and casualty insurance subsidiaries leases office facilities in Bismarck, North Dakota with lease terms expiring in 2014 (new lease agreement is in place for 2015 through 2024). Employers Mutual has entered into various leases for branch and service office facilities with lease terms expiring through 2024. All of these lease costs are included as expenses under the pooling agreement. The following table reflects the lease commitments of the Company as of December 31, 2014.

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years
Lease commitments					
Real estate operating leases	$ 8,632	$ 1,341	$ 2,510	$ 2,287	$ 2,494

The participants in the pooling agreement are subject to guaranty fund assessments by states in which they write business. Guaranty fund assessments are used by states to pay policyholder liabilities of insolvent insurers domiciled in those states. Many states allow assessments to be recovered through premium tax offsets. The Company has accrued estimated guaranty fund assessments of $931 and $894 as of December 31, 2014 and 2013, respectively. Premium tax offsets of $969 and $894, which are related to prior guarantee fund payments and current assessments, have been accrued as of December 31, 2014 and 2013, respectively. The guaranty fund assessments are expected to be paid over the next two years and the premium tax offsets are expected to be realized within ten years of the payments. The participants in the pooling agreement are also subject to second-injury fund assessments, which are designed to encourage employers to employ workers with pre-existing disabilities. The Company has accrued estimated second-injury fund assessments of $1,694 and $1,747 as of December 31, 2014 and 2013, respectively. The second-injury fund assessment accruals are based on projected loss payments. The periods over which the assessments will be paid is not known.

The participants in the pooling agreement have purchased annuities from life insurance companies, under which the claimant is payee, to fund future payments that are fixed pursuant to specific claim settlement provisions. The Company's share of case loss reserves eliminated by the purchase of those annuities was $110 at December 31, 2014. The Company had a contingent liability for the aggregate guaranteed amount of the annuities of $183 at December 31, 2014 should the issuers of those annuities fail to perform. The probability of a material loss due to failure of performance by the issuers of these annuities is considered remote.

The Company and Employers Mutual and its other subsidiaries are parties to numerous lawsuits arising in the normal course of the insurance business. The Company believes that the resolution of these lawsuits will not have a material adverse effect on its financial condition or its results of operations. The companies involved have established reserves which are believed adequate to cover any potential liabilities arising out of all such pending or threatened proceedings.

17. UNAUDITED INTERIM FINANCIAL INFORMATION

	Three months ended,			
	March 31	June 30	September 30	December 31
2014				
Total revenues (1)	**$ 146,231**	**$ 147,733**	**$ 150,659**	**$ 149,844**
Income before income tax expense	**$ 14,889**	**$ 270**	**$ 1,883**	**$ 23,865**
Income tax expense (benefit)	**4,294**	**(744)**	**(346)**	**7,711**
Net income	**$ 10,595**	**$ 1,014**	**$ 2,229**	**$ 16,154**
Net income per common share - basic and diluted (2)	**$ 0.79**	**$ 0.08**	**$ 0.16**	**$ 1.19**

	Three months ended,			
	March 31	June 30	September 30	December 31
2013				
Total revenues (1)	$ 134,284	$ 138,466	$ 143,552	$ 151,683
Income before income tax expense	$ 20,509	$ 7,949	$ 9,564	$ 22,831
Income tax expense (benefit)	6,236	1,737	2,365	6,996
Net income	$ 14,273	$ 6,212	$ 7,199	$ 15,835
Net income per common share - basic and diluted (2)	$ 1.10	$ 0.48	$ 0.55	$ 1.20

(1) Amounts include the reclassification of foreign currency exchange rate gains (losses) to other income in the consolidated financial statements. Prior to the fourth quarter of 2014, these amounts were reported as a component of other expenses.

(2) Since the weighted-average number of shares outstanding for the quarters are calculated independently of the weighted-average number of shares outstanding for the year, quarterly net income per share may not total to annual net income per share.

GLOSSARY

Assumed Reinsurance – When one or more insurers, in exchange for a share of the premium, accepts responsibility to indemnify risk underwritten by another as reinsurance. See "Reinsurance."

Catastrophe and Storm Losses – Losses from the occurrence of an earthquake, hurricane, explosion, flood, hail storm or other similar event which results in substantial loss.

Ceded Reinsurance – The transfer of all or part of the risk of insurance loss from an insurer to another as reinsurance. See "Reinsurance."

Combined Ratio – A measure of property/casualty underwriting results. It is the ratio of claims, settlement and underwriting expenses to insurance premiums. When the combined ratio is under 100%, underwriting results are generally profitable; when the ratio is over 100%, underwriting results are generally unprofitable. Underwriting results do not include net investment income, which may make a significant contribution to overall profitability.

Deferred Policy Acquisition Costs – The capitalization of commissions, premium taxes and other expenses related to the production of insurance business. These costs are deferred and amortized in proportion to related premium revenue.

Excess of Loss Reinsurance – Coverage for the portion of losses which exceed predetermined retention limits.

Generally Accepted Accounting Principles (GAAP) – The set of practices and procedures that provides the framework for financial statement measurement and presentation. Financial statements in this report were prepared in accordance with U.S. GAAP.

Incurred But Not Reported (IBNR) – An estimate of liability for losses that have occurred but not yet been reported to the insurer. For reinsurance business IBNR may also include anticipated increases in reserves for claims that have previously been reported.

Incurred Losses and Settlement Expenses – Claims and settlement expenses paid or unpaid for which the Company has become liable for during a given reporting period.

Loss Reserve Development – A measure of how the latest estimate of an insurance company's claim obligations compares to an earlier projection. This is also referred to as the increase or decrease in the provision for insured events of prior years.

Net Investment Income – Dividends and interest earned during a specified period from cash and invested assets, reduced by related investment expenses.

Net Investment Yield – Net investment income divided by average invested assets.

Other-Than-Temporary Investment Impairment Loss – A realized investment loss that is recognized when an investment's fair value declines below its carrying value and the decline is deemed to be other-than-temporary.

Pooling Agreement – A joint underwriting operation in which the participants assume a predetermined and fixed interest in the premiums, losses, expenses and profits of insurance business.

Premiums – Amounts paid by policyholders to purchase insurance coverages.

Earned Premium – The recognition of the portion of written premiums directly related to the expired portion of an insurance policy for a given reporting period.

Net Written Premiums – Premiums written during a given reporting period, net of assumed and ceded reinsurance, which correlate directly to the insurance coverage provided.

Unearned Premium – The portion of written premium which would be returned to a policyholder upon cancellation.

Written Premium – The cost of insurance coverage. Written premiums refer to premiums for all policies sold during a specified accounting period.

Quota Share Reinsurance Agreement – A form of reinsurance in which the reinsurer assumes a stated percentage of all premiums, losses and related expenses in a given class of business.

Realized Investment Gains/Losses – The amount of net gains/losses realized when an investment is sold at a price higher or lower than its original cost or carrying amount. Also the amount of loss recognized when an investment's carrying value is reduced to fair value due to a other-than-temporary impairment in the fair value of that investment.

Reinsurance – The contractual arrangement by which one or more insurers, called reinsurers, in exchange for premium payments, agree to assume all or part of a risk originally undertaken by another insurer. Reinsurance "spreads risk" among insurance enterprises, allowing individual companies to reduce exposure to losses and provide additional capacity to write insurance.

Reserves – The provision for the estimated future cost of all unpaid claims. The total includes known claims as well as amounts for claims that have occurred but have not been reported to the insurer (IBNR).

Return on Equity (ROE) – Net income divided by average stockholders' equity.

Risk-Based Capital – A model developed by the National Association of Insurance Commissioners which attempts to measure the minimum statutory capital needs of property and casualty insurance companies based upon the risks in a company's mix of products and investment portfolio.

Settlement Expenses – Expenses incurred in the process of investigating and settling claims.

Statutory Accounting – Accounting practices used by insurance companies to prepare financial statements submitted to state regulatory authorities. Statutory accounting differs from GAAP in that it stresses insurance company solvency rather than the matching of revenues and expenses.

Underwriting Gain/Loss – Represents insurance premium income less insurance claims, settlement and underwriting expenses.

Unrealized Holding Gains/Losses on Investments – Represents the difference between the current market value of investments and the basis at the end of a reporting period.

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*EMCI's Board-designated financial expert

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