

CITIZENS INC  
Form DEF 14A  
April 20, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. \_\_\_)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

CITIZENS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
OF CITIZENS, INC.**

**Executive Offices: 400 East Anderson Lane, Austin, Texas 78752**

**To the Shareholders of Citizens, Inc.:**

Notice is hereby given that the Annual Meeting of Shareholders of Citizens, Inc. will be held Tuesday, June 2, 2009, at 10:00 a.m., Central Daylight Time, at **Citizens Academy, 18617 East Highway 29, Buchanan Dam, Texas 78609**, for the following purposes:

- (1) To elect the nine (9) members of the Board of Directors of the Company to serve until the next annual meeting of shareholders or until their successors are duly elected and qualified;
- (2) To ratify the appointment of Ernst & Young LLP as the Company's registered independent public accounting firm for 2009; and
- (3) To transact such other business as may properly come before the meeting or any adjournment thereof.

**It is important, regardless of the number of shares you hold, that your stock be represented at the meeting by a signed proxy card or personal attendance.**

**Shareholders are cordially invited to attend the meeting in person. If you are receiving this Proxy Statement as a part of Full Set Delivery, please complete and sign the enclosed proxy card and mail it promptly to the transfer agent in the envelope provided. No postage is required. In accordance with the Notice of Internet Availability of Proxy Materials that was sent on or before April 24, 2009 to all shareholders, Internet and telephone voting are also available through 11:59 p.m. Eastern Daylight Time on June 1, 2009. If you vote your proxy by Internet or by telephone in accordance with this Proxy Statement or in accordance with the Notice of Internet Availability of Proxy Materials, you do not need to mail back your proxy card. If you attend the meeting you may revoke your proxy and vote in person. IF YOUR SHARES ARE HELD IN STREET OR NOMINEE NAME, PLEASE RESPOND TO THE COMMUNICATION YOU RECEIVE FROM THE HOLDER OF RECORD AS SOON AS POSSIBLE SO THAT YOUR SHARES CAN BE REPRESENTED AT THE MEETING.**

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on June 2, 2009: The Proxy Statement and Annual Report to Shareholders are available at [www.edocumentview.com/cia](http://www.edocumentview.com/cia).**

**By Order of the Board of Directors**

**April 24, 2009**

**Geoffrey M. Kolander, Secretary**

**CITIZENS, INC.**  
**400 East Anderson Lane**  
**Austin, Texas 78752**

**April 24, 2009**

**PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD  
ON JUNE 2, 2009  
SOLICITATION OF PROXIES**

This Proxy Statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors of Citizens, Inc. for use at the Annual Meeting of Shareholders to be held Tuesday, June 2, 2009, at 10:00 a.m., Central Daylight Time, (the Meeting ) at **Citizens Academy, 18617 East Highway 29, Buchanan Dam, Texas 78609. You will find a map with directions to the meeting on the inside back cover of this Proxy Statement.** We are distributing this Proxy Statement and our Annual Report to Shareholders for the year ended December 31, 2008 on or before April 24, 2009.

In accordance with Rule 14a-16 promulgated under the Securities Exchange Act of 1934 a registrant may furnish a proxy statement or annual report to a security holder by sending the security holder a Notice of Internet Availability of Proxy Materials 40 or more calendar days prior to the Annual Meeting of Shareholders ( Notice and Access ). On or before April 24, 2009, Notice of Internet Availability of Proxy Materials was sent to our shareholders, giving them the option to execute a proxy via an on-line format as of the time the Notice of Internet Availability of Proxy Materials was sent, or the option to request a full set delivery of this Proxy Statement and the 2009 Annual Report to Shareholders.

The following matters will be acted on at the Meeting:

**Elect nine (9) members of our Board of Directors;**

**Ratify the appointment of Ernst & Young LLP as our registered independent public accounting firm for 2009; and**

**Transact such other business as may properly come before the Meeting or any adjournment thereof.**

If you received this Proxy Statement in accordance with Full Set Delivery, you are requested to complete the enclosed proxy card, sign where indicated, and return it to our transfer agent in the envelope provided, which requires no postage if mailed in the United States. Solicitation of proxies will be primarily through the mail. Proxies may also be solicited by personal solicitation, telephone or Internet, by our directors, officers and employees at no additional cost to you. We will also request banking institutions, brokerage firms, custodians, trustees, nominees and fiduciaries to forward soliciting material to the beneficial owners of our common stock held of record by such persons, firms, or institutions, and we will reimburse the forwarding expense. The cost of this solicitation will be borne by us.

## PROXIES

Shares represented by properly executed proxies received by us prior to the Meeting will be voted as specified thereon. If a proxy fails to specify how it is to be voted on any proposal it will be voted **FOR** the director nominees listed in this Proxy Statement and **FOR** the proposal to ratify the appointment of Ernst & Young LLP. If other matters come before the Meeting, the persons named on the accompanying proxy will vote in accordance with their best judgment with respect to such matters. A person giving a proxy will have the power to revoke it at any time before it is voted by notifying our Secretary in writing or by personally withdrawing such proxy at the Meeting. With regard to election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect. Brokers who have not received instructions from their customers in uncontested elections may vote in the election of directors shares held in street name.

Shareholders may vote using any of the following methods:

- 1. BY MAIL:** If you received this Proxy Statement in conjunction with a Full Set Delivery request, then mark, sign and date your proxy card and return it in the postage-paid envelope provided. The named proxies will vote your stock according to your directions. If you submit a signed proxy card without indicating your vote, the person voting the proxy will vote your stock in favor of the proposals.
- 2. BY TELEPHONE:** Call toll free (800) 652-VOTE (8683).  
Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week, until 11:59 p.m. Eastern Daylight Time on June 1, 2009.  
Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions the voice provides you.
- 3. BY INTERNET:** <http://www.envisionreports.com/cia>  
Use the internet to vote your proxy 24 hours a day, 7 days a week, until 11:59 p.m. Eastern Daylight Time on June 1, 2009.  
Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions to obtain your records and create an electronic ballot.

A shareholder may revoke his or her proxy at any time before it is exercised by:

- giving written notice of revocation no later than the commencement of the Meeting to our Secretary, Geoffrey M. Kolander:  
If before commencement of the Meeting on the date of the Meeting, by personal delivery to Mr. Kolander at the Meeting site; and  
If delivered before the date of the Meeting, to Mr. Kolander at Citizens offices, 400 East Anderson Lane, Austin, Texas 78752;
- delivering no later than the commencement of the Meeting a properly executed, later-dated proxy; or
- voting in person at the Meeting.

Voting by proxy will in no way limit your right to vote at the Meeting if you later decide to attend in person. If your stock is held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, to be able to vote at the Meeting. If no direction is given and the proxy is validly executed, the stock represented by the proxy will be voted in favor of the proposals set forth in this Proxy Statement. The persons authorized under the proxies will vote upon any other business that may properly come before the Meeting according to their best judgment to the same extent as the person delivering the proxy would be entitled to vote. Other than the approval of the matters above, we do not anticipate that any other matters will be raised at the Meeting.

#### **RECORD DATE**

Only shareholders of record at the close of business on April 6, 2009 are entitled to vote at the Meeting. As of the record date, we had outstanding and entitled to vote 46,964,369 Class A shares of common stock and 1,001,714 Class B shares of common stock. Also outstanding as of the record date, there were 10,264 shares of Series A Preferred Stock, entitled to vote based on the number of shares of Class A common stock into which such shares of Series A Preferred Stock were convertible as of the record date (or 1,537,938 shares of Class A common stock).

#### **QUORUM AND VOTING**

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of each class of our common stock entitled to vote at the Meeting, including holders of Series A Preferred Stock who vote on a convertible share basis, is necessary to constitute a quorum for that particular class of common stock at the Meeting. Abstentions and broker non-votes are counted for purposes of determining quorum. If a quorum is not present or represented at the Meeting, the shareholders entitled to vote have the power to adjourn or recess the Meeting for up to thirty (30) days without notice, other than announcement at the Meeting, until a quorum is present or represented. At such reconvened Meeting wherein a quorum is present or represented, any business may be transacted which might have been transacted at the Meeting as originally noticed.

#### **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

We have two classes of common stock. Both classes of common stock are equal in all respects, except that (i) Class B common shareholders elect a simple majority of our Board of Directors and Class A common shareholders elect the remaining directors; and (ii) Class A shareholders are entitled to receive, on a per-share basis, twice the cash dividends paid on a per-share basis to Class B shareholders. Each outstanding share of common stock has one vote in all matters to be considered at the Meeting. In the election of directors, the nominees receiving the highest number of votes cast in their favor will be elected to our board, subject to the right of the Class B shareholders to elect a simple majority of the directors.

As of the record date, there were 10,264 shares of Series A Preferred Stock outstanding, entitled to vote based on the number of shares of Class A common stock into which such shares of Series A Preferred Stock are convertible as of the record date (or 1,537,938 shares of Class A common stock).

Management knows of no matters to be submitted at the Meeting with respect to which the shareholders are entitled to vote, other than the proposals described in this proxy statement. In the event other matters properly come before the Meeting, the persons named in the proxy will vote according to their best judgment.

The following table shows, as of April 6, 2009, certain information with regard to the beneficial ownership of our common stock:

by each of our executive officers and directors,  
by all of our executive officers and director nominees as a group, and  
by each person or group who is known by us to own beneficially more than 5% of our outstanding common stock.

Name and Address	Shares Owned and Nature of Ownership <sup>(1)</sup>	Percent of Class
Harold E. Riley 400 E. Anderson Lane Austin, TX 78752	3,404,307 Class A <sup>(2)</sup> 1,001,714 Class B <sup>(2)</sup>	7.2% 100.0%
Rick D. Riley 400 E. Anderson Lane Austin, TX 78752	867,057 Class A <sup>(3)</sup>	1.8%
Ray A. Riley 400 E. Anderson Lane Austin, TX 78752	537,990 Class A <sup>(4)</sup>	1.1%
Larry D. Welch 400 E. Anderson Lane Austin, TX 78752	863 Class A	(5)
Kay E. Osbourn 400 E. Anderson Lane Austin, TX 78752	245 Class A	(5)
Geoffrey M. Kolander 400 E. Anderson Lane Austin, TX 78752	-0-	(5)
Randall H. Riley 400 E. Anderson Lane Austin, TX 78752	179,615 Class A	(5)
Larry E. Carson 400 E. Anderson Lane Austin, TX 78752	1,383 Class A	(5)
Joshua G. Arnold	-0-	(5)

400 E. Anderson Lane  
Austin, TX 78752



Name and Address	Shares Owned and Nature of Ownership <sup>(1)</sup>	Percent of Class
Brent W. Balke 400 E. Anderson Lane Austin, TX 78752	188 Class A	(5)
Timothy T. Timmerman 4903 Whitethorn Court Austin, TX 78746	9,088 Class A	(5)
Dottie S. Riley <sup>(6)</sup> 400 E. Anderson Lane Austin, TX 78752	476,928 Class A	(5)
Steven F. Shelton 7359 Road X Lamar, CO 81052	3,039 Class A	(5)
Dr. E. Dean Gage 9561 Twelve Oaks Lane College Station, TX 77845	1,995 Class A	(5)
Dr. Richard C. Scott 4638 Baylor Camp Rd. Crawford, TX 76638	3,447 Class A	(5)
Grant G. Teaff 8265 Forest Ridge Waco, TX 76712	8,832 Class A	(5)
Dr. Robert B. Sloan, Jr. 7706 Fondren Road Houston, TX 77074	1,975 Class A	(5)
All executive officers and directors as a group (17 persons)	5,020,024 Class A 1,001,714 Class B	10.7% 100.0%
Galindo, Arias & Lopez (as trustee of four non-U.S. trusts and/or record holder) Ave. Federico Boyd y Calle 51 Este #18 Edificio Scotia Plaza, Piso 10 Panama City, Panama	8,656,274 Class A	(7)

(1)

Except as otherwise indicated, each person named in the table has sole voting and investment power with respect to all shares beneficially owned, subject to applicable community property law.

- (2) Owns 2,927,379 Class A shares directly and his spouse owns 476,928 Class A shares. The Harold E. Riley Trust, of which Mr. Riley is the controlling Trustee, owns all of the 1,001,714 issued and outstanding shares of Class B common stock.
- (3) Owns 500,532 Class A shares directly, 40,833 Class A shares as trustee for and joint tenant with spouse, and 325,692 Class A shares indirectly as trustee for minor children.
- (4) Owns 302,548 Class A shares directly, 26,023 Class A shares

as joint tenant  
with spouse, and  
209,419 Class A  
shares indirectly  
as custodian for  
spouse and  
minor children.

- (5) Less than one percent (1%).
- (6) Dottie S. Riley is the wife of Harold E. Riley. The shares stated as owned by Dottie S. Riley are also included in total Class A shares of Harold E. Riley. Mrs. Riley may be deemed the beneficial owner of the shares held of record by Harold E. Riley, as well as shares over which he exercises voting and dispositive powers. She disclaims beneficial ownership of all such shares.
- (7) This number and the information in this footnote was obtained from an amended Schedule 13D filed with the SEC on or about January 20, 2009. Galindo, Arias & Lopez is a Panamanian law firm which is the 100% owner of two

trust companies,  
Gala Trust and  
Management  
Services, Inc.,  
formerly known  
as Gala  
Management  
Services, Inc.  
( Gala ) and  
Regal Trust  
(BVI) Ltd.  
( Regal ). The  
principal  
business of each  
of these  
companies is to  
act as trustee for  
two trusts each.  
The  
beneficiaries of  
these trusts are  
(i) non-U.S.  
policyholders of  
a Company  
insurance  
subsidiary,  
CICA Insurance  
Company of  
America  
( CICA ), who,  
since 1987, have  
assigned their  
life insurance  
policy  
dividends, paid  
and payable by  
CICA, to two  
trusts  
administered by  
Gala and Regal  
(one trust each),  
and (ii)  
non-U.S.  
insurance sales  
associates of  
CICA who,  
since 1987, have  
assigned various  
life insurance  
policy sales  
commissions

paid and payable to them to two trusts administered by Gala and Regal (one trust each). The purpose of each trust is to accumulate our Class A common stock for its beneficiaries. In order to join a trust, a policyholder or sales associate must certify that he or she is neither a citizen nor a resident of the United States. No beneficiary has power to direct a purchase or sale of the Class A common stock held by a trust so long as such beneficiary has not liquidated such beneficiary's participation in such trust.

The reporting persons named below may be deemed to be a group as defined in Rule 13d-5(b) under the Securities Exchange Act of 1934 and, as such a group, may be deemed to beneficially own an aggregate of 8,656,274 shares of Class A common stock (19.8% of the outstanding Class A common stock as of the record date).

GAMASE Insured Trust holds 5,081,314 shares of the Class A common stock and may be deemed to beneficially own such shares pursuant to Rule 13d-3 (11.6% of the outstanding Class A common stock as of the record date).

Regal Policyholders Trust holds 2,887,933 shares of the Class A common stock and may be deemed to beneficially own such shares pursuant to Rule 13d-3 (6.6% of the outstanding Class A common stock as of the record date).

Gala Trust is the sole trustee of GAMASE Insureds Trust and GAMASE Agents Trust, a trust established under the laws of the Republic of Panama ( GAMASE Agents Trust ) and holds 290,019 shares of the Class A common stock (constituting approximately 0.7% of the outstanding Class A common stock) and may be deemed to beneficially own such shares pursuant to Rule 13d-3, and therefore may be deemed to beneficially own 5,371,333 shares of the Class A common stock (constituting approximately 12.25% of the outstanding Class A common stock as of the record date).

Regal is the sole trustee of Regal Policyholders Trust and CICA Associates Trust, a trust established under the laws of the British Virgin Islands ( Regal Associates Trust ) and holds 397,008 share of the Class A common stock

(constituting approximately .1% of the outstanding Class A common stock) and may be deemed to beneficially own such shares pursuant to Rule 13d-3, and therefore may be deemed to beneficially own 3,284,941 shares of the Class A common stock (constituting approximately 7.5% of the outstanding Class A common stock as of the record date).

Galindo, Arias & Lopez owns a 100% interest in each of the Gala Trust and Regal, and therefore may be deemed to beneficially own 8,656,274 shares of the Class A common stock (19.8% of the outstanding Class A common stock as of the record date).

None of the above named persons owns any of our Series A Preferred Stock. We are not aware of any arrangement, including any pledge by any person, of our common stock, the operation of which may at a subsequent date result in a change of control of our Company.

#### **CONTROL OF THE COMPANY**

Harold E. Riley is deemed to be the controlling shareholder of our Company. Mr. Riley owns, directly and indirectly, 3,404,307 shares (7.2%) of the outstanding Class A common stock and 1,001,714 shares (100.0%) of the Class B common stock, which stock elects a majority of our Board of Directors.

**PROPOSAL NO. 1**  
**ELECTION OF DIRECTORS**

Harold E. Riley has advised us that he intends to vote all of his Class A shares in favor of the Class A nominees and all of the Class B shares owned by the Harold E. Riley Trust in favor of the Class B nominees. Class A nominees receiving the highest number of votes cast in their favor will be elected to the Board of Directors. Cumulative voting in the election of directors is not permitted. The Class B nominees will be elected as directors upon the affirmative vote of the Class B shares by Harold E. Riley as Trustee of the Harold E. Riley Trust. If for any reason any nominee herein named is not a candidate when the election takes place (which is not expected), the proxy will be voted for the election of a substitute nominee at the discretion of the persons named in the proxy.

Listed below are the persons who have been nominated for election as our directors to serve for one year until the next annual meeting of shareholders, or until their respective successors are duly elected and qualified. Class A shareholders will vote on the nominees indicated below for election by Class A shareholders, and Class B shareholders will vote on the Class B nominees.

**Nominees for Election by Class A Shareholders**

Name	Age	Principal Occupation	Director Since
Dr. E. Dean Gage	66	Private Investments; Former President and Executive Vice President and Provost Emeritus, Texas A&M University College Station, TX	2000
Steven F. Shelton	53	Farmer/Rancher Principal owner of Prairie Wind Energy Lamar, CO	1993
Dr. Robert B. Sloan	60	President and Chief Executive Officer Houston Baptist University Houston, TX	2007
Timothy T. Timmerman	48	President Commerce Properties of Texas Austin, TX	1989



**Nominees for Election by Class B Shareholders**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation</b>	<b>Director Since</b>
Harold E. Riley**	80	Chairman of the Board and CEO of the Company Austin, TX	1987
Rick D. Riley **	55	Vice Chairman and President of the Company; Chairman of the Board, President and CEO of CICA Life Insurance Company of America and subsidiaries Austin, TX	1989
Dottie S. Riley	73	Employee Relations Consultant for the Company Austin, TX	2008
Dr. Richard C. Scott	74	Private Investments; Former Vice President, Development, Baylor University Waco, TX	2000
Grant G. Teaff	75	Executive Director, American Football Coaches Association Waco, TX	2004

\*\* Harold E. Riley is the husband of Dottie S. Riley and father of Rick D. Riley, Ray A. Riley, our Executive Vice President, Chief Marketing Officer, and Randall Riley, Vice President, Investor Relations and Public Relations and Vice President, Latin American

Division of our primary insurance subsidiary, CICA Life Insurance Company of America. There are no other family relationships between or among the nominees to our Board and our executive officers.

Information concerning the nominees is set forth below:

Dr. E. Dean Gage, Retired and private investments, 2008 to present; Executive Director and Bridges Endowed Chair, Center for Executive Leadership in Veterinary Medicine, Texas A&M University, College Station, Texas, 2004 to 2008; Associate Dean for Professional Programs, College of Veterinary Medicine, Texas A&M University, College Station, Texas, 2001 to 2004; President and CEO of Men's Leadership Ministries, Dallas, Texas, 1996 to 2001; Executive Director of Center for Executive Leadership, Mays School of Business, Texas A&M University, College Station, Texas, 1994 to 1996; President, Texas A&M University, College Station, Texas, 1993 to 1994; Executive Vice President and Provost, Texas A&M University, College Station, Texas, 1989 to 1993.

Steven F. Shelton, Rancher/Farmer from 1974 to present; Director, First Centennial Corporation, from January to October 1989 and August 1990 to 1992. Principal owner of Prairie Wind Energy, a wind energy development company formed in 2004.

Dr. Robert B. Sloan, Jr., President and Chief Executive Officer, Houston Baptist University from 2006 to present; Chancellor, Baylor University, 2005 to 2006; President and Chief Executive Officer, Baylor University from 1995 to 2005.

Timothy T. Timmerman, Real estate investor/developer and owner of Commerce Texas Properties, Inc. from 1990 to present; Real Estate Broker and retired Certified Public Accountant in the State of Texas; Vice Chairman of the Lower Colorado River Authority.

Harold E. Riley, Controlling stockholder; our Chairman of the Board from 1987 to present and CEO from June 2006 to present; Chairman of the Board of us and our affiliates from 1994 to 1999; Chairman of the Board and Chief Executive Officer of us from 1992 to 2000; Chairman of the Board and Chief Executive Officer of us and our affiliates from 1992 to 1999; President of us and our affiliates from November 1996 to March 1997; Chairman of the Board, Chief Executive Officer and President of us and our affiliates from 1987 to 1992; Chairman of the Board, President and Chief Executive Officer, Continental Investors Life Insurance Company from 1989 to 1992.

Rick D. Riley, President and Chief Corporate Officer since 2007; our Vice Chairman since 2000; Vice Chairman and CEO from October 2000 to July 2005; Chairman of the Board of Directors, President and CEO of CICA LIFE Insurance Company of America and its affiliates, our subsidiary, from February 2004 to July 2005. Chairman of the Board of Directors, President and CEO of Citizens Insurance Company of America and its affiliates, our subsidiary, from February 1999 to January 2004; our Chief Administrative Officer and Secretary from October 1998 to February 1999; our Executive Vice President from September 1995 to 1998; our Chief Operating Officer from September 1995 to March 1997; our Chief Administrative Officer from 1994 to June 1995, and President thereafter until September 1995; our Executive Vice President and Chief Operating Officer from 1990 to 1991 and 1992 to 1994; President, Computing Technology, Inc. our subsidiary from 1991 to 1992; our Executive Vice President, Data Processing, from 1987 to 1991; Executive Vice President, Continental Investors Life Insurance Company from 1989 to 1992.

Dottie S. Riley, Employee Relations Consultant since 2007; various positions within the Company since 1997, including Personnel Department and Vice President, Administrative Services.

Dr. Richard C. Scott, Private Investments, 2006 to present; Former Vice President, Development, Baylor University, Waco, Texas from 1996 to 2006; 1977 to 1996, Dean of Hankamer School of Business, Baylor University; 1972 to 1977, Associate Dean, Director of Graduate Studies, Professor of Management, Hankamer School of Business, Baylor University; 1971 to 1972, Acting Dean while Dean was on leave; 1968 to 1971, Associate Professor of Management, Director of Special Programs, Hankamer School of Business, Baylor University; 1964 to present, Consultant to various firms and governmental agencies in the areas of planning, management strategy, acquisition and sale of business and business evaluations; 1997 to January 2004, Director of Winnebago Industries; 1994 to 1997, Chairman of the Board of Trustees of Annuity Board of the Southern Baptist Convention; 1990 to 1997, Member of Executive Committee of the Board of Trustees of the Annuity Board of the Southern Baptist Convention; 1990 to 1994 Chairman of the Investment Committee of the Board of Trustees of the Annuity Board of the Southern Baptist Convention; 1989 to 1994, Member of Investment Committee of the Board of Trustees of the Annuity Board of the Southern Baptist Convention; 1988 to 1989, Member of the Finance Committee of the Board of Trustees of the Annuity Board of the Southern Baptist Convention; 1980 to 1987, Member of the Board of Directors of the Central National Bank; 1976 to present, Owner of controlling interest (with partner) in Trumas, Inc., a closely held corporation; 1976 to present, General partner of S&T Financial, Ltd.

Grant G. Teaff, Executive Director, American Football Coaches Association from 1994 to present.

None of our directors is a director of any other company with a class of securities registered under the Securities Exchange Act of 1934 or any investment company registered under the Investment Company Act of 1940.

**What Constitutes Independence for non-employee Directors**

Citizens determines whether a director and nominee to be a director is independent in accordance with the New York Stock Exchange ( NYSE ) requirements for independent directors (Section 303A of the NYSE's Listed Company Manual). In order to be considered independent, other than in his or her capacity as a member of the Board of Directors or any board committee, a director may not accept any consulting, advisory or other compensation fees from Citizens, and may not be an affiliated person of Citizens or any subsidiary. In addition to compliance with NYSE independence requirements, the Board is also responsible to determine affirmatively that each independent director has no other material relationship with Citizens or its affiliates or any executive officer of Citizens or his or her affiliates. A relationship will be considered material if in the judgment of the Board it would impair their effectiveness or independent judgment as a director.

Our Board of Directors has determined that directors Gage, Scott, Shelton, Sloan, Teaff, and Timmerman are independent as set forth in the NYSE independence requirements. In addition, our Board of Directors has determined that each member of the Audit Committee and the Compensation Committee of our Board of Directors is independent in compliance with the independence requirements of the NYSE.

**Your Board of Directors recommends a vote for the election of the Class A nominees. Proxies solicited by the Board of Directors will be voted for the nominees as indicated above unless instructions are given to the contrary.**

**MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS**

Our business affairs are conducted under the direction of our Board of Directors. The Board of Directors held four (4) meetings during 2008, at which all directors were present for at least 75% of the meetings. We do not have an attendance policy, although our directors are expected to attend Board Meetings. The non-management directors hold regularly scheduled executive sessions in which those directors meet without management participation. The director chosen to preside at these sessions is determined on an informal basis at the time of the meeting. In addition, our Board members are encouraged to attend our annual meetings of shareholders, and all of our Board members attended our 2008 Annual Meeting of Shareholders.

To assist it in carrying out its duties, the Board has delegated certain authority to three separately-designated standing committees whose functions are described below:

**Audit Committee**

Members at December 31, 2008: Directors Gage, Scott and Timmerman

Number of Meetings in 2008: 5

Functions:

Assists the full Board in fulfilling its oversight responsibilities as they relate to our accounting policies, internal controls, financial reporting practices and legal and regulatory compliance.

Responsible for the appointment, compensation and oversight of the work of our registered independent public accounting firm.

Monitors the independence and performance of our registered independent public accounting firm and internal auditors.

Maintains, through regularly scheduled meetings, a line of communication between the Board and our financial management, any internal auditors and our registered independent public accounting firm.

Oversees compliance with our policies for conducting business, including ethical business standards.

Oversees our assessment of internal controls as required by the Sarbanes-Oxley Act.

The Board of Directors adopted a restated Audit Committee Charter in November 2002 and subsequently amended and restated the charter on April 22, 2004. The charter is posted on our website at [www.citizensinc.com](http://www.citizensinc.com).

Our Board of Directors has determined that Dr. Richard C. Scott is qualified as an audit committee financial expert as that term is defined in the rules of the Securities and Exchange Commission. Dr. Scott served as Dean of Hankamer School of Business of Baylor University from 1972 to 1977; from 1971 to 1972 he was the Associate Dean, Director of Graduate Studies, Professor of Management, Hankamer School of Business, Baylor University. He also has been Associate Professor of Management, Director of Special Programs, Hankamer School of Business, Baylor University. Our Class A common stock is listed for trading on the New York Stock Exchange. Pursuant to NYSE rules, the Audit Committee is comprised of three or more directors as determined by the Board of Directors, each of whom is independent. Our Board of Directors has determined that all of the members of the Audit Committee are independent, as defined in the listing standards of the NYSE and the rules of the SEC.

### **Compensation Committee**

Members at December 31, 2008: Directors Scott, Shelton and Teaff

Number of meetings in 2008: 1

Functions:

- Assists the full Board in overseeing the management of our human resources including:
  - establishing, implementing and continually monitoring adherence with our compensation philosophy.
  - assisting Chief Executive Officer performance and compensation.
  - overseeing executive development and succession and diversity efforts.

Oversees the evaluation of management.

Reviews the Compensation Discussion & Analysis ( CD&A ), and discusses the CD&A with our management. The Compensation Committee then recommends to the full Board of Directors that the CD&A be included in the Proxy Statement or discloses to the full Board of Directors the reasons that it cannot make such a recommendation.

A copy of our Compensation Committee Charter adopted on March 13, 2007 is posted on our website at [www.citizensinc.com](http://www.citizensinc.com).

*Compensation Committee Interlocks and Insider Participation*

None of our executive officers serves as a member of the board of directors or compensation committee of an entity that has an executive officer serving as a member of the Board or Compensation Committee.

**Executive Committee**

Members at December 31, 2008: Directors Harold E. Riley, Gage and Sloan

Number of Meetings in 2008: 16

Functions:

Authority to manage our business affairs.

May not take action when majority of all members of the Board is required by law or by our Articles of Incorporation or Bylaws.

Material actions by the committee are subsequently reviewed by the Board.

**Nominating/Corporate Governance Functions**

Our Board of Directors does not maintain a nominating/corporate governance committee with respect to (i) identifying, evaluating or recommending candidates for our Board of Directors, and (ii) shaping our corporate governance. Instead, these functions are performed by the full Board of Directors. Our Board does not maintain a nominating committee for the following reasons:

We are considered to be a controlled company since the majority of the members on our Board of Directors are elected by our Chairman, Harold E. Riley, through his beneficial ownership of all of our outstanding Class B common shares. Under NYSE rules, controlled companies are not required to maintain a nominating committee. A majority of the directors on our Board of Directors are considered to be independent; thus, we believe that the nominating duties and corporate governance rules with respect to the Class A directors can be accomplished in a disinterested manner by our entire Board of Directors.

Our Board of Directors will consider a candidate for a Class A director position proposed by a shareholder. A candidate must be highly qualified in terms of business experience and be both willing and expressly interested in serving on the Board. A shareholder wishing to propose a candidate for the Board's consideration should forward the candidate's name and information about the candidate's qualifications to Citizens, Inc., Board of Directors, 400 East Anderson Lane, Austin, Texas 78752, Attn.: Rick D. Riley. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment history for at least the past five years indicating employer's names and description of the employer's business, educational background and any other biographical information that would assist the Board in determining the qualifications of the individual. The Board will consider recommendations received by a date not later than 120 calendar days before the date our proxy statement was released to shareholders in connection with the prior year's annual meeting for nomination at that annual meeting. The Board will consider nominations received beyond that date at the annual meeting subsequent to the next annual meeting.

The Board evaluates nominees for directors recommended by shareholders in the same manner in which it evaluates other nominees for directors. Minimum qualifications include the factors discussed above.

### **Code of Ethics**

Our Board of Directors has adopted a Code of Business Conduct and Ethics ( Code ), which we have posted on our website located at [www.citizensinc.com](http://www.citizensinc.com). You may also obtain a copy of our Code by requesting a copy in writing addressed to Citizens, Inc. at 400 East Anderson Lane, Austin, Texas 78752, Attn: Rick D. Riley or General Counsel, or by calling us at 512-837-7100.

Our Code provides general statements of our expectations regarding ethical standards that we expect our directors, officers and employees to adhere to while acting on our behalf. Among other things, the Code provides that:

We will comply with all laws, rules and regulations;

Our directors, officers and employees are to avoid conflicts of interest and are prohibited from competing with us or personally exploiting our corporate opportunities;

Our directors, officers and employees are to protect our assets and maintain our confidentiality;

We are committed to promoting values of integrity and fair dealing; and

We are committed to accurately maintaining our accounting records under generally accepted accounting principles and timely filing our periodic reports.

Our Code also contains procedures for our employees to report, anonymously or otherwise, violations of the Code.

### **EXECUTIVE COMPENSATION**

#### **Compensation Discussion and Analysis (CD&A)**

The following Compensation Discussion and Analysis ( CD&A ) describes the material elements of compensation for executive officers identified in the Summary Compensation Table.

**Overview of Compensation Program.** As more fully described below, the Compensation Committee of the Board of Directors ( Compensation Committee ), which is composed of three independent directors, has responsibility for establishing, implementing and monitoring adherence with our compensation philosophy for executive officers as well as directors. The compensation setting process consists of establishing compensation for each executive based on long-term objectives. The Compensation Committee also considers competitive industry practices and other factors in structuring executive compensation. We do not utilize incentive based compensation, nor offer bonuses or stock options. Executive compensation consists of salary, and qualified profit-sharing plan available to all Company employees. The Compensation Committee seeks to ensure that executive compensation is fair, reasonable and competitive. In order to make this determination, toward the end of each calendar year, the Compensation Committee generally evaluates the Company s performance relative to its business plan, and then does the same with respect to similar companies. Additionally, each executive officer s contribution to our achievements during the year is evaluated.

**Compensation Philosophy.** The goal of the Compensation Committee is to ensure that we employ qualified, experienced executive officers whose financial interests are aligned with that of our shareholders. Because the Compensation Committee does not believe that a systematic pattern exists between executive compensation and performance, our compensation philosophy is not structured to motivate preferable behaviors through bonus incentives. Rather, our primary objective is to acquire and retain people of integrity who take pride in delivering results.

**Compensation Performance Analysis.** Our executive management team is led by Harold E. Riley and Rick D. Riley. Harold E. Riley, our founder, was elected Chairman of the Board and Chief Executive Officer in 1987, although as founder, his tenure as such began in 1968. In October 2000, Rick D. Riley was named Chairman and Chief Executive Officer of our life insurance companies. Rick D. Riley also serves as Vice Chairman and President of Citizens, Inc. Harold E. Riley and Rick D. Riley have always been, and currently are, employed on an at-will basis.

The Compensation Committee conducted a thorough review of the performance of Harold E. Riley and Rick D. Riley, as well as the other executive officers, for the year 2008. This review included an evaluation of the progress made by us towards the attainment of our stated corporate objectives and the role these individuals played in our progress. The review also included a broad based comparison of salaries of senior executives of other public life insurance holding companies who are typically identified as comparable to us, as well as the manner in which such executives are compensated.

In 2008, markets in the United States and elsewhere experienced extreme volatility and disruption, due largely to stresses affecting the global banking system. As a result of this global economic downturn and other market related factors, the Company experienced a decrease in revenues of \$22,964,000 and a decrease in net income of \$32,264,000 in 2008 as compared to 2007. The Company's decrease in revenue and net income was primarily due to a temporary impairment and charge related to mutual funds, which amounted to a \$23.5 million write-down in the fourth quarter of 2008.

However, the conservative investment philosophy and strong leadership of the Company's senior executive management has provided and continues to provide stability to the Company during the market downturn. Unlike other life insurers, we were not invested in riskier debt investments, such as subprime, collateralized debt obligations or mortgage backed securities. Rather, at the time of the 2008 economic downturn and throughout the history of the Company, it has maintained a conservative investment portfolio in which we principally invest in debt securities of U.S. Government-sponsored enterprises. We are debt-free and do not use leverage as part of an investment philosophy. Furthermore, our Company's sound fiscal position enabled executive management to pursue and complete acquisition opportunities in furtherance of our stated corporate objective to reach \$1 billion dollars in assets by 2010. This is an extraordinary feat for executive management to accomplish, considering the fact that one of the acquisitions closed in the later part of 2008 and the other acquisition closed in early 2009 right in the heart of the economic downturn.

Giving consideration to these factors, the Compensation Committee was encouraged by executive management's conservative and proven leadership of the Company. The Compensation Committee considers Harold E. Riley and Rick D. Riley to be valuable executive officers in implementing stated corporate objectives. Harold E. Riley continues to play a significant role in leading the executive management team in accordance with the ideals and philosophies upon which he established and has led our Company since its inception. Rick D. Riley expects to lead the Company in accordance with those same ideals and philosophies.

Nonetheless, the Compensation Committee was cautious about the continued impact of global economic conditions on the Company and its responsibility to shareholders in setting executive compensation during difficult market conditions. Consequently, it is the opinion of the Compensation Committee that the 2009 annual salaries of Harold E. Riley and Rick D. Riley remain unchanged and identical to their 2008 annual salaries, \$1,000,000 and \$450,000, respectively. This conscientious decision was made despite the fact that Harold E. Riley and Rick D. Riley continue to meet and exceed the expectations of our Board of Directors and shareholders. Furthermore, this decision was made in furtherance of the request of both Harold E. Riley and Rick D. Riley that they not receive annual salary increases in 2009, due to the uncertain global economic conditions.



**Compensation Comparables.** To assist in establishing the compensation for 2009, the Compensation Committee also utilized independent sources to identify comparables within our industry, often referred to as benchmarking. We believe that a benchmark should be just that, a point of reference for measurement, but not the determinative factor for our executives' compensation. The purpose of the comparison is not to supplant the analysis of individual performance of an executive under consideration when making compensation decisions. Because the comparative compensation information is one of the several analytic tools used in setting executive compensation, the Compensation Committee has discretion in determining the nature and extent of its use.

The Compensation Committee established the basis for our current peer group of companies in 2006. With some slight variance in 2008, the comparables were: American Equity Investment Life Holding Company, Erie Family Life Insurance Company, Independence Holding Company, Kansas City Life Insurance Company, Kentucky Investors, Inc., and National Western Life. Compensation data found on these comparables was limited to only those individuals for whom compensation information was disclosed publicly. As a result, the data typically included only the five most highly compensated officers at each company as of their latest public filing. Generally, this correlated to the Chairman/CEO, Vice Chairman, President and the individuals who are executive vice presidents or the equivalent with us. Additional data obtained on each comparable company included total assets, debt, revenue and net income. No research was conducted to assist in establishing comparable duties nor compensation at other levels.

**Comparative Compensation Analysis.** The overall results of the comparables study provided additional information for the Compensation Committee's final determination. As noted above, the Compensation Committee reviewed a number of factors within the comparable companies; however, the focus of attention was on base salary compensation, which consisted of salary excluding bonuses and any matching contributions to a company's 401(k) plan.

For the purposes of the comparison analysis, three comparables were selected for discussion in 2008. These comparables were: Independence Holding Company ( IHC ), Kansas City Life ( KCLIC ), and National Western Life ( NWL ). NWL reported assets, revenues and net income of \$6,826,330,000, \$212,018,000 and \$32,588,000, respectively, through the six months ended June 30, 2008. Although NWL's assets, revenues and net income are larger, it is a publicly traded insurance company in Austin, Texas with international marketing operations that are similar to Citizens'. Of the three, IHC and KCLIC were closest to us in assets and revenue. Through the six months ended June 30, 2008, IHC reported assets and revenues of \$1,348,089,000 and \$193,736,000, respectively and a loss of \$3,621,000 in net income. IHC reported a \$20,456,000 drop in revenue and a \$12,152,000 drop in net income in 2008 over 2007 for the same period. Through the six months ended June 30, 2008, KCLIC reported assets, revenues and net income of \$4,175,962,000, \$206,608,000 and \$5,279,000, respectively. KCLIC reported a \$16,304,000 drop in revenue and a \$14,839,000 drop in net income in 2008 over 2007 for the same period.

Based on the Compensation Committee's analysis, the 2009 compensation for Harold E. Riley, our Chairman and Chief Executive Officer, was determined to be reasonable and appropriate by the Compensation Committee, especially in light of the fact there was no increase in annual salary over 2008. This amount was significantly lower (approximately 35%) than the base compensation for the Chairman/CEO of NWL and not even reasonably comparable to the \$5,244,520 total compensation of the NWL Chairman/CEO. Since NWL reported assets through June 30, 2008 of over \$6.8 billion and revenues of approximately \$212 million, this difference is understandable. Mr. Riley's base salary is slightly higher than the base salaries for the CEOs at both IHC and KCLIC. In the case of IHC, Harold E. Riley's recommended 2009 base salary is slightly over two times that of IHC's CEO. As it relates to KCLIC, our amount is still greater than but very comparable to the base compensation for KCLIC's Chairman/CEO and virtually equivalent on a total compensation scale.

In analyzing these factors, the Compensation Committee performed a subjective analysis, which suggested that \$1,000,000 continues to be an appropriate compensation for our Chairman/CEO and \$450,000 continues to be an appropriate salary for our President. This is particularly true when considering the fact that a significant majority of the comparable companies had targeted compensation well beyond our base annual salary provisions. The compensation of executives in these companies included bonuses, stock options and contributions to company 401(k) plans all of which are not included in our compensation plan.



The Compensation Committee followed a similar, albeit slightly less elaborate, process with respect to comparing the compensation for our other senior executives. These salaries were not objectively determined, but instead reflect the levels the Compensation Committee concludes were appropriate based upon our compensation philosophy and experience and tenure of our other senior executives. Finally, the Compensation Committee, in conjunction with senior executive management, also performed a similar analysis with respect to other management personnel.

**Board Process and Conclusion.** The Compensation Committee's recommendations are subject to approval by the Board of Directors. The Compensation Committee reviews and discusses the CD&A with our senior executive management, then recommends to the full Board of Directors that the CD&A be included in the Proxy Statement or discloses to the full Board of Directors the reasons that it cannot make such a recommendation. The Board of Directors has completed its analysis, discussed its conclusions with senior executive management, analyzed the Compensation Committee's recommended 2009 compensation and adopted the recommendation as proposed. A similar evaluation was conducted in 2008.

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE

Richard C. Scott, Chairman

Steven F. Shelton

Grant G. Teaff

**CERTAIN REPORTS**

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires that our directors, executive officers and persons who own more than ten percent of a registered class of our equity securities file reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely upon a review of such reports and amendments thereto furnished to us, we believe that during 2008, all reports were filed on a timely basis, with the exception of a late report of stock sale in one of Randall H. Riley's indirect accounts in 2008, which he subsequently corrected in a Form 5/A amendment during 2008.

**Section 303A.12(a) of the NYSE Listed Company Manual**

Section 303A.12(a) of the NYSE Listed Company Manual requires each listed company CEO to verify each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. In accordance therewith, Harold E. Riley filed his certification with the NYSE on July 1, 2008 and certified, without qualification, that he was not aware of any violation by the Company of NYSE corporate governance listing standards.

**EXECUTIVE OFFICERS**

The following table sets forth certain information concerning our executive officers who are elected annually by the Board of Directors at the first meeting of the Board following each annual meeting of shareholders:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Harold E. Riley <sup>(1)</sup>	80	Chairman, Chief Executive Officer
Rick D. Riley <sup>(2)</sup>	55	Vice Chairman, President and Chief Corporate Officer
Ray A. Riley <sup>(3)</sup>	48	Executive Vice President, Chief Marketing Officer
Larry D. Welch <sup>(4)</sup>	42	Executive Vice President, Chief Operating Officer
Kay E. Osbourn <sup>(5)</sup>	42	Vice President, Chief Financial Officer and Treasurer
Geoffrey M. Kolander <sup>(6)</sup>	33	Vice President, General Counsel and Corporate Secretary
Randall H. Riley <sup>(7)</sup>	54	Vice President, Investor Relations and Public Relations
Larry E. Carson <sup>(8)</sup>	55	Vice President, Financial Reporting and Tax
Joshua G. Arnold <sup>(9)</sup>	26	Assistant Vice President, Investment Officer
Brent W. Balke <sup>(10)</sup>	38	Assistant Vice President, Controller

(1) Mr. Harold E. Riley has served since 1987.

(2) Rick D. Riley became Vice Chairman in December 1999 and President and Chief Corporate Officer in 2007. He has served in various capacities for us and our affiliates since 1976.

(3) Ray A. Riley has served in various capacities for us since 1995, including Director of Personnel and Chief

Operating Officer.

(4) Larry D. Welch assumed the position of our Executive Vice President, Chief Operating Officer in June 2005. Mr. Welch had served us as Vice President, Policyowner Service, since May 2003. Prior to that time, he was employed by Capital Synergies, Inc., where he served as Vice President of Operations from November 1999.

(5) Kay E. Osbourn joined us as Vice President, Internal Audit, in April 2008. On March 23, 2009, she became our Vice President, Treasurer and Chief Financial Officer. Prior to joining us, she worked at National Western Life Insurance Company, where she held various positions since 1992, including Senior Accountant, Assistant Controller, Vice President-Controller and Assistant Treasurer. During a break in service from 1996 - 1999, she served as Vice President of Salem's Inc., a family-owned business.



- (6) Geoffrey M. Kolander has served as Vice President and General Counsel of the Company since 2006 and was named Corporate Secretary in 2007. Prior to that Mr. Kolander served as General Counsel of Tejas Industries from 2005 to 2006 and an attorney at the Underwood Law Firm from 2001 to 2005. Mr. Kolander is a licensed attorney in Texas, Colorado and New York. Mr. Kolander also serves as a Trustee of Southwestern Baptist Theological Seminary located in Fort Worth, Texas.
- (7) Randall H. Riley joined us in 2006 as Vice President, Latin American Division of CICA Life Insurance Company, and was named Vice

President,  
Investor  
Relations and  
Public Relations  
of Citizens, Inc.  
in 2008.

- (8) Larry E. Carson joined us as Vice President, Financial Reporting and Tax, and Treasurer in May 2005, and served as Chief Financial Officer from June 2006 to June 2007. Prior to joining us, he worked at National Western Life Insurance Company, where he served as Assistant Vice President and Assistant Controller from July 1987 to May 2005.
- (9) Joshua G. Arnold joined us in 2005 as a Financial Analyst, and was named Assistant Vice President, Investment Officer in 2007. Prior to joining us, he worked as a sales representative at Arnold Oil Company from January 2002 to



January 2005.

- (10) Brent W. Balke joined us as a staff accountant in 1998, and was named Assistant Vice President, Controller in 2008.

**EXECUTIVE OFFICER AND DIRECTOR COMPENSATION**

The following table presents the aggregate compensation that was earned by our principal executive officer and our principal financial officer for 2008 and our three most highly compensated executive officers other than the principal executive officer and the principal financial officer. There has been no compensation awarded to, earned by or paid to any employee required to be reported in any table or column in any fiscal year, other than what is set forth in the table below.

**SUMMARY COMPENSATION TABLE**

## Annual Compensation

Name and Principal Position	Year	Salary	All Other Compensation (1)	Total
<b>PEO</b> Principal Executive Officer <b>Harold E. Riley,</b> Chairman and Chief Executive Officer	2008	\$ 1,000,008	\$ 78,359	\$ 1,078,367
	2007	\$ 880,004	\$ 42,361	\$ 922,365
	2006	\$ 779,045	\$ 42,000	\$ 821,045
<b>PFO</b> Principal Financial Officer <b>Thomas F. Kopetic, (2)</b> Chief Financial Officer	2008	\$ 175,008	\$ 7,358	\$ 182,366
	2007	\$ 154,892	\$ 342	\$ 155,234
<b>Rick D. Riley,</b> Vice Chairman, President and Chief Corporate Officer	2008	\$ 450,000	\$ 57,205	\$ 507,205
	2007	\$ 360,973	\$ 42,361	\$ 403,334
	2006	\$ 311,738	\$ 42,000	\$ 353,738
<b>Ray A. Riley,</b> Executive Vice President, Chief Marketing Officer	2008	\$ 275,004	\$ 17,440	\$ 292,448
	2007	\$ 239,727	\$ 12,298	\$ 252,025
	2006	\$ 217,480	\$ 11,325	\$ 228,805
<b>Randall H. Riley, (3)</b> Vice President, Investor Relations and Public Relations	2008	\$ 225,000	\$ 19,317	\$ 244,317
	2007	\$ 180,200	\$ 3,416	\$ 183,416

(1) Company contribution to qualified profit-sharing plan. The 2008 amounts represent the results of the 2008 plan year credited in 2009.

(2) On March 23, 2009, Citizens, Inc. appointed Kay E. Osbourn

as its vice  
President,  
Treasurer and  
Chief Financial  
Officer.

Ms. Osbourn  
succeeded  
Thomas F.  
Kopetic. Mr.  
Kopetic was not  
a named  
executive  
officer in 2006;  
therefore, 2006  
compensation  
information is  
not included in  
the table.

- (3) Randall Riley  
was not a named  
executive  
officer in 2006;  
therefore, 2006  
compensation  
information is  
not included in  
the table.

Our employees are covered under our qualified profit-sharing plan (the Plan). Under the terms of the Plan, all employees who have completed one year of service are eligible to participate. Vesting begins following completion of two years of service and employees become fully vested after six years of service. We contributed \$750,000 in 2006, \$650,000 in 2007 and \$700,000 in 2008. Messrs. H. E. Riley, R. D. Riley, and R. A. Riley and R. H. Riley had, \$479,916, \$643,589, \$94,902 and \$19,004, respectively, vested under the Plan as of December 31, 2007, the last year for which allocations are complete.

For additional information on executive compensation, see Executive Compensation Compensation Discussion and Analysis above, beginning on page 13.

*Director Compensation*

The following table sets forth all compensation that we paid to our directors in 2008.

Name of Director	Fees Earned or Paid in Cash (\$)
Harold E. Riley	\$ 0
Rick D. Riley	\$ 0
Geoffrey M. Kolander	\$ 0
Dottie S. Riley	\$ 0
Dr. E. Dean Gage	\$ 27,000
Dr. Richard C. Scott	\$ 27,600
Steven F. Shelton	\$ 24,600
Dr. Robert B. Sloan, Jr.	\$ 24,000
Grant G. Teaff	\$ 24,600
Timothy T. Timmerman	\$ 27,000

We have paid each non-employee director \$24,000 per year and reimburse the directors for travel expenses to the Board meetings. Each non-employee director who is on our Board committees also receives \$600 per meeting attended. Our directors who are also our employees receive no separate or additional compensation for service on the Board or its committees, but rather receive only compensation in connection with their employment by us. Our outside directors do not receive any other compensation, such as stock options or profit sharing.

**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

Ray A. Riley, our Executive Vice President, Chief Marketing Officer, and Randall H. Riley, our Vice President, Investor Relations and Public Relations, are sons of Harold E. Riley, our founder, Chief Executive Officer and Chairman of the Board, and brothers of Rick D. Riley, our Vice Chairman, President and a director of the Company. Dottie S. Riley, wife of Harold E. Riley, is retained by the Company as a consultant, was appointed by the Harold E. Riley Trust to serve the remainder of Mr. Geoffrey M. Kolander's term as a Class B Director effective November 6, 2008, and is a Class B Director nominee. We are not aware of any other transaction, or series of transactions, since January 1, 2008, or any currently proposed transactions, or series of transactions, to which we or any of our subsidiaries was to be a party, in which the amount involved exceeds \$120,000 and in which any director, nominee for director, executive officer, more than 5% shareholder or any member of the immediate family of the foregoing persons had, or will have, a direct or indirect material interest.

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

During 2008 and 2007, the following fees were billed to us by our principal accountants:

	2008	2007
Audit Fees	\$ 1,251,396	2,101,707
Audit Related Fees	-0-	-0-
Tax Fees	-0-	-0-
All Other Fees	-0-	-0-
 Total	 \$ 1,251,396	 2,101,707

To help assure independence of our registered independent public accounting firm, our Audit Committee has established a policy whereby all audit, review, attest and non-audit engagements of the principal accountant or other firms must be approved in advance by the Audit Committee; provided, however, that de minimis non-audit services may instead be approved in accordance with applicable Securities and Exchange Commission rules. This policy is set forth in our Amended Audit Committee Charter. Of the fees shown in the table which were billed by our principal accountants in 2007 and 2008, 100% were approved by the Audit Committee.

**RATIFICATION OF APPOINTMENT OF OUR REGISTERED INDEPENDENT PUBLIC  
ACCOUNTING FIRM**

Our Audit Committee Charter provides that the Audit Committee shall have the sole authority and responsibility to select, evaluate and, if necessary, replace our registered independent public accounting firm.

Our Audit Committee has retained Ernst & Young LLP as our registered independent public accounting firm to audit our consolidated financial statements for the fiscal year ending December 31, 2009.

We are requesting that our shareholders ratify the appointment of Ernst & Young LLP by our Audit Committee as our registered independent public accounting firm for the fiscal year ending December 31, 2009. If the shareholders do not ratify this appointment, the Audit Committee will consider such results and determine whether to recommend and appoint a different registered independent public accounting firm to audit our consolidated financial statements for the fiscal year ending December 31, 2009.

One or more members of the firm of Ernst & Young LLP are expected to attend the Meeting, will have an opportunity to make a statement if they desire to do so, and will be available to answer appropriate questions.

**Ratification of the appointment of Ernst & Young LLP as our registered independent public accounting firm requires the affirmative vote of the holders of a majority of the shares present or represented at the annual meeting, in person or by proxy, entitled to vote on this proposal. Abstentions will count as votes against the proposal. Broker non-votes do not count for voting purposes. The Board recommends a vote FOR such ratification.**

### **AUDIT COMMITTEE REPORT**

Our Audit Committee reports to and acts on behalf of the Board of Directors by providing oversight of our financial management, registered independent public accounting firm and financial reporting procedures. The Audit Committee Charter was adopted in 2000. The Audit Committee Charter was updated and restated in April 2004 in order to meet the requirements of the Sarbanes-Oxley Act of 2002 and is available on our website at [www.citizensinc.com](http://www.citizensinc.com).

Management is responsible for preparing our financial statements and our registered independent public accounting firm is responsible for auditing those financial statements. The Audit Committee is responsible for overseeing the conduct of these activities by our management and our registered independent public accounting firm. The Audit Committee is also responsible for establishing procedures to address complaints regarding accounting, internal control or auditing issues, as well as the anonymous submission by employees of concerns regarding accounting or auditing matters. In this context, the Audit Committee has met and held discussions with management and our registered independent public accounting firm. Management represented to the Audit Committee that our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ), and the Audit Committee has reviewed and discussed the consolidated financial statements with management and our registered independent public accounting firm.

Dr. Richard C. Scott, the financial expert of the Audit Committee, as well as the other members of the Audit Committee, are independent directors as defined in the rules of the New York Stock Exchange. The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are not experts in the fields of accounting or auditing, including auditor independence. The members of the Audit Committee rely without independent verification on the information provided to them and on the representations made by our management and the registered independent public accounting firm.

The Committee has discussed with Ernst & Young LLP, our independent registered public accounting firm for our 2007 and 2008 financial statements, the independent registered public accounting firm's matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended, and applicable SEC Rules. In addition, our independent registered public accounting firm provided to the Audit Committee the written disclosures required by Independent Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Committee and our independent registered public accounting firm have discussed their independence from us and our management, including the matters in those written disclosures.

The Committee has discussed with our independent registered public accounting firm their evaluations of our internal accounting controls and the overall quality of our financial reporting.

In reliance on the reviews and discussions with management and our registered independent public accounting firm referred to above, the Audit Committee recommended to the Board of Directors and the Board has approved, the inclusion of the audited financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, for filing with the Securities and Exchange Commission.

#### **AUDIT COMMITTEE**

Dr. Richard C. Scott

Dr. E. Dean Gage

Timothy T. Timmerman

### OTHER BUSINESS

Should any other business come before the Meeting, and management is not aware of any at this time and does not expect any, the persons named in the proxy will vote on such business as their best judgment and discretion indicates.

### ANNUAL REPORT AND OTHER MATERIAL

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on June 2, 2009: The Proxy Statement and Annual Report to Shareholders are available at [www.edocumentview.com/cia](http://www.edocumentview.com/cia).** The report of the Compensation Committee and the Audit Committee of the Board of Directors are in this Proxy Statement. **No part of our Annual Report to Shareholders is incorporated herein and no part thereof is to be considered proxy soliciting material.**

We file our proxy statements and other information with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934, as amended (Exchange Act). You can inspect and obtain a copy of our proxy statement and other information filed with the SEC at the offices of the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The SEC maintains an Internet site at <http://www.sec.gov/> where you can obtain most of our SEC filings. We also make available, free of charge, on our website at [www.citizensinc.com](http://www.citizensinc.com) our proxy statements filed with the SEC pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after they are filed electronically with the SEC.

### ELECTRONIC DELIVERY OF PROXY MATERIALS AND ANNUAL REPORT

This Proxy Statement and our 2008 Annual Report are available on our website at [www.citizensinc.com](http://www.citizensinc.com). If you vote by Internet, simply follow the prompts regarding electronic distribution consent on that site.

### SHAREHOLDER PROPOSALS

Under the rules of the SEC, if a shareholder wants us to include a proposal in our proxy statement and form of proxy for presentation at our 2010 Annual Meeting of Shareholders, the proposal must be received by us at our principal executive offices at 400 East Anderson Lane, Austin, Texas 78752 by January 2, 2010. The proposal should be sent to the attention of our Secretary.

The SEC also sets forth procedures under which shareholders may make proposals outside of the process described above or to introduce an item of business at an annual meeting of shareholders. These procedures require that shareholders must submit items of business in writing to our Secretary at our principal executive offices. We must receive the notice of your intention to propose an item of business at our 2010 Annual Meeting no later than 45 days in advance of the 2010 Annual Meeting if it is being held within 30 days preceding the anniversary date (June 2, 2009) of this year's meeting.

Our annual meeting of shareholders is generally held on the first Tuesday in June. Assuming that our 2010 Annual Meeting is held on schedule, we must receive notice of your intention to introduce a nomination or other item of business at that meeting by April 18, 2010.

For any other meeting, the item of business must be received by the tenth day following the date of public disclosure of the date of the meeting. These requirements are separate from and in addition to the SEC's requirements described in the first paragraph of this section relating to including a proposal in our proxy statements.

In order to curtail controversy as to the date on which a proposal was received by us, it is suggested that proponents submit their proposals by certified mail-return receipt requested. Such proposals must also meet the other requirements established by the Securities and Exchange Commission for shareholder proposals.

**CORPORATE GOVERNANCE INFORMATION AVAILABILITY**

Our Compensation Committee Charter, Audit Committee Charter, and the Corporate Governance Guidelines are available on our website at [www.citizensinc.com](http://www.citizensinc.com). The information is also available in print to any shareholder who makes a request. Please send a written request to the Secretary, Citizens, Inc., P. O. Box 149151, Austin, Texas 78714-9151, Attn: Geoffrey M. Kolander, Secretary.

**SHAREHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

Any communication from a shareholder or interested party to the Board of Directors may be mailed to:  
Citizens, Inc.

400 East Anderson Lane

Austin, Texas 78752

Attn: Board of Directors (or committee name or director's name as appropriate)

It should be clearly noted on the mailing envelope that the letter is a Board of Directors Communication. All such communications should identify the author as a shareholder or interested party and clearly state whether the intended recipients are all members of the Board of Directors or certain specified individual directors. This procedure for communicating with the Board of Directors is also posted on our website at [www.citizensinc.com](http://www.citizensinc.com).

**BY THE ORDER OF THE BOARD OF  
DIRECTORS**

Austin, Texas

Geoffrey M. Kolander, Secretary

Date: April 24, 2009



\*\* Map not to scale

There are several routes to Buchanan Dam, Texas. This map outlines two. If you are leaving from the north side of Austin, take HWY 183 North towards Lampasas. At Seward Junction, turn left (west) on HWY 29 towards Burnet. From Seward Junction, it is 35 miles to the property entrance. Stay on HWY 29. From downtown Burnet, Buchanan Dam is approximately 12 miles. At Inks Lake bridge, you are 1 mile from the entrance to the property which is just past Buchanan Dam on your right. The entrance to the property has a guard tower with a Citizens Academy sign, immediately preceded by a fence with red columns.

An alternate and more scenic route is HWY 71 (there are several ways to 71 from Austin other than IH 35). From HWY 71, take HWY 281 North towards Marble Falls. In Marble Falls, turn left on Farm Road 1431 (Pizza Hut and Shell will be on the left). Follow Farm Road 1431 to HWY 29 at the flashing red light and turn right. Buchanan Dam is 2.9 miles from this intersection. Again, look for the guard tower with the Citizens Academy sign on your left.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

**Annual Meeting Proxy Card**

**PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**Proposals** The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposal 2.

1. Election of Directors to serve until the next annual meeting of shareholders or until their successors are duly elected and qualified.

		For		Withhold				For		Withhold		
01	Dr. E. Dean Gage	<input type="radio"/>	<input type="radio"/>			02	Steven F. Shelton	<input type="radio"/>	<input type="radio"/>			
03	Timothy T. Timmerman	<input type="radio"/>	<input type="radio"/>			04	Dr. Robert B. Sloan, Jr.	<input type="radio"/>	<input type="radio"/>			

**For Against Abstain**

2. To ratify the appointment of Ernst & Young LLP as the Company's registered independent public accounting firm for 2009.

3. To transact such other business as may properly come before the meeting or any adjournment thereof.

**Authorized Signatures** This section must be completed for your vote to be counted. **Date and Sign Below** Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

Date (mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep signature within the box.

/ /

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<STOCK#> 011MUB

**PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**Proxy Citizens, Inc.**

**Notice of Annual Meeting of Shareholders of Citizens, Inc.**

Notice is hereby given that the Annual Meeting of Shareholders of Citizens, Inc. will be held Tuesday, June 2, 2009, at 10:00 a.m., Central Daylight Time, at **Citizens Academy, 18617 East Highway 29, Buchanan Dam, Texas 78609, for the purposes stated on the reverse side of this proxy.**

**Shares represented by properly executed proxies received by us prior to the Meeting will be voted as specified thereon. If a proxy fails to specify how it is to be voted on any proposal it will be voted FOR Proposals 1 and 2. If other matters come before the Meeting, the persons named on the accompanying proxy will vote in accordance with their best judgment with respect to such matters.**

It is important, regardless of the number of shares you hold, that your stock be represented at the Meeting by a signed proxy card or personal attendance.

(Items to be voted appear on reverse side.)

**Executive Offices: 400 East Anderson Lane, Austin, Texas 78752**