

A person wearing a yellow flight suit and a green and orange helmet is shown in profile, pointing forward with their right hand. The background is a blurred, overcast sky.

**Our Focus Is You.**

2008 ANNUAL REPORT



IN MEMORY OF

**RADM Philip J. Coady Jr., USN, Ret.**  
**1942 – 2008**

Rear Admiral Phil Coady served as the Navy Mutual Aid Association President and chief executive from 1996 – 2006. His tireless efforts on behalf of the Members and families of Navy Mutual was vital to the success of the Association as it vaulted into the new millennium.

# A Report from the Chairman and the President

2008 was a tumultuous year in the world's financial markets. Navy Mutual is proud to report that we weathered the storms on your behalf. We continue to manage your assets to ensure that your benefits will be available for you and your family for generations to come.

**You have a safe harbor in Navy Mutual.** Throughout 2008, we continued the prudent investment practices that have allowed Navy Mutual to protect your funds while offering an attractive return on your trust in us.

- Our total insurance in-force grew to over \$19 billion, an increase of 8.5%.
- Our total assets continued to grow, reaching a total of \$2.2 billion.
- Our total direct premium revenue increased by 29% over last year.
- We continued to assign our superior crediting rate of 7.4% to cash values.
- We responded to your needs by increasing maximum coverage availability to \$1 million.
- We returned \$33 million to our Members in the form of premium refunds and interest credits.

**Navy Mutual stayed strong to protect you.** The independent Fitch Rating Agency once again rated us as an A+ insurer in recognition of our strong reserves, conservative investment policies and strong niche position as a provider of low-cost life insurance to the Sea Services. Even now, when our nation is at war, Navy Mutual manages its risks while providing high quality life insurance to active duty Sea Service personnel without military duty or travel restrictions, war clauses, aviation clauses, or terrorism clauses.

**We safeguarded your assets.** While other insurers suffered major losses attributable to risky investments, Navy Mutual did not. Navy Mutual invests your money prudently (largely in government-backed or AAA quality bonds) and avoids high-risk investments like credit default swaps and subprime mortgage-backed securities so we can protect future generations of Sea Service members and their families.

**We attracted new Members.** In 2008, we carried out a targeted advertising campaign in Tidewater, Virginia, reaching out to Sea Service veterans. The results were outstanding and for the first time in recent history we have had the number of insured persons increase for two years in a row. We are continuing to increase our visibility, finding new ways to make potential Members aware of the benefits of joining Navy Mutual while remaining true to our 130-year-old mission to meet the needs of Sea Service members and their families.

**We fulfilled our educational mission.** In tough economic times, people need to understand complex financial matters. In 2008, Navy Mutual representatives educated over 30,000 Sea Service members and their families on survivor benefits, survivor financial management, and the replacement value of military benefits. We are proud that the Navy, Marine Corps and Coast Guard recognize us as an approved provider of financial education, and we look forward to providing high-quality education to the Sea Services in 2009.

**Our focus is you.** We are proud to serve our Members and their families, and we will continue to protect you and your loved ones in the turbulent financial times ahead. Thank you for your trust in Navy Mutual.



Richard W. Mies  
Chairman



Bruce B. Engelhardt  
President



# 2008 Committee Assignments

## EXECUTIVE COMMITTEE

COL John C. Roots, USMCR, Ret.

ADM Richard W. Mies, USN, Ret. – *Chairman*

CNOMC Randy L. Welch, USN, Ret.

RADM Bruce B. Engelhardt, USN, Ret., CLU

CAPT Gary L. Labuda, USN

LTGEN Jeffrey W. Oster, USMC, Ret. – *Vice Chair*

RADM Isaiah C. Cole, USN, Ret.



## GOVERNANCE COMMITTEE

RADM Jan C. Gaudio, USN, Ret.

COL John C. Roots, USMCR, Ret. – *Chairman*

CAPT James A. Carman, USN, Ret.

CDR Erica Schwartz, USPHS

CAPT Mark A. Wilson, USN



## COMPENSATION COMMITTEE

COL John C. Roots, USMCR, Ret.

Mr. Eric J. Candelori, CFM

CNOMC Randy L. Welch, USN, Ret. – *Chairman*

RADM Isaiah C. Cole, USN, Ret.

## AUDIT COMMITTEE

CAPT Don Bowman, USNR, Ret.

RADM Kathleen L. Martin, USN, Ret.

CAPT R. Gillem Lucas, USNR, Ret.

CAPT Michelle M. McAtee, SC, USN, Ret.

RADM Patrick M. Stillman, USCG, Ret.

RADM Isaiah C. Cole, USN, Ret. – Chairman



**THE BOARD OF DIRECTORS OF THE NAVY MUTUAL AID ASSOCIATION ARE ALL VOLUNTEERS AND SERVE WITHOUT COMPENSATION.**

## OFFICIAL SERVICE LIASONS

MCPOCG Charles (Skip) W. Bowen, USCG

MCPON Rick D. West, USN

RADM Denise S. Canton, R.N.D.N., USPHS

SMMC Carlton W. Kent, USMC

RADM Frank Thorp, USN

## OFFICERS 2008

**RADM Bruce B. Engelhardt, USN, Ret., CLU**  
President

**Thomas A. Benton**  
Vice President, Technology & Systems

**Lauren M. Bloom, Esq.**  
General Counsel & Vice President,  
Beneficiary Services & Education

**Michelle L. Brickwedde**  
Vice President, HR & Administration

**D. Timothy Eddy, FSA, MAAA**  
Vice President, Risk Management

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

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

## MEMBER SERVICES COMMITTEE

CAPT Gary L. Labuda, USN - Chairman

MGEN Leo V. Williams, III, USMC, Ret.

RADM John (Michael) M. Luecke, USN, Ret.

CAPT Michael H. McDaniel, USN

## **SERVING YOU AND YOUR FAMILY HAS BEEN OUR NUMBER ONE PRIORITY FOR 130 YEARS.**

Life insurance created specifically for you without military service limitations, without hassles, without added fees. Covering you when and where you need it most.



## **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**

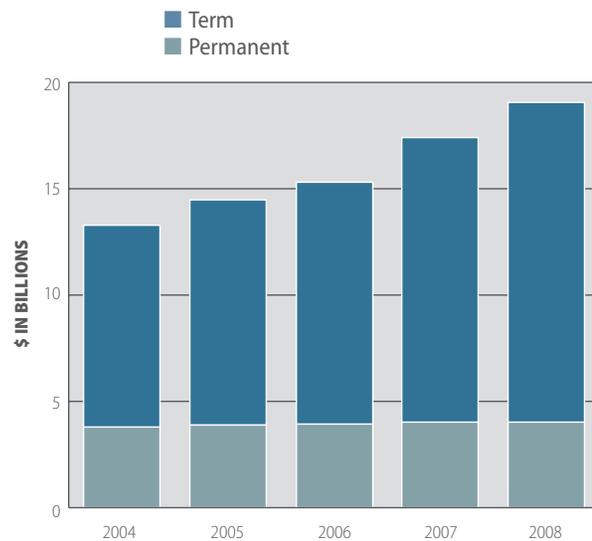
**TO BE THE FIRST CHOICE PROVIDER** of exceptional life insurance products and services for Sea Service members and their families.

# Member Loyalty

Recognizing the stability and financial security Navy Mutual provides through its conservative investment approach and quality plan design, Members:

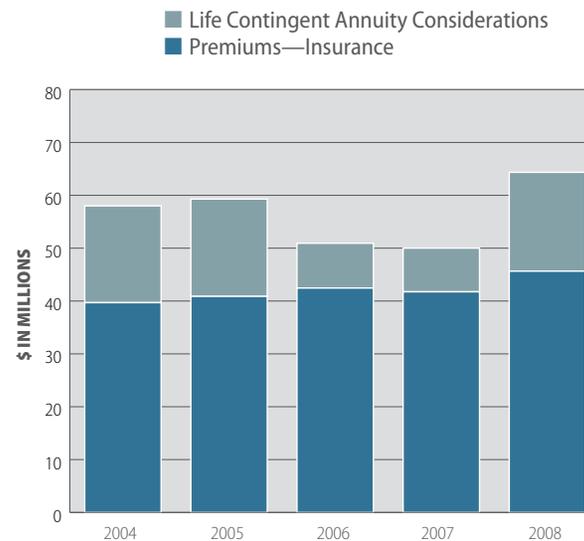
- ✓ **EXPANDED** insurance in-force by 8.5%;
- ✓ **INCREASED** average life insurance plan value to \$431,518—a 7% increase in life insurance plan value over last year; and
- ✓ **ESCALATED** annuity plan premiums by 226%.

## INSURANCE IN FORCE



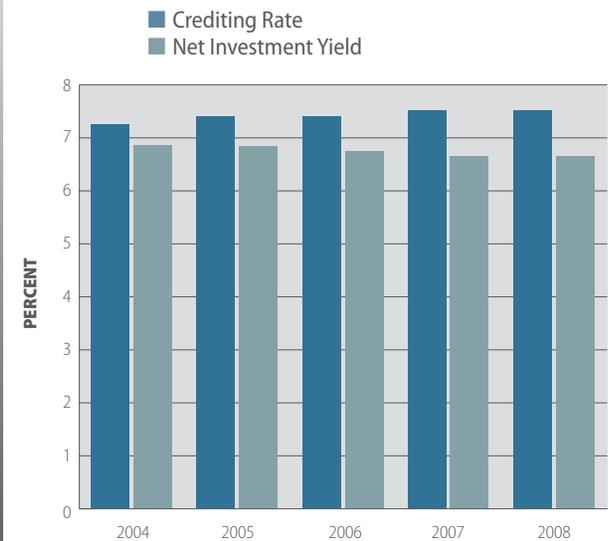
Insurance in force, beginning of year	17,607,213,929
Insurance sold in 2008	2,538,754,566
Death benefits incurred	60,108,031
Terminations and other changes	960,587,344
<b>Insurance in force, end of year</b>	<b>19,125,273,120</b>

## DIRECT PREMIUMS



**Total direct premiums, end of year: \$64,353,771**

## CREDITING RATE



Crediting rate: 7.4%  
Net investment yield: 6.6%

# Focus on Members

140 years ago a small group of Naval Officers got together in the wardroom of the USS Alert, on station in the South China Sea, to discuss the idea of providing some sort of survivor benefit to widows and children. At that time they conceived the idea that eventually became the Navy Mutual Aid Association. Ten years later in 1879, when Navy Mutual was formed, it was an assessment association. How surprised those gentlemen would be to see the Association now with over 100,000 insured individuals, and a product mix that serves Members and their families from birth to death—and beyond. They would be thrilled to see how their idea has become a thriving Association focused on providing business excellence to its Members.

## A business model that works.

In 2007 we identified a business approach that works well for our specific military market. We work continually to identify specific locations with large Sea Service populations needing the specific products we provide, then take steps in those market areas to develop strong relationships with the military members. Our goal is the creation of awareness and interest in the Association. We know that these individual relationships with our Members are the foundation for our continued success. This strategy has led to a record premium growth in 2008. The total direct premium growth was 29%, with life insurance premiums equaling 8.5% growth, and annuity premiums equaling 226% growth.

## Consistent competitive plans.

Your Association maintains its effectiveness by offering a product line containing both breadth and depth of choices for its Members. Over 130

years of experience in the industry have taught us that individuals and families look to insurance products to provide protection, accumulate wealth, provide income in retirement, and support estate planning. In all these areas, we offer products to help meet these needs. Our high-quality fixed-rate annuity products offer a variety of choices for those planning for current or future income and offer the competitive advantage of no surrender fees. Our variety of life insurance plans offers Members the ability to choose the most effective and cost-efficient products for their particular situations and stages of life, and all include the competitive advantage of no military service restrictions. We know your needs are constantly changing and so pledge to continually evaluate and enhance our products to maintain their value to you.

## Renewed focus on customer service.

Our desire to become the premier life insurance company of choice for the Sea Service family has guided us in creating open and honest communication with our Members. In 2008, we focused on continuous improvement in customer service and are pleased to report a 4.6 customer service rating by our Members, on a 5 point scale. Delivering value to our policy holders and their beneficiaries further enhances our reputation for loyalty, integrity and trustworthiness.

At Navy Mutual Aid Association, we follow a consistent business model focused on providing quality and value to our Members. We strive for continued growth for the Association, while remaining nimble in order to respond to the changing needs of our Members and the business environment in which we operate. We are connected to the Members we serve and focus on what matters to you.

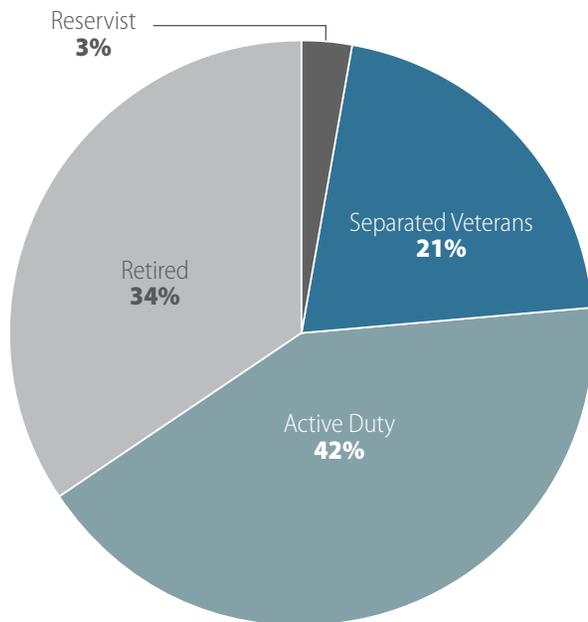
# Focus On Security For You

As a mutual aid association owned by our Members, we share your goal of providing long-term financial security for your family. That's why we focus on doing one thing and one thing only—providing life insurance protection.

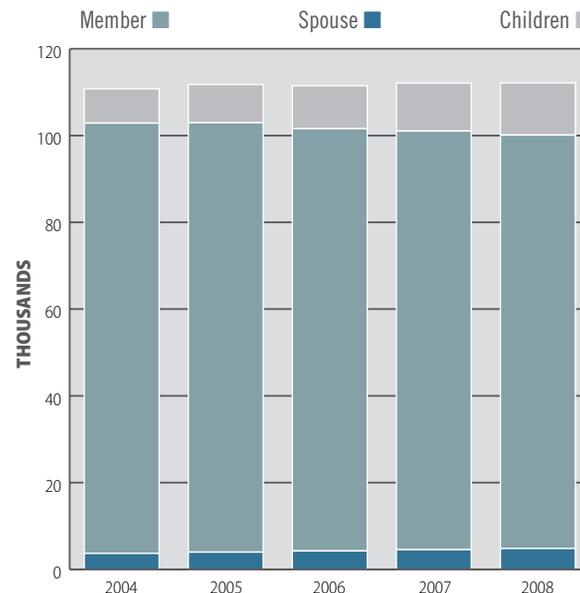
A 96% Member retention rate achieved in 2008 shows that you value the stability we provide.

The expansion in the number of family members covered to 15% of policies sold shows that you trust us to protect your loved ones.

## MEMBER PROFILE



## MEMBERS & FAMILIES



Members, beginning of year	96,610
Gains	1,663
Losses (including deaths)	2,816
<b>Members, end of year</b>	<b>95,457</b>
Spouses & Children, beginning of year	15,620
Increase	1,218
<b>Spouses &amp; Children, end of year</b>	<b>16,838</b>
<b>Total, end of year</b>	<b>112,295</b>

*"Thank you for the annual statement and the numbers that it reports. I am encouraged when I read the bottom line, that should I die before my wife, there will be coverage to address much of the expense of my passing. Joining Navy Mutual Aid in 1960 as a just married lieutenant, was one of my better decisions."*

—Paul W. Dillingham, Jr., Rear Admiral, U.S. Navy (ret)



# Focus on Financial Stability

## **NAVY MUTUAL'S RATING – BASED ON AN EVALUATION OF OUR FINANCIAL CONDITION AND PERFORMANCE – PROVIDES A CLEAR INDICATION OF OUR CONTINUING STRENGTH AND STABILITY.**

- Liquidity is rated very good due to the composition of our invested assets and conservative product design features.
- Investment performance is rated as good with consistent levels of investment income and strong credit related performance.
- Additional rated strengths include conservative reserving, excellent persistency, low mortality, consistently low expense ratios and a high-quality, liquid bond portfolio.

## **WHILE 2008 PROVED TO BE A CHALLENGING INVESTMENT YEAR AND THE BEGINNING OF THE WORST ECONOMIC DOWNTURN SINCE THE 1930'S, OUR INVESTMENT TEAM IS ON THE ALERT FOR OPPORTUNITIES. ONE KEY TO SUCCESS IS OUR ABILITY TO IDENTIFY OPPORTUNITIES WHEN THEY PRESENT THEMSELVES – AND TO AVOID PITFALLS.**

- Reduced exposure to common stock and reinvested proceeds in corporate bonds at extremely attractive yields.
- Avoided investing in toxic securities, derivatives, hedge funds, and other high risk asset classes.
- No need for government bailout money.
- Increased cash levels to protect against unforeseen occurrences.
- Prudent financial moves taken to enhance capital strength and flexibility.

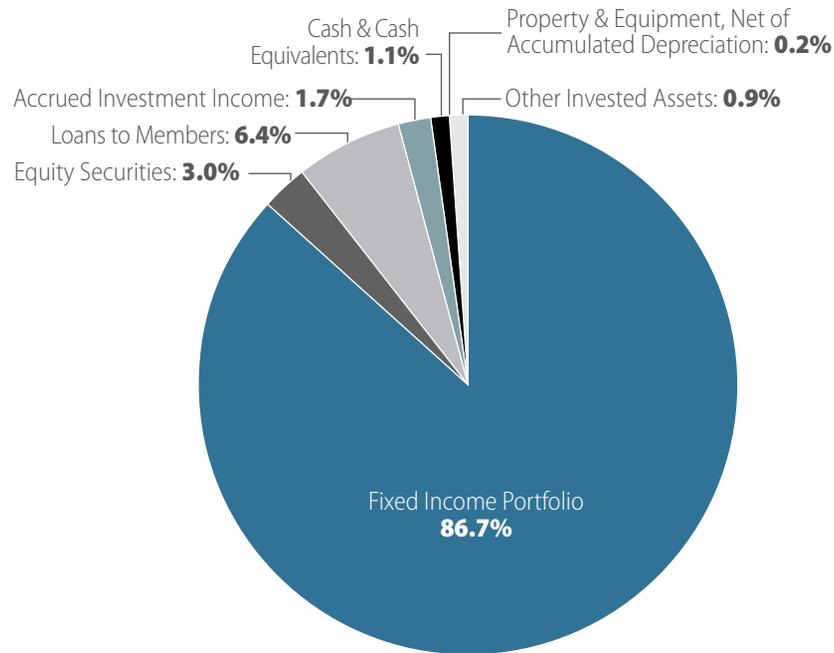
## **WHETHER YOU HAVE LIFE INSURANCE OR ANNUITY PLANS WITH NAVY MUTUAL, YOU CAN BE CONFIDENT THAT YOUR BENEFITS WILL BE AVAILABLE WHEN NEEDED AND THAT NAVY MUTUAL WILL PERSEVERE IN ITS CONSERVATIVE STEWARDSHIP OF YOUR ASSETS.**

*"I believe my [other insurance] policy served me well  
in the past, but that the Navy Mutual Aid policy is  
my best choice for the future."*

—William Wright, Captain, USN, ret.

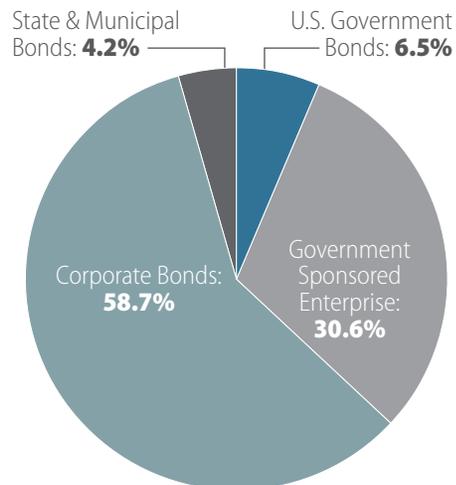


## 2008 ASSETS

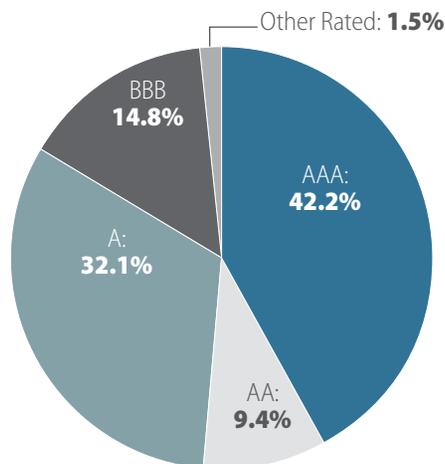


## FIXED INCOME PORTFOLIO

### SECURITY CLASSES



### RATINGS



## 2008 FINANCIAL HIGHLIGHTS

Received an A+ Insurer Financial Strength (IFS) rating and AAA Prism Score from Fitch Ratings. An independent verification of our financial strength, the highest rating offered to insurers of our size.

Obtained a solid net investment yield of 6.6%.

98.5% of our bond portfolio is rated BBB or above.

Achieved net unrealized capital gains of \$200 million on invested assets.

As part of a long term investment plan, equity exposure was reduced by 30% prior to the market decline, with proceeds reinvested in U.S. and corporate bonds at attractive rates.



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

DECEMBER 31,

	2008	2007
<b>ADMITTED ASSETS</b>		
Fixed-maturity securities	\$1,889,097,673	\$1,799,068,371
Equity securities	65,766,059	133,358,402
Mortgage-backed securities	44,600,213	28,162,796
Mortgage loans	5,610,912	4,373,956
Other invested assets	13,259,331	11,719,979
Member loans	142,361,591	136,091,205
Career Assistance Program loans, net	2,396,031	6,524,365
Cash and short-term investments	23,775,991	11,652,582
Receivables for securities	1,010,575	-
Total cash and invested assets	2,187,878,376	2,130,951,656
Investment income due and accrued	37,525,758	36,204,425
Home office building, net	4,032,960	4,160,929
EDP equipment, net	210,950	197,987
<b>TOTAL ADMITTED ASSETS</b>	<b><u>\$2,229,648,044</u></b>	<b><u>\$2,171,514,997</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Aggregate reserve for life contracts:		
Life insurance	\$1,788,246,655	\$1,702,561,228
War risk and other adverse deviations	76,197,616	73,297,616
Total aggregate reserve for life contracts	1,864,444,271	1,775,858,844
Death benefits payable	19,862,866	16,453,822
Liability for deposit-type contracts	169,085,517	159,286,366
Employee benefit liabilities	4,532,370	3,651,079
Asset valuation reserve	21,048,003	29,600,980
Interest maintenance reserve	6,351,027	6,305,567
Securities lending reserve	1,653,390	-
Other liabilities and deferred income	2,819,298	1,711,470
Total liabilities	2,089,796,742	1,992,868,128
Net assets	139,851,302	178,646,869
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$2,229,648,044</u></b>	<b><u>\$2,171,514,997</u></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,  
2008 2007

### INCOME

Premiums earned, net	\$45,654,293	\$41,747,018
Annuity considerations	18,699,482	8,262,610
Survivor income deposits	1,029,459	616,657
Net investment income	139,263,753	134,643,050
Amortization of interest maintenance reserve	766,550	790,361

### TOTAL INCOME

**205,413,537**

**186,059,696**

### BENEFITS AND EXPENSES

Death benefits excluding war claims	57,136,848	55,160,182
Death benefits from war claims	4,600,000	800,000
Total death benefits	61,736,848	55,960,182
Surrender benefits	15,189,765	14,165,891
Annuity benefits	3,514,747	5,667,647
Survivor income	1,153,578	1,105,559
Change in aggregate reserve for life contracts	54,935,786	40,647,984
Change in reserves for war risk and other adverse deviations	2,900,000	6,700,000
Interest on deposit-type contracts	9,285,851	8,830,569
General operating expenses	10,702,428	9,022,441

### TOTAL BENEFITS AND EXPENSES

**159,419,003**

**142,100,273**

Increase from operations before excess interest credits and term refunds	45,994,534	43,959,423
Excess interest credited to life benefit reserves	(30,749,641)	(29,219,304)
Term refunds	(2,352,449)	(2,411,953)
Increase from operations before realized gains	12,892,444	12,328,166
Net realized gains (losses)	(1,022,925)	8,345,489
Increase in net assets from operations	11,869,519	20,673,655
Net assets, beginning of period	178,646,869	163,400,880
Change in unrealized depreciation of equity securities and other invested assets	(57,940,031)	(398,558)
Change in asset valuation reserve	8,552,977	(1,251,831)
Change in additional minimum liability for pension and postretirement benefits	(951,675)	(19,760)
Change in non-admitted assets	(326,357)	14,561
Prior period adjustment	-	(3,772,078)

### NET ASSETS, END OF PERIOD

**\$139,851,302**

**\$178,646,869**

## 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 to:  
Navy Mutual Aid Association, Accounting Division,  
Henderson Hall, 29 Carpenter Road, Arlington, VA 22212.

*“Within 10 minutes of my first phone call, NMAA had provided me a financial glimpse of what I could expect in the months and years to come.*

*At a time when everything else was uncertain, knowing that I was financially stable provided an indescribable comfort.”*

—Jennifer Zelle



# Keeping Your Loved Ones Safe in Stormy Times

When times are tough, it's good to know that you can trust Navy Mutual to care for your loved ones when you no longer can.

- Navy Mutual's dedicated Beneficiary Services staff is trained to respond immediately when we learn that a Member has passed away. We process the beneficiary's claim right away, and help the Member's loved ones notify other insurers as well.
- If beneficiaries need funds to defray initial expenses, Navy Mutual provides beneficiaries with immediate payments of 10% of total benefits up to \$10,000.
- There's no need for beneficiaries to be confused about military survivors' benefits. We can provide needed education and, if the Veterans Administration denies or limits a claim, we can also provide legal assistance to pursue the claim at no additional cost to the beneficiary.
- Navy Mutual's vault provides Members with a secure place to store wills and other important documents. Our Beneficiary Services staff can quickly return those documents to the Member's family, allowing for more efficient distribution of the Member's estate.
- Our survivor checklist helps beneficiaries cope in the aftermath of the Member's demise.
- Sometimes a Member's family has needs that we can't satisfy. Our Beneficiary Services staff can connect that family with other veteran service organizations that provide the special assistance they require.
- We recognize that the passing of a loved one can be devastating to family and friends. Our Beneficiary Services staff handles every claim with sensitive, personal care.

**NAVY MUTUAL KNOWS HOW MUCH YOU CARE ABOUT YOUR LOVED ONES, AND IS PROUD TO PROVIDE YOU WITH ASSURANCE THAT THEY'LL BE WELL PROTECTED.**

# 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 the 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 an interest rate
- **FLEXIBLE PREMIUM RETIREMENT ANNUITY** – A tax-deferred wealth accumulation retirement vehicle which allows you to make premium payments at any time, while providing interest rates that change with market rates

## OUR EDUCATION PROGRAM

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

# Our Coverage, Your Peace of Mind.

## SERVING THE SEA SERVICES

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

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





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