



WE ARE HERE BECAUSE **YOU** ARE HERE

2006 Annual Report



Navy NAVY • MARINES
COAST GUARD
NOAA • USOPIC
★ Mutual
BENEFITS • INSURANCE • SINCE 1879

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

IN MEMORY OF



Admiral Joseph Metcalf, III, USN, Ret.
1927 – 2007

Serving the Sea Services

Open to Active Duty, Retired and Reservist Members of the

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

Navy Mutual would like to recognize the service and dedication provided by Vice Admiral Joe Metcalf, who served as Vice Chairman of the Board of Directors from 1990 – 1994 and as Chairman of the Board from 1994-1998. With his guidance and direction, Navy Mutual made great strides in its effort to become the first choice provider of life insurance and beneficiary support to the Sea Services.



A MESSAGE FROM THE COMMANDANT OF THE MARINE CORPS

Since 1879, the Navy Mutual Aid Association has provided invaluable services to our Marines and their families — offering support in times of great need. Our individual Marines are our most precious asset, and I salute your superb efforts to give them confidence that their loved ones will be well taken care of while they are deployed in support of our great Nation.

Your statistics this year are impressive, as they have been throughout the association's 128 years of existence. The time, resources, and hard work you put into providing financial protection for our service members and their families allows our men and women in uniform to carry out their mission — your support is particularly crucial during these difficult times. This is truly an outstanding example of American generosity and goodwill.

Many thanks to all who contribute to this magnificent organization. Your efforts and support are sincerely appreciated by all Marines and the family members who benefit from your generosity.

Semper Fidelis,


James T. Conway
General, U.S. Marine Corps



CHIEF OF NAVAL OPERATIONS

A MESSAGE FROM CHIEF OF NAVAL OPERATIONS

On behalf of the men, women, and families of the United States Navy, I extend my gratitude to the Navy Mutual Aid Association for another year of supporting and guiding our Sailors and their families.

As in years past, the Navy Mutual Aid Association provided our Sailors and their families with a solid foundation of financial security by giving them the knowledge needed to ensure their families are prepared for both the best and worst of times. Nothing can equip a Sailor better to meet the many challenges we face today than the peace of mind Sailors have knowing that the ones they are serving to protect will be taken care of.

On behalf of the Navy-Marine Corps team, congratulations on another year of exceptional service, and for working so hard to educate and assist our Sailors and their families.

Sincerely,



M. G. MULLEN
Admiral, U.S. Navy

BOARD OF DIRECTORS



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Chairman



LTGEN Jeffrey W. Oster, USMC, Ret.
Vice Chairman



RADM Bruce B. Engelhardt, USN, Ret.
President



RADM Isaiah C. Cole, USN, Ret.
Chairman
Audit Committee



RADM Frederick L. Lewis, USN, Ret.
Chairman
Member Services Committee



COL John C. Roots, USMCR, Ret.
Chairman
Governance Committee



RADM John T. Tozzi, USCG, Ret.
Chairman
Compensation Committee

CAPT Donald Bowman, USNR, Ret.
Member, Audit Committee

CAPT James A. Carman, USN, Ret.
Member, Governance Committee

RADM Isaiah C. Cole, USN, Ret.
Chairman, Audit Committee
Member, Executive & Compensation
Committees

RADM Jan C. Gaudio, USN, Ret.
Member, Governance Committee

RADM Paul J. Higgins, USPHS
Member, Executive & Governance
Committees
Medical Director

CAPT Gary L. LaBuda, USNR
Member, Member Services Committee

RADM Frederick L. Lewis, USN, Ret.
Chairman, Member Services Committee
Member, Executive Committee

RADM Kathleen L. Martin, USN, Ret.
Member, Audit Committee

CAPT Michelle M. McAtee, USN, Ret.
Member, Audit Committee

COL John C. Roots, USMCR, Ret.
Chairman, Governance Committee
Member, Executive & Compensation
Committees

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Member, Member Services Committee

RADM Patrick M. Stillman, USCG, Ret.
Member, Audit Committee

RADM John T. Tozzi, USCG, Ret.
Chairman, Compensation Committee
Member, Executive & Governance
Committees

CNOMC Randy L. Welch, USN, Ret.
Member, Compensation Committee

MGEN Leo V. Williams, III, USMCR, Ret.
Member, Member Services Committee

Official Service Liaisons

MPCOG Charles (Skip) W. Bowen, USCG

MCPON Joe E. Campa, USN

RADM Denise S. Canton, RNDN, USPHS

SMMC John Estrada, USMC

VADM John C. Harvey, USN

ASSOCIATION OFFICERS

RADM Bruce B. Engelhardt, USN, Ret.
President

Lauren M. Bloom, Esq.
General Counsel

Angela M. Deeds, CPA
Vice President, Finance

D. Timothy Eddy, ASA, MAAA
Vice President, Risk Management

LCOL Thomas A. Edwards, USA, Ret. CLU, ChFC
Vice President, Operations & Systems

Allen M. McCray, CFA, CLU
Vice President, Investments

CDR John M. McVeigh, USN, Ret.
Vice President, Membership

A REPORT FROM THE CHAIRMAN AND THE PRESIDENT

NAVY MUTUAL UNDERSTANDS THE SACRIFICES MADE BY THE MEN AND WOMEN OF THE ARMED SERVICES, PAST AND PRESENT, AND BY THE FAMILIES THEY LEAVE BEHIND TO ANSWER THE CALL TO DUTY. That's why Navy Mutual was formed 128 years ago and we believe our founders would be proud of the loyalty and commitment that Navy Mutual has shown to the Sea Service personnel our founders created us to serve.

INTEGRITY AND TRUST ARE FUNDAMENTAL VALUES TO NAVY MUTUAL, JUST AS THEY ARE TO SEA SERVICE MEMBERS. In 2006, we continued to manage your financial assets to guarantee that the benefits we promised will be available to Members and their beneficiaries for generations to come.

- Our total insurance in-force grew to \$15.8 billion, setting a new record with a 10% increase over last year's record-breaking level.
- Total assets experienced growth again this year, rising to \$2.1 billion.
- We remained constant on our superior crediting rate, maintaining a 7.4% rate credited to cash values.
- In addition, we returned over \$30 million to Members in the form of premium refunds and interest credits.

All of this was achieved while increasing our war reserve to approximately \$67 million. Fitch, an independent rating agency, reaffirmed Navy Mutual's 'A+' rating for financial strength, highlighting our sound capital, favorable business profile and strong niche position as low-cost providers of insurance protection to the Sea Services. These results are being accomplished while we remain committed to serving our Members on hazardous duty assignments, paying out over \$1.8 million in combat-related death benefits in 2006. In fact, the Fitch Rating Report also pointed out that "[Navy Mutual's] 'war risk' is being prudently managed and mortality experience is within

expectations despite the current conflict in Iraq," high praise for an organization that remains committed to serving active duty personnel without restriction.

GIVING BACK TO OUR MILITARY COMMUNITY IS AN INTEGRAL PART OF NAVY MUTUAL'S MISSION. In fact, we are recognized as a trusted source of quality training provided by subject matter experts. We focus on educating military personnel and their families on survivor benefits, survivor financial management, and the replacement value of military benefits. Navy Mutual is privileged to be recognized as an approved provider of education and counseling services by Navy, Marine Corps and Coast Guard instructions. Our education program trained over 30,000 military personnel and their families in 2006.

NEARLY 37% OF NAVY MUTUAL'S NEW LIFE INSURANCE PLANS IN 2006 WERE FROM ACTIVE DUTY SEA SERVICE MEMBERS. When Navy Mutual was formed in 1879, its mission included providing insurance at close to net cost with no sea duty restrictions and no restrictions on travel into war zones. Today, these same principles underlie the main purpose of the Association: to provide protection to Sea Service Members and their families with no military restrictions, no war clause, no aviation clause, and no terrorism clause. We are here for you, regardless of where you are stationed or the hazardous nature of your duty assignment.


It continues to be an honor to serve you, our member-owners. We are looking forward to 2007 and new opportunities for us to serve you even better!



Richard W. Mies
Chairman



Bruce B. Engelhardt
President & CEO



In 2006, Navy Mutual stayed true to the founding principles that have guided us through our history: **loyalty, integrity, value and trust.**

We Are **RELIABLE**

When you buy a life insurance or annuity policy, you are placing your faith in Navy Mutual and in its ability to be there for you and your family for the long haul. Our financial strength provides you with peace of mind, knowing that Navy Mutual will be able to pay not only your claims, but also those of future generations. In fact, Navy Mutual has paid claims since our inception in 1879, without placing military restrictions on active policies, even in times of war.

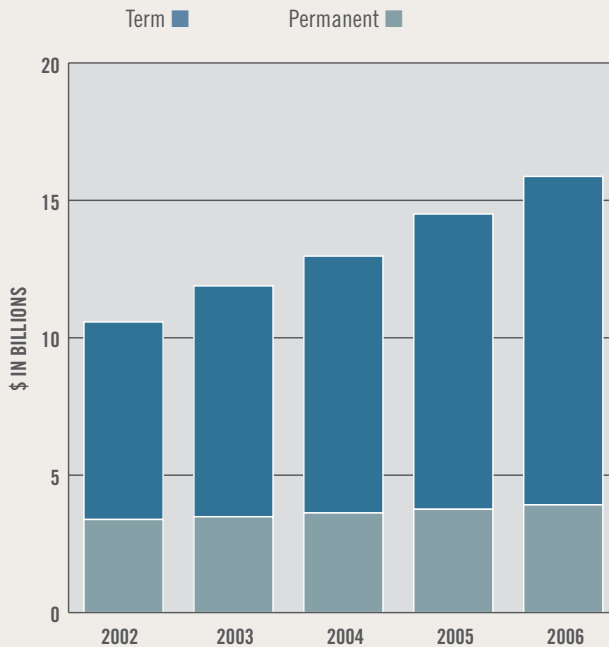
NAVY MUTUAL CONTINUED TO SUPPORT AND ASSIST NEARLY 5000 BENEFICIARIES IN 2006, FULFILLING THE PROMISE OF BEING THEIR “CACO FOR LIFE.”

RELIABLE VALUE TO OUR MEMBERS

- Life insurance at as near net cost as possible
- Legal representation to the Department of Veterans Affairs
- Survivor counseling and claims assistance
- Secure vault storage of valuable documents
- Immediate response to Member needs

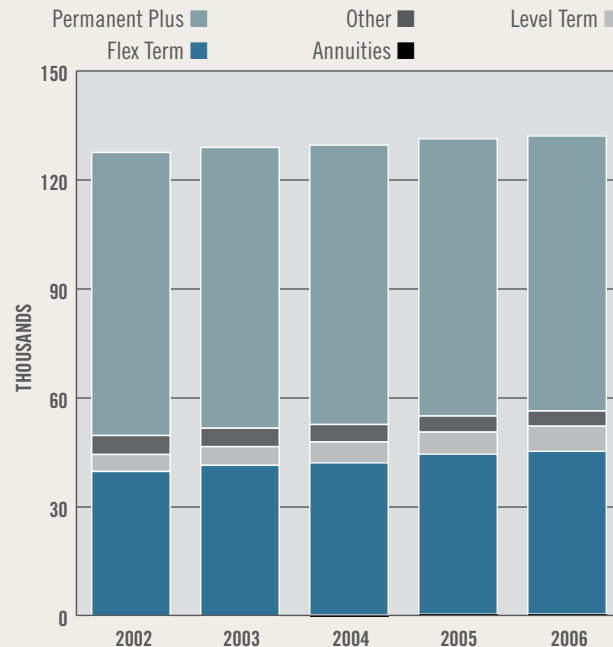


INSURANCE IN FORCE



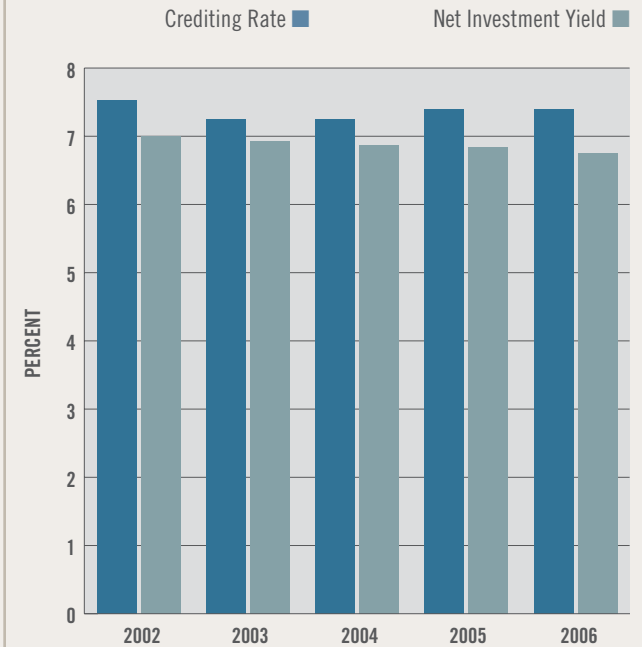
Insurance in force, beginning of year	14,458,498,875
Insurance sold in 2006	2,239,708,142
Death benefits incurred	51,717,647
Terminations and other changes	775,927,874
Insurance in force, end of year	15,870,561,496

PLANS IN FORCE



Insurance plans in force, beginning of year	134,442
New policies issued	6,276
Policies matured by death	986
Other policy net terminations	5,099
Insurance plans in force, end of year	134,633

CREDITING RATE



Crediting rate: 7.4%
Net investment yield: 6.74%

MEMBER LOYALTY

Both new and current Members showed their recognition of the quality service and valued products provided by Navy Mutual this year by:

- expanding insurance in force by 10%; and
- increasing average new plan value to \$382,457, a 28% increase over last year.

Navy Mutual remained committed to its promise of superior value by returning to Members more than \$30 million through premium refunds and interest credited to permanent insurance plans.



We Are **HERE**

FOR OUR MEMBERS:

“[Navy Mutual staff] displayed the personal initiative and caring for my problem in a way that demonstrated the ‘gold standard’ for customer service that NMAA has aspired to over the years.”

RADM Wallace Guthrie, USN, Ret.
Member

FOR THEIR FAMILIES:

“I have been impressed with the efficiency of the Navy Mutual Aid benefit program. As a beneficiary, I appreciated receiving regular information regarding rates and other matters.”

Susan Herney
Beneficiary

FOR THE COMMUNITY WE SERVE:

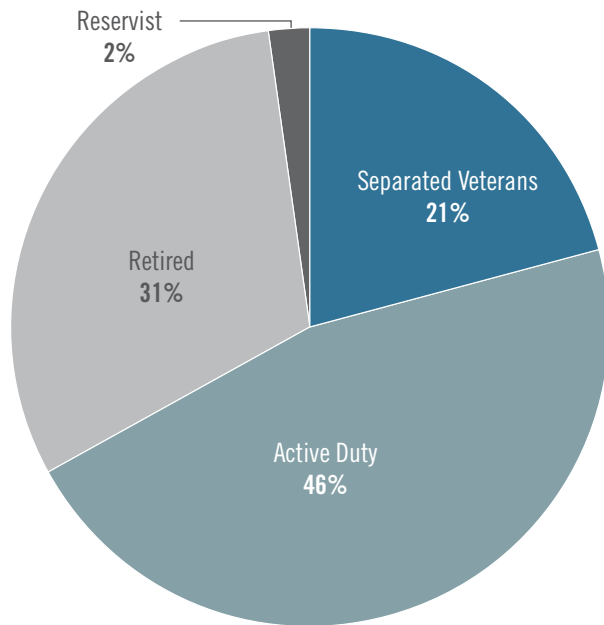
“Navy Mutual’s mission has always included educating Sea Service members and their families on matters of financial security. This dedication forms the core of their Education Program.”

David M. DuBois, Program Manager
Military Career Readiness Programs, Commander Naval Installations Command

Throughout our history we have served the men and women of the Sea Services, those who have sacrificed to preserve and protect the ideals of the United States of America. We serve you, with no military service restrictions or war clauses, regardless of where you are or what you do, Navy Mutual is with you.

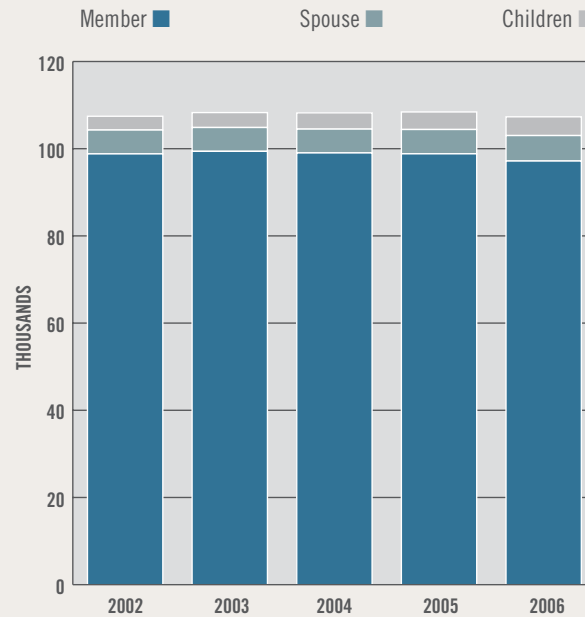
We are here, because you are here.

MEMBER PROFILE



Navy Mutual is a true mutual aid association, owned by you, our Members. We are responsible to you, so you can trust that we will provide the products that best fit your unique needs.

MEMBERS & FAMILIES



“WHILE MEMBERSHIP GROWTH HAS BEEN RELATIVELY FLAT OVER THE PAST THREE YEARS, NMAA’S PREMIUMS, AND INSURANCE IN FORCE HAVE INCREASED DUE TO THE POPULARITY OF NMAA’S FAMILY PLANS, COMPETITIVELY PRICED PRODUCTS AND VALUE-ADDED SERVICE TO ITS MEMBERSHIP.”

Fitch Ratings Report
February 2007

Members, beginning of year	99,075
Gains	1,790
Losses	3,410
Members, end of year	97,455
Spouses & Children, beginning of year	9,602
Increase	536
Spouses & Children, end of year	10,138

In 2006, nearly 2300 active duty military personnel turned to Navy Mutual, taking out \$1.5 billion in life insurance for their survivors.

That’s what it’s all about.

“I want to thank Navy Mutual Aid Association and especially those in the Service Claims department for their understanding and help. Over the years, my husband said to me so 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 this is about all I was able to do.”

MARY RYAN
BENEFICIARY

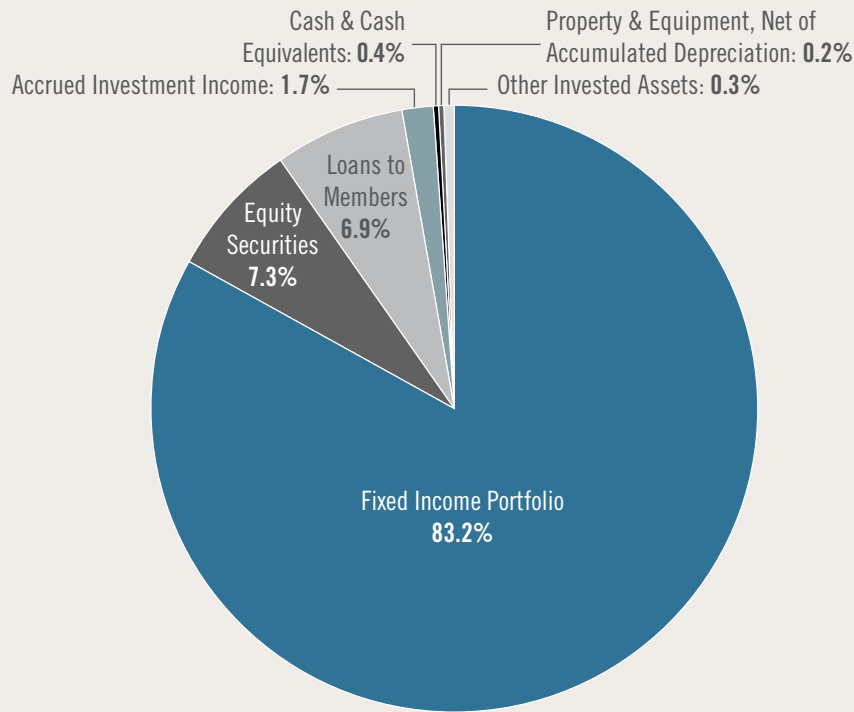
We Are **SOLID**

“Fitch Ratings has affirmed Navy Mutual Aid Association’s (NMAA) ‘A+’ insurer financial strength (IFS) rating. The Rating Outlook is Stable. NMAA’s rating reflects its sound capital, favorable business profile and strong niche position as a low cost provider of insurance protection products to active, reserve and retired members of the U.S. Navy, U.S. Marine Corps, U.S. Coast Guard, U.S. Public Health Service (USPHS), National Oceanic and Atmospheric Administration (NOAA) and their families. Fitch views as additional strengths NMAA’s conservative reserving, outstanding persistency, low mortality, consistently low expense ratios and a high-quality, liquid bond portfolio.”

Fitch Ratings Report
February 28, 2007

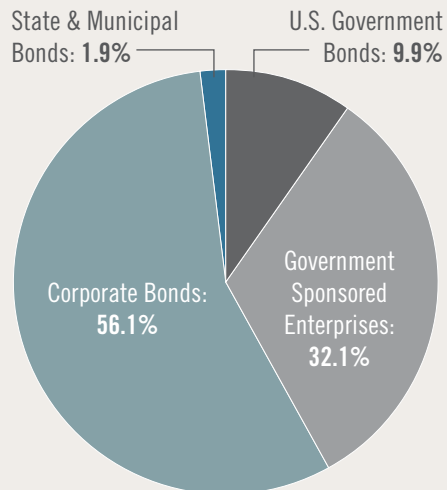


2006 ASSETS

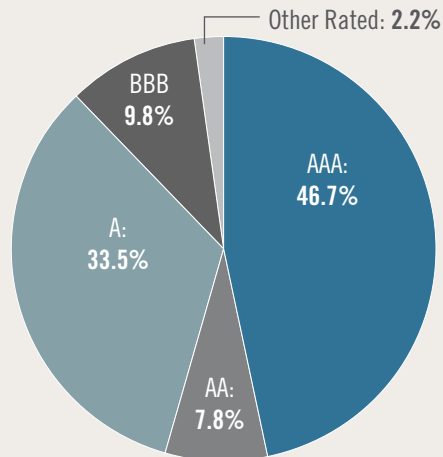


FIXED INCOME PORTFOLIO

Security Classes



Ratings



Solid Investment Portfolio

Our investment portfolio benefits from a conservative style of patient and disciplined analysis. Opportunities are plentiful, but we remain focused on ensuring that our superior financial strength provides the liquidity needed for current operations as well as the long-term financial strength to meet the promises made to Members for decades to come.

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND NET ASSETS – STATUTORY BASIS

	2006	DECEMBER 31, 2005
ADMITTED ASSETS		
Fixed-maturity securities	\$1,715,820,729	\$1,625,529,513
Equity securities	151,198,039	130,366,839
Mortgage-backed securities	9,075,182	1,356,575
Mortgage loans	3,284,514	5,599,465
Other invested assets	3,709,487	2,539,130
Member loans	130,681,559	124,730,200
Career Assistance Program loans	12,547,536	21,336,314
Cash and short-term investments	8,919,350	8,007,566
Total cash and invested assets	<u>2,035,236,396</u>	<u>1,919,465,602</u>
Investment income due and accrued	34,543,272	33,412,149
Home office building, net of accumulated depreciation of \$1,643,063 and \$1,509,280 for 2006 and 2005, respectively	4,289,572	4,342,337
EDP equipment, net of accumulated depreciation of \$933,720 and \$844,688 for 2006 and 2005, respectively	<u>207,692</u>	<u>227,081</u>
TOTAL ADMITTED ASSETS	<u>\$2,074,276,932</u>	<u>\$1,957,447,169</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Aggregate reserve for life contracts:		
Life insurance	\$1,632,693,940	\$1,559,816,208
War risk and other adverse deviations	66,597,616	60,987,616
Total aggregate reserve for life contracts	<u>1,699,291,556</u>	<u>1,620,803,824</u>
Death benefits payable	12,288,769	12,254,442
Liability for deposit-type contracts	158,995,774	153,074,275
Employee benefit liabilities	3,653,305	3,640,277
Asset valuation reserve	28,349,149	24,643,040
Interest maintenance reserve	6,533,503	7,007,894
Other liabilities and deferred income	<u>1,763,996</u>	<u>2,795,775</u>
Total liabilities	1,910,876,052	1,824,219,527
Net assets	<u>163,400,880</u>	<u>133,227,642</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$2,074,276,932</u>	<u>\$1,957,447,169</u>

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,	
	2006	2005
INCOME		
Premiums earned, net	\$42,458,069	\$40,882,398
Annuity considerations	8,472,552	18,411,406
Survivor income deposits	599,003	739,672
Net investment income	128,784,525	123,122,260
Amortization of interest maintenance reserve	702,042	810,560
TOTAL INCOME	181,016,191	183,966,296
BENEFITS AND EXPENSES		
Death benefits excluding war claims	49,639,520	51,997,015
Death benefits from war claims	1,890,000	1,350,000
TOTAL DEATH BENEFITS	51,529,520	53,347,015
Surrender benefits	13,147,461	10,462,349
Annuity benefits	4,611,472	4,413,492
Survivor income	1,056,801	1,006,322
Change in aggregate reserve for life contracts	44,797,596	55,097,145
Change in reserves for war risk and other adverse deviations	5,610,000	5,850,000
Interest on deposit-type contracts	8,481,158	8,114,363
General operating expenses	8,215,035	7,954,334
TOTAL BENEFITS AND EXPENSES	137,449,043	146,245,020
Increase from operations before excess interest credits and term refunds	43,567,148	37,721,276
Excess interest credited to life benefit reserves	(28,080,136)	(26,253,168)
Term refunds	(2,496,928)	(2,573,354)
Increase from operations before realized gains	12,990,084	8,894,754
Net realized gains	665,808	18,016,552
Increase in net assets from operations	13,655,892	26,911,306
Net assets, beginning of period	133,227,642	121,100,917
Change in unrealized appreciation of equity securities and other invested assets	20,179,471	(12,864,199)
Change in asset valuation reserve	(3,706,109)	(2,054,988)
Change in additional minimum liability for postretirement benefits	(29,938)	22,472
Change in non-admitted assets	73,922	112,134
NET ASSETS, END OF PERIOD	\$163,400,880	\$133,227,642

Statutory Accounting

These financial statements were prepared in conformity with accounting practices used by insurance companies for regulatory reporting purposes (statutory accounting practices). Such accounting practices, referred to as “prescribed or permitted practices”, are a comprehensive basis of accounting other than generally accepted accounting principles (GAAP).

Audited Financial Statements

Johnson Lambert & Co. is Navy Mutual’s independent accountant. The audited financial statements are available by written request to: Navy Mutual Aid Association, Finance Division, Henderson Hall, 29 Carpenter Road, Arlington, VA 22212.



We Are **YOU**



WHY CHOOSE NAVY MUTUAL AID ASSOCIATION?

BECAUSE OF OUR

- Proven long-term commitment to providing financial security to our Members and their families
- Outstanding financial products
- Financial strength
- Understanding of the military members' needs
- No War, Aviation, Hazardous Duty or Terrorism Clauses
- No Commissions, Service Fees, Sales Fees, or Loads on any product or service

Products Available

LIFE INSURANCE PLANS

- **FLEX TERM** – Level term coverage to age 50 (40 for smokers)
- **FAMILY PLAN** – Flex-Term insurance coverage for each spouse with free coverage for children
- **LEVEL TERM** – Level coverage with a level premium to the age which best meets your needs, up to age 85
- **PERMANENT 'PLUS'** – Interest sensitive whole life insurance which provides permanent protection, tax-deferred cash value growth, and a valuable long term care option
- **GENERATIONS PLAN** – Permanent 'Plus' insurance for children or grandchildren up to age 24

ANNUITY PLANS

- **SINGLE PREMIUM IMMEDIATE ANNUITY** – An immediate payment plan that provides a guaranteed stream of income for a period which best meets your needs
- **SINGLE PREMIUM DEFERRED ANNUITY** – A tax-deferred wealth accumulation retirement vehicle purchased with a single premium which allows you to lock in a future interest rate
- **FLEXIBLE PREMIUM RETIREMENT ANNUITY** – A tax-deferred wealth accumulation retirement vehicle which allows you to make premium payments at anytime while providing interest rates that change with market rates

SERVICES PROVIDED AT NO ADDITIONAL COST

- Secure vault storage of valuable documents for Members
- Legal representation to the Department of Veterans Affairs for Members
- Counseling and claims assistance for survivors of deceased Members
- Assistance in securing legally entitled federal benefits

OUR EDUCATION PROGRAM

- Government Survivor Benefits Education Presentations
- Replacement Value of Military Benefits Analysis
- Separation and Retirement Planning Counseling
- SBP Decision Assistance

Navy Mutual offers a unique approach.

Because **we know your reality**, we understand your needs for products that fit your unique lifestyle.

Because **we know your concerns**, we identify the options that best serve your individual needs for where you are in life.

Because **we know your goals**, we help you to create the peace of mind you seek for current and future needs.

Because **we are you**.





Henderson Hall
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Arlington, VA 22212

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www.navy mutual.org