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### Testimony of Lauren M. Bloom

My name is Lauren M. Bloom. I am the General Counsel and Vice President for Beneficiary Services and Education of the Navy Mutual Aid Association ("Navy Mutual"). I am writing on Navy Mutual's behalf to request passage of legislation to clarify Navy Mutual's regulatory status in Connecticut.

#### **Background**

Navy Mutual is an unincorporated, not-for-profit mutual aid association and Congressionally-chartered veterans service organization that provides members of the Sea Services (Navy, Marine Corps, Coast Guard, National Oceanic and Atmospheric Administration, and the U.S. Public Health Service) with life insurance and survivor benefits at the lowest possible net cost. Navy Mutual was formed in 1879 to provide these benefits to Civil War veterans and their families, and it is still performing this critical mission today.

Navy Mutual has never been required by any state to be licensed as an insurance company. At this time, however, Navy Mutual is taking proactive steps to ensure that its regulatory status is clear. Navy Mutual's concern is based upon its recent experience in three states that interpreted their fraternal benefit codes so that Navy Mutual was not exempted from regulation. In each of those cases, the respective insurance codes were amended to make clear that Navy Mutual was to be treated like other exempt fraternal benefit associations who provide services to members of hazardous occupations. Navy Mutual respectfully requests Connecticut to make a similar legislative change.

#### **Navy Mutual's Experience in Virginia, the Carolinas, Maryland and Hawaii**

In the 1990s, Navy Mutual received an inquiry from the Department of Insurance in its domiciliary state, Virginia, concerning its regulatory status. After an initial inquiry and informal hearing, the Virginia Department recognized the public policy benefits of making Navy Mutual's unique products and survivor services available to Sea Service members, but concluded that Navy Mutual did not necessarily fit neatly within the "hazardous occupation" exemption in Virginia's version of the Model Fraternal Code. The Virginia Department assisted Navy Mutual in asking the Virginia Legislature to add the following express exemption from regulation to Virginia's insurance code:

Any association, whether a fraternal society or not, which was organized before 1880 and whose members are officers or enlisted, regular or reserve, active, retired, or honorably discharged members of the Armed Forces or Sea Services of the United States, and a principal purpose of which is to provide insurance and other benefits to its members and their dependents or beneficiaries.

After this resolution, Navy Mutual believed that Virginia's position was unique, and that the remaining states categorized Navy Mutual as exempt from regulation under the "hazardous occupation" exemption. In 2005, however, Navy Mutual received an inquiry from the North Carolina Department of Insurance and, during the inquiry, an attorney from the North Carolina Attorney General's Office informally opined that Navy Mutual did not meet the letter of that state's "hazardous occupation" exemption. Navy Mutual did not agree but, rather than further argue the legal merits, Navy Mutual (with the support of the Department of Insurance) brought the issue to the North Carolina Legislature to clarify North Carolina's statutes to everyone's satisfaction. In 2007, the North Carolina State Legislature amended the state's Insurance Code to expressly exempt Navy Mutual from regulation by adding the same exemption that had been adopted in Virginia. *See* N.C. Gen. Stat. § 58-24-185(a)(6).

While Navy Mutual believes that it continues to fall within the long-standing exemption for hazardous occupations already set forth in the Model Fraternal Code, Navy Mutual has concluded that it would be best to proactively seek clarification of its regulatory status in other states. In that line, Navy Mutual initiated contact with the South Carolina Department of Insurance in 2008 and, with the Department's support, Navy Mutual obtained from the South Carolina Legislature an express regulatory exemption similar to those granted by Virginia and North Carolina. In 2009, Navy Mutual initiated contact with the Maryland Department of Insurance and, once again, received the department's support in obtaining from the Maryland Legislature an express regulatory exemption similar to those granted by Virginia, North Carolina and South Carolina.<sup>1</sup> In 2010, Navy Mutual contacted the Hawaii Insurance Division and, based on the division's recommendation, again sought legislative clarification. In 2011, the Hawaii state legislature granted Navy Mutual an express regulatory exemption similar to those previously adopted in other states.

Taking the same pro-active approach, I met in December with Connecticut's Insurance Commissioner and members of his staff to explain Navy Mutual's situation and request an opinion as to whether Navy Mutual falls within Section 38a-625 of the Connecticut Insurance Code. Based on subsequent correspondence and conversations, it is my understanding that the Connecticut Department of Insurance does not believe that Navy Mutual qualifies for regulatory exemption under Section 38a-625, and is taking no position concerning our current request to clarify Navy Mutual's regulatory status through legislative amendment.

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<sup>1</sup>In 2008, representatives of the Georgia Department of Insurance informally opined that Navy Mutual could continue to operate in the state exempt from regulation. At the end of 2009, I met with representatives of the Florida Department of Insurance to discuss Navy Mutual's regulatory status. After considering the matter, the Florida Department issued a letter confirming that Navy Mutual qualified for exemption from regulation under Florida's Fraternal Code, which meant that no legislative clarification was needed. We are currently seeking a similar exemption in Rhode Island after bringing our regulatory status to the attention of the Rhode Island Insurance Department.

I would like to emphasize that, in each state where this issue has previously been addressed, it has been treated as a technical one over the application of the precise wording of the Model Fraternal Code's hazardous occupation exemption. Virginia, the Carolinas, Maryland (as well as Georgia and Florida) agreed that Navy Mutual fell within the spirit of the exemption. No state has taken the position that Navy Mutual was not entitled to an exemption, or that Navy Mutual should be treated differently from fraternal benefit organizations whose members are engaged in a hazardous occupation. In each of the states where we raised the issue, the state's insurance officials rendered valuable assistance in codifying an express statutory exemption applicable to Navy Mutual. We hope that Connecticut will agree to make the same technical correction.

### **Navy Mutual's Unique Value to Members**

Navy Mutual insures only its Members and their families, and it provides them with many benefits that are not offered by commercial insurance companies, including one-on-one beneficiary support services; military survivor benefits education and counseling; secure storage for wills and other testamentary documents; and no-cost legal representation of veterans and their beneficiaries before the Veterans Administration.

In offering Membership to Sea Service personnel whose service to our country puts them in harm's way, Navy Mutual serves a uniquely deserving population, and its contracts reflect the hazardous nature of its Members' duties. For example, Navy Mutual has no war, aviation or terrorism exclusions in its benefit plans, and does not restrict the amount of insurance that Members and prospective Members can purchase based on their combat status. Recently, Navy Mutual has paid numerous claims to the families of Navy SEALs and Marines who were killed in combat in Iraq and Afghanistan. We do not believe that commercial insurers would have provided those brave combatants with similar coverage.

Navy Mutual's mission is badly needed *because* its Members serve in a hazardous occupation. Navy Mutual's Members repeatedly put themselves in harm's way as they serve our nation and, as a result, they can have tremendous difficulty obtaining life insurance beyond that offered by the federal government. To the extent Navy Mutual's Members are even able to purchase life insurance from commercial insurers, that insurance is likely to be extremely expensive and capped at relatively low levels. Navy Mutual's mission is to aid our servicemen and women by insuring its Members when commercial insurance companies would not, precisely because their service is hazardous.

In recognition of their unique service to the military community, Congress has granted Navy Mutual and its Army-Air Force counterpart a special federal tax exemption under §501(c)(23) of the Internal Revenue Code (*see* Letter of Congressman John J. Duncan (Oct. 16, 1984), attached as Exhibit A). Similarly, the National Association of Insurance Commissioners included in its model regulation on sales to the military an express exemption for life insurance products sold by 501(c)(23) tax exempt organizations. That model regulation has been adopted in Hawaii as HAR §16-171-603 (2010). Four other states, including Navy Mutual's domicile Commonwealth of Virginia, have already adopted identical legislation to that which we are requesting in Hawaii. Thus, ample precedent exists to support this legislative clarification.

Navy Mutual is financially strong, with over \$2 billion in assets and an A+ rating with a stable outlook from the Fitch rating agency (*see* Fitch Ratings Report (Nov. 22, 2011), attached as Exhibit B). There is not and never has been any risk to Navy's Mutual's insured Members and families, and our insurance and benefits contracts have always been honored. Navy Mutual engages in rigorous self-regulation, voluntarily submitting to annual financial and actuarial audits (*see* 2010 Annual Report, attached as Exhibit C) and complying with the Insurance Code of the Commonwealth of Virginia as well as the model laws and regulations issued by the National Association of Insurance Commissioners.

Legislators need not be concerned with Navy Mutual's market conduct. We have made our insurance available to Sea Service members in Connecticut for 133 years without a single consumer complaint of which we are currently aware. Navy Mutual has long been a trusted part of the defense establishment (*see* Exerpt, *Final Report of on Insurance Solicitation Practice on Department Defense Installations*, presented to the Deputy Under Secretary of Defense (May 15, 2000), attached as Exhibit D), and can be relied upon to continue to provide honest, dependable service to our Connecticut Members.

I also wish to emphasize that Navy Mutual seeks exemption only from the technical requirements of Connecticut's insurance regulations. We respect and will fully comply with all other applicable state laws, including consumer protection requirements. Our products are simple – we sell only life insurance and fixed annuities. None of our products is variable or equity-indexed. Because Navy Mutual is tax exempt and runs with a small staff and exceptionally low expenses, we are able to offer our Members high quality insurance at the lowest possible price, a key element of our mission since 1879.

Navy Mutual's presence in Connecticut is relatively small. As of today, we have about only 2,000 plans and 1,350 Members in the state. However, we respect and value our relationship with Connecticut, home to the Groton submarine base and the Coast Guard Academy. We are seeking this legislation to ensure that Navy Mutual's presence in Connecticut remains sanctioned by law and fully transparent.

There should be no doubt that Navy Mutual's mission is as vital as ever, particularly at a time when the nation is at war. Please support our proposed legislation.

Respectfully submitted,

*Lauren M. Bloom*

Lauren M. Bloom  
General Counsel and Vice President for  
Beneficiary Services and Education

20 DISTRICT, TENNESSEE

Exhibit A

1 RAYBURN HOUSE OFFICE BUILDING  
PHONE: (AREA CODE 202) 322-4436

COUNTIES:  
BLOUNT  
CROOK  
EVADON  
ESSEX  
HOWARD  
POLK

Congress of the United States  
House of Representatives  
Washington, D.C. 20515

07  
SUBCOMMITTEES:  
SELECT REVENUE MEASURES  
HEALTH  
OVERSIGHT  
JOINT COMMITTEE ON  
TAXATION

October 16, 1984

Rear Admiral J. R. Ahern, SC, USN, Ret.  
Executive Director  
Navy Mutual Aid Association  
Navy Department  
Washington, D. C. 20370

Dear Admiral Ahern:

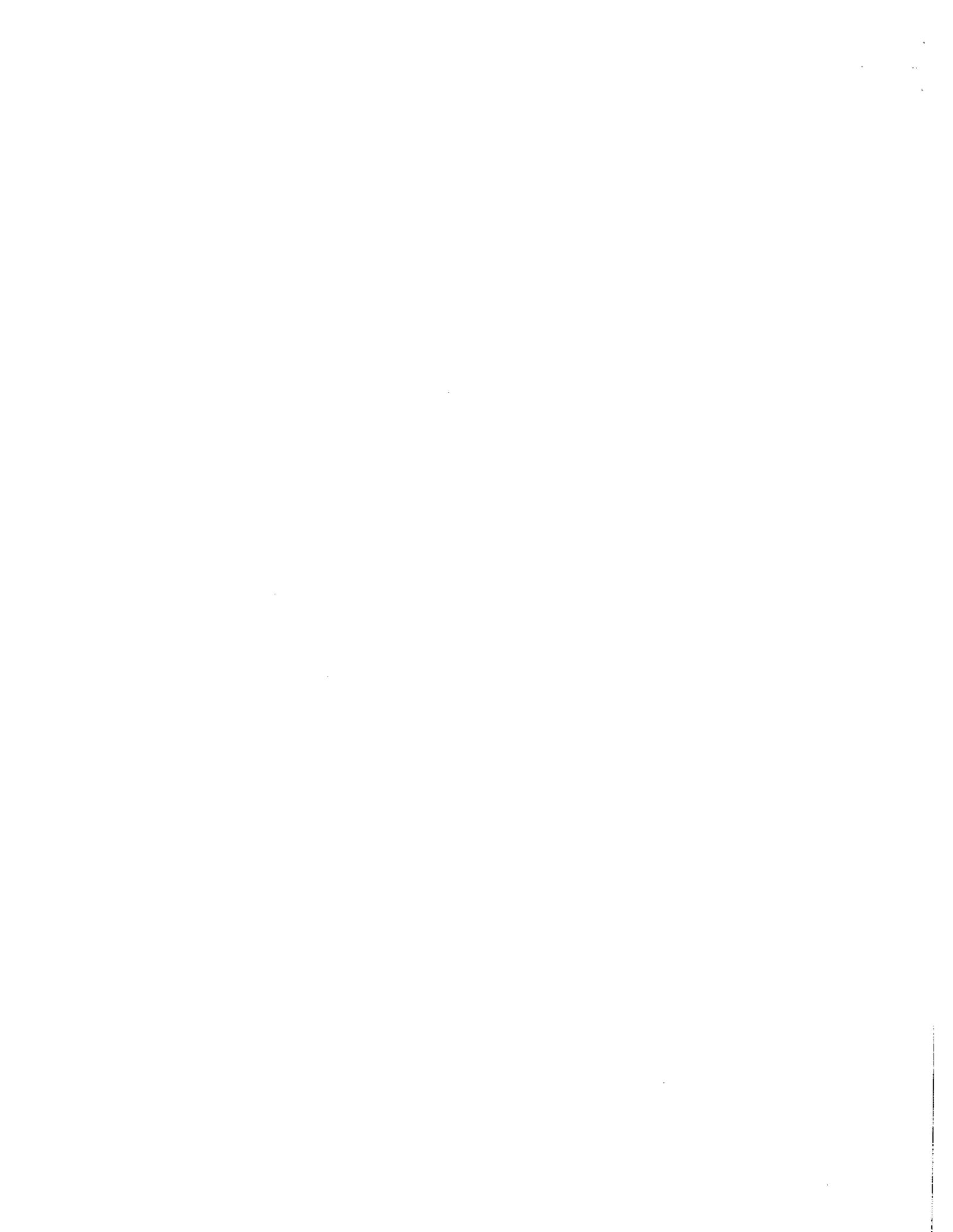
In response to your concerns that were recently called to my attention relating to Section 501(c)(23) of the Internal Revenue Code, I would like to assure you that at the time of its enactment this provision was expressly intended to cover both the Army Mutual Aid Association and the Navy Mutual Aid Association.

The Navy Mutual Aid Association has performed a vital service for personnel of the sea services over the years and this was fully understood and appreciated by the members of the Ways and Means Committee and the Committee on Finance in accepting this amendment to the Internal Revenue Code. The intent, underlying the addition of Section 501(c)(23) to the Internal Revenue Code, was to make certain that there could be no doubt whatsoever with respect to the exempt status of the Navy Mutual Aid Association.

Sincerely,

  
JOHN J. DUNCAN  
Member of Congress

JJD/pu



# Navy Mutual Aid Association

## Full Rating Report

### Ratings

| Security Class             | Rating |
|----------------------------|--------|
| Insurer Financial Strength | A+     |

### Rating Outlook

Stable

### Financial Data

| (\$ Mil.)                   | 12/31/10 |
|-----------------------------|----------|
| Total Adjusted Capital      | 217      |
| Surplus Notes Outstanding   | 0        |
| Statutory Net Income        | 3        |
| Operating Return on TAC (%) | 3.8      |
| Risk-Based Capital (%)      | 379      |

Note: Statutory data.  
Source: NMAA, Fitch.

### Related Research

Fitch Affirms Navy Mutual Aid Associations' IRS Rating at 'A+', Sept. 15, 2011

Life Insurers' Mortgage Portfolios — Better Than Expected, June 21, 2011

2011 Outlook: U.S. Life Insurance, Jan. 11, 2011

### Key Rating Drivers

**Strong Capital Levels:** Navy Mutual Aid Association's (NMAA or the Association) 'A+' insurer financial strength (IFS) rating reflects its strong capital and conservative reserving. Financial flexibility is considered adequate in respect to Navy Mutual's unique business profile and product portfolio.

**High-Quality Liquid Investment Portfolio:** Navy Mutual's investment portfolio is composed of more than 37% U.S. government-guaranteed or government-sponsored enterprise debt and high-quality corporate bonds, with no exposure to problematic structured securities. Portfolio yields have consistently exceeded 6% and realized credit losses compare favorably with the life industry over the 2008–2010 period.

**Modest Scale and Narrow Focus:** NMAA occupies a modest scale position in the life insurance industry and serves a narrow market. Rating concerns include Navy Mutual's limited access to capital markets and the long-term challenge of membership growth due to its niche customer market.

**Favorable Business Profile/Strong Niche Position:** The Association is a low-cost provider of life insurance protection products to the U.S. sea service members and their families. Navy Mutual exhibits a conservative financial profile with predictable cash flows. Product liabilities are composed of predominately term and whole life insurance products with no variable annuity products.

**War Risk Is Well-Managed:** Fitch Ratings believes that the Association's "war risk" is prudently managed and that mortality experience is within expectations despite the current conflicts in the Middle East.

**Macroeconomic Headwinds:** Key concerns include the European sovereign debt crisis and potential contagion into other asset classes, low interest rates, financial market volatility, and weak economic recovery. Fitch expects these factors will constrain NMAA's earnings over the near term and could have a material negative impact on the company's earnings and capital in a severe, albeit unexpected, scenario.

### What Could Trigger a Rating Action

**Downgrade Triggers:** A decline in risk-based capital (RBC) below 300% of the company action level, a spike in investment-related losses, or a trend of sustained net operating losses could have a negative impact on NMAA's ratings. Additionally, increased war risk exposure or a change in tax or regulatory status could trigger a downgrade.

**Upgrade Triggers:** Fitch views Navy Mutual at the upper end of its IFS range. Navy Mutual's ratings are based in part on its unique profile as a nonprofit institution serving a narrow customer base. Fitch believes that the Association's strategy that provides high-value products to its customers and maintains prudent levels of reserves and capital (rather than generating stronger earnings and higher reserving and capital levels) limits the upside range of its IFS rating.

### Analysts

R. Andrew Davidson, CFA  
+1 312 368-3144  
andrew.davidson@fitchratings.com

Julie A Burke, CPA, CFA  
+1 312 368-3158  
julie.burke@fitchratings.com

## Company Profile

### Unique Structure — Narrow Focus and Moderate Scale

Navy Mutual's ratings are based in part on its unique profile as a nonprofit institution serving a narrow customer base. Navy Mutual is a member association created in 1879 to provide life insurance for the families of naval officers as private insurance was rarely available at that time.

Fitch views Navy Mutual as serving a unique niche in terms of a customer base and customer services. Limited to a large degree by its focused customer market, the Association has modest scale and a narrow focus in comparison with many peers in the life insurance industry. Positively, Navy Mutual enjoys a strong reputation for integrity and service to its customer base. It has maintained a close relationship with the sea services and has avoided the market conduct issues that have plagued several other associations and commercial insurance companies that target the military market.

These favorable characteristics allow Fitch to rate MNAA above the range typical for insurers with a narrow focus and moderate scale.

### Ratings Range Based on Market Position and Size/Scale

|                           | IFS:  | AAA | AA | A   | BBB | <BBB |
|---------------------------|-------|-----|----|-----|-----|------|
|                           | Debt: | AA  | A  | BBB | BB  | <BB  |
| Major Positions and Scale |       | ←   | →  |     |     |      |
| Modest Position and Scale |       |     | ←  | →   |     |      |
| Small, Narrow Focus       |       |     |    |     | ←   | →    |

### Favorable Business Profile with a Defensible Niche

Navy Mutual exhibits a stable business profile due to its unique customer base and favorable business mix. Fitch considers Navy Mutual to have a secure position in its niche as a nonprofit provider of insurance protection and services for its membership based on its quality service, efficient operations, and exceptionally competitive insurance products. More than 90% of product reserves are for individual life insurance products. The Association's very competitive crediting rates and low term premiums provide members with value and build member loyalty.

Navy Mutual exhibits a substantial cost advantage versus many life insurers, as evidenced by its very low expense ratio (expense to assets) of 0.5%. A number of factors contribute to this low cost structure, including its low overhead, its lack of commissioned agents, its classification as a 501(c)(23) organization exempting it from federal income tax, and its express regulatory exemption in selected states, recognizing its mission to provide coverage to sea service members and their families. In addition to low expenses, Navy Mutual also benefits from a low mortality rate, reflecting the generally healthier population segment that the Association is targeting and a stringent medical underwriting process.

#### Related Criteria

Insurance Rating Methodology,  
Sept. 22, 2011

### **Challenge to Grow Membership**

Fitch views growth in the number of new members as one of Navy Mutual's long-term challenges as the future decline in naval manpower could make it more challenging for Navy Mutual to expand its membership base and grow premiums.

Membership has hovered around 100,000 for the last five years since the Association terminated its Career Assistance Program (CAP), formerly an important generator of new members. Fitch believes that Navy Mutual's increased communication of its needs-based value proposition and continued excellent service and education are having a beneficial effect on new membership levels.

### **Value-Added Products/Low-Cost Distribution**

Navy Mutual serves its defined market with an uncomplicated selection of insurance and annuity product offerings. In addition, it provides related informational services including survivor assistance, entitlement education, and federal benefits education.

Navy Mutual currently offers two basic life insurance products: interest-sensitive whole life insurance and term life insurance. Additionally, the Association offers a number of death benefit settlement options for beneficiaries, as well as offering an accelerated death benefit option and a long-term care option. In recent years, Navy Mutual diversified its product portfolio with the offering of a single premium deferred annuity (SPDA), a flexible premium deferred annuity (FPDA), and a single premium immediate annuity (SPIA).

NMAA's operating performance benefits from its noncommissioned sales channels. New plans are generated through two main sources: direct marketing and member referrals. Navy Mutual's sales are conducted only by salaried employees out of its home office.

### **Risk Management Is Adequate**

Fitch notes nothing unusual with respect to Navy Mutual's risk management practices relative to industry norms. Navy Mutual has chosen to manage risk by taking a relatively conservative stance on product risk.

### **Organizational Structure**

#### **Ownership Is a Moderate Positive to the Rating**

Relative to the return-focused view of equity holders, Navy Mutual's ownership structure compares most closely with that of a mutual insurance company, aligning the interests of managers with those of policyholders, thereby promoting a stronger focus on maintaining financial strength. The Association's tax-exempt status also provides an advantage over tax paying competitors.

Navy Mutual is a mutual aid association formed in 1889. Eligible membership currently includes all uniformed personnel of the Navy, Marine Corps, Coast Guard, National Oceanic and Atmospheric Administration (NOAA), and U.S. Public Health Service Commissioned Corps (USPHS), including all enlisted and officer grades, regular, reserve, and retired, as well as sea service veterans in some states. Navy Mutual is headquartered in Arlington, VA, and has a branch at the Naval Station Norfolk in Norfolk, VA.

### **Corporate Governance and Management**

Corporate governance and management are adequate and neutral to the rating. Of the board of directors' 19 members, the majority are independent and consist of retired U.S. Navy, Marine Corp, or Coast Guard officers. NMAA reports results under statutory accounting principles.

Johnson Lambert & Co, LLP is NMAA's auditor. The audit opinion for 2010 was unqualified. No related party transactions occurred in 2010 and none are currently planned.

## Industry Profile and Operating Environment

### U.S. Life Industry Has Strong Balance Sheet Fundamentals

A majority of U.S. life insurers in Fitch's rated universe have IFS ratings in the 'AA' and 'A' categories. Key industry risk factors include: fixed-income and equity investment risks, macroeconomic uncertainty, low interest rates, and intense price competition, as well as regulatory and accounting uncertainty. The industry withstood the 2008-2009 financial crisis reasonably well, with capital largely rebounding due to earnings, investment gains, and capital raises. Balance sheets reflect very strong liquidity, reasonable financial leverage, and improved asset quality. Improved earnings continue to lag precrisis levels due to low interest rates and increased hedging costs. The industry's large in-force book of variable annuity business will continue to be a drag on profitability over the near term and could cause a material hit to industry earnings and capital in an unexpected, but still plausible, severe stress scenario.

### Sovereign and Country Related Constraints

Fitch rates the sovereign obligations of the United States of America at 'AAA' with a Stable Outlook, and the Country Ceiling is similarly 'AAA'. Therefore, the ratings of U.S. insurance organizations and other corporate issuers are not constrained by sovereign or macroeconomic risks.

### Ratings Range Based on Industry Profile/Operating Environment

|                     | IFS:  | AAA | AA         | A          | BBB | <BBB |
|---------------------|-------|-----|------------|------------|-----|------|
|                     | Debt: | AA  | A          | BBB        | BB  | <BB  |
| Life Insurance      |       | ←   | ██████████ | →          |     |      |
| Annuities           |       | ←   | ██████████ | →          |     |      |
| Accident and Health |       |     | ←          | ██████████ | →   |      |
| Composite           |       | ←   | ██████████ | →          |     |      |

## Peer Analysis

### NMAA Compares Well with 'A+' Peers

While moderate in scale and considered a niche writer, Navy Mutual has solid credit fundamentals and has outperformed many peer-rated companies in the challenging 2008-2009 period. Navy Mutual's risk-adjusted capital strength is comparable to that of other life insurance companies rated 'A+'. Profitability measures, such as return on surplus, are average as expected in considering the Association's high excess policyholder dividends. Fitch notes Navy Mutual's risky asset ratio is in line with selected peers.

## Peer Comparison

(As of Dec. 31, 2010)

|                   | Insurer Financial Strength | Risk-Based Capital (%) | TAC U.S. (\$ Mil.) | Assets/TAC (x) | General Account Liabilities/TAC (x) | Risky Assets/TAC (%) | Financial Leverage Ratio (%) | Pretax Return on Total Assets Post-Dividend (%) | Operating Return on TAC (%) |
|-------------------|----------------------------|------------------------|--------------------|----------------|-------------------------------------|----------------------|------------------------------|---|-----------------------------|
| Navy Mutual       | A+                         | 379                    | 217                | 13.4           | 12.3                                | 71.5                 | 0                            | 0.32  | 3.8                         |
| Pan American Life | A                          | 616                    | 274                | 5.5            | 4.1                                 | 58.1                 | 0                            | 1.50  | 7.4                         |
| Liberty Life      | A-                         | 360                    | 318                | 15.8           | 11.4                                | 38.1                 | 0                            | 0.04  | 0.6                         |
| National Life     | A+                         | 393                    | 1,263              | 13.7           | 13.1                                | 91.3                 | 21                           | 1.00  | 10.7                        |

TAC - Total adjusted capital. Note: Adjusted debt to TAC is for parent holding company.  
Source: Fitch Ratings, Highline Data.

Navy Mutual's main competitors include selected benefit societies and commercial insurance companies that typically target members of the military. As a result of its low cost structure and excellent mortality experience, the Association's insurance policy rates and benefits compare very favorably with each of these competitors, as well as Veterans Group Life Insurance (VGLI). Navy Mutual's survivor benefit services are also viewed as a distinctive product element among competitors.

## Capitalization and Leverage

|                                     | 2006 | 2007 | 2008 | 2009 | 2010 | Fitch's Expectation  |
|-------------------------------------|------|------|------|------|------|--|
| Total Adjusted Capital (\$ Mil.)    | 192  | 208  | 161  | 200  | 217  | RBC will remain well above 300%. Navy Mutual will maintain a solid balance sheet in 2011 with strong capital levels. |
| Risk-Based Capital (%) <sup>a</sup> | 332  | 331  | 334  | 360  | 379  |  |
| Adjusted Assets/TAC (x)             | 12.7 | 12.2 | 15.9 | 13.6 | 13.4 |  |
| Financial Leverage Ratio            | —    | —    | —    | —    | —    |  |
|                                     |      |      |      |      |      |  |

<sup>a</sup>Fitch estimate. TAC = Total adjusted capital.  
Source: NMAA, Fitch.

### Strong Capital, Policyholder Dividend Flexibility

- Solid risk-adjusted capital.
- War and adverse deviation reserve support capital.
- Capital flexibility due to whole life book.
- Low reliance on capital markets.

Fitch views Navy Mutual as strongly capitalized. Key factors favorably affecting the Association's capital profile include the large book of participating individual life reserves, high-quality investment portfolio, and large reserve for war risk and other adverse deviations. Financial flexibility is considered adequate in respect to Navy Mutual's unique business profile and product portfolio.

### Solid Risk-Adjusted Capital

Fitch views Navy Mutual's estimated statutory risk-adjusted capital ratio as solid at approximately 379% of the company action level at year-end 2010. While Navy Mutual carefully monitors and manages its risk-adjusted capital levels, as a mutual aid association, it is not regulated as an insurance company.

### War and Adverse Deviation Reserve Supports Capital

Fitch considers Navy Mutual's \$76 million voluntary reserve for war risk and other adverse deviations as additional support for the rating. This special reserve was established to protect against long-term excessive claims due to war and/or other risks and adverse investment yield scenarios.

### Capital Flexibility Due to Whole Life Book

Fitch believes that management has the flexibility and discipline to adjust dividend rates if necessary to maintain strong levels of capital. The Association employs conservative reserving practices as well. For the five-year period ended Dec. 31, 2010, adjusted surplus has grown at a 3% CAGR, despite the high crediting rate paid out to participating policyholders. A significant portion of this high payout has been generated by realized and unrealized capital gains from its common stock portfolio.

### Low Reliance on Capital Markets

NMAA's total financing and commitment (TFC) ratio indicates modest reliance on capital markets for funding compared with its peers. At year-end 2010, Navy Mutual had a low TFC ratio at 0.2x versus the life insurance industry average of 0.6x. The exposure is primarily short-term security lending. Navy Mutual participates in a securities lending program to generate incremental income and had \$44 million under loan at year-end 2010.

TFC is a nonrisk-based leverage measure that expands on traditional measures of financial leverage to include all forms of debt, including match-funded and other operational debt, as well as debt supporting long-term capital needs and liquidity and working capital needs. During periods of market disruptions, and lost access to capital markets funding, such operational and off-balance sheet commitments can become a direct source of vulnerability to an organization.

## Financial Performance and Earnings

|   | 2006 | 2007 | 2008 | 2009 | 2010 | Fitch's Expectation  |
|---|------|------|------|------|------|--|
| Pretax Gain from Operations (\$ Mil.)           | 13   | 12   | 13   | 20   | 8    | The Association will report good predividend operating performance driven by low expenses, strong levels of investment income, and low credit-related investment losses. Fitch expects the company will generate single-digit operating returns on TAC for 2011. |
| Net Income (\$ Mil.)                            | 14   | 21   | 12   | 10   | 3    |  |
| Pretax Return on Total Assets Post-Dividend (%) | 0.64 | 0.58 | 0.59 | 0.86 | 0.32 |  |
| Operating Return on TAC (%)                     | 7.4  | 6.2  | 7.0  | 11.0 | 3.8  |  |
| Growth in Revenues (Before Realized Gains) (%)  | (2)  | 3    | 10   | 15   | 2    |  |

TAC - Total adjusted capital. Note: Excludes realized capital gains/(losses).  
Source: NMAA, Fitch.

### Solid, Consistent Operating Performance

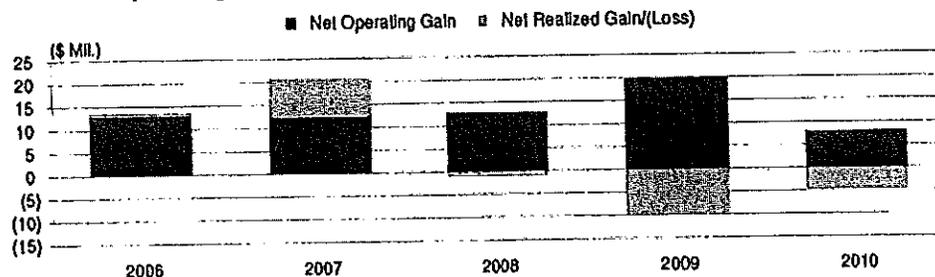
- Consistent, moderate operating profitability.
- Favorable earnings drivers expected to continue.
- Expenses are well-managed and very low.

Fitch views Navy Mutual's operating performance as solid, characterized by consistent, healthy predividend gains from operations. Key drivers are low expense levels, good investment income, and favorable persistency and mortality. Net Income declined in 2010 to \$3 million as NMAA continues to pay high dividends and premium growth versus the previous year due to lower annuity sales.

### Consistent, Moderate Operating Profitability

As a mutual entity, the Association does not generate a significant statutory net operating gain. Navy Mutual allocates revenue in excess of that required by its financial plan for reserve and surplus increases to grow the cash value of its interest-sensitive whole life policies and to provide premium refunds on its term policies.

### NMAA — Operating Gains and Realized Capital Gains/(Losses)



Source: Navy Mutual Aid Association.

### Favorable Earnings Drivers Expected to Continue

Expenses are well-managed and very low as exhibited by an expense ratio of 0.5% (expenses to total assets), due to very low acquisition costs (no commissioned sales force, moderate advertising), no taxes, and focused target markets. Mortality experience continues to be within pricing expectations and investment income has been strong, reflecting a 6.5% yield consistently over the last five years due to low reinvestment risk and strong credit performance.

### ***Crediting Rate Flexibility***

Navy Mutual has demonstrated operating flexibility by modifying its crediting rates to reflect changes in interest rate levels and investment portfolio performance. The Associate continues to pay a high crediting rate to its policyholders in 2011. Crediting rate decisions are normally made once a year, but Navy Mutual has the flexibility to respond to changing interest rates or the need to retain surplus.

## Investments and Asset Risk

|   | 2006  | 2007  | 2008  | 2009  | 2010  | Fitch's Expectations  |
|---|-------|-------|-------|-------|-------|---|
| Cash and Invested Assets (\$ Mil.)                    | 2,039 | 2,135 | 2,192 | 2,341 | 2,499 | Navy Mutual will maintain a high-quality investment portfolio. Credit-related investment impairments will be low. |
| Below Investment-Grade Bonds/TAC (%)                  | 19.9  | 21.4  | 17.4  | 19.0  | 16.0  |   |
| Risky Assets Ratio (%)                                | 107.3 | 94.2  | 67.8  | 71    | 71.5  |   |
| Investment Yield (%)                                  | 6.6   | 6.6   | 6.5   | 6.5   | 6.4   |   |
| TAC - Total adjusted capital.<br>Source: NMAA, Fitch. |       |       |       |       |       |   |

### High-Quality Investment Portfolio Provide Income and Liquidity

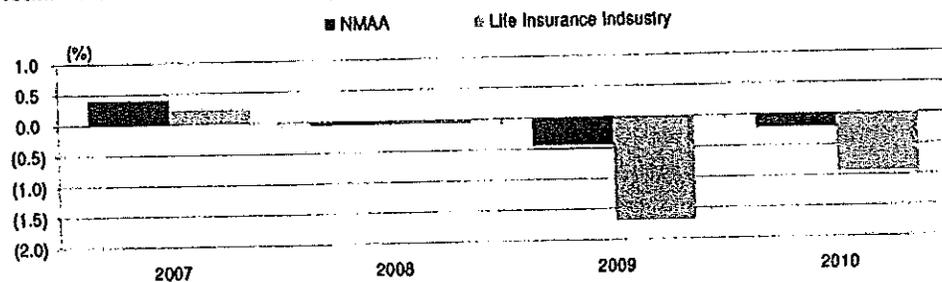
- High credit quality.
- Good performance during crisis.
- Acceptable market risk.

Fitch views the Association's investment performance as good with consistent levels of investment income and strong credit-related performance. Fitch believes the Association's invested assets have low exposure to credit risk and moderate exposure to equity market volatility and changes in interest rate levels. Fitch considers Navy Mutual's investment portfolio to be conservatively managed and the asset mix to be appropriate for its product liabilities and investment strategy. The majority of invested assets are managed internally.

### High Credit Quality

Maintaining a high credit quality fixed-income portfolio is a key strategy for Navy Mutual as seen in a below investment-grade bonds (BIGs) to total adjusted capital (TAC) ratio of 16% at year-end 2010 versus the 2010 industry average at 51%. Navy Mutual does not buy BIGs as per its investment policy. Below investment-grade bonds were only 1.6% of the bond portfolio at year-end 2010. Navy Mutual has minimal exposure to commercial mortgages or residential mortgages and no subprime or Alt-A residential securities. In addition, Navy Mutual limits its aggregate investment in common stocks, direct mortgages, and private real estate trusts to 6% of total assets.

### Realized Investments Gains/(Losses) to Average Invested Assets



Source: Fitch, NMAA.

### Good Performance During Crisis

Navy Mutual exhibited strong investment performance over the challenging 2008–2010 period. Fitch expects low credit-related losses and continued strong investment income generation. Navy Mutual's high-quality, fixed-income portfolio continues to generate favorable investment yields due in part to its long duration and low exposure to callable bonds and mortgage-related

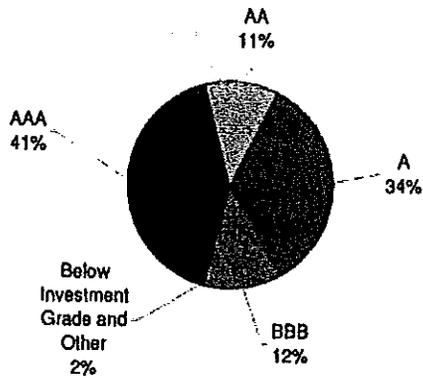
securities. Realized losses related to credit impairments have been moderate and compare very favorably with the life insurance industry.

### Acceptable Market Risk

Fitch notes that changes in year-to-year reported adjusted surplus have experienced moderate volatility over the past five years due to the fluctuating market values of its common stock holdings. At year-end 2010, common stock investment increased to 4.5% due mainly to market appreciation.

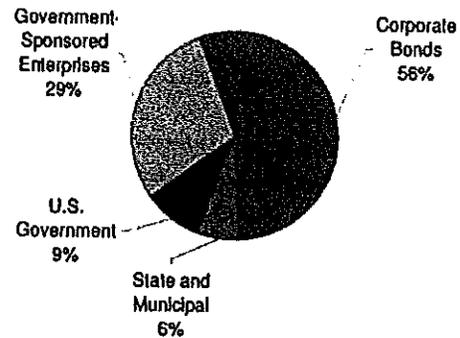
In addition, the Association's long-duration bond portfolio exhibits price risk to a rising interest rate scenario, but it has performed as expected in the declining interest rate scenario. Fitch considers this risk as reasonable since yields on these assets are normally well above the minimum yields required to fulfill the liability requirement, thus minimizing the reinvestment risk. Navy Mutual's bond portfolio typically exhibits a long duration to match the life insurance-dominated liability portfolio.

**NMAA Bond Portfolio by Credit Rating**



Source: NMAA, Fitch.

**NMAA Bond Portfolio by Bond Type (As of Year-End 2010)**



Source: NMAA, Fitch.

## Asset/Liability and Liquidity Management

|   | 2006  | 2007  | 2008  | 2009  | 2010  | Fitch's Expectations  |
|---|-------|-------|-------|-------|-------|---|
| Liquidity Ratio (%)                               | 99.9  | 100.5 | 97.8  | 105.5 | 103.8 | NMAA's product portfolio is heavily weight toward life insurance. Fitch expects this to continue. |
| Operating Cash Flow Coverage (x)                  | N.A.  | N.A.  | 1.8   | 1.9   | 1.8   |   |
| Total Adjusted Liabilities and Deposits (\$ Mil.) | 1,883 | 1,963 | 2,068 | 2,181 | 2,355 |   |

N.A. – Not available.  
Source: Fitch.

### Conservative Products and Good Liquidity

- Good liquidity.
- Sound asset liability management.
- Unique mortality risk due to war catastrophe.

Fitch considers Navy Mutual's asset liability management to be sound and its liquidity to be good. Due to NMAA's unique customer base, it has experienced to a limited degree the increasing market-based investment risks experienced by the life insurance industry due to wide shift towards asset accumulation products, typically with some investment guarantees. NMAA has also not followed the trend of increased product complexity, which requires more sophisticated financial management and has increased regulatory and operational risk.

### Good Liquidity

The drivers of NMAA's liquidity are the composition of the invested assets and conservative traded securities. Additionally, good levels of cash flow from operations provide an added level of comfort regarding the protection provided to policyholders.

### Sound Asset Liability Management

The Association's signature product is its interest-sensitive whole life insurance policy and recent product additions include a modest line of annuity products. The Association conducts cash flow studies under a variety of interest rate and equity market scenarios to ensure that its cash flow matching is sufficient to mitigate any potential disintermediation. Test results are favorable even under severe interest rate and equity market scenarios.

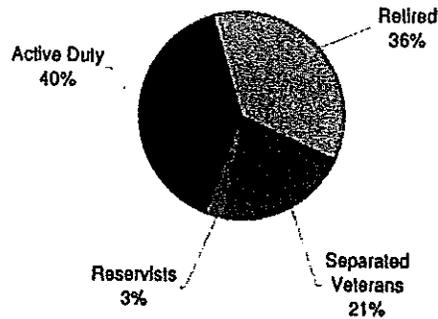
### Unique Mortality Risk Due to War Catastrophe

Fitch believes that Navy Mutual's war risk is being prudently managed and mortality experience is within expectations despite the current escalated levels of conflict worldwide in recent years. Navy Mutual estimates that less than 10% of its current in-force book of business is currently eligible for war risk. At year-end 2010, Navy Mutual held \$76 million in war risk and other adverse deviation reserves, designed to protect against long-term excess claims due to war and other risks.

Fitch believes that the Association's current war reserves and mortality margins could experience a significant increase in adverse results for a sustained number of years without requiring additions.

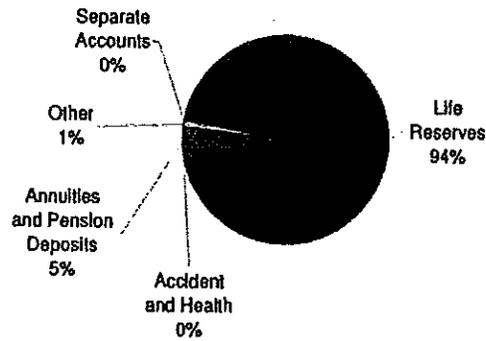
Appendix A: Additional Financial Exhibits

**NMAA Member Profile  
(YE 2010)**



Note: Separated veterans are veterans who have not reach retirement age.  
Source: NMAA.

**NMAA Adjusted Liabilities and  
Separate Accounts**



Source: Navy Mutual Aid Association.

## Appendix B: Other Ratings Considerations

Below is a summary of additional ratings considerations of a "technical" nature, which are also part of Fitch's ratings criteria.

### *Notching*

The United States is a "strong" regulatory environment with restrictions on payments from the regulated insurance entities to holding companies and priority afforded policyholder obligations.

---

### Notching Summary

#### **IFS Ratings**

A baseline recovery assumption of Good applies to the Insurer financial strength (IFS) rating and standard notching was used based on the existence of policyholder priority.

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#### ***Hybrids — Equity/Debt Treatment***

Not applicable.

#### ***Recovery Analysis and Recovery Ratings***

Not applicable.

#### ***Exceptions to Criteria/Ratings Limitations***

None.

The ratings above were solicited by, or on behalf of, the Issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.



**Navy Mutual Aid Association**  
**2010 Annual Report**

*fair winds and following seas...*



## Our Mission

**Providing** our Members, with certainty and promptness life insurance at as near the actual net cost as possible

**Securing** for our Members, without cost, the federal benefits to which they may be legally entitled

**Educating** military members and their families on matters of financial security

## Our Vision

**To be the first choice provider of** exceptional life insurance products and services for Sea Service members and their families

## Serving the Sea Services

Navy ■ Marine Corps ■ Coast Guard ■ Public Health Service ■ NOAA Commissioned Officer Corps

Open to Active Duty, Retired, Reserves, and Honorably Discharged Veterans



## A Report from the Chairman and the President

2010 was an outstanding year for Navy Mutual even as other U.S. insurers were hit hard by the lingering effects of the recession. As you will see from the information contained in this Annual Report, your Association continued to grow and prosper while providing exceptional service to you and your loved ones. Our Association thrives because of careful attention to four key principles that serve as the cornerstones of everything we do:

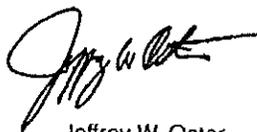
**Value.** For over 130 years, Navy Mutual has provided military families with high quality life insurance products at the lowest possible cost. In 2010, our conservative investment strategies permitted us to earn a 6.3% net yield on our investments and \$239 million in income (increased from \$235 million in 2009). Our careful stewardship permitted us to provide a crediting rate on Permanent 'Plus' and settlement options that few, if any, other insurers can equal.

**Integrity.** In 2010, other insurers were criticized for withholding benefits from the grieving families of fallen warriors. We assured you that Navy Mutual does not engage in those practices and that you would not be subjected to fine print or complicated payout restrictions in our policies. We insure our Members regardless of where they go or how they serve. We have no service restrictions, no terrorism clauses, and no limits on where our Members deploy.

**Trust.** Our Members and their families demonstrated their trust in Navy Mutual in 2010 with satisfaction survey responses that were both gratifying and humbling. We had over 7,000 survey responses compared to only about 2,000 last year. 94.3 percent of those who responded agreed or strongly agreed that they were satisfied with Navy Mutual. This compares with the industry average, as provided by the Life Insurance Marketing Research Association, of 77.5 percent. In addition, the results of our first beneficiary satisfaction survey were astounding: 98 percent of respondents reported that they were strongly satisfied and the remaining 2 percent said they were mostly satisfied. Clearly, you can count on Navy Mutual to treat you and your loved ones with the utmost compassion and respect.

**Stability.** We have honored our commitment to our Members through wars, depressions, and changing investment environments since 1879. After a rigorous review, the Fitch rating agency renewed our A+ rating in 2010. Navy Mutual will be here, ready to care for your loved ones, for generations to come.

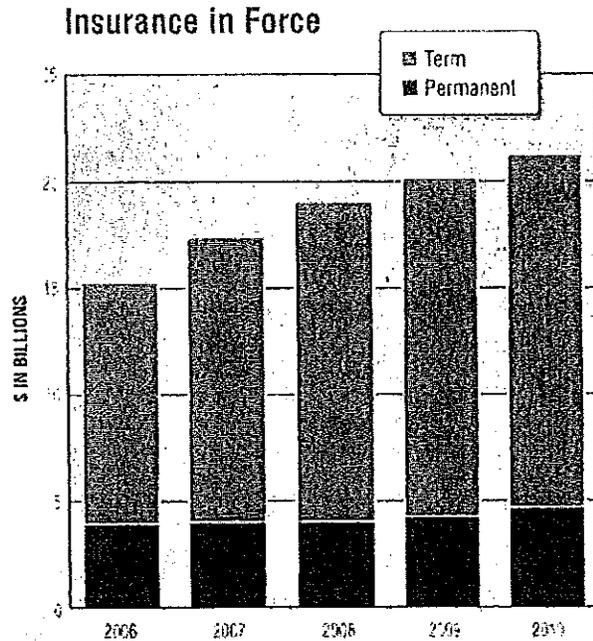
**It has been our honor to serve you.** Earlier this year, ADM Richard W. Mies completed his term and stepped down from his position as Chairman of the Board. We are thankful for his nine years of dedicated service. We are also grateful for the trust you have placed in Navy Mutual and we thank you for the opportunity to serve you.



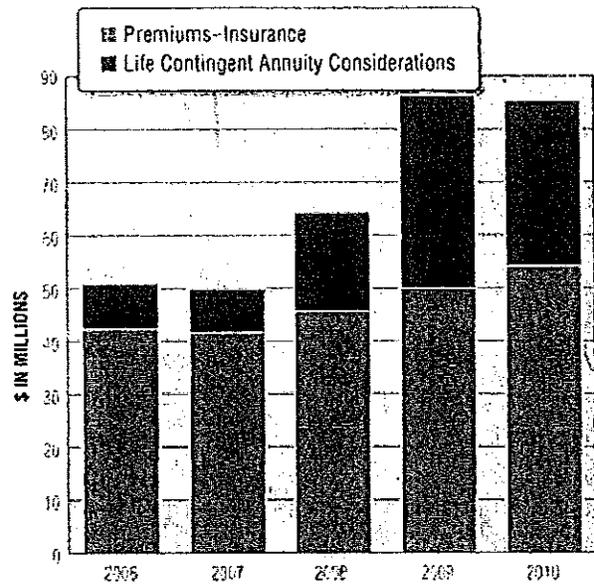
Jeffrey W. Oster  
Chairman of the Board



Bruce B. Engelhardt  
President



### Direct premiums

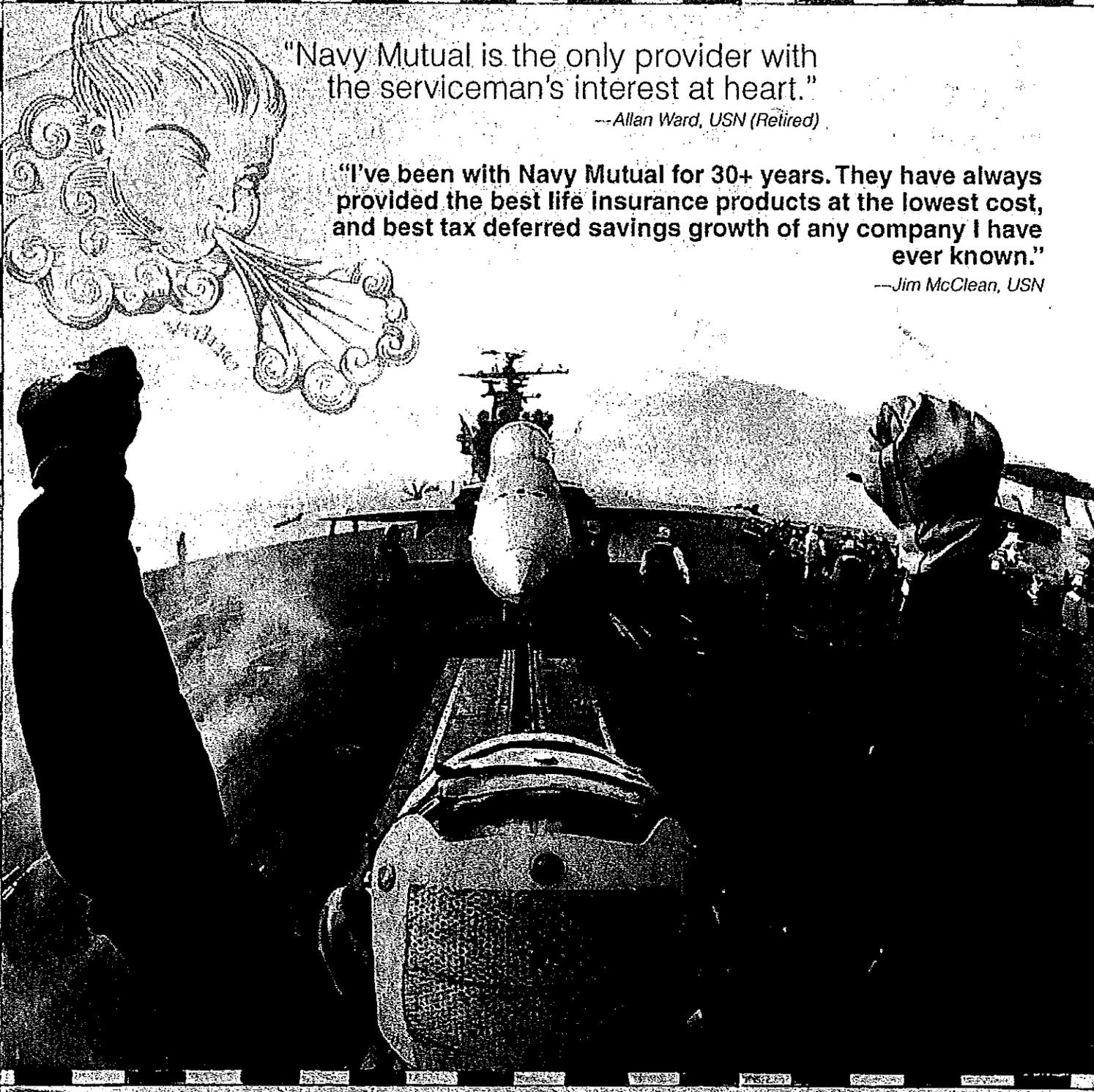


|                                       |                  |
|---------------------------------------|------------------|
| Insurance in force, beginning of year | 20,454,730,563   |
| Insurance sold in 2010                | 2,066,732,038    |
| Death benefits incurred               | 70,357,319       |
| Terminations and other changes        | 942,034,055      |
| Insurance in force, end of year       | \$21,509,071,227 |

Total direct premiums, end of year **\$86,462,923**

**POINTING MEMBERS IN THE RIGHT DIRECTION.** A unique approach that combines the trusted advice and guidance Members want with a personalized plan focused on individual needs.

- Direct premium growth has increased 46% since 2007 while the industry average has declined 19%.
- 50% of the growth achieved in 2010 was from new members – an important fact that verifies the long-term stability of the Association.
- New plans issued to both current and new members totaled more than \$2 billion in life insurance.
- We provided beneficiaries \$65.5 million of support in death benefits.



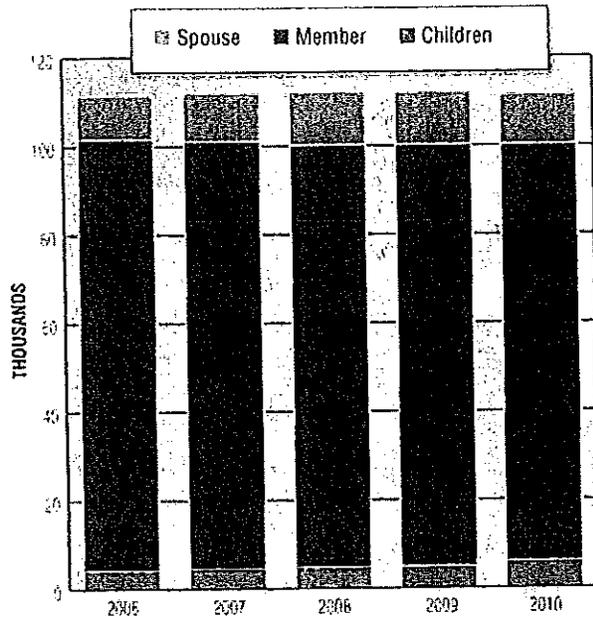
"Navy Mutual is the only provider with  
the serviceman's interest at heart."

—Allan Ward, USN (Retired)

"I've been with Navy Mutual for 30+ years. They have always  
provided the best life insurance products at the lowest cost,  
and best tax deferred savings growth of any company I have  
ever known."

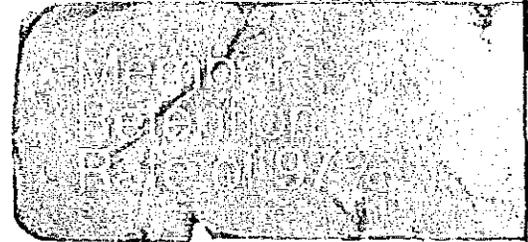
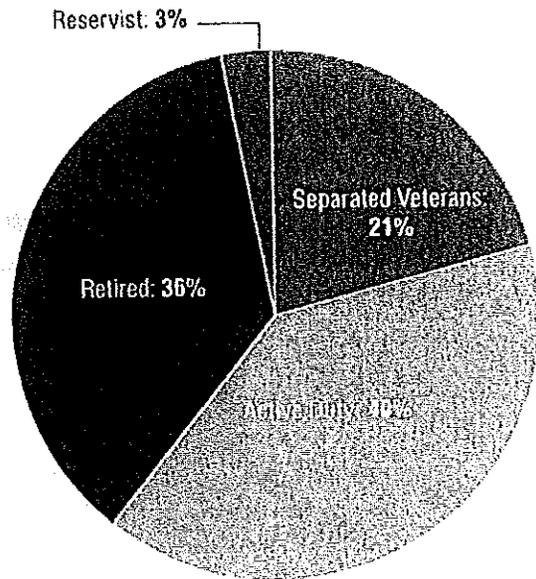
—Jim McClean, USN

## Members & Families



|                                       |         |
|---------------------------------------|---------|
| Members, beginning of year            | 94,349  |
| Gains                                 | 1,375   |
| Losses (including deaths)             | 2,622   |
| Members, end of year                  | 93,102  |
| Spouses & Children, beginning of year | 17,834  |
| Increase                              | 968     |
| Spouses & Children, end of year       | 18,802  |
| Total, end of year                    | 111,904 |

## Member Profile



## PRODUCTS TO FIT EVERY STAGE OF YOUR LIFE.

### Term Life Insurance

- **Flex Term:** For those under 50 looking for maximum coverage at little cost.
- **Level II 'Plus':** For those 50 to 85 looking for a specific amount of protection at a level cost.

### Permanent Life Insurance

- **Permanent 'Plus':** For those ready to move to lifelong protection plus cash growth.
- **Generations:** Lifelong insurance you can purchase for your children and grandchildren.

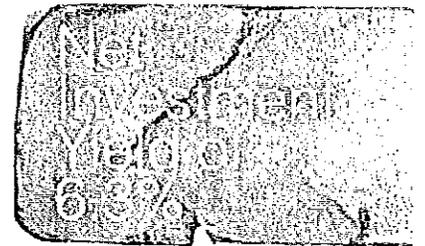
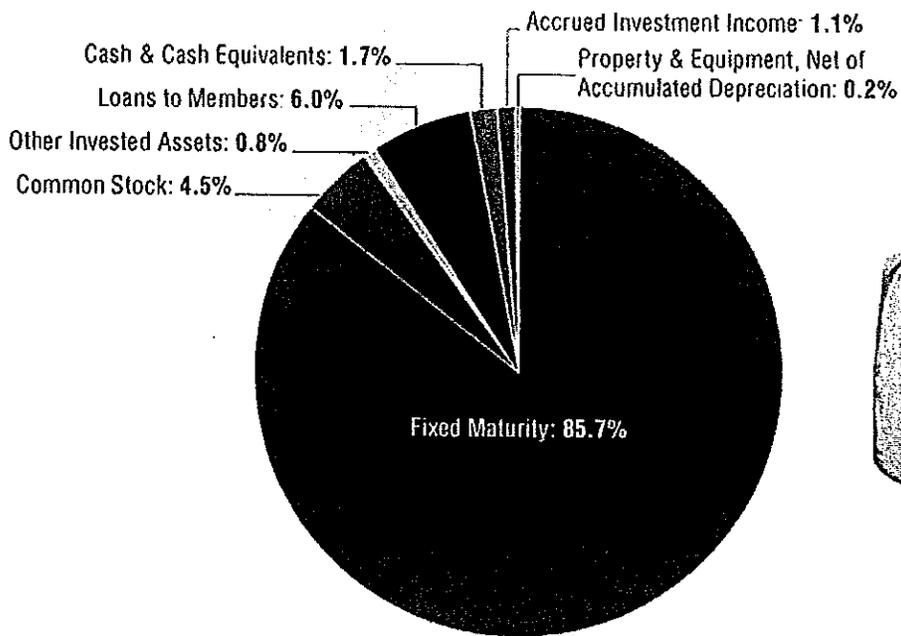
### Deferred Annuities

- **Flexible Premium:** Save for retirement with flexible contribution amounts
- **Single Premium:** To create a future income stream with a lump-sum payment now

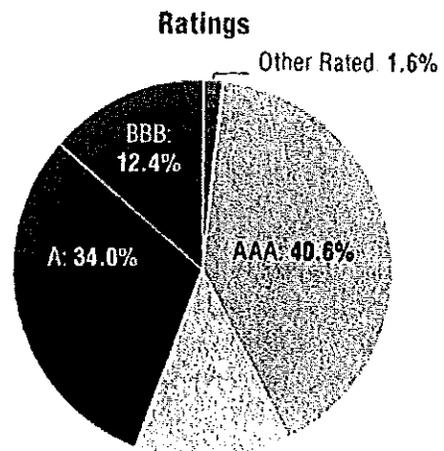
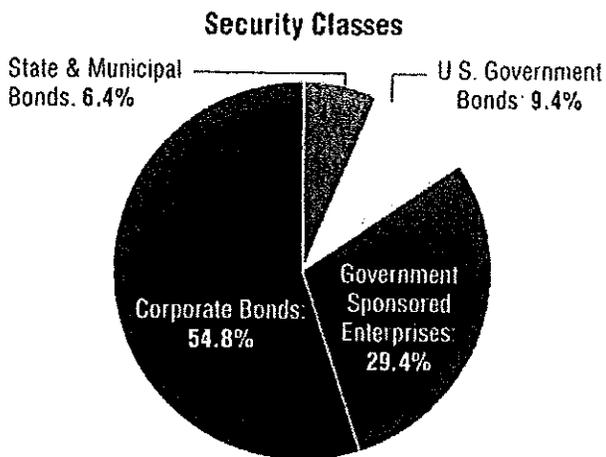
### Immediate Annuities

- **Single Premium:** To start paying yourself now and for the rest of your life

## 2010 Assets



## Fixed Income Portfolio



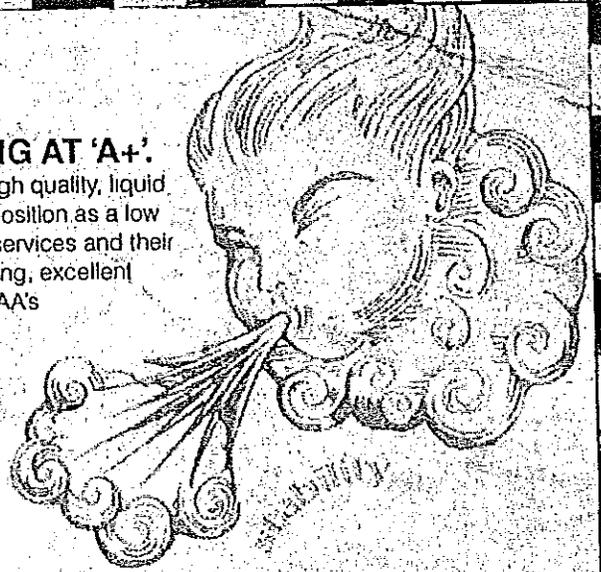
## “NAVY MUTUAL AID ASSOCIATION'S IFS RATING AT 'A+'.

NMAA's IFS rating reflects the association's very strong capital levels, high quality, liquid investment portfolio, and favorable business profile with a strong niche position as a low cost provider of insurance protection products to the United States sea services and their families. Fitch views as additional strengths NMAA's conservative reserving, excellent persistency, and consistently low expense ratios. Fitch believes that NMAA's 'war risk' is prudently managed and that mortality experience is within expectations despite the current conflicts in the Middle East.”

— Fitch Ratings, Chicago, 27 September 2010

“Navy Mutual Aid insurance policy is the only one I have kept as I have gotten older and my needs and finances have changed.”

—John W. (Wes) Mitchell, USN



# Statements of Admitted Assets, Liabilities and Net Assets – Statutory Basis

|   | December 31,            |                         |
|---|-------------------------|-------------------------|
|   | 2010                    | 2009                    |
| <b>ADMITTED ASSETS</b>                            |                         |                         |
| Fixed-maturity securities                         | \$ 2,116,015,696        | \$ 1,955,126,184        |
| Equity securities                                 | 115,586,810             | 97,286,976              |
| Mortgage-backed securities                        | 46,469,816              | 45,735,566              |
| Mortgage loans                                    | 15,417,703              | 15,087,373              |
| Other invested assets                             | 4,686,261               | 6,681,381               |
| Securities lending reinvested collateral assets   | 44,158,198              | -                       |
| Member loans                                      | 153,389,800             | 148,036,439             |
| Career Assistance Program loans, net              | 250,393                 | 635,343                 |
| Cash and short-term investments                   | 43,502,907              | 69,567,089              |
| <b>Total cash and invested assets</b>             | <b>2,539,477,584</b>    | <b>2,338,156,351</b>    |
| Investment income due and accrued                 | 28,500,241              | 38,202,386              |
| Home office building, net                         | 3,792,061               | 3,901,672               |
| EDP equipment, net                                | 89,546                  | 153,592                 |
| <b>Total admitted assets</b>                      | <b>\$ 2,571,859,432</b> | <b>\$ 2,380,414,001</b> |
| <b>LIABILITIES AND NET ASSETS</b>                 |                         |                         |
| <b>Liabilities</b>                                |                         |                         |
| Aggregate reserve for life contracts:             |                         |                         |
| Life insurance                                    | \$2,002,024,617         | \$1,886,206,799         |
| War risk and other adverse deviations             | 76,197,616              | 76,197,616              |
| <b>Total aggregate reserve for life contracts</b> | <b>2,078,222,233</b>    | <b>1,962,404,415</b>    |
| Death benefits payable                            | 19,603,129              | 19,263,161              |
| Liability for deposit-type contracts              | 194,726,843             | 183,004,499             |
| Employee benefit liabilities                      | 6,468,853               | 5,770,873               |
| Asset valuation reserve                           | 25,810,001              | 25,076,482              |
| Interest maintenance reserve                      | 7,138,260               | 5,939,452               |
| Payable for securities                            | 409,705                 | -                       |
| Payable for securities lending                    | 44,673,497              | 1,461,390               |
| Other liabilities and deferred income             | 3,481,487               | 2,855,844               |
| <b>Total liabilities</b>                          | <b>2,380,534,008</b>    | <b>2,205,776,116</b>    |
| Net assets  | 191,325,424             | 174,637,885             |
| <b>Total liabilities and net assets</b>           | <b>\$ 2,571,859,432</b> | <b>\$ 2,380,414,001</b> |

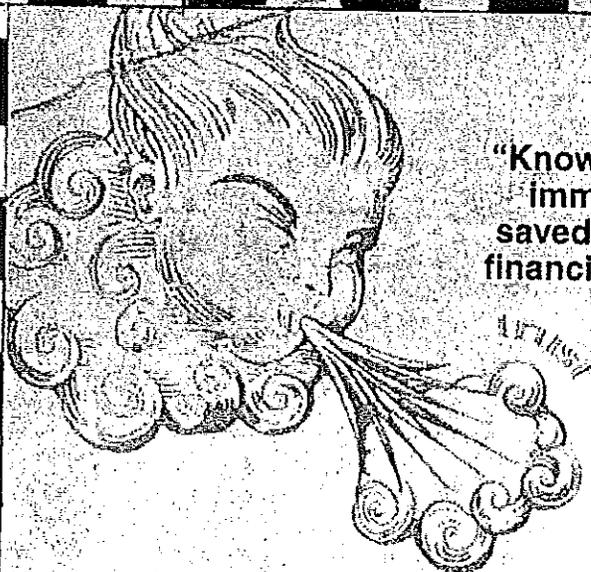
**STATEMENT OF THE ASSOCIATION'S CONSULTING ACTUARY, A.C. EDDY, INC.** "In my opinion the reserves of the Association are necessary and sufficient to provide for liabilities to its membership, and will achieve the objective of distributing the Association's assets to Members and/or their beneficiaries in an equitable manner."

## Statements of Operations and Changes in Net Assets – Statutory Basis

|  | Years Ended December 31, |                       |
|--|--------------------------|-----------------------|
|  | 2010                     | 2009                  |
| <b>INCOME</b>  |                          |                       |
| Premiums earned, net   | \$ 53,144,782            | \$ 50,086,521         |
| Annuity considerations   | 33,318,139               | 37,614,139            |
| Survivor income deposits   | 1,009,043                | 1,466,078             |
| Net investment income  | 150,901,465              | 145,698,979           |
| Amortization of interest maintenance reserve   | 905,554                  | 795,244               |
| <b>Total Income</b>  | <b>\$ 239,278,983</b>    | <b>\$ 235,660,961</b> |
| <b>BENEFITS AND EXPENSES</b>   |                          |                       |
| Death benefits, excluding war claims   | 63,762,773               | 63,383,250            |
| Death benefits from war claims   | 1,600,000                | 450,000               |
| <b>Total death benefits</b>  | <b>65,362,773</b>        | <b>63,833,250</b>     |
| Surrender benefits   | 16,721,419               | 16,537,360            |
| Annuity benefits   | 7,732,288                | 7,320,808             |
| Survivor income  | 1,228,724                | 1,170,071             |
| Change in aggregate reserve for life contracts   | 85,191,159               | 72,344,552            |
| Change in reserves for war risk and other adverse deviations                                       | -                        | -                     |
| Interest on deposit-type contracts   | 10,166,740               | 9,353,418             |
| General operating expenses   | 12,713,771               | 11,141,730            |
| <b>Total benefits and expenses</b>   | <b>\$ 199,116,874</b>    | <b>\$ 181,701,189</b> |
| Increase from operations before excess interest credits and term refunds                           | \$ 40,162,109            | \$ 53,959,772         |
| Excess interest credited to life benefit reserves  | (30,626,659)             | (32,416,103)          |
| Term refunds   | (1,659,769)              | (1,741,159)           |
| Increase from operations before realized losses  | 7,875,681                | 19,802,510            |
| Net realized gains (losses)  | (5,015,487)              | (10,110,483)          |
| Increase in net assets from operations   | 2,860,194                | 9,692,027             |
| Net assets, beginning of period  | 174,637,885              | 139,851,302           |
| Change in accounting estimate - reserve valuation basis  | -                        | 6,800,511             |
| Change in unrealized appreciation (depreciation) of equity securities<br>and other invested assets | 14,718,511               | 23,170,333            |
| Change in asset valuation reserve  | (733,519)                | (4,028,479)           |
| Change in additional minimum liability for pension and postretirement benefits                     | (478,452)                | (1,132,230)           |
| Change in non-admitted assets  | 320,805                  | 284,421               |
| <b>Net assets, end of period</b>   | <b>\$ 191,325,424</b>    | <b>\$ 174,637,885</b> |

**STATUTORY ACCOUNTING:** These financial statements were prepared in conformity with accounting practices used by insurance companies for regulatory reporting purposes. Such accounting practices, referred to as statutory accounting practices, are a comprehensive basis of accounting other than accounting principles generally accepted in the United States (GAAP).

**AUDITED FINANCIAL STATEMENTS:** Johnson Lambert & Co. is Navy Mutual's independent accountant. Our audited financial statements are available by written request sent to: Navy Mutual Aid Association, Accounting Division, Henderson Hall, 29 Carpenter Road, Arlington, VA 22202.



"Knowing about the military benefits available to me immediately after my husband's death would have saved me many sleepless nights worrying about my financial future. Once I contacted Navy Mutual, I had answers within minutes."

—Jennifer Zellem, Beneficiary

"My only regret is that I did not call Navy Mutual first. You were so helpful, it could have avoided my making calls you would have made for me."

—Julia Stevens, Beneficiary

"I want to thank Navy Mutual Aid Association for their understanding and help. Over the years, my husband said to me many times, 'What is the first thing you do when I die?' and I'd say, 'You tell me to call Navy Mutual Aid.' And that is about all I was able to do."

—Mary Ryan, Beneficiary



# Our mission, first and foremost, is to be of service to our Members.

**We are committed to providing the best in personal customer service to our members and to their families.**

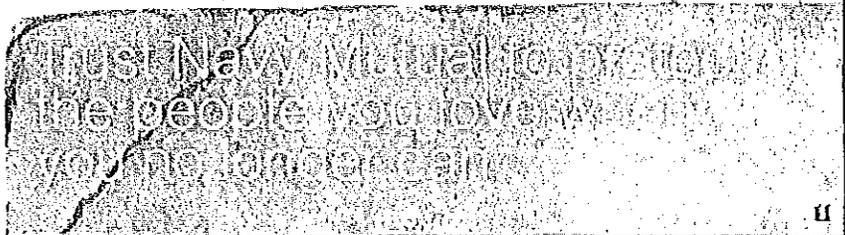
- Our Customer Service Representatives are available to provide exceptional service that takes care of your questions, concerns, and needs professionally, completely, and correctly
- At Navy Mutual, we know the value of a positive Customer experience. Here you get in touch with a person who can help you immediately, without the confusing menus, pins and passwords
- We utilize award winning customer relationship management software to help us remain responsive to your individual situation and needs.
- The Association currently maintains a 94% customer approval rating and a 97% member retention rate.
- We deploy customer feedback surveys to ensure that we are aware of and understand your needs.

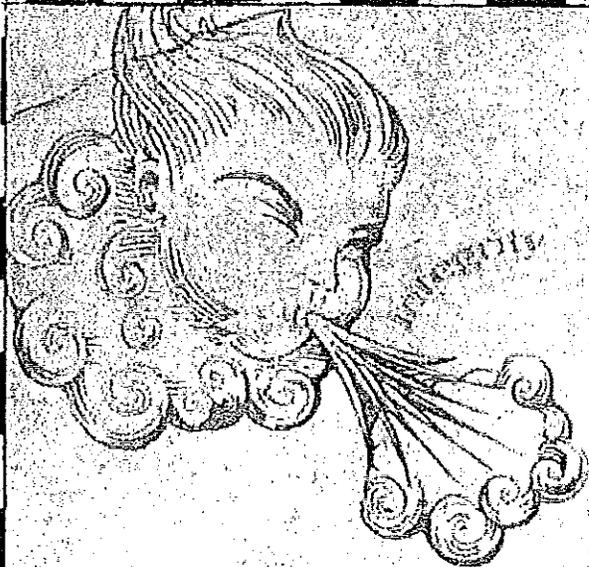
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**The LOMA Organization, a leader in life insurance industry analysis, surveyed our membership in 2010; the praise for Navy Mutual was substantial:**

"The various categories of customer satisfaction and loyalty included in the survey all receive very high ratings that hover around the 90% mark. All exceed the benchmark from other companies that have participated in similar LOMA surveys."

With such strong and consistent showing, it is hard to recommend anything but staying the course. Navy Mutual has met needs in other life insurance transactions better than most other companies.

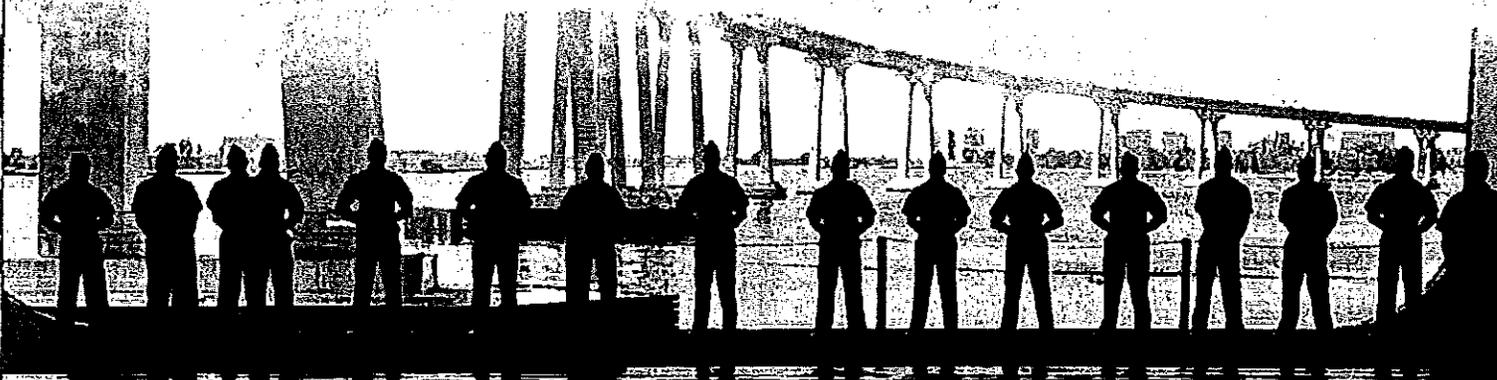




**"Your calls and letter of concern meant a great deal to me as I felt I was floundering in the sudden death of my husband. It is now 4 months and I'm still in shock but knowing that I can call on you if need be, is very reassuring."**

*—Helen Jubinski, Beneficiary*

**"Navy Mutual is the best insurance decision I ever made. I wish you had a savings plan available that earned the 7% my Navy Mutual Insurance has been earning."** —*CDR Thomas Dade, USN (Retired)*



# 2010 Board Members



**ADM Robert W. Smith**  
USN Ret., *Chairman*



**RADM John C. Gardner**  
USN Ret., *Vice-Chair*  
*Chairman effective 3/10/11*



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USN, Ret., *President*



**Thomas A. Benton**  
USN Ret., *Vice President*



**Lauren M. Bloom**  
USN Ret., *Vice President*



**RADM Dennis S. Canton**  
USN Ret.



**RADM John C. Gardner**  
USN Ret.



**Carlton W. Kent**  
USN Ret.



**RADM John C. Gardner**  
USN Ret.



**RADM Bruce B. Engelhardt**  
USN Ret.



**RADM Denise S. Canton**  
USN Ret.



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USN Ret.



**RADM Bruce B. Engelhardt**  
USN Ret.



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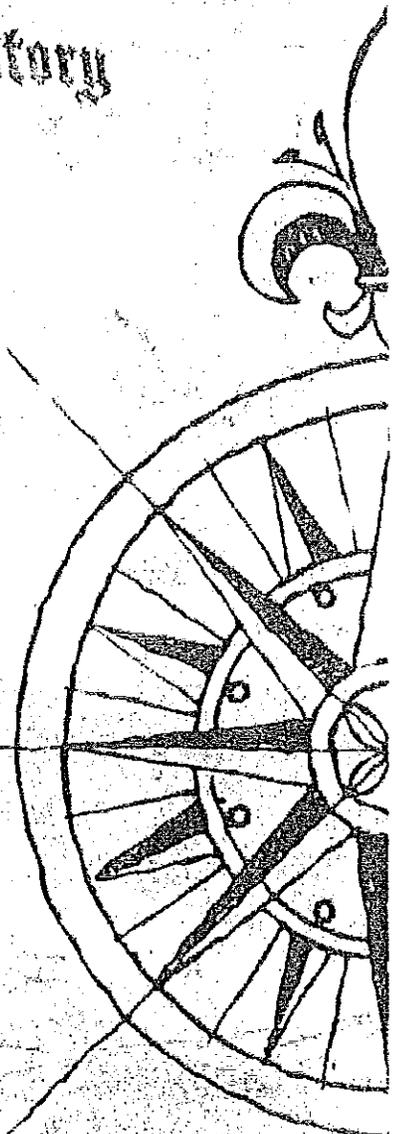
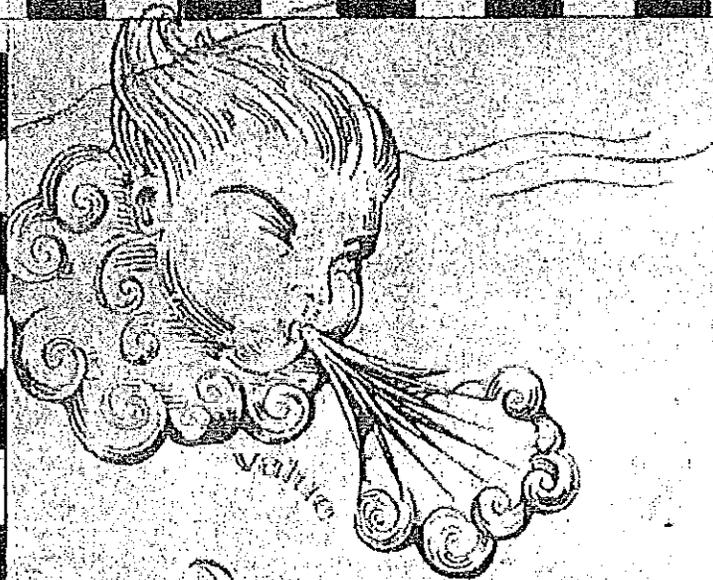
## Service Liaisons

**RADM Denise S. Canton, RNDN, USPHS**  
**VADM Mark Ferguson, USN**  
**SMMC Carlton W. Kent, USMC**  
**RDML Dennis J. Moynihan, USN**  
**MCPON Rick West, USN**

## Officers 2010

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uncharted territory



**Navy Mutual**

Henderson Hall · 29 Carpenter Road · Arlington Virginia 22212  
Toll Free 800.628.6011 · Fax 703.945.1441 · [www.navymutual.org](http://www.navymutual.org)

Final Report  
Insurance Solicitation Practices  
in  
Department of Defense  
Installations

Presented to:

Deputy Under Secretary of Defense (Program Integration)

May 15, 2000



## 5.0 MUTUAL AID ASSOCIATIONS

### 5.1 Army and Air Force Mutual Aid Association

This organization is a non-profit, tax-exempt organization formed in January 1879 in the wake of the Custer massacre at Little Big Horn. The primary purpose of the organization is to provide aid to families of deceased members. It expanded in 1984 to include Air Force personnel. The organization provides to members and their spouses personal affairs planning, insurance, pre-retirement, financial awareness counseling and representation when filing death and disability claims. The State of Virginia does not regulate the association as an insurance company, although the association has sold insurance to its members since its inception. Currently the association sells a broad range of life insurance products to its members. At the present time all officers and non-commissioned officers of the Army and the Air Force are eligible for membership. The membership of this organization will vote at the annual meeting in April 2000 to expand membership to all personnel of the Army and the Air Force. All insurance sales are handled by employees of the organization from their offices at Fort Myer, Virginia. Insurance sales are conducted through the mail or by telephone unless a member chooses to visit the Fort Myer office. No commissions are paid on insurance sales, and there is no in-person solicitation conducted on the remainder of the base at Fort Myer or at any other military installation. Association employees and officers provide financial and survivor benefit training to military personnel and their families throughout the DoD.

### 5.2 Navy Mutual Aid Association

This association was formed in July 1879 as a non-profit tax-exempt voluntary membership organization of sea service personnel and their families. The association is open to all ranks of service members in the Navy, Marine Corps, Coast Guard, Public Health Service and the National Oceanic and Atmospheric Administration. The Virginia State Insurance Commission treats this association as it does the Army-Air Force counterpart. Employees of the association handle all sales from its headquarters at Henderson Hall, Virginia. Sales occur through the mail or by some electronic means of communication, unless a member happens to visit Henderson Hall. The association pays no commissions on insurance sales, and there is no in-person solicitation conducted on the remainder of Henderson Hall or at any other naval or military installation. Historically, this association provided a wider range of insurance product than the Army-Air Force counterpart, but today there are few distinctions between the two in services provided or products offered. The association also provides education on military and naval installations, primarily in the area of Government survivor benefits.

### 5.3 Analysis

These two associations are truly unique. They were established in the 19<sup>th</sup> century when Congress declined to provide survivor benefits from public funds. They have their own special provision of the federal tax code. For many years their day-to-day leadership and management were conducted by active duty Army and Navy personnel from Government offices. Today retired officers serve as presidents and chief operating officers of both organizations. Both organizations are located on DoD installations in Arlington, Virginia.

The associations operate from buildings that appear to be part of the installation but are, in fact, built with the associations' funds. To my knowledge, there has never been a breath of scandal about either organization. Neither the Inspector General's teams nor I heard any complaints about these organizations during the conduct of our studies. Unless either of these organizations begins to solicit membership or sales on military installations (there is no indication either organization has plans to do so), these organizations should essentially be ignored in future regulatory efforts. If it is necessary to include these organizations in a revised regulatory structure, care must be taken to respect the historical tradition and service of these associations. They truly are part of the defense establishment.

