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SEPARATE ACCOUNT III OF INTEGRITY LIFE INSURANCE CO

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Business Address
239 SOUTH FIFTH STREET
TWELFTH FLOOR
LOUISVILLE KY 40202

INTEGRITY LIFE INSURANCE COMPANY SEPARATE ACCOUNT III

STATEMENT OF ADDITIONAL INFORMATION

FOR THE

BEST OF FUNDS VARIABLE ANNUITY

OFFERED BY

INTEGRITY LIFE INSURANCE COMPANY

This Statement of Additional information expands upon subjects disclosed in the current Prospectus for the Best of Funds Variable Annuity (the "Contract") offered by Integrity Life Insurance Company (the "Company"). You may obtain a copy of the Prospectus, dated May 19, 1995, by writing to our administrative office at Post Office Box 182080, Columbus, Ohio 43218, or by calling the following toll-free telephone number: 1-800-506-BEST. Terms defined and used in the current Prospectus for the Contract are incorporated in this Statement of Additional Information.

THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT A PROSPECTUS AND SHOULD BE READ ONLY IN CONJUNCTION WITH THE PROSPECTUS FOR THE CONTRACT.

THE DATE OF THIS STATEMENT OF ADDITIONAL INFORMATION IS MAY 19, 1995.

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THE CONTRACT

In order to supplement the description in the Prospectus, the following provides additional information about the Contract which may be of interest to Owners.

COMPUTATION OF VARIABLE ANNUITY INCOME PAYMENTS

Annuity Payments under the Variable Annuity Options are computed as follows. First, the Account Value (or the portion of the Account Value used to provide variable payments) is applied under the annuity rates contained in the Contract corresponding to the Annuity Payment Option elected by the Owner and based on an assumed interest rate of 3%. This will produce a dollar amount which is the first monthly payment. The Company, at the time Annuity Payments are computed, may offer more favorable rates in lieu of the guaranteed rates specified in the Contract.

The amount of each Annuity Payment after the first monthly payment is determined by means of Annuity Units. The number of Annuity Units is determined by dividing the first Annuity Payment by the Annuity Unit value for the Portfolio ten Business Days prior to the Endowment Date. The number of Annuity Units then remains fixed. After the first Annuity Payment, the dollar amount of each subsequent Annuity Payment is equal to the number of Annuity Units multiplied by the Annuity Unit value for the Portfolio ten Business Days before the due date of the Annuity Payment.

The Annuity Unit value for each Portfolio was initially established at $10.00 on the day money was first deposited in that Portfolio. The Annuity Unit value for any subsequent Business Day is equal to (a) times (b) times (c) where:

(a) is the Annuity Unit value for the immediately preceding Business Day;

(b) is the Net Investment Factor for the day; and

(c) is the investment result adjustment factor (.99991902 per day), which recognizes an assumed interest rate of 3% per year used in determining the Annuity Payment amounts.

The Net Investment Factor is a factor applied to the Portfolio that reflects any increase or decrease in the value of the Portfolio due to investment results.

The annuity rates contained in the Contract are based on the 1983 Individual Annuity Mortality Table and an interest rate of 3% a year.

GENERAL MATTERS

NON-PARTICIPATING

The Contracts are non-participating. No dividends are payable and the Contracts will not share in the profits or surplus earnings of the Company.

MISSTATEMENT OF AGE OR SEX

The Company may require proof of age and sex before making Annuity Payments. If the Annuitant's stated age, sex, or both in the Contract are incorrect, then the Company will change the Annuity Payments payable to those which the Contributions would have purchased for the correct age and sex. In the case of correction of the stated age or sex after payments have commenced, the Company either will: (i) in the case of underpayment, pay the full amount due with the next payment; or (ii) in the case of overpayment, deduct the amount due from one or more future payments.

ASSIGNMENT

Any Non-Qualified Contract may be assigned by the Owner prior to the Endowment Date and during the Annuitant's lifetime. The Company is not responsible for the validity of any assignment. No assignment will be recognized until the Company receives written notice thereof. The interest of any Beneficiary which the assignor has the right to change shall be subordinate to the interest of an assignee. Any amount paid to the assignee shall be paid in one sum, notwithstanding any settlement agreement in effect at the time assignment was executed. The Company shall not be liable as to any payment or other settlement made by the Company before receipt of written notice.

ANNUITY DATA

The Company will not be liable for obligations which depend on receiving information from a payee under the Contract until such information is received in a form satisfactory to the Company.

ANNUAL REPORT

Once each Contract Year, the Company will send the Owner an annual report of the current Account Value allocated to the Portfolio and any Contributions, charges, or withdrawals during the year. This report also will give the Owner any other information required by law or regulation. The Owner may ask for a report similar to the annual report from the Company at any time.

INCONTESTABILITY

This Contract is incontestable from the Contract Date, subject to the "Misstatement of Age or Sex" provision.

OWNERSHIP

The Owner of the Contract is the Annuitant. During the Owner's lifetime, all rights and privileges under this Contract may be exercised solely by the Owner. From time to time, the Company may require proof that the Owner is still living.

DISTRIBUTION OF THE CONTRACT

Integrity Financial Services ("IFS") will be the principal underwriter of the Contracts at no charge. The Contracts are offered to the public through brokers licensed under applicable federal securities laws and state insurance laws. The offering of the Contracts will be on a continuous basis. While IFS does not anticipate discontinuing the offering of the Contracts, IFS does reserve the right to do so. IFS is wholly-owned by ARM Financial Group, Inc., and, therefore, is an affiliate of the Company, which is indirectly wholly-owned by ARM Financial Group, Inc.

PERFORMANCE INFORMATION

Performance information for the Separate Account, including the yield and the total return of the Separate Account, may appear in reports or promotional literature to current or prospective Owners.

30-DAY YIELD FOR THE SEPARATE ACCOUNT

Quotations of yield for the Separate Account will be based on all investment income per Accumulation Unit earned during a particular 30-day period, less expenses accrued during the period ("net investment income"), and will be computed by dividing net investment income by the value of an Accumulation Unit on the last day of the period, according to the following formula:

$$YIELD = 2\left[\left(\frac{a-b}{cd} + 1\right)^{6} - 1\right]$$

Where: a = net investment income earned during the period by the Portfolio company attributable to shares owned by the Separate Account;

b = the expenses accrued for the period (net of reimbursements);

c = the average daily number of Accumulation Units outstanding during the period; and

d = the maximum offering price per Accumulation Unit on the last day of the period.

Yield on the Separate Account is earned from dividends declared and paid by the Portfolio, which dividends are automatically reinvested in shares of the Portfolio.

AVERAGE ANNUAL TOTAL RETURN FOR THE SEPARATE ACCOUNT

Quotations of average annual total return for the Separate Account will be expressed in terms of the average annual compounded rate of return of a hypothetical investment in a Contract over a period of one, five, and ten years (or, if less, up to the life of the Separate Account), calculated pursuant to the following formula:

$$P(1+T)^{N} = ERV$$

Where: P = a hypothetical Initial Contribution of $1,000;

T = average annual total return;

n = number of years (1, 5, or 10); and

ERV= ending redeemable value of a hypothetical $1,000 Contribution made at the beginning of the 1, 5, or 10 year periods at the end of the 1, 5, or 10 year periods (or fractional portion thereof).

All total return figures will reflect the deduction of the administrative charge and the mortality and expense risk charge. The Commission requires that an assumption be made that the Owner surrenders the entire Contract at the end of the one, five, and ten year periods (or, if less, up to the life of the Separate Account), for which

performance is required to be calculated.

Performance information for the Separate Account may be compared, in reports and promotional literature, to: (i) the Standard & Poor's 500 Composite Stock Price Index, the Dow Jones Industrial Average, or other indexes that measure performance of a pertinent group of securities, so that investors may compare the Separate Account's results with those of a group of securities widely regarded by investors as representative of the securities markets in general; (ii) other groups of variable annuity separate accounts or other investment products tracked by Lipper Analytical Services, Inc., a widely-used independent research firm which ranks mutual funds and other investment companies by overall performance, investment objective(s), and assets, or tracked by other services, companies, publications, or persons who rank such investment companies on overall performance or other criteria; and (iii) the Consumer Price Index (measure for inflation) to assess the real rate of return from an investment in the Contract. Unmanaged indexes may assume the reinvestment of dividends, but generally do not reflect deductions for administrative and management costs and expenses.

Performance information for the Separate Account reflects only the performance of a hypothetical Contract under which Account Value is allocated to the Separate Account during a particular time period on which the calculations are based. Performance information should be considered in light of the investment objective(s) and policies, characteristics, and quality of the Portfolio of USIF in which the Separate Account invests, and the market conditions during the given time period, and should not be considered as a representation of what may be achieved in the future.

Reports and marketing materials, from time to time, may include information concerning the rating of Integrity Life Insurance Company, as determined by A.M. Best Company, Moody's Investors Service, Standard & Poor's Corporation, Duff & Phelps Corporation, or other recognized rating services. The Company is currently rated "A-" (Excellent) by A.M. Best Company, and has received claims paying ability ratings of "A" (Good) from Standard & Poor's Corporation, and "A+" (High) from Duff and Phelps Credit Rating Company. However, the Company does not guarantee the investment performance of the Portfolio, and these ratings do not reflect protection against investment risk. Reports and promotional literature also may contain other information, including: (i) the ranking of the Separate Account derived from rankings of variable annuity separate accounts or other investment products tracked by Lipper Analytical Services, Inc., or by other rating services, companies, publications, or other persons who rank separate accounts or other investment products on overall performance or other criteria; and (ii) the effect of tax-deferred compounding on the Separate Account's investment returns, or returns in general, which may be illustrated by graphs, charts, or otherwise, and which may include a comparison, at various points in time, of the return from an investment in a Contract (or returns in general) on a tax-deferred basis (assuming one or more tax rates) with the return from an investment in a Contract on a taxable basis.

SAFEKEEPING OF ACCOUNT ASSETS

Title to the assets of the Separate Account (the "Assets") is held by the Company. The Assets are kept physically segregated and held separate and apart from the Company's general account assets. Records are maintained of all purchases and redemptions of eligible Portfolio shares held by the Separate Account.

THE COMPANY

The Company is an Ohio stock life insurance company. The Company's principal executive office is at 239 South Fifth Street, Louisville, Kentucky 40202. The Company is ultimately wholly-owned by ARM Financial Group, Inc., a publicly-held insurance holding company. The Company is principally engaged in offering life insurance policies and annuity contracts, and is authorized to sell life insurance policies and annuity contracts in 44 states and the District of Columbia. In addition to the Contracts, the Company also sells flexible payment annuity contracts and certificates with an underlying investment medium other than United Services Insurance Funds, and single-premium fixed annuity contracts.

STATE REGULATION

The Company is a stock life insurance company organized under the laws of the State of Ohio and is subject to regulation by the Ohio Department of Insurance. An annual statement is filed with the Ohio Director of Insurance on or before March 1 of each year covering the operations and reporting on the financial condition of the Company as of December 31 of the preceding calendar year. Periodically, the Ohio Director of Insurance examines the financial condition of the Company, including the liabilities and reserves of the Separate Account.

In addition, the Company is subject to the insurance laws and regulations of all the states in which the Company is licensed to operate. The availability of certain Contract rights and provisions depends on state approval and/or filing and review processes. Where required by state law or regulation, the Contracts will be modified accordingly.

RECORDS AND REPORTS

All records, reports, and accounts relating to the Separate Account will be maintained by the Company. As presently required by the Investment Company Act of 1940, as amended (the "1940 Act"), and regulations promulgated thereunder, the Company will mail to all Owners, at their last known address of record, at least semi-annually, reports containing such information as may be required under the 1940 Act or by any other applicable law or regulation.

LEGAL PROCEEDINGS

There are no legal proceedings to which the Separate Account is a party or to which the assets of the Separate Account are subject. The Company is not involved in any litigation that is of material importance in relation to the Company's total assets or that relates to the Separate Account.

OTHER INFORMATION

A Registration Statement has been filed with the Securities and Exchange Commission, under the Securities Act of 1933, as amended, with respect to the Contracts discussed in this Statement of Additional Information. Not all of the information set forth in the Registration Statement and in the amendments and exhibits thereto has been included in this Statement of Additional Information. Statements contained in this Statement of Additional Information concerning the content of the Contracts and other legal instruments are intended to be summaries. For a complete statement of the terms of these documents, reference should be made to the instruments filed with the Securities and Exchange Commission.

FINANCIAL STATEMENTS

Ernst & Young LLP, 440 West Market Street, Louisville, Kentucky 40202, is our independent auditor and serves as independent auditor of the Separate Account. Ernst & Young LLP on an annual basis will audit certain financial statements prepared by management and express an opinion on such financial statements based on their audits.

The statutory basis financial statements of the Company as of and for the years ended December 31, 1994 and 1993 included in this Statement of Additional Information have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports included herein.

The statutory basis statements of operations, changes in surplus, and cash flows of the Company for the year ended December 31, 1992 included in this Statement of Additional Information have been audited by Deloitte & Touche LLP as stated in their report included herein.

As of the date of this Statement of Additional Information, the Separate Account has not commenced operations, and, therefore, no audited financial statements of the Separate Account are included in this Statement of Additional Information.

The financial statements of the Company should be distinguished from the financial statements of the Separate Account and should be considered only as these financial statements relate to the ability of the Company to meet its obligations under the Contract. These financial statements of the Company should not be considered as relating to the investment performance of the assets held in the Separate Account.

Financial Statements
(Statutory Basis)

Integrity Life Insurance Company

Years Ended December 31, 1994, 1993 and 1992
with Reports of Independent Auditors

Integrity Life Insurance Company

Financial Statements
(Statutory Basis)

Years Ended December 31, 1994, 1993 and 1992

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Integrity Life Insurance Company

We have audited the accompanying statutory-basis balance sheets of Integrity Life Insurance Company as of December 31, 1994 and 1993, and the related statutory-basis statements of operations, changes in surplus, and changes in cash flows for the years then ended. 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 generally accepted auditing standards. 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.

The Company presents its financial statements in conformity with accounting practices prescribed or permitted by the Ohio Insurance Department. The variances between such practices and generally accepted accounting principles and the effects on the accompanying financial statements are described in Note 1.

In our opinion, because of the materiality of the effects of the variances between generally accepted accounting principles and the accounting practices referred to in the preceding paragraph, the financial statements referred to above are not intended to and do not present fairly, in conformity with generally accepted accounting principles, the financial position of Integrity Life Insurance Company at December 31, 1994 and 1993, or the results of its operations or its cash flows for the years then ended. However, in our opinion, the supplementary information included in Note 1 presents fairly, in all material respects, shareholder's equity at December 31, 1994 and 1993, and net income for the years then ended in conformity with generally accepted accounting principles.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Integrity Life Insurance Company at December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices prescribed or permitted by the Ohio Insurance Department.

/s/Ernst & Young LLP

Louisville, Kentucky
March 10, 1995

Report of Independent Auditors

Board of Directors
Integrity Life Insurance Company

We have audited the accompanying statutory-basis statements of operations, changes in surplus, and cash flows of Integrity Life Insurance Company for the year ended December 31, 1992. 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

As described more fully in Notes 1 and 2 to the financial statements, the Company prepared the 1992 financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of Arizona, which practices differ from generally acceptable accounting principles. The effects on the accompanying financial statements of the differences are described in Note 1.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the results of operations or cash flows of Integrity Life Insurance Company for the year ended December 31, 1992. However, in our opinion, the supplementary information included in Note 1 presents fairly, in all material respects, shareholder's equity and net income as of and for the year ended December 31, 1992 in conformity with generally accepted accounting principles.

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Integrity Life Insurance Company for the year ended December 31, 1992, on the basis of accounting described in Notes 1 and 2 to the financial statements.

- ------------------------
/s/Deloitte & Touche LLP

March 25, 1993

Integrity Life Insurance Company

Balance Sheets (Statutory Basis)

	DECEMBER 31 1994	1993
	(IN THOUSANDS)	
ADMITTED ASSETS		
Cash and invested assets (NOTE 3):		
Bonds	$1,131,068	$1,080,104
Preferred stocks	3,367	-
Subsidiaries	35,557	32,259
Mortgage loans	57,653	135,949
Policy loans	68,756	66,065
Cash and short-term investments	23,400	142,140
Other invested assets	6,835	129
Total cash and invested assets	1,326,636	1,456,646
Separate account assets	363,008	193,973
Accrued investment income	20,174	22,287
Broker balances receivable	1,132	1,612
Reinsurance balances receivable (NOTE 4)	2,140	1,091
Other admitted assets	1,553	6,264
Total admitted assets	$1,714,643	$1,681,873

	DECEMBER 31 1994	1993
	(IN THOUSANDS)	
Liabilities and Surplus		
Liabilities:		
Policy and contract liabilities:		
Life and annuity reserves (NOTE 9)	$1,222,245	$1,331,283
Separate account liabilities	360,609	190,879
Policy and contract claims	1,907	1,770
Deposits on policies to be issued	916	1,050
Total policy and contract liabilities	1,585,677	1,524,982
Accounts payable and accrued expenses	1,883	4,293
Transfers to Separate Accounts due or accrued, net	(23,242)	(13,607)
Reinsurance balances payable	1,739	816
Asset valuation reserve	4,492	2,141
Interest maintenance reserve	33,151	62,810
Federal income taxes (NOTE 5)	744	-
Other liabilities	2,333	14,497
Total liabilities	1,606,777	1,595,932
Surplus (NOTE 6):		
Common stock, $2.00 par value; 1,500,000		

shares authorized, issued and outstanding	3,000	2,000
Additional paid-in capital	82,941	83,941
Unassigned surplus	21,925	-
Total surplus	107,866	85,941
Total liabilities and surplus	$1,714,643	$1,681,873

SEE ACCOMPANYING NOTES.

Integrity Life Insurance Company

Statements of Operations (Statutory Basis)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31		
	1994	1993	1992
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Premiums and other revenues:			
Premiums and annuity considerations	$ 17,618	$ 38,695	$ 44,547
Deposit-type funds	207,686	156,229	24,880
Net investment income (NOTE 3)	102,002	107,142	108,851
Amortization of the interest maintenance reserve	4,232	549	(283)
Other income	9,832	3,856	1,902
Total premiums and other revenues	341,370	306,471	179,897
Benefits paid or provided:			
Death benefits	16,280	8,609	7,233
Annuity benefits	31,785	30,468	28,923
Surrender benefits	172,419	71,529	44,450
Interest on policy or contract funds	165	12,796	18,578
Payments on supplementary contracts	8,763	7,695	7,694
Increase (decrease) in insurance and annuity reserves	(108,213)	(8,252)	22,626
Other, principally reinsurance transactions	3,026	28,849	27,756
Total benefits paid or provided	124,225	151,694	157,260
Insurance expenses:			
Commissions	17,053	15,016	4,256
General expenses	8,949	12,532	13,650
Taxes, licenses and fees	680	1,430	1,275
Net transfers to separate account (NOTE 10)	167,407	134,348	10,957
Other expenses	836	6,191	690
Total insurance expenses	194,925	169,517	30,828
Gain (loss) from operations before income taxes and net realized capital gains (losses)	22,220	(14,740)	(8,191)
Federal income taxes (NOTE 5)	992	57	-
Gain (loss) from operations before net realized capital gains (losses)	21,228	(14,797)	(8,191)
Net realized capital gains (losses), net of income taxes of $0 for 1994, 1993 and 1992, and excluding net transfers to the interest			

maintenance reserve(1994-($25,427,000); 1993-$63,106,000; 1992-($30,000)) (NOTE 3)	(417)	(13,737)	246
Net income (loss)	$ 20,811	$ (28,534)	$ (7,945)

SEE ACCOMPANYING NOTES.

</TABLE>

Integrity Life Insurance Company

Statements of Changes in Surplus (Statutory Basis)

<TABLE>
<CAPTION>

<S>	YEAR ENDED DECEMBER 31 1994 <C>	1993 (IN THOUSANDS) <C>	1992 <C>
Surplus at beginning of year	$ 85,941	$ 50,915	$ 63,953
Net income (loss)	20,811	(28,534)	(7,945)
Net change in unrealized capital gains (losses)	3,298	1,131	(2,745)
Decrease in nonadmitted assets	84	2,393	3
Decrease from change in valuation basis	-	(4,571)	(1,626)
(Increase) decrease in asset valuation reserve	(2,351)	12,859	(11,135)
Capital contributions	-	53,054	10,029
Increase (decrease) in separate account surplus	(695)	(1,894)	381
Surplus transferred from separate account	778	-	-
Reimbursement of prior year expenses	-	2,496	-
Adjustment to prior year investments	-	(1,908)	-
Surplus at end of year	$107,866	$ 85,941	$ 50,915

SEE ACCOMPANYING NOTES.

</TABLE>

Integrity Life Insurance Company

Statements of Cash Flows (Statutory Basis)

<TABLE>
<CAPTION>

<S>	YEAR ENDED DECEMBER 31 1994 <C>	1993 (IN THOUSANDS) <C>	1992 <C>
Premiums, policy proceeds, and other considerations received	$225,304	$ 194,924	$ 69,427
Net investment income received	105,844	104,132	106,888
Commission and expense allowances returned on reinsurance ceded	(3,086)	(21,421)	(27,757)
Benefits paid	(229,262)	(130,766)	(107,095)
Insurance expenses paid	(29,847)	(26,291)	(20,435)
Other income received net of other expenses (paid)	7,134	(5,310)	(7,368)
Net transfers to separate account	(177,042)	(134,446)	(10,858)
Federal income taxes paid	(247)	(57)	-

Net cash provided by (used in) operations	(101,202)	(19,235)	2,802
Proceeds from sales, maturities, or repayments of investments:			
Bonds	530,269	880,643	208,077
Preferred stocks	3,367	-	6,828
Common stocks	-	17,874	53,110
Mortgage loans	78,297	14,905	5,382
Real estate	-	28,852	-
Other invested assets	-	92,897	5,610
Net losses on cash and short-term investments	(16)	-	-
Miscellaneous proceeds	509	4,693	620
Total investment proceeds	612,426	1,039,864	279,627
Net proceeds from sales, maturities, or repayments of investments	612,426	1,039,864	279,627
Other cash provided:			
Capital and surplus paid-in	-	53,054	10,029
Other sources	8,114	15,240	8,555
Total other cash provided	8,114	68,294	18,584
Total cash provided	519,338	1,088,923	301,013

</TABLE>

Integrity Life Insurance Company

Statements of Cash Flows (Statutory Basis) (continued)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31		
	1994	1993	1992
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Cost of long-term investments acquired:			
Bonds	$608,125	$ 941,322	$ 265,269
Preferred stocks	6,734	-	-
Common stocks	-	3,802	50,581
Mortgage loans	-	15,497	1,747
Real estate	-	(555)	345
Other invested assets	6,000	4,001	4,520
Miscellaneous applications	1,153	7,061	343
Total investments acquired	622,012	971,128	322,805
Other cash applied:			
Other applications, net	16,066	23,013	2,377
Total other cash applied	16,066	23,013	2,377
Total cash used	638,078	994,141	325,182
Net increase (decrease) in cash and short-term investments	(118,740)	94,782	(24,169)
Cash and short-term investments at beginning of year	142,140	47,358	71,527
Cash and short-term investments at end of year	$ 23,400	$ 142,140	$ 47,358

SEE ACCOMPANYING NOTES.

</TABLE>

Integrity Life Insurance Company

Notes to Financial Statements (Statutory Basis)

December 31, 1994

1. ORGANIZATION AND ACCOUNTING POLICIES

ORGANIZATION

Integrity Life Insurance Company ("Integrity" or the "Company") is an indirect wholly owned subsidiary of ARM Financial Group, Inc. ("ARM"). ARM acquired the Company and its subsidiaries from The National Mutual Life Association of Australasia Limited ("National Mutual") for an adjusted purchase price of $121.0 million (the "Acquisition") on November 26, 1993. The Company, domiciled in the state of Ohio, and its wholly owned insurance subsidiary, National Integrity Life Insurance Company ("National Integrity") provide retail and institutional investment-oriented insurance products (primarily annuities) to the long-term savings and retirement market.

BASIS OF PRESENTATION

The accompanying financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the Ohio Department of Insurance. Such practices vary from generally accepted accounting principles ("GAAP"). The more significant variances from GAAP are as follows:

INVESTMENTS

Investments in bonds and mandatorily redeemable preferred stocks are reported at amortized cost or market value based on their National Association of Insurance Commissioners ("NAIC") rating; for GAAP, such fixed maturity investments are designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed investments are reported at amortized cost, and the remaining fixed maturity investments are reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a separate component of shareholder's equity for those designated as available-for-sale. In addition, market values of certain investments in bonds and stocks are based on values specified by the NAIC, rather than on values provided by outside broker confirmations or internally calculated estimates. Mortgage loans on real estate in good standing are reported at unpaid principal balances. Realized gains and losses are reported in income net of income tax rather than on a pretax basis. Changes between cost and admitted investment asset amounts are credited and charged directly to

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

unassigned surplus rather than to a separate surplus account. The Asset Valuation Reserve is determined by an NAIC prescribed formula and is reported as a liability rather than as a valuation allowance or an appropriation of surplus. Under a formula prescribed by the NAIC, the Company defers the portion of realized gains and losses on sales of fixed income investments, principally bonds and mortgage loans, attributable to changes in the general level of interest rates and amortizes those deferrals over the remaining period to maturity based on the individual security sold. That net deferral is reported as the Interest Maintenance Reserve in the accompanying balance sheets. Interest-related realized gains and losses are not reported in income in the period sold but, instead are transferred to the interest maintenance reserve and amortized into income over the remaining lives of the securities sold. The "asset valuation reserve" is determined by an NAIC prescribed formula and is reported as a liability rather than unassigned surplus. Under GAAP, realized gains and losses are reported in the income statement on a pretax basis in the period that the asset giving rise to the gain or loss is sold and valuation allowances are provided when there has been a decline in value deemed other than temporary, in which case, the provision for such declines would be charged to income.

SUBSIDIARIES

The accounts and operations of the Company's subsidiaries are not consolidated with the accounts and operations of the Company.

POLICY ACQUISITION COSTS

The costs of acquiring and renewing business are expensed when incurred. Under GAAP, acquisition costs related to investment-type products, to the extent recoverable from future gross profits, are amortized generally in proportion to the present value of expected gross profits from surrender charges and investment, mortality, and expense margins.

NONADMITTED ASSETS

Certain assets designated as "nonadmitted," principally agents' debit balances and furniture and equipment, are excluded from the accompanying balance sheets and are charged directly to unassigned surplus.

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

PREMIUMS

Revenues for investment-type products consist of the entire premium received and benefits, represent the death benefits paid and the change in policy reserves. Under GAAP, premiums received in excess of policy charges are not recognized as premium revenue and benefits represent the excess of benefits paid over the policy account value and interest credited to the account values.

BENEFIT RESERVES

Certain policy reserves are calculated using prescribed interest and mortality assumptions rather than on estimated expected experience and actual account balances as is required under GAAP.

INCOME TAXES

Deferred income taxes are not provided for differences between the financial reporting taxable income.

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

The effects of the foregoing variances from GAAP on the accompanying statutory-basis financial statements are as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31 1994	1993	1992
<S>	<C>	<C>	<C>
Net income (loss) as reported in the accompanying statutory-basis financial statements	$ 20,811	$ (28,534)	$ (7,945)
Adjustments to policyholder deposits and separate account liabilities	(15,773)	(20,205)	(3,134)
Adjustments for net realized gains (losses)	(35,510)	19,983	(6,226)
Surplus relief reinsurance	-	10,223	3,375
Amortization of market value adjustments to fixed maturities at acquisition date	(3,727)	606	1,333
Amortization of interest maintenance reserve, goodwill, and value of insurance in force	(9,625)	(7,574)	(49,976)
Adjustment to mortgage loans, real estate joint ventures and limited partnerships due to depreciation, valuation reserves and realized losses due to other-than-temporary impairments	-	(30,399)	(6,181)
Increase in deferred policy acquisition costs, net	23,976	19,107	6,939
Other	4,137	(1,496)	(123)
Investment in subsidiary	3,953	(1,436)	6,225
Net income (loss), GAAP basis	$ (11,758)	$ (39,725)	$ (55,713)

</TABLE>

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

<TABLE>
<CAPTION>

	DECEMBER 31 1994	1993	1992
<S>	<C>	<C>	<C>
Capital and surplus as reported in the accompanying statutory-basis financial statements	$ 107,866	$ 85,941	$ 50,915
Adjustments to policyholder deposits and separate account liabilities	(118,036)	(104,266)	22,933
Surplus relief reinsurance	-	-	(9,969)
Market value adjustments to fixed maturities at acquisition date and related amortization	(23,085)	89,950	(16,956)
Asset valuation reserve and interest maintenance reserve	83,189	16,574	18,595
Adjustment to mortgage loans, real estate joint ventured and limited partnerships due to depreciation, valuation reserves and realized losses due to other-than-temporary impairments	-	(1,611)	(12,584)
Value of insurance in force	37,175	41,005	39,813

Deferred policy acquisition costs	26,667	2,691	38,412
Net unrealized gains (losses) on available-for-sale investments	(104,905)	-	-
Other	2,002	(2,735)	2,068
Shareholder's equity, GAAP basis	$ 10,873	$ 127,549	$ 133,227

</TABLE>
Other significant accounting practices are as follows:

INVESTMENTS

Bonds, preferred stocks, common stocks, and short-term investments, are stated at values prescribed by the NAIC, as follows:

Bonds and short-term investments are reported at cost or amortized cost; the discount or premium on bonds is amortized using the interest method. For loan-backed bonds,

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

anticipated prepayments are considered when determining the amortization of discount or premium.

Prepayment assumptions for loan-backed bonds and structured securities were obtained from broker dealer survey values or internal estimates. These assumptions are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all securities except for one residual security which is valued using the prospective method.

Preferred stocks are reported at cost or amortized cost.

The Company's insurance subsidiary is reported at equity in the underlying statutory basis of its net assets.

Mortgage loans and policy loans are reported at unpaid principal balances.

Short-term investments includes investments with maturities of less than one year at the date of acquisition.

Realized capital gains and losses are determined using the specific identification method. Changes in admitted asset carrying amounts of investments in subsidiaries are credited or charged directly to unassigned surplus.

BENEFITS

Insurance and annuity reserves are developed by actuarial methods and are determined based on published tables using statutorily specified interest rates and valuation methods that will provide, in the aggregate, reserves that are greater than or equal to the minimum or guaranteed policy cash values or the amounts required by the Ohio Department of

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Insurance. The Company waives deduction of deferred fractional premiums on the death of life and annuity policy insureds and does not return any premium beyond the date of death. Surrender values on policies do not exceed the corresponding benefit reserve. Policies issued subject to multiple table substandard extra premiums are valued on the standard reserve basis which recognizes the non-level incidence of the excess mortality costs.

Tabular interest, tabular less actual reserve released, and tabular cost have been determined by formula as prescribed by the NAIC.

The liabilities related to policyholder funds left on deposit with the Company generally are equal to fund balances less applicable surrender charges.

POLICY AND CONTRACT CLAIMS

Unpaid benefits and related expenses are established for estimates of payments to be made on individual insurance claims that have been incurred and reported, and estimates of losses which have occurred but have not been reported. Management believes that its reserve estimate for policy and contract claims is reasonable.

REINSURANCE

Reinsurance premiums, benefits and expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, benefits and expenses, and the reserves for policy and contract liabilities are reported net, rather than gross, of reinsured amounts.

SEPARATE ACCOUNTS

Separate account assets and liabilities reported in the accompanying balance sheets represent funds that are separately administered, principally for variable annuities. Separate account assets are reported at market value. Surrender charges collectible by the general account in the event of variable policy surrenders are reported as a negative liability rather than an asset pursuant to prescribed NAIC accounting practices.

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the presentation of the 1994 financial statements. These reclassifications had no effect on previously reported net income or surplus.

2. PERMITTED STATUTORY ACCOUNTING PRACTICES

The Company's statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by the Ohio Department of Insurance. Prior to the redomestication of the Company from Arizona to Ohio, the Company's statutory-basis financial statements were prepared in accordance with accounting practices prescribed or permitted by the Arizona Department of Insurance. "Prescribed" statutory accounting practices include state laws, regulations, and general administrative rules, as well as a variety of publications of the NAIC. "Permitted" statutory accounting practices encompass all accounting practices that are not prescribed; such practices may differ from state to state, may differ from company to company within a state, and may change in the future. The NAIC currently is in the process of recodifying statutory accounting practices, the result of which is expected to constitute the only source of "prescribed" statutory accounting practices. Accordingly, that project, which is expected to be completed in 1996, will likely change, to some extent, prescribed statutory accounting practices, and may result in changes to the accounting practices that the Company uses to prepare its statutory financial statements.

On December 30, 1994, the Company redomesticated from Arizona to Ohio. In conjunction with the redomestication, written approval was received from the Ohio Department of Insurance to offset the reported deficit in the Company's unassigned funds account against its gross paid-in and contributed surplus account as of December 31, 1993. The Company requested permission for that accounting because prescribed statutory accounting practices did not address that subject. The change did not affect the total capital and surplus of the Company as of December 31, 1994.

Upon redomestication from Arizona to Ohio, the Company's investments in foreign securities exceeded 5% of total assets, the maximum amount permitted by Ohio law for statutory-basis accounting and reporting purposes. The Company's investments in foreign securities were in compliance with Arizona law when they were purchased. The Company has received a permitted accounting practice letter from the Ohio Insurance

2. PERMITTED STATUTORY ACCOUNTING PRACTICES (CONTINUED)

Department permitting the excess foreign investments of approximately $30 million to be treated as admitted assets for statutory accounting practices until December 31, 1996. The Company intends to be in compliance with the Ohio law by December 31, 1996.

3. INVESTMENTS

The cost or amortized cost and the fair, or comparable, value of investments in bonds are summarized as follows:
<TABLE>
<CAPTION>

	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
		(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
At December 31, 1994:				
U.S. treasury securities and obligations of U.S. government agencies	$ 14,170	$ 5	$ 253	$ 13,922
States and political subdivisions	50,964	47	5,255	45,756
Foreign governments	44,383	-	5,101	39,282
Public utilities	125,539	-	12,787	112,752
Other corporate securities	486,761	617	42,491	444,887
Mortgage-backed securities	409,251	-	830	408,421
Total bonds	$1,131,068	$ 669	$ 66,717	$1,065,020
At December 31, 1993:				
U.S. treasury securities and obligations of U.S. government agencies	$ 11,066	$ 382	$ 2	$ 11,446
States and political subdivisions	48,590	129	527	48,192
Foreign governments	43,702	-	690	43,012
Public utilities	118,961	77	970	118,068
Other corporate securities	607,606	853	5,141	603,318

Mortgage-backed securities	250,179	-	-	250,179
Total bonds	$1,080,104	$ 1,441	$ 7,330	$1,074,215

</TABLE>

Fair values are based on published quotations of the Securities Valuation Office of the NAIC. Fair values generally represent quoted market value prices for securities traded in the public marketplace, or analytically determined values using bid or closing prices for

3. INVESTMENTS (CONTINUED)

securities not traded in the public marketplace. However, for certain investments for which the NAIC does not provide a value, the Company uses the amortized cost amount as a substitute for fair value in accordance with prescribed guidance. As of December 31, 1994 and 1993, the fair value of investments in bonds includes $560,877,000 and $535,214,000, respectively, of bonds that were valued at amortized cost.

A summary of the cost or amortized cost and fair value of the Company's investments in bonds at December 31, 1994, by contractual maturity, is as follows:

	COST OR AMORTIZED COST	FAIR VALUE
	(IN THOUSANDS)	
Maturity:		
In 1995	$ 13,323	$ 13,317
In 1996 - 1999	83,745	78,317
In 2000 - 2004	152,963	139,238
After 2004	471,786	425,727
Mortgage-backed securities	409,251	408,421
Total	$ 1,131,068	$ 1,065,020

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties and because mortgage-backed securities (including floating-rate securities) provide for periodic payments throughout their life.

Proceeds from the sales of investments in bonds during 1994, 1993 and 1992 were $376,862,000, $748,844,000 and $103,149,000; gross gains of $1,927,000, $66,120,000 and $4,314,000, and gross losses of $27,771,000, $14,120,000 and $5,275,000 were realized on those sales, respectively.

At December 31, 1994 and 1993, bonds with an admitted asset value of $7,021,000 and $6,334,000, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

3. INVESTMENTS (CONTINUED)

Unrealized gains and losses on investments in subsidiaries are reported directly in surplus and do not affect operations. The gross unrealized gains and losses on, and the cost and fair value of, those investments are summarized as follows:

	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
At December 31, 1994:				
Subsidiaries	$ 17,823	$ 17,734	$ -	$ 35,557
At December 31, 1993:				
Subsidiaries	$ 17,823	$ 14,436	$ -	$ 32,259

The Company has made no new investments in commercial mortgages since 1988, except to protect values in existing investments or to honor outstanding commitments, and has no current intention of making any new investments in such assets. The maximum percentage of any one loan to the value of the security at the time of the loan, exclusive of any money purchase, is 75%. Fire insurance is carried on every loan.

Pursuant to the terms of the Acquisition, National Mutual has indemnified principal (up to 100% of the investments year-end 1992 statutory book value) and interest with respect to all of these loans. In support of its indemnification obligations, National Mutual has placed $23.0 million into escrow in favor of the Company and National Integrity which will remain available until the subject commercial and agricultural loans have been paid in full.

3. INVESTMENTS (CONTINUED)

Major categories of the Company's net investment income are summarized as follows:

	Year Ended December 31 1994	1993	1992
	(In Thousands)		
Income:			
Bonds	$ 88,969	$ 85,745	$ 85,816
Preferred stocks	205	175	335
Common stocks	-	235	271
Mortgage loans	8,719	12,277	13,434
Real estate	-	2,606	2,919
Policy loans	5,289	4,832	4,239
Short-term investments and cash	1,623	1,239	2,275
Other invested assets	-	5,051	4,465
Other investment income (loss)	(85)	138	207
Total investment income	104,720	112,298	113,961
Investment expenses	(2,718)	(5,156)	(5,110)

Net investment income	$ 102,002	$ 107,142	$ 108,851

</TABLE>

4. REINSURANCE

Consistent with prudent business practices and the general practice of the insurance industry, the Company reinsures mortality risks under certain of its insurance products with other insurance companies through reinsurance agreements. These reinsurance agreements primarily cover single premium endowment contracts and variable life insurance policies. The Company reinsures life insurance risks in excess of $250,000 per life. At December 31, 1994, approximately 13.6% of total life insurance in force was reinsured with non-affiliated insurance companies related to excess risks. A contingent liability exists with respect to insurance ceded which would become a liability should the reinsurer be unable to meet the obligations assumed under these reinsurance agreements.

Reinsurance ceded has reduced premiums by $3,886,000 in 1994, $2,427,000 in 1993 and $2,642,000 in 1992, benefits paid or provided by $585,000 in 1994, $5,362,000 in 1993 and $12,077,000 in 1992, and policy and contract liabilities by $305,000 at December 31, 1994 and $134,000 at December 31, 1993.

5. FEDERAL INCOME TAXES

The Company files a consolidated return with National Integrity. The method of allocation between the companies is based on separate return calculations.

Income before income taxes differs from taxable income principally due to dividends-received tax deductions, policy acquisition costs, and differences in policy and contract liabilities and investment income for tax and financial reporting purposes.

The current year tax provision and prior year tax provision were calculated including net operating loss carryover benefits of $1,757,000 and $12,321,000, respectively.

The Company had a net operating loss carryforward of approximately $39.4 million and $2.4 million at December 31, 1994 and December 31, 1993, respectively, expiring in the year 2007.

6. SURPLUS

Dividends that ARM may receive from the Company in any year without prior approval of the Ohio insurance commissioner are limited by statute to the greater of (i) 10% of the Company's statutory capital and surplus as of the preceding December 31, or (ii) the Company's statutory net income for the preceding year. The maximum dividend payments that may be made by the Company to ARM during 1995 are $20,811,000.

Under New York insurance laws, National Integrity may pay dividends to Integrity only out of its earnings and surplus, subject to at least thirty days' prior notice to the New York Insurance Superintendent and no disapproval from the Superintendent prior to the date of such dividend, the Superintendent may disapprove a proposed dividend if the Superintendent finds that the financial condition of National Integrity does not warrant such distribution.

The NAIC has adopted Risk-Based Capital ("RBC") requirements which became effective December 31, 1993, that attempt to evaluate the adequacy of a life insurance company's adjusted statutory capital and surplus in relation to investment, insurance and other business risks. The RBC formula will be used by the states as an early warning tool to identify possible under capitalized companies for the purpose of initiating regulatory action and is not designed to be a basis for ranking the financial strength of insurance companies. In addition, the formula defines a new minimum capital standard which supplements the previous system of low fixed minimum capital and surplus requirements.

6. SURPLUS (CONTINUED)

The RBC requirements provide for four different levels of regulatory attention depending on the ratio of the company's adjusted capital and surplus to its RBC. As of December 31, 1994 and 1993, the adjusted capital and surplus of the Company is substantially in excess of the minimum level of RBC that would require regulatory response.

7. LEASES

Prior to November 26, 1993, Integrity leased office space in New York, New York under an operating lease having remaining non-cancelable lease terms in excess of one year. The future minimum rental payments under this lease were approximately $1.8 million over the next four years. Rental expense for the years ended December 31, 1993 and 1992 was $2,755,000 and $2,935,000, respectively. All obligations under this lease were assumed by National Mutual in connection with the Acquisition.

8. CONCENTRATIONS OF CREDIT RISK

At December 31, 1994 and 1993, the Company held unrated or less-than investment grade corporate bonds of $82,186,000 and $21,898,000, respectively, with an aggregate fair value of $75,934,000 and $21,898,000, respectively. Those holdings amounted to 7.2% and 2.0%, respectively, of the Company's investments in bonds and less than 6.1% and 1.5%, respectively, of the Company's total admitted assets (excluding separate accounts assets). The holdings of less-than-investment grade bonds are widely diversified and of satisfactory quality based on the Company's investment policies and credit standards.

9. ANNUITY RESERVES

At December 31, 1994 and 1993, the Company's annuity reserves and deposit fund liabilities that are subject to discretionary withdrawal with adjustment, subject to discretionary withdrawal without adjustment, and not subject to discretionary withdrawal provisions are summarized as follows:

<TABLE>
<CAPTION>

	AMOUNT (IN THOUSANDS)	PERCENT
<S>	<C>	<C>
At December 31, 1994:		
Subject to discretionary withdrawal (with adjustment):		
With market value adjustment	$ 49,122	4.1%
At book value less current surrender charge of 5% or more	39,579	3.3
At market value	268,099	22.4

Total with adjustment or at market value	356,800	29.8
Subject to discretionary withdrawal (without adjustment) at book value with minimal or no charge or adjustment	317,271	26.6
Not subject to discretionary withdrawal	520,201	43.6
Total annuity reserves and deposit fund liabilities-before reinsurance	1,194,272	100.0%
Less reinsurance ceded	1,043	
Net annuity reserves and deposit fund liabilities	$1,193,229	

</TABLE>

Integrity Life Insurance Company

Notes to Financial Statements (Statutory Basis) (continued)

9. ANNUITY RESERVES (CONTINUED)

<TABLE>
<CAPTION>

<S>	AMOUNT <C>	PERCENT <C>
	(IN THOUSANDS)	
At December 31, 1993:		
Subject to discretionary withdrawal (with adjustment):		
With market value adjustment	$ -	-
At book value less current surrender charge of 5% or more	79,989	7.1%
At market value	155,981	13.8
Total with adjustment or at market value	235,970	20.9
Subject to discretionary withdrawal (without adjustment)at book value with minimal or no charge or adjustment	380,240	33.8
Not subject to discretionary withdrawal	510,453	45.3
Total annuity reserves and deposit fund liabilities-before reinsurance	1,126,663	100.0%
Less reinsurance ceded	-	
Net annuity reserves and deposit fund liabilities	$1,126,663	

</TABLE>

Integrity Life Insurance Company

Notes to Financial Statements (Statutory Basis) (continued)

10. SEPARATE ACCOUNTS

A reconciliation of the amounts transferred to and from the separate accounts for the years ended December 31, 1994, 1993 and 1992 is presented below:

<TABLE>
<CAPTION>

	1994	1993	1992
		(IN THOUSANDS)	

Transfers as reported in the Summary of Operations of the Separate Accounts Statement:			
Transfers to Separate Accounts	$ 195,591	$ 153,310	$ 15,428
Transfers from Separate Accounts	(33,003)	(20,009)	(4,661)
Net transfers to Separate Accounts	162,588	133,301	10,767
Reconciling adjustments:			
Mortality and expense charges reported as other income	3,432	1,047	190
Policy deductions reported as other income	1,387	-	-
Transfers as reported in the Summary of Operations of the Life, Accident and Health Annual Statement	$ 167,407	$ 134,348	$ 10,957

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of fair value information about all financial instruments, including insurance liabilities classified as investment contracts, unless specifically exempted. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of such instruments. For financial instruments not separately disclosed below, the carrying amount is a reasonable estimate of fair value.

	DECEMBER 31, 1994		DECEMBER 31, 1993	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN THOUSANDS)			
Assets:				
Bonds	$1,131,068	$1,037,399	$1,080,104	$1,074,215
Preferred stocks	3,367	3,331	-	-
Mortgage loans	57,653	57,653	135,949	135,949
Liabilities:				
Annuity reserves for investment-type contracts	$ 871,340	$ 839,767	$ 966,850	$1,031,568
Separate account reserves	316,178	315,177	156,229	155,770

MORTGAGE LOANS

Pursuant to the terms of the Acquisition, payments of principal and interest on mortgage loans are guaranteed by National Mutual. Principal received in excess of statutory book value is to be returned to National Mutual. Accordingly, book value is deemed to be fair value.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

ANNUITY RESERVES FOR INVESTMENT-TYPE CONTRACTS

The fair value of structured settlements and immediate annuities are based on discounted cash flow calculations using a market yield rate for assets with similar durations. The fair value of structured settlements and immediate annuities represents the fair values of those insurance policies as a whole. The fair value amounts of the remaining annuities are based on the cash surrender values of the underlying policies.

SEPARATE ACCOUNT RESERVES

The fair value of separate account reserves for investment-type products equals the cash surrender values.

12. STOCK OPTIONS

In December 1993, ARM adopted the Equity Incentive Plan, a stock option plan for key employees. The plan provides for granting of options to purchase up to 2,647 shares of Class A common stock of ARM. A total of 1,264 options were granted through December 31, 1994, of which 221 were exercisable, and all of which were outstanding at year end. Each option has an exercise price set initially at $5,000, which will increase at the end of each of ARM's fiscal quarters at various rates until exercise of the option. Such options will become exercisable in equal installments on the first through fifth anniversary of the date of grant.

13. RELATED PARTY TRANSACTIONS

Effective January 1, 1994, the Company entered into an Administrative Services Agreement with ARM. ARM performs certain administrative and special services for the Company to assist with its business operations. The services include policyholder services; accounting, tax and auditing; underwriting; marketing and product development; functional support services; payroll functions; personnel functions; administrative support services; and investment functions. During 1994, the Company was charged $11,261,000 for these services in accordance with the requirements of applicable insurance law and regulations.

13. RELATED PARTY TRANSACTIONS (CONTINUED)

During 1993, National Integrity reimbursed Integrity for its use of Integrity's personnel, property, and facilities in carrying out certain of its corporate functions. Reimbursement for intercompany services is made on the basis of the cost of services provided.

Prior to the Acquisition, Integrity used investment advisory services provided by CMB Investment Counselors, Inc. ("CMB"), previously an affiliated company. CMB was paid an investment advisory fee of .2% per annum of the market value of investments under management. During the years ended 1993 and 1992, Integrity paid $2,488,000 and $1,992,000, respectively to CMB for such services.

Integrity received capital contributions of approximately $47,554,000 and

$10,029,000 for the years ended December 31, 1993 and 1992, respectively, from National Mutual. Integrity also received capital contributions of approximately $5,500,000 for the year ended December 31, 1993 from ARM.

In connection with the Acquisition, ARM obtained a Term Loan Facility Agreement in the principal amount of $40.0 million. The loan amount is secured by a pledge of the shares of common stock of Integrity.

14. RECONCILIATION OF CAPITAL AND SURPLUS TO 1992 ANNUAL STATEMENT

Capital and surplus of $50,915,000 at December 31, 1992 differs from the capital and surplus of $57,920,000 as shown in the 1992 Annual Statement as filed with the Arizona Insurance Department due to an additional charge of $7,004,000. This amount relates to net voluntary contributions to the Asset Valuation Reserve.

INTEGRITY LIFE INSURANCE COMPANY SEPARATE ACCOUNT III

PROSPECTUS
FOR THE

BEST OF FUNDS VARIABLE ANNUITY

OFFERED BY
INTEGRITY LIFE INSURANCE COMPANY

The Best of Funds Variable Annuity (the "Contract"), offered through Integrity Life Insurance Company (the "Company"), an indirect wholly-owned subsidiary of ARM Financial Group, Inc., provides a vehicle for investing on a tax-deferred basis in the Schabacker Select Fund, an investment portfolio offered by the United Services Insurance Funds ("USIF"), an open-end, diversified investment company. The Contract is a flexible-premium endowment annuity, intended for retirement savings or other long-term investment purposes.

The minimum initial contribution ("Contribution") to the Contract is $10,000 ($5,000 for ABC Investment Plan(R) Accounts). There are no sales loads or surrender charges. You may cancel your Contract for any reason during a "free look period" of 10 days (30 days or more in some instances as set forth in your Contract) ("Free Look Period").

Your Contributions to the Contract will be allocated to the Company's Separate Account III (the "Separate Account"). Assets of the Separate Account are invested in the Schabacker Select Fund (the "Portfolio"), the sole investment portfolio currently offered by USIF.

The Contract's Account Value varies with the investment performance of the Portfolio, whose investment objective is to provide long-term growth without regard to current income. You bear all investment risk, and investment results for the Portfolio are not guaranteed.

The Contract offers a number of ways of withdrawing monies at a future date, including a lump-sum payment and several Annuity Payment Options. Full or partial withdrawals by the Owner may be made at any time before the Endowment Date, although in many instances withdrawals prior to age 59 1/2 are subject to a 10% penalty tax (and a portion of the withdrawn monies may be subject to ordinary income taxes). If you elect an Annuity Payment Option, your payments may be received on a fixed or variable basis. You also have significant flexibility in choosing the Endowment Date on which Annuity Payments begin.

This Prospectus sets forth the information you should have before investing in the Contract, and must be accompanied by the current USIF Prospectus. Please read both the Contract Prospectus and the USIF Prospectus carefully and retain the Prospectuses for future reference. A Statement of Additional Information ("SAI") for the Contract Prospectus, which has the same date as this Prospectus, has also been filed with the Securities and Exchange Commission (the "Commission"), and is incorporated herein by reference. A copy of the SAI is available free of charge by writing to our administrative office at Post Office

Box 182080, Columbus, Ohio 43218, or by calling the following toll-free telephone number: 1-800-506-BEST. The table of contents of the SAI is included at the end of this Prospectus.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE CONTRACT IS NOT AVAILABLE IN ALL STATES.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFERING IN ANY JURISDICTION IN WHICH SUCH OFFERING MAY NOT LAWFULLY BE MADE. NO DEALER, SALESMAN, OR OTHER PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON.

THE DATE OF THIS PROSPECTUS IS MAY 19, 1995.

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GLOSSARY

ABC INVESTMENT PLAN(R). An automatic, monthly Contribution plan. If you wish to make regular monthly Contributions of at least $100 each, please complete the enclosed ABC Investment Plan(R) Kit. This allows us automatically to transfer each monthly Contribution directly into your Contract from any bank account that you select. You can terminate this plan simply by sending us your termination notice one month in advance.

ACCUMULATION UNIT. A measure of your ownership interest in the Contract prior to the Endowment Date. An Accumulation Unit is analogous, though not identical, to a share owned in a mutual fund account.

ACCUMULATION UNIT VALUE. The value of each Accumulation Unit which is calculated each Valuation Period. An Accumulation Unit Value is analogous, though not identical, to the share price (net asset value) of a mutual fund.

ACCOUNT VALUE. The value of all amounts accumulated under the Contract prior to the Endowment Date, equivalent to the Accumulation Units multiplied by the Accumulation Unit Value. Account Value is analogous to the current market value of a mutual fund account.

ADDITIONAL CONTRIBUTION. Any Contribution you invest in the Contract subsequent to the Initial Contribution.

ANNUITANT. The person whose life is used to determine the duration of any Annuity Payments and, upon whose death, prior to the Endowment Date, benefits under the Contract are paid. The Owner is automatically the Annuitant.

ANNUITY PAYMENT. One of a series of payments made under an Annuity Payment Option.

ANNUITY PAYMENT OPTION. One of several ways in which a series of payments are made after the Endowment Date. Under a FIXED ANNUITY OPTION, the dollar amount of each Annuity Payment does not change over time. Annuity Payments are based on the Contract's Account Value as of the Endowment Date. Under a VARIABLE ANNUITY OPTION, the dollar amount of each Annuity Payment may change over time, depending upon the investment experience of the Portfolio.

ANNUITY UNIT. Unit of measure used to calculate Variable Annuity Payments under the Contract.

BENEFICIARY. The person to whom any benefits are due under the Contract upon the Annuitant's death.

BUSINESS DAY. A day when the New York Stock Exchange is open for trading.

COMPANY. Integrity Life Insurance Company ("We," "Us," "Our").

CONTRACT ANNIVERSARY. Any anniversary of the Contract Date.

CONTRACT DATE. The effective date of your Contract.

CONTRACT YEAR. A period of 12 months starting with the Contract Date or any Contract Anniversary.

CONTRIBUTION. Any premium payment or any amount you invest in the Contract. The minimum Initial Contribution is $10,000 ($5,000 for ABC Investment Plan(R) Accounts); each Additional Contribution must be at least $100. Contributions may be made at any time prior to the Endowment Date.

ENDOWMENT DATE. The date on which Annuity Payments begin.

FREE LOOK PERIOD. The period during which the Contract can be canceled and treated as void from the Contract Date.

INITIAL CONTRIBUTION. The first Contribution you invest in the Contract.

NON-QUALIFIED CONTRACT. A Contract other than a Qualified Contract. Contributions to such a Contract are made with after-tax dollars.

OWNER. The person who purchases the Contract unless the purchaser designates another person as the Owner in writing ("You," "Your"). Because the Owner is automatically the Annuitant, your life is used to determine the duration of any Annuity Payments and, upon your death prior to the Endowment Date, we will pay the death benefit provided for under the Contract to your Beneficiary.

PORTFOLIO. Schabacker Select Fund, the sole investment portfolio of the United Services Insurance Funds.

PROOF OF DEATH. Either (a) a certified death certificate, (b) a certified decree of a court of competent jurisdiction as to the finding of death, (c) a written statement by a medical doctor who attended the deceased, or (d) any other proof satisfactory to the Company.

QUALIFIED CONTRACT. A Contract that qualifies as an individual retirement annuity under Section 408(b) of the Internal Revenue Code of 1986, as amended.

SEPARATE ACCOUNT. The Integrity Life Insurance Company Separate Account III. The Separate Account consists of assets that are segregated by the Integrity Life Insurance Company. The Separate Account will invest only in the Schabacker Select Fund of the United Services Insurance Funds, and the investment performance of the Separate Account, therefore, is linked directly to the investment performance of the Portfolio. The Separate Account is independent of the general assets of the Company.

USIF. United Services Insurance Funds, an open-end, diversified investment company in which the Separate Account invests.

VALUATION PERIOD. A period between two successive Business Days commencing at the close of business of the first Business Day and ending at the close of business of the following Business Day.

HIGHLIGHTS

BEST OF FUNDS VRIABLE ANNUNITY CONTRACT	The Contract provides a vehicle for investing on a tax-deferred basis in the Portfolio, the sole investment portfolio offered by USIF. You may subsequently withdraw

monies from the Contract either as a lump sum or in regular installments (See Annuity Payment Options on page 15). Because Account Values and certain Annuity Payment Options depend on the investment experience of the Portfolio, you bear all investment risk for monies invested under the Contract. The investment performance of the Portfolio is not guaranteed.

WHO SHOULD INVEST	The Contract is designed for investors seeking long-term, tax-deferred accumulation of funds, generally for retirement but also for other long-term investment purposes. The tax-deferred feature of the Contract is most attractive to investors in high federal and state marginal tax brackets who have exhausted other avenues of tax deferral, such as "pre-tax" contributions to employer-sponsored retirement or savings plans. The Contract is intended for long-term investors.
FREE LOOK PERIOD	The Contract provides for a Free Look Period of 10 days after you receive the Contract (30 or more days in some instances, as specified in your Contract), during which period you may cancel your investment in the Contract. To cancel your investment, please return your Contract to us. When we receive the Contract, you will be reimbursed for all Contributions, adjusted for any gain or loss for monies invested in the Separate Account, unless applicable state law requires the return of Contributions.
HOW TO INVEST	To invest in the Contract, please complete the accompanying purchase form and mail the completed purchase form to our administrative office. The minimum Initial Contribution to the Contract is $10,000 ($5,000 for ABC Investment Plan(R) Accounts). Please note that the Owner is automatically the Annuitant (certain exceptions may be allowed for tax-free exchanges under Section 1035 of the Internal Revenue Code of 1986, as amended, for certain qualified plans and in other special circumstances). Please further note that the Owner, as the Annuitant, when purchasing a Contract, must be 79 years of age or less. You may make Additional Contributions at any time before the Contract's Endowment Date, as long as the Annuitant is living. Additional Contributions must be at least $100.
CHARGES AND DEDUCTIONS	The Contract imposes no sales charges. The costs of the Contract include mortality and expense risk charges, maintenance and administrative charges which cover the cost of administering the Contract, and management, advisory, and other fees and expenses which reflect the costs of USIF. There are no charges under the Contract for withdrawals, although withdrawals prior to age 59 1/2 may be subject to a 10% penalty tax. (See the Fee Table on page 8 and Charges and Deductions on page 11.)
FULL AND PARTIAL WITHDRAWALS	You may withdraw all or part of your Account Value before the earlier of the Endowment Date or the Annuitant's death. Withdrawals prior to age 59 1/2 may be subject to a 10% penalty tax. (See Full and Partial Withdrawals on page 13.)

DEATH BENEFIT	If the Owner/Annuitant dies prior to the Endowment Date, the Beneficiary will receive the death benefit provided for under the Contract (the "Death Benefit"). The Death Benefit is the greater of the then-current Account Value of the Contract or the sum of all Contributions (less any withdrawals). Your Beneficiary may elect to receive these proceeds as a lump sum or as Annuity Payments. If your

Beneficiary is your spouse, he or she will have the option of continuing the Contract as the Owner/Annuitant. (See Death Benefit on page 14.)

ANNUNITY PAYMENT OPTIONS	Beginning on the Endowment Date, you may withdraw monies from the Contract in the form of an annuity income. As the Owner, you may elect one of several Annuity Payment Options. These options provide a wide range of flexibility in choosing an annuity payment schedule that meets your particular needs. Annuity Payment Options may include payments for a designated period or for life with or without a guaranteed number of payments. You may elect a lump-sum payment prior to the Endowment Date in lieu of Annuity Payments. (See Annuity Payment Options on page 15.)
POLICYHOLDER INFORMATION	If you have questions about your Best of Funds Variable Annuity, please write to our administrative office at Post Office Box 182080, Columbus, Ohio 43218. You may also call the following toll-free telephone number: 1-800-506-BEST. Please provide, when you write, and have ready, when you call, the Contract number and the Owner's name. As the Owner, you will receive periodic statements confirming any transactions that take place, as well as a quarterly statement, and Annual and Semi-Annual Fund Reports.

FEE TABLE

The following table illustrates all expenses that you will incur as an Owner, except for premium taxes that may be assessed by your state (see "Charges and Deductions" for further details). The expenses and fees shown are based on estimates for USIF's first fiscal year of operation.

OWNER TRANSACTION EXPENSES

Sales Load Imposed on Purchases	None
Redemption Fees	None
Surrender Fees	None
Annual Account Maintenance Fee(1)	$ 35.00

SEPARATE ACCOUNT ANNUAL EXPENSES (as a percentage of average account value)

Mortality and Expense Risk Charge	0.50%
Administrative Expense Charge	0.15%
Other Account Fees	None
TOTAL SEPARATE ACCOUNT ANNUAL EXPENSES	0.65%

FUND ANNUAL EXPENSES AFTER EXPENSE REIMBURSEMENTS (as a percentage of average net assets)

Management Fees	1.25%
Other Expenses	0.05%
TOTAL ANNUAL FUND OPERATING EXPENSES AFTER EXPENSE REIMBURSEMENTS(2)	1.30%

(1) The Annual Account Maintenance Fee is deducted on the last day of each Contract Year. The Annual Account Maintenance Fee will be waived in any year that your Account Value is $50,000 or more on the last Business Day of the Contract Year. A partial year's maintenance fee will be deducted on a pro rata basis from any withdrawal, death benefit or annuity payout option.

(2) Total Annual Fund Operating Expenses will be capped by the investment adviser and the sub-adviser to USIF at a maximum of 1.30% of average net assets on an annualized basis through June 30, 1996 and until such later date as the adviser and sub-adviser may determine. Without this reimbursement, the Other Expenses and Total Expenses are estimated to be .18% and 1.43%, respectively.

EXAMPLE OF TOTAL CONTRACT FEES

The following example illustrates the expenses that you would incur on a $1,000 Contribution over various periods, assuming (i) a 5% annual rate of return and (ii) redemption at the end of each period. As noted in the table above, the Contract imposes no redemption fees of any kind. Your expenses are identical whether you continue the Contract or withdraw the entire value of your Contract at the end of the applicable period as a lump sum or under one of the Contract's Annuity Payment Options.

1 Year	3 Years
$21	$66

Included in this example are the pro rata portions of the Contract maintenance fees, $1 and $3, respectively, for the periods shown based on an average expected account size of $35,000. The fee is deducted on the last day of the Contract Year.

THIS EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES OR PERFORMANCE. ACTUAL EXPENSES MAY BE HIGHER OR LOWER THAN THOSE SHOWN, SUBJECT TO THE GUARANTEES IN THE CONTRACT.

FINANCIAL INFORMATION

FINANCIAL STATEMENTS

The financial statements of the Company (as well as the auditors' reports thereon) are contained in the SAI. As of the date of this Prospectus, the Separate Account has not commenced operations, and, therefore, the Separate Account has no assets and no financial statements are presented with respect to the Separate Account.

YIELD AND TOTAL RETURN

From time-to-time, the Portfolio may advertise its yield and total return investment performance. Advertised yields and total returns include all charges and expenses attributable to the Contract. Including these fees has the effect of decreasing the advertised performance of the Portfolio, so that the Portfolio's investment performance will not be directly comparable to that of an ordinary mutual fund.

Please refer to the SAI for a description of the method used to calculate the Portfolio's yield and total return, and a list of the indexes and other benchmarks used in evaluating the Portfolio's performance.

THE COMPANY, THE SEPARATE ACCOUNT, AND USIF

INTEGRITY LIFE INSURANCE COMPANY

The Company was organized in 1966 as an Arizona stock life insurance company and redomesticated as an Ohio stock life insurance company in 1994. The Company's principal executive office is at 239 South Fifth Street, Louisville, Kentucky 40202. The Company is indirectly wholly-owned by ARM Financial Group, Inc., an insurance holding company. ARM Financial Group, Inc. is a financial services holding company that provides retail and institutional products and services to the long-term savings and retirement market. At December 31, 1994, ARM Financial Group, Inc. had approximately $2.6 billion of policyholder deposits and funds under management. Approximately 86% of the common stock of ARM Financial Group, Inc. is owned by The Morgan Stanley Leveraged Equity Fund II, L.P.

The Company is principally engaged in offering life insurance policies and annuity contracts, and is authorized to sell life insurance policies and annuity contracts in 44 states and the District of Columbia. In addition to the Contracts, the Company also sells flexible payment annuity contracts and certificates with an underlying investment medium other than USIF, and single-premium fixed annuity contracts. The Company also has entered into agreements with other insurance companies to provide administrative and investment support for products to be designed, underwritten, and sold by these companies.

INTEGRITY LIFE INSURANCE COMPANY SEPARATE ACCOUNT III

The Separate Account was established by the Company as a separate account under the laws of the State of Ohio pursuant to a resolution of the Company's Board of Directors adopted on August 19, 1994. The Separate Account is a unit investment trust registered with the Commission under the Investment Company Act of 1940, as amended (the "1940 Act"). Such registration does not signify that the Commission supervises the management or the investment practices or policies of the Separate Account.

The assets of the Separate Account are owned by the Company and the obligations under the Contract are obligations of the Company. These assets are held separately from the other assets of the Company and are not chargeable with liabilities incurred in any other business operation of the Company (except to the extent that assets in the Separate Account exceed the reserves and other liabilities of the Separate Account). The Company will always keep assets in the Separate Account

with a value at least equal to the total Account Value under the Contracts. Income, gains, and losses incurred on the assets in the Separate Account, whether or not realized, are credited to or charged against the Separate Account without regard to other income, gains, or losses of the Company. The investment performance of the Separate Account, therefore, is entirely independent of the investment performance of the Company's general account assets or any other separate account maintained by the Company.

The Separate Account invests solely in the corresponding Portfolio of USIF. Additional Separate Accounts may be established in the future at the discretion of the Company. The Separate Account meets the definition of a "separate account" under Rule O-1(e)(1) of the 1940 Act.

UNITED SERVICES INSURANCE FUNDS

United Services Insurance Funds is an open-end diversified investment company intended exclusively as an investment vehicle for variable annuity or variable life insurance contracts offered by insurance companies.

USIF currently is composed of one investment portfolio, the Portfolio, though other separate investment portfolios may be added by USIF in the future. The investment objective of the Portfolio is to provide long-term growth without regard to current income. The Portfolio seeks to meet this objective by investing primarily in a broad range of shares of other open-end investment companies - commonly called "mutual funds," and closed-end funds. This policy involves certain expenses in addition to those normally applicable to an investment in a mutual fund that invests in other types of securities. There is no assurance that the Portfolio will achieve its stated objective.

Additional information concerning the investment objective and policies of the Portfolio and the investment advisory services, total expenses, and charges for USIF can be found in the current Prospectus for USIF, which accompanies this Contract Prospectus. The USIF Prospectus should be read carefully before any decision is made concerning investment in the Contract.

The Portfolio may be made available to registered separate accounts offering variable annuity and variable life insurance products of the Company as well as other insurance companies. Although we believe it is unlikely, a material conflict could arise between the interests of the Separate Account and one or more of the other participating separate accounts. In the event of a material conflict, the affected insurance companies agree to take any necessary steps, including removing their separate account from USIF, if required by law, to resolve the matter. See the USIF Prospectus for more information.

United Services Advisors, Inc. ("USAI"), a registered investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), serves as the investment adviser to USIF. USIF pays USAI a monthly fee at the annual rate of 1.30% of the Portfolio's average net assets. Schabacker Investment Management ("Schabacker"), a registered investment adviser under the Advisers Act, serves as the sub-adviser to USIF.

CONTRACT FEATURES

The rights and benefits under the Contract are described below and in the Contract. The Company reserves the right to make any modification to conform the Contract to, or give the Owner the benefit of, any federal or state statute or any rule or regulation of the United States Treasury Department.

FREE LOOK PERIOD

A Free Look Period exists for 10 days after you receive the Contract (30 or more days in some instances as set forth in your Contract). The Contract permits you to cancel the Contract during the Free Look Period by returning the Contract to our administrative office at Post Office Box 182080, Columbus, Ohio 43218. Upon cancellation, the Contract is treated as void from the Contract Date and you will receive all the Contributions made under the Contract, adjusted for any gain or loss for

monies invested in the Separate Account, unless applicable state law requires the return of Contributions.

CONTRACT PURCHASE FORM AND CONTRIBUTIONS

Individuals wishing to purchase a Non-Qualified Contract should send a completed purchase form and their Initial Contribution to our administrative office, at Post Office Box 182080, Columbus, Ohio 43218. Each Initial Contribution must be equal to or greater than $10,000 ($5,000 minimum investment requirement for ABC Investment Plan(R) Accounts). As the Owner, you are automatically the Annuitant under the Contract and may not name any other person as the Annuitant. Furthermore, you must be 79 years of age or less at the time the Contract is initially purchased.

The Contract will be issued after acceptance of the purchase form and the Initial Contribution. Acceptance by the Company is subject to the purchase form being received in good order, and the Company reserves the right to reject any purchase form or Initial Contribution. If accepted, Contributions ordinarily will be credited not later than the second Business Day after the Contributions are delivered to our administrative office. If the Initial Contribution cannot be credited because the purchase form is incomplete, the Company will contact the applicant in writing, explain the reason for the delay, and will refund the Initial Contribution within five Business Days, unless otherwise instructed. If not refunded, the Contribution will be credited as soon as these additional requirements are fulfilled.

You may make Additional Contributions at any time prior to the Endowment Date. Additional Contributions must be for at least $100.

The Contracts are available on a non-qualified basis and as individual retirement annuities ("IRAs") that qualify for special federal income tax treatment. Generally, Qualified Contracts may be purchased only in connection with a "rollover" of funds from another qualified plan or IRA and must contain certain other restrictive provisions limiting the timing and amount of payments to and distributions from the Qualified Contract.

All Contributions will be allocated to the Schabacker Select Fund, the sole investment portfolio of USIF. Total Contributions may not exceed $1,000,000 without prior approval of the Company.

You may exchange an existing annuity contract for the Best of Funds Variable Annuity. Section 1035 of the Internal Revenue Code of 1986, as amended (the "Code"), provides, in general, that no gain or loss shall be recognized on the exchange of one annuity contract for another. To complete a "1035 Exchange" simply provide all the requested information contained in the 1035 Exchange Kit and mail the completed forms, along with the purchase form and your current Contract, to our administrative office in the envelope provided. Special rules and procedures apply to Code Section 1035 transactions, particularly if the Contract being exchanged was issued prior to August 14, 1982. Prospective Owners wishing to take advantage of Code Section 1035 should consult their tax advisers.

CHARGES AND DEDUCTIONS

No sales load is deducted from the Initial Contribution or any Additional Contributions. In addition, there are no sales charges imposed upon withdrawals.

MORTALITY AND EXPENSE RISK CHARGE. The Company imposes a charge as compensation for bearing certain mortality and expense risks under the Contracts. The Company assesses this charge daily at an effective annual rate of 0.50% of your Account Value.

The Company guarantees that this daily charge will never increase. If this charge is insufficient to cover actual costs and assumed risks, the loss will fall on the Company. Conversely, if the charge proves more than sufficient, any excess will be added to the Company surplus and will be used for any lawful purposes, including funding any shortfall in the costs of distributing the Contracts.

The mortality risk borne by the Company under the Contracts, when one of the life Annuity Payment Options is selected, is to make monthly annuity payments (determined in accordance with the annuity tables and other provisions contained in the Contract) regardless of how long all Annuitants may live. The Company also assumes mortality risk as a result of the Company's guarantee of a minimum payment in the event the Annuitant dies prior to the Endowment Date.

The expense risk borne by the Company under the Contracts is the risk that the charges for administrative expenses, which are guaranteed for the life of the Contract, may be insufficient to cover the actual costs of issuing and administering the Contract.

ADMINISTRATIVE CHARGE AND MAINTENANCE FEE. An administrative charge equal to 0.15% annually of your Account Value is assessed daily along with an annual maintenance fee of $35. The maintenance fee is deducted on the last Business Day of each Contract Year, but will be waived if your Account Value is $50,000 or more on that day. A partial year's maintenance fee will be deducted on a pro rata basis from any withdrawal, Death Benefit, or Annuity Payment Option. These deductions represent reimbursement for the costs expected to be incurred by the Company over the life of the Contract for issuing and maintaining each Contract and the Separate Account.

TAXES. The Owner will pay premium taxes, where such taxes are imposed by state law, and which taxes currently range up to 3.5%. These taxes will be deducted from the Account Value or Contributions as incurred by the Company.

At the time of the filing of this Prospectus, the following states assess a premium tax on all Initial and Additional Contributions:

	Qualified	Non-Qualified
Pennsylvania	0%	2.00%
South Dakota	0%	1.25%

Under present laws, the Company will incur state or local taxes (in addition to the premium taxes described above) in several states. At present, the Company does not charge you for these other taxes. If there is a change in state or local tax laws, charges for such taxes may be made. The Company does not expect to incur any federal income tax liability attributable to investment income or capital gains retained as part of the Company's reserves under the Contracts. (See "Federal Tax Considerations," page 16.) Based upon these expectations, no charge currently is being made to the Separate Account for corporate federal income taxes that may be attributable to the Separate Account.

The Company will periodically review the question of a charge to the Separate Account for corporate federal income taxes related to the Separate Account. Such a charge may be made in future years for any federal income taxes incurred by the Company. This might become necessary if the tax treatment of the Company is ultimately determined to be other than what the Company currently believes this treatment to be, if there are changes made in the federal income tax treatment of annuities at the corporate level, or if there is a change in the Company's tax status. In the event that the Company should incur federal income taxes attributable to investment income or capital gains retained as part of the Company's reserves under the Contracts, the Account Value of the Contract would be correspondingly adjusted by any provision or charge for such taxes.

UNITED SERVICES INSURANCE FUNDS EXPENSES. The value of the assets in the Separate Account will reflect the fees and expenses paid by USIF. A complete description of these expenses is found in the "Fee Table" section of this Prospectus and in the "Summary of Fees and Expenses" section of the USIF Prospectus and in the USIF Statement of Additional Information.

ACCOUNT VALUE

At the commencement of the Contract, the Account Value equals the Initial Contribution. Thereafter, the Account Value equals the Account Value from the previous Business Day (a) increased by (i) any Additional Contributions received by the Company and (ii) any increase in

the Account Value due to net investment results of the Portfolio that occur during the Valuation Period and (b) reduced by (i) any decrease in the Account Value due to net investment results of the Portfolio, (ii) a daily charge to cover the mortality and expense risks assumed by the Company, (iii) any charges to cover the cost of administering the Contract, (iv) any partial withdrawals, and (v) premium taxes, if any, that occur during the Valuation Period.

The Account Value is expected to change from Valuation Period to Valuation Period, reflecting the net investment experience of the Portfolio as well as the daily deduction of charges. When your Contributions are allocated to the Portfolio, the payments result in a particular number of Accumulation Units being credited to your Contract. The number of Accumulation Units credited is determined by dividing the dollar amount allocated to the Portfolio by the Accumulation Unit Value for the Portfolio as of the end of the Valuation Period in which the payment is received. The Accumulation Unit Value varies each Valuation Period (i.e., each day that there is trading on the New York Stock Exchange) with the net rate of return of the Portfolio. The net rate of return of the Portfolio reflects the investment performance of the Portfolio for the Valuation Period and is net of asset charges to the Portfolio.

DIVIDENDS AND CAPITAL GAINS TREATMENT

All dividends and capital gains earned will be reinvested and reflected in the Accumulation Unit Value. Only in this way can these earnings remain tax deferred.

FULL AND PARTIAL WITHDRAWALS

At any time before the Endowment Date, you may make a partial or full withdrawal from the Contract to receive all or part of the Account Value by sending a written request to our administrative office at Post Office Box 182080, Columbus, Ohio 43218. Full or partial withdrawals may only be made before the Endowment Date and all partial withdrawal requests must be for at least $500.

Proceeds for full and partial withdrawals normally will be distributed within seven calendar days after receipt by our administrative office of the written withdrawal request. (See "Deferment of Payment," at page 16.)

Payments under the Contract of any amounts derived from Contributions paid by check may be delayed until such time as the check has cleared the Owner's bank. If, at the time the Owner requests a full or partial withdrawal, the Owner has not provided the Company with a written election not to have federal income taxes withheld, the Company, by law, must withhold such taxes from the taxable portion of any full or partial withdrawal and remit that amount to the federal government. Moreover, the Code provides that a 10% penalty tax will be imposed on certain early withdrawals, including withdrawals by Owners prior to age 59 1/2. (See "Federal Tax Considerations," at page 16.)

Since the Owner assumes the investment risk with respect to amounts allocated to the Separate Account, the total amount paid upon withdrawal of the Contract (taking into account any prior withdrawals) may be more or less than the total Contributions made.

MINIMUM BALANCE REQUIREMENTS

Due to the relatively-high cost of maintaining smaller accounts, the Company reserves the right to terminate any Contract if either: (i) no Contributions have been made under the Contract for at least two full Contract Years and your Account Value is less than $1,000; or (ii) the Contract has been in-force for three years and your Account Value is less than $1,000. In the event that the Company becomes entitled to exercise this termination right, you will be notified by the Company that your Account Value is below the Contract's minimum requirement and you would then be allowed at least 60 days to make an additional contribution before the account is liquidated. Proceeds payable to the Owner as a result of termination of the Owner's account by the Company would be promptly paid to the Owner. The full proceeds of such payment would be taxable as a withdrawal.

DESIGNATION OF A BENEFICIARY

You may name one or more Beneficiaries in the purchase form, which Beneficiary(ies) would receive benefits upon your death. Thereafter, you may change the Beneficiary(ies) by written notice to the Company. Such change will take effect on the date you sign the notice, but will not affect any payment made or any other action taken before the Company acknowledges the notice. You also may make the designation of Beneficiary(ies) irrevocable by sending written notice to, and obtaining approval from, the Company. Changes in the Beneficiary may then be made only with the consent of the designated irrevocable Beneficiary.

If the Annuitant dies prior to the Endowment Date, then the following will apply unless you have made other provisions:

(a) If there is more than one Beneficiary designated, then each Beneficiary will share in the Death Benefit provided for under the Contract equally.

(b) If one of two or more Beneficiaries has already died, then that deceased Beneficiary's share of the Death Benefit will be paid equally to the surviving Beneficiaries.

(c) if no Beneficiary is living, then the proceeds under the Death Benefit will be paid to the estate of the Owner.

(d) If a Beneficiary dies at the same time as the Annuitant, then the proceeds under the Death Benefit will be paid as though the Beneficiary had died first; if a Beneficiary dies within 15 days after the Annuitant's death and before the Company receives due proof of the Annuitant's death, then the proceeds under the Death Benefit will be paid as though the Beneficiary had died first.

If the Owner has elected a "Life Annuity With Period Certain" Annuity Payment Option (see "Annuity Payment Options," at page 15), and if the Annuitant dies on or after the Endowment Date, then any unpaid Payments Certain will be paid to the Beneficiary. If a Beneficiary who is receiving Annuity Payments dies, then any remaining Annuity Payments Certain ("Payments Certain") will be paid to that Beneficiary's named beneficiary(ies) when due.

DEATH BENEFIT

Subject to the provisions described in this Prospectus and under the Contract, if the Annuitant dies prior to the Endowment Date, then an amount will be paid as proceeds to the Beneficiary. The Death Benefit is calculated and is payable upon receipt by the Company of due Proof of Death of the Annuitant, as well as proof that the Annuitant died prior to the Endowment Date. Upon receipt by the Company of this proof, the Death Benefit will be paid to the Beneficiary within seven days, or as soon thereafter as the Company has sufficient information about the Beneficiary to make the payment. The Beneficiary may receive the amount payable in a lump sum cash benefit or under one of the Annuity Payment Options.

The Death Benefit will equal the greater of (a) the Account Value as of the date of due Proof of Death and proof that the Annuitant died prior to the Endowment Date or (b) the sum of Contributions less the sum of all partial withdrawals and premium taxes. The Owner may elect an Annuity Payment Option for the Beneficiary or, if no such election was made by the Owner and a cash benefit has not been paid, the Beneficiary may make this election after the Annuitant's death.

ENDOWMENT DATE

You may specify an Endowment Date in the Contract purchase form, which date can be no later than the first day of the month after your 85th birthday. If no Endowment Date is specified in the Contract purchase form, then the Endowment Date will be the first day of the month after your 85th birthday. If your Contract has been in effect for less than ten years on your 85th birthday, we will allow you to extend the Endowment Date to a later date which is no later than the first day of the month after ten full Contract Years. The Endowment Date is the date that Annuity Payments are

scheduled to commence under the Contract, unless the Contract has been surrendered or an amount has been paid under the Contract as proceeds to the designated Beneficiary prior to that date. For IRA Rollovers, the Endowment Date can be no later than the Contract Anniversary after the Owner/Annuitant reaches age 70 1/2.

You may advance or defer the Endowment Date by providing a written request to the Company; however, the Endowment Date may not be advanced to a date prior to 30 days after the date of receipt by the Company of your written request, and the Endowment Date may not be deferred, without the Company's prior approval, to a date beyond your 85th birthday. An Endowment Date may be changed only by written request during your lifetime. The Endowment Date and Annuity Payment Options available for Qualified Contracts also may be controlled by endorsements, the plan, or applicable law.

ANNUITY PAYMENT OPTIONS

All Annuity Payment Options are offered as "Fixed Annuity Options." This means that the amount of each Annuity Payment will be set on the Endowment Date and will not change. All Annuity Payment Options (except the Designated Period Annuity Option, described below) are also offered as "Variable Annuity Options." This means that Annuity Payments, after the initial payment, will reflect the investment experience of the Portfolio. If the Owner chooses a Fixed Annuity Option, the Owner's investment under the Contract will be moved out of the underlying Portfolio and into the general account of the Company. If the Owner does not wish to receive the Annuity Payments on an annuity basis, the Owner may take a lump sum payment at anytime before the Endowment Date, which lump sum value is equal to the Account Value. The following Annuity Payment Options are available under the Contract:

LIFE ANNUITY. Available as either a Fixed or Variable Annuity Option. Monthly Annuity Payments are paid for your life, ceasing with the last Annuity Payment due prior to your death.

LIFE ANNUITY WITH PERIOD CERTAIN. Available as either a Fixed or Variable Annuity Option. Monthly Annuity Payments are paid for your life, with a Period Certain of not less than 60, 120, 180, or 240 months, as elected.

INSTALLMENT OR UNIT REFUND LIFE ANNUITY. Available as either a Fixed (Installment Refund) or Variable (Unit Refund) Annuity Option. Monthly Annuity Payments are paid for your life, with a Period Certain determined by dividing the Account Value by the First Annuity Payment.

DESIGNATED PERIOD ANNUITY. Available only as a Fixed Annuity Option. Monthly Annuity Payments are paid for a Period Certain as elected, which may be from 5 to 30 years.

In the event that an Annuity Payment Option is not selected, the Company will make monthly Annuity Payments that will continue for as long as you live (with 120 payments guaranteed) in accordance with the Life Annuity With Period Certain Variable Option and the annuity benefit sections of the Contract. Subject to approval by the Company, the Owner may select any other Annuity Payment Option then being offered by the Company. The first payment under a Variable Annuity Option and each payment under a Fixed Annuity Option shall be based upon 3% interest and the 1983 Individual Annuity Mortality Table or more favorable rates as offered by the Company. The minimum initial Annuity Payment, however, is $20. If the Account Value is less than $2,000, then the Company has the right to pay that amount in a lump sum. From time-to-time, the Company may require proof that the Annuitant is living. Annuity Payment Options are not available to either: (i) an assignee; or (ii) any other than a natural person, except with the consent of the Company.

The Company, at the time of election of an Annuity Payment Option, may offer more favorable rates in lieu of the guaranteed rates specified in the Annuity Tables.

The value of Variable Annuity Payments will reflect the investment experience of the Portfolio. On or after the Endowment Date, the Annuity Payment Option is irrevocable. Only one Annuity Payment Option may be chosen from among those made available by the Company for the Portfolio.

If the actual net investment experience of the Portfolio exactly equals the assumed interest rate upon which Annuity Payments are based (guaranteed minimum 3%), then the Variable Annuity Payments will remain the same (equal to the first Annuity Payment). If, however, actual investment experience of the Portfolio exceeds the assumed interest rate, then the Variable Annuity Payments will increase; conversely, the Variable Annuity Payments will decrease if the actual investment experience of the Portfolio is lower.

If an Annuity Payment Option is chosen that depends on the continuation of the life of the Annuitant, proof of the birth date of the Annuitant may be required before Annuity Payments begin. For Annuity Payment Options involving life income, the actual age of the Annuitant will affect the amount of each Annuity Payment. Since Annuity Payments to older Annuitants are expected to be fewer in number, the amount of each such Annuity Payment shall be greater.

If, at the time of any Annuity Payment, the Owner has not provided the Company with a written election not to have federal income taxes withheld, then the Company by law must withhold such taxes from the taxable portion of such Annuity Payment and remit that amount to the federal government.

The value of all Annuity Payments, both fixed and variable, will be greater for shorter guaranteed periods than for longer guaranteed periods because such payments are expected to be made for a shorter period.

The method of computation of Variable Annuity Payments is described in more detail in the SAI.

DEFERMENT OF PAYMENT

Payment of any cash withdrawal or lump-sum death benefit due from the Separate Account will occur within seven days from the date the election becomes effective, except that the Company may be permitted to defer such payment if: (i) the New York Stock Exchange is closed for other than usual weekends or holidays, or trading on the New York Stock Exchange is otherwise restricted; or (2) an emergency exists as defined by the Commission, or the Commission requires that trading be restricted; or (3) the Commission permits a delay for the protection of Owners.

RIGHTS RESERVED

Subject to required approvals by federal and state authorities and to all Company administrative rules which are lawful, nondiscriminatory and consistent with this Contract, the Company reserves the right to: require reasonable documentation prior to administering any transaction or benefit; waive or reduce restrictions or charges; increase benefits; refuse any Contribution; declare prospectively any rules regarding maximum or minimum Contributions, Account Value balances, Annuity Benefit amounts, or any other administrative rules.

FEDERAL TAX CONSIDERATIONS

The ultimate effect of federal income taxes on the amounts paid for the Contract, on the investment returns on assets held under a Contract, on Annuity Payments, and on the economic benefits to you or your Beneficiary, depends on the Company's tax status and upon the tax status of the individuals concerned. The following discussion is general in nature and is not intended as tax advice. You should consult a tax adviser regarding the tax consequences of purchasing a Contract. No attempt is made to consider any applicable state or other tax laws. Moreover, this discussion is based upon the Company's understanding of the federal income tax laws as such laws are currently interpreted. No representation is made regarding the likelihood of the continuation of the federal income tax laws, the U.S. Treasury Regulations, or the current interpretations by the Internal Revenue Service. In the past, various proposals have been submitted to the U.S. Congress regarding the tax treatment of annuities. Should any such a proposal be resubmitted and passed in the future, the Company reserves the right to make uniform changes to the Contract to the extent necessary to

continue to qualify the Contract as an annuity. For a discussion of federal income taxes as these taxes relate to USIF and the Portfolio, please see the accompanying Prospectus for USIF.

TAXATION OF ANNUITIES IN GENERAL

Section 72 of the Code governs the taxation of annuities. In general, an Owner is not taxed on increases in value under a Contract until some form of withdrawal or distribution is made under the Contract. Under certain circumstances, however, the increase in value under a Contract may be subject to current federal income tax. (See "Contracts Owned by Non-Natural Persons" and "Diversification Standards," at pages 18 and 19.)

Section 72 provides that the proceeds of a full or partial withdrawal from a Contract prior to the Endowment Date will be treated as taxable income to the extent that the amounts held under the Contract exceed the "investment in the Contract," as that term is defined in the Code. The "investment in the Contract" can generally be described as the cost of the Contract, and generally constitutes all Contributions paid for the Contract less any amounts received under the Contract that are excluded from the individual's gross income. The taxable portion is taxed at ordinary income tax rates. For purposes of this rule, a pledge or assignment of a Contract is treated as a payment received on account of a partial withdrawal of a Contract.

Upon receipt of a full or partial withdrawal or an Annuity Payment under the Contract, the recipient is taxed if the value of the Contract exceeds the investment in the Contract. Ordinarily, the taxable portion of such payments will be taxed at ordinary income tax rates.

For Fixed Annuity Payments, in general, the taxable portion of each such payment is determined by using a formula known as the "exclusion ratio," which ratio establishes the ratio that the investment in the Contract bears to the total expected amount of Annuity Payments for the term of the Contract. That ratio is then applied to each Annuity Payment to determine the non-taxable portion of the payment. The remaining portion of each Annuity Payment is taxed at ordinary income tax rates. For Variable Annuity Payments, in general, the taxable portion is determined by a formula that establishes a specific dollar amount of each Annuity Payment that is not taxed. This dollar amount is determined by dividing the investment in the Contract by the total number of expected periodic payments. The remaining portion of each payment is taxed at ordinary income tax rates. Once the excludible portion of Annuity Payments to date equals the investment in the Contracts, the balance of the Annuity Payments will be fully taxable.

Withholding of federal income taxes on all distributions may be required unless the recipient elects not to have any amounts withheld and properly notifies the Company of that election.

With respect to amounts withdrawn or distributed before the taxpayer reaches age 59 1/2, a penalty tax is imposed equal to 10% of the taxable portion of amounts withdrawn or distributed. The penalty tax, however, will not apply to withdrawals: (i) made on or after the death of the Owner; (ii) attributable to the taxpayer's becoming totally disabled within the meaning of Code Section 72(m)(7); (iii) that are part of a series of substantially-equal periodic payments made at least annually for the life (or life expectancy) of the taxpayer, or joint lives (or joint life expectancies) of the taxpayer and his Beneficiary; (iv) from a qualified plan; (v) allocable to investment in the Contract before August 14, 1982; (vi) under a qualified funding asset (as defined in Code Section 130(d)); (vii) under an immediate annuity contract as defined in Section 72(u)(4); or (viii) that are purchased by an employer on termination of certain types of qualified plans and that are held by the employer until the employee separates from service. Other tax penalties may apply to certain distributions as well as to certain contributions and other transactions under a qualified contract.

If the penalty tax does not apply to a withdrawal as a result of the application of item (iii) above, and the series of payments are subsequently modified (other than by reason of death or disability), the tax for the year in which the modification occurs will be increased by an amount (as determined under U.S. Treasury Regulations) equal to the tax that would have been imposed but for item (iii) above, plus interest for the deferral period. The foregoing rule applies if the modification takes place

(a) before the close of the period that is five years from the date of the first payment and after the taxpayer attains age 59 1/2, or (b) before the taxpayer reaches age 59 1/2.

THE COMPANY'S TAX STATUS

The Company is taxed as a life insurance company under Part I of Subchapter L of the Code. Since the Separate Account is not a separate entity from the Company and its operations form a part of the Company, the Separate Account will not be taxed separately as a "regulated investment company" under Subchapter M of the Code. Investment income and realized capital gains on the assets of the Separate Account are reinvested and taken into account in determining the Account Value. Under existing federal income tax law, the Separate Account's investment income, including realized net capital gains, is not taxed to the Company. The Company reserves the right to make a deduction for taxes should taxes be imposed with respect to such items in the future.

DISTRIBUTION-AT-DEATH RULES

In order to be treated as an annuity contract, a contract, generally, must provide the following two distribution rules: (a) if any Owner dies on or after the Endowment Date and before the entire interest in the Contract has been distributed, then the remaining portion of such interest must be distributed at least as quickly as the method in effect on the date of the Owner's death; and (b) if any Owner dies before the Endowment Date, the entire interest must generally be distributed within five years after the date of the Owner's death. To the extent such interest is payable to a Designated Beneficiary, however, such interest may be annuitized over the life of that Designated Beneficiary or over a period not extending beyond the life expectancy of that Beneficiary, so long as distributions commence within one year after the Owner's death. If the Designated Beneficiary is the spouse of the Owner, the Contract (together with the deferred tax on the accrued and future income thereunder) may be continued unchanged in the name of the spouse as the Owner. The term "Designated Beneficiary" means the natural person named by the Owner as a beneficiary and to whom ownership of the Contract passes by reason of the Owner's death.

If the Owner is not an individual, the "primary Annuitant" (as defined under the Code) is considered the Owner. The primary Annuitant is the individual who is of primary importance in affecting the timing or the amount of payout under a Contract. In addition, when the Owner is not an individual, a change in the primary Annuitant is treated as the death of the Owner.

TRANSFERS OF ANNUITY CONTRACTS

Any transfer of a non-qualified annuity contract prior to the Endowment Date for less than full and adequate consideration will generally trigger tax on the gain in the Contract to the Owner at the time of such transfer. The investment in the Contract of the transferee will be increased by any amount included in the Owner's income. This provision, however, does not apply to those transfers between spouses or incident to a divorce which are governed by Code Section 1041(a).

CONTRACTS OWNED BY NON-NATURAL PERSONS

When the Contract is held by a non-natural person (for example, a corporation), the Contract generally is not treated as an annuity contract for federal income tax purposes, and the income on that Contract (generally the increase in the net Account Value less the payments) is includible in taxable income each year. This rule does not apply when the non-natural person is only a nominal owner such as a trust or other entity acting as an agent for a natural person. If an employer is the nominal owner of a Contract, and the beneficial owners are employees of the employer, then the Contract also is not treated as being held by a non-natural person. This rule also does not apply when the Contract is acquired by the estate of a decedent, when the Contract is a qualified funding asset for structured settlements, when the Contract is purchased on behalf of an employee upon termination of a qualified plan, and in the case of an immediate annuity.

ASSIGNMENTS

A transfer of ownership of a Contract, a collateral assignment, or the designation of another Beneficiary who is not also the Owner may result in tax consequences to the Owner, Annuitant, or Beneficiary that are not discussed herein. An Owner contemplating such a transfer or assignment of a Contract should contact a tax adviser with respect to the potential tax effects of such a transaction.

MULTIPLE CONTRACTS RULE

All non-qualified annuity contracts issued by the same company (or affiliate) to the same Owner during any calendar year are to be aggregated and treated as one contract for purposes of determining the amount includible in the taxpayer's gross income. Thus, any amount received under any Contract prior to the Contract's Endowment Date, such as a partial withdrawal, will be taxable (and possibly subject to the 10% penalty tax) to the extent of the combined income in all such contracts. The U.S. Treasury Department has specific authority to issue regulations that prevent the avoidance of the purposes of Code Section 72(e) through the serial purchase of annuity contracts or otherwise. In addition, there may be other situations in which the U.S. Treasury may conclude that it would be appropriate to aggregate two or more contracts purchased by the same Owner. Accordingly, an Owner should consult a tax adviser before purchasing more than one Contract or other annuity contracts.

DIVERSIFICATION STANDARDS

To comply with certain diversification regulations promulgated by the Internal Revenue Service (the "Regulations"), which were issued in final form on March 2, 1989, under Code Section 817(h), the Separate Account, after a start up period, will be required to diversify its investments. The Regulations generally require that on the last day of each quarter of a calendar year, no more than 55% of the value of the Separate Account is represented by any one investment, no more than 70% is represented by any two investments, no more than 80% is represented by any three investments, and no more than 90% is represented by any four investments. A "look through" rule applies that suggests that the Separate Account will be tested for compliance with the percentage limitations of the Regulations by looking through to the assets of the investment portfolio in which the Separate Account invests. All securities of the same issuer are treated as a single investment. Each government agency or instrumentality will be treated as a separate issuer for purposes of those limitations.

In connection with the issuance of temporary diversification regulations in 1986, the U.S. Treasury announced that such regulations did not provide guidance concerning the extent to which Owners may direct their investments to particular divisions of a separate account. It is possible that regulations or revenue rulings may be issued in this area at some time in the future. It is not clear, at this time, what these regulations or rulings would provide. It is possible that when the regulations or rulings are issued, the Contracts may need to be modified in order to remain in compliance. For these reasons, the Company reserves the right to modify the Contracts, as necessary, to prevent the Owner from being considered the owner of assets of the Separate Account.

We intend to comply with the Regulations to assure that the Contracts continue to be treated as annuity contracts for federal income tax purposes.

QUALIFIED INDIVIDUAL RETIREMENT ACCOUNTS

Qualified Contracts to provide for retirement generally may be purchased only in connection with a "rollover" of funds from another individual retirement annuity ("IRA") or qualified plan. IRA Contracts must contain special provisions and are subject to limitations on contributions and the timing of when distributions can be made. Tax penalties may apply to contributions in excess of specified limits, loans or reassignments, distributions that do not meet specified requirements, or in other circumstances. Anyone desiring to purchase a Qualified Contract should consult a personal tax adviser.

GENERAL INFORMATION

ADDITIONS, DELETIONS, OR SUBSTITUTIONS OF INVESTMENTS

The Company retains the right, subject to any applicable law, to make certain changes. The Company reserves the right to eliminate the shares of the Portfolio and to substitute shares of another investment portfolio of USIF, or of another registered open-end management investment company, if the shares of the Portfolio no longer are available for investment, or if, in the Company's judgment, investment in the Portfolio would be inappropriate in view of the purposes of the Separate Account. To the extent required by the 1940 Act, substitutions of shares attributable to an Owner's interest in the Portfolio will not be made until Commission approval has been obtained and the Owner has been notified of the change.

New investment portfolios for the Separate Account may be established when marketing, tax, investment, or other conditions so warrant. Any new investment portfolios will be made available to existing Owners on a basis to be determined by the Company. The Company also may eliminate the Portfolio if marketing, tax, investment, or other conditions so warrant.

In the event of any such substitution or change, the Company, by appropriate endorsement, may make such changes in the Contracts as may be necessary or appropriate to reflect such substitution or change. Furthermore, if deemed to be in the best interests of persons having voting rights under the Contracts, the Separate Account may be operated as a management company under the 1940 Act or as any other form permitted by law, may be deregistered under the 1940 Act in the event such registration no longer is required, or may be combined with one or more other separate accounts.

DISTRIBUTOR OF THE CONTRACTS

Integrity Financial Services ("IFS") serves as the principal underwriter of the Contracts at no charge. IFS is registered with the Commission as a broker-dealer and is a member in good standing of the National Association of Securities Dealers, Inc.

VOTING RIGHTS

USIF does not hold regular meetings of shareholders. The Directors of USIF may call special meetings of USIF shareholders as may be required by the 1940 Act or other applicable law. To the extent required by law, the Portfolio shares held in the Separate Account will be voted by the Company at USIF shareholder meetings in accordance with instructions received from persons having voting interests in the Portfolio. USIF shares as to which no timely instructions are received or USIF shares held by the Company as to which Owners have no beneficial interest will be voted in proportion to the voting instructions that are received with respect to all Contracts participating in the Portfolio. Voting instructions to abstain on any item to be voted upon will be applied on a pro rata basis to reduce the votes eligible to be cast.

The number of votes that are available to an Owner will be calculated on the basis of the number of shares in the Portfolio held by the Separate Account. That number will be determined by applying the percentage interest of the Owner in the Portfolio to the total number of votes attributable to the Portfolio.

Prior to the Endowment Date, the Owner holds a voting interest in each Portfolio to which the Account Value is allocated. The number of votes which are available to an Owner will be determined by dividing the Account Value attributable to the Portfolio by the net asset value per share of the Portfolio. After the Endowment Date, the person receiving Annuity Payments has the voting interest. The number of votes after the Endowment Date will be determined by dividing the reserve for such Contract allocated to the Portfolio by the net asset value per share of the Portfolio. After the Endowment Date, the votes attributable to a Contract decrease as the reserves allocated to the Portfolio decrease. In determining the number of votes, fractional shares will be recognized.

The number of votes of the Portfolio that are available will be determined as of the date coincident with the date established by the Portfolio for determining shareholders eligible to vote at the meeting of USIF shareholders. Voting instructions will be solicited by written communication prior to such meeting in accordance with procedures established by USIF.

EXPERTS

Jorden Burt & Berenson, 1025 Thomas Jefferson Street, N.W., Suite 400 East, Washington, D.C. 20007-0805, has provided legal advice relating to the federal securities laws applicable to the issue and sale of the Contracts. All matters of Ohio law pertaining to the validity of the Contract and the Company's right to issue such Contracts have been passed upon by John R. McGeeney, Esquire, of the Company.

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BEST OF FUNDS VARIABLE ANNUITY

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