

# LATE TESTIMONY

DEPARTMENT OF THE PROSECUTING ATTORNEY  
**CITY AND COUNTY OF HONOLULU**

ALII PLACE  
1060 RICHARDS STREET • HONOLULU, HAWAII 96813  
PHONE: (808) 547-7400 • FAX: (808) 547-7515

KEITH M. KANESHIRO  
PROSECUTING ATTORNEY

ARMINA A. CHING  
FIRST DEPUTY PROSECUTING ATTORNEY



**THE HONORABLE HENRY J.C. AQUINO, CHAIR**  
**HOUSE COMMITTEE ON PUBLIC SAFETY & MILITARY AFFAIRS**  
**Twenty-sixth State Legislature**  
**Regular Session of 2011**  
**State of Hawai'i**

February 17, 2011

**RE: H.B. 172; RELATING TO THE PENAL CODE.**

Chair Aquino, Vice-Chair Cullen and members of the House Committee on Public Safety & Military Affairs, the Department of the Prosecuting Attorney of the City and County of Honolulu submits the following testimony in support of House Bill 172, to the extent that it adds firefighters to offense of "assault against a law enforcement officer."

In 2003, HRS 707-712.5 and 707-712.6 were expanded from (1<sup>st</sup> and 2<sup>nd</sup> degree) assault against police officers, to assault against any law enforcement officers, such as police officers, sheriffs, sheriff deputies, department of land and natural resources enforcement officers, and investigators with the department of the attorney general. As a general note, it is our understanding that this statute applies equally to situations in which one law enforcement officer injures another, if the injured officer was engaged in the performance of duty at the time. Thus, if firefighters and/or water safety officers are added to this statute, this offense would also apply to situations in which one law enforcement officer, firefighter and/or water safety officer injures another, if the injured officer was engaged in the performance of duty at the time.

The Department agrees that firefighters must be permitted to carry out their duties without any unnecessary danger or injury, and supports their addition to this statute. Although we had previously supported the addition of water safety officers as well, we are hesitant to provide our full support at this time, as enforcement would likely include situations in which a drowning / rescue victim is flailing around in the water and injures a water safety officer in the process.

For this reason, the Department of the Prosecuting Attorney of the City and County of Honolulu supports House Bill 172, as it pertains to the addition of firefighters. Thank you for the opportunity to testify on this matter.



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION  
AFSCME Local 152, AFL-CIO

**LATE TESTIMONY**

RANDY PERREIRA  
*Executive Director*  
Tel: 808.543.0011  
Fax: 808.528.0922

NORA A. NOMURA  
*Deputy Executive Director*  
Tel: 808.543.0003  
Fax: 808.528.0922

DEREK M. MIZUNO  
*Deputy Executive Director*  
Tel: 808.543.0055  
Fax: 808.523.6679

The Twenty-Sixth Legislature, State of Hawaii  
House of Representatives  
Committee on Public Safety & Military Affairs

Testimony by  
Hawaii Government Employees Association  
February 17, 2011

H.B. 172 - RELATING TO THE PENAL CODE

The Hawaii Government Employees Association, AFSCME Local 125, AFL-CIO supports the purpose and intent of H.B. 172 - Relating to the Penal Code. This measure expands the offenses of assaults against law enforcement officers in the first and second degree to include assaults against firefighters and water safety officers.

The intent of H.B. 172 is to amend Sections 707-712.5 and 707-712.6, Hawaii Revised Statutes, to include firefighters and water safety officers. The HGEA represents over one hundred (100) of the water safety officers who stand guard over the beaches of our state and counties to ensure the safety of people. Ensuring the safety and well-being of water safety officers in the course of the performance of their duties are a necessity in order for them to manage and direct the activities on the beaches for the people of Hawaii as well as our many visitors.

There have been many cases where the water safety officers were threatened verbally and physically while attempting to safeguard the beaches. Individuals who intentionally or knowingly, and/or recklessly or negligently, cause harm to water safety officers should be held accountable for their violent behaviors. Water safety officers are first responders who protect Hawaii's beaches to the best of their abilities every single day. We believe it's time for the State of Hawaii to reciprocate and protect all water safety officers.

We thank you for the opportunity to submit our testimony in support of H.B. 172.

Respectfully Submitted,

Nora A. Nomura  
Deputy Executive Director



COUNTIES:

- BLOUNT
- CHOK
- COOSON
- COOSON
- COOSON
- FOUR

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

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/pw

Life Insurers  
U.S. and Canada  
Full Rating Report

## Navy Mutual Aid Association

### Ratings

Security Class	Rating
Insurer Financial Strength	A+

### Rating Outlook

Stable

### Financial Data

Navy Mutual Aid Association		
	Date	\$ Mil.
Increase in Net Assets from Operations	12/31/09	20.0
Net Assets	12/31/09	175
Debt and Hybrids	12/31/09	0

### Analysts

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

Julie A. Burke, CPA, CFA  
+1 312 368-3155  
julie.burke@fitchratings.com

### Related Research

#### Applicable Criteria

- Insurance Rating Methodology, Aug. 16, 2010
- Life Insurance Rating Methodology, March 24, 2010
- Fitch's Approach to Rating Insurance Groups, March 24, 2010

#### Other Research

- Fitch Affirms Navy Mutual Aid Association's IFS Rating of 'A+', Sept. 27, 2010
- U.S. Life Insurance Sector Outlook Revised to Stable, Sept. 7, 2010

### Rating Rationale

- Navy Mutual Aid Association's (Navy Mutual or the Association) 'A+' insurer financial strength (IFS) rating reflects its very strong capital levels, high-quality liquid investment portfolio, and favorable business profile with a strong niche position as a low-cost provider of life insurance protection products to the U.S. sea services and their families.
- In Fitch Ratings' opinion, Navy Mutual's additional strengths are conservative reserving, excellent persistency, and consistently low expense ratios. Fitch 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.
- 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 or guarantees. Navy Mutual's investment portfolio is composed of more than 30% U.S. government or government-sponsored enterprise debt and high-quality corporate bonds, with no exposure to problematic structured securities. Financial flexibility is considered adequate in respect to Navy Mutual's unique business profile and product portfolio.
- 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 2003-2009 period. Fitch notes Navy Mutual's risky asset ratio realized credit-related losses compare very favorably with the life insurance industry at year-end 2009.
- Rating concerns include Navy Mutual's limited access to capital markets, moderate volatility in capital driven by common stock investments, and the long-term challenge of membership growth.

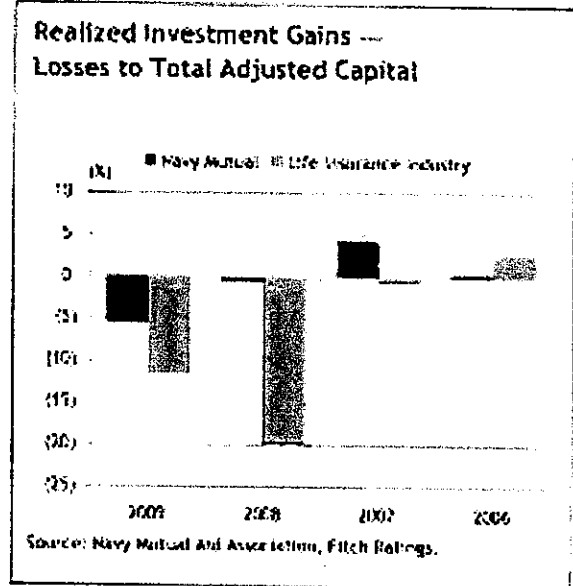
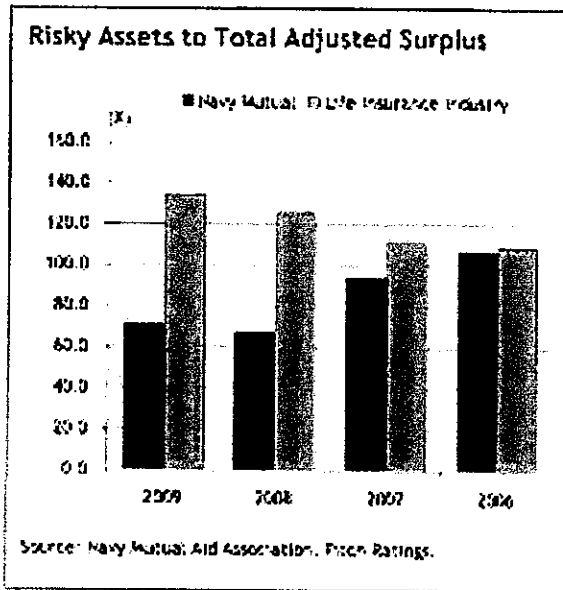
### Key Rating Drivers

- Fitch expects Navy Mutual will maintain a solid balance sheet in 2010 with strong capital levels and a high-quality liquid investment portfolio. Fitch expects the Association to report good operating performance in 2010, driven by low expenses, strong levels of investment income, and low credit-related investment losses.
- Navy Mutual's ratings are based in part 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. Barring any change in these qualities, Fitch views Navy Mutual at the upper end of that range.
- Within Fitch's rating rationale are key rating drivers. If Navy Mutual was to materially deviate from any of these items, especially for an extended period, the ratings could be affected. Included within these key rating drivers are the following:
  - Net operating earnings of \$10 million-\$15 million a year.
  - Gross investment losses of less than \$25 million in 2010.
  - Estimated risk-based capital (RBC) above 300% company action level.
  - Significant change in war risk exposure and experience.
  - Unfavorable change in tax/regulatory status.

## Key Rating Issues

### Strong Investment Performance

Navy Mutual exhibited strong investment performance over the challenging 2008-2009 period. Fitch expects the Association's investment portfolio performance to continue to be a favorable credit driver in 2010 and 2011 with low credit-related losses and continued strong investment income generation. Navy Mutual's high-quality, fixed-income portfolio continues to generate favorable investment yields of approximately 6.56%, due in part to its long duration and low reinvestment risk.



Navy Mutual's unrealized losses are low and the net unrealized gain position was \$200 million at year-end 2009. 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.

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 that is consistently below the industry average at less than 20% (the 2009 industry average was 69.7%). The Association realized its first moderate amounts of realized investment losses in 2008-2009 at \$21 million, or 49 bps realized investment losses/invested assets, which compares favorably versus an industry level of 269 bps. Navy Mutual does not buy BIGs as per investment policy. Below investment-grade bonds were only 1.9% of the bond portfolio at year-end 2009. Navy Mutual has minimal exposure to commercial mortgages or residential mortgages and no subprime or Alt-A residential securities.

The investment portfolio has good liquidity as 92% of bonds are publicly traded. Navy Mutual in recent years has purchased private placement securities in limited amounts as a way to add incremental yield to its investment portfolio.

### 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 upon 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.

Fitch views Navy Mutual as serving a unique niche in terms of a customer base and customer services. The Association 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. Financial flexibility is considered adequate in respect to Navy Mutual's unique business profile and product portfolio.

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 to them at that time.

### Sustainable Competitive Advantages Provide Stable Profitability

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 by the Virginia, North Carolina, and South Carolina Legislatures, 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.

### Unique Mortality Risk Due to War Catastrophe Is Manageable Despite Higher Policy Limits and Extended Middle East Conflicts

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. Since its inception, Navy Mutual has been exposed to the possibility of catastrophic losses that could result from war. Navy Mutual estimates that less than 10% of its current in-force book of business is currently eligible for war risk. 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. At year-end 2009, 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. War-related death benefits were \$0.5 million in 2009 and \$4.6 million in 2008, or 0.7% of total death benefits in 2009 versus 7.5% in 2008.

Navy Mutual has solid credit fundamentals and has outperformed many peer-rated companies in the challenging 2008-2009 period.

### Peer Analysis

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 considering the Association's high excess policyholder dividends. Fitch notes Navy Mutual's risky asset ratio realized credit-related losses compared very favorably with the life insurance industry at year-end 2009.

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.

## Company Profile

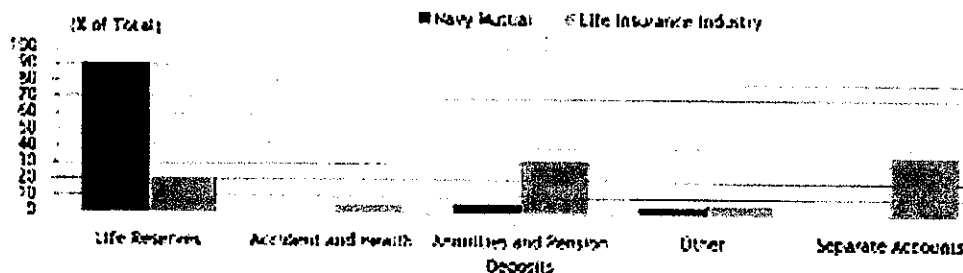
Navy Mutual is a mutual aid association, with eligible membership that currently includes all uniformed personnel of the Navy, Marine Corps, Coast Guard, National Oceanic and Atmospheric Administration (NOAA), and U.S. Public Health Service Commissioned Corps (USPHS), including all enlisted and officer 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.

Membership expanded to the active reserves in 1920, Coast Guard in 1925, women officers in 1947, USPHS and NOAA in 1963, enlisted personnel in 1980, and retirees/inactive reserves in 1993. In addition, members could purchase life insurance for spouses beginning in 1985, and for their children and grandchildren beginning in 1996.

While Navy Mutual currently has approximately 100,000 members, about 40% of all members are on active duty in the various services represented in the Association. Fitch believes that the expected future decline in naval manpower could make it more challenging for Navy Mutual to expand its membership base and grow premiums. The Association's pool of eligible insureds was expanded in 1996 to include the children and grandchildren of members. Members can insure their children and grandchildren with an interest-sensitive whole life policy from Navy Mutual, which is positioned as a way to help pay for the costs of a college education.

Navy Mutual serves its defined market with an uncomplicated selection of insurance and annuity product offerings.

Adjusted Liabilities and Separate Accounts — Year-End 2009 Comparison



Source: Navy Mutual Aid Association, Fitch Ratings

## Products

Navy Mutual serves its defined market with an uncomplicated selection of insurance and annuity product offerings. The Association had \$20.4 billion of insurance in force at year-end 2009. It also provides related informational services including survivor assistance, financial planning, financial services, 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. With the accelerated death benefit option, the policyholder can convert the death benefit of the policy to an accelerated payout option. The Association structures the payout so that it is revenue-neutral, illustrating that Navy Mutual's focus is service to its members whatever their needs.

Navy Mutual has increased its membership base and revenue through the introduction of a number of member-requested products, such as rated plans on its Permanent "Plus" products, new versions of its Level II "Plus" Term product, and increased maximum coverage limits for members and spouses.

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). These individual annuity products include an SPDA with various interest rate lock-in periods, a market-value adjustment, and no surrender charge for early, full withdrawals. Also offered is a simplified SPIA.

The long-term care option is offered to all members or spouses who have been insured with an interest-sensitive policy for at least two years, are at least 60 years old, have been in a long-term care situation for at least four months, and are likely to be in that situation permanently. The death benefit, less any loans, can be converted to an annuity payout for a specified period. This feature also benefits Navy Mutual, as members are provided with a disincentive to cash out their policies. There is no additional fee for inclusion of this provision, nor is there any charge for its exercise.

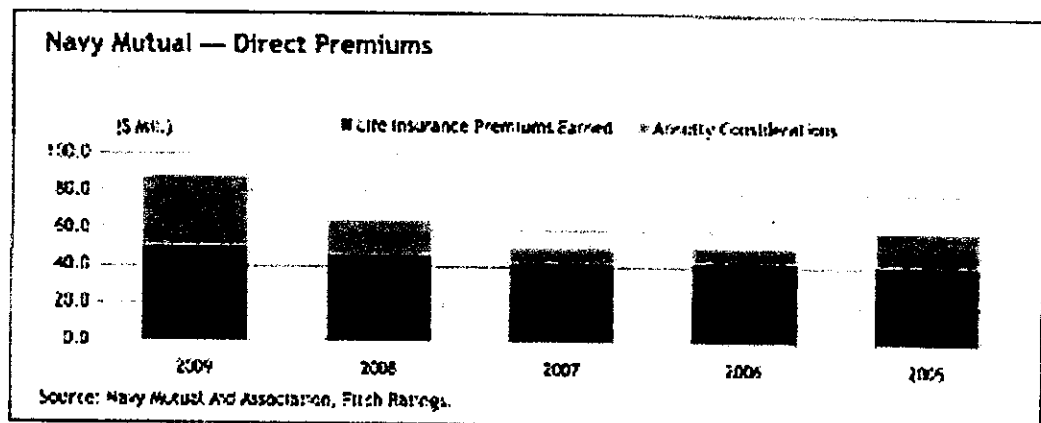
### Distribution Channels

New plans are generated through two main sources: direct marketing and member referrals.

New members are obtained via member referrals, print media ads, direct mail, Web-based advertising, and via Navy Mutual's Web site. Approximately one-third of new members result from direct mail and one-fourth join because of Association member referrals.

Navy Mutual's sales are conducted only by salaried employees out of its home office. As a part of its mission to provide education to its membership concerning government survivor and retirement benefits, the Association makes approximately 700 presentations to an estimated 28,000 sea service members annually. Educators are not permitted to sell Navy Mutual products. If, after a presentation, a service member is interested in buying a policy from Navy Mutual, that person must contact the home office for an application. This approach has made the organization nearly immune from charges of improper sales practices.

Fitch views growth in the number of new members as one of Navy Mutual's long-term challenges. 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 strategic plan to increase the communication of its needs-based value proposition, which began in 2006, and continued excellent service and education will have a beneficial effect on new membership levels. Results in 2008 and 2009 have been favorable, as seen in a significant increase in total direct premiums.





## Financial Analysis

### Profitability

Fitch views Navy Mutual's operating performance as solid, characterized by consistent, healthy predividend gains from operations and good premium growth. Key drivers are low expense levels, good investment income, and favorable persistency and mortality. Operating return on total adjusted capital increased to a five-year high of 11% in 2009. While 2009 net income declined moderately to \$10 million from \$12 million in 2008, due primarily to \$10 million in realized net investment losses, net operating gain was strong at \$20 million versus \$13 million the previous year. Navy Mutual's revenues increased 15% in 2010 driven by a 39% increase in premiums.

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 required reserve and surplus increases to increase the cash values of its interest-sensitive whole life policies and to provide premium refunds on its term policies. While the excess revenue flows through the Association's income statement as an operating loss, Navy Mutual could redirect this excess revenue to its surplus base. 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. The Association has demonstrated this flexibility by modifying its crediting rates to reflect changes in interest rate levels and investment portfolio performance. Fitch notes that Navy Mutual continues to pay a high crediting rate to its policyholders.

Fitch views Navy Mutual's operating performance over the past three years as good, characterized by consistent, healthy predividend gains from operations and good premium growth.

### Operating Performance

(\$ Mil.)

	2009	2008	2007	2006	2005
Total Premium Income	89	64	57	57	60
Investment Income	146	139	135	129	123
Total Revenue	236	205	186	187	184
Gain Before Federal Income Tax and Dividend	54	46	44	44	38
Policyholder Dividend	34	33	32	31	29
Pretax Gain from Operations	20	13	12	13	9
Federal Income Tax	—	—	—	—	—
Net Operating Gain	20	13	12	13	9
Realized Capital Gains	(10)	(1)	8	1	18
Net Income	10	12	21	14	27
Total Net Admitted Assets	2,380	2,210	2,172	2,074	1,957
Operating Return on Total Adjusted Capital (%)	11.0	5.8	6.2	7.4	5.9
Pretax Return on Total Assets Pre-Dividend (%)	2.3	2.1	2.1	2.1	2.0
Pretax Return on Total Assets Post-Dividend (%)	0.9	0.6	0.6	0.6	0.5
Pretax Operating Margin (%)	8.4	6.3	5.6	7.2	4.8
Expense Ratio (%)	0.5	0.5	0.4	0.4	0.4
Net Investment Yield (%)	6.5	6.6	6.6	5.7	6.7

Note: Statutory accounting principles.  
Source: Navy Mutual Aid Association.

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 6.6% yield consistently over the last five years due to low reinvestment risk and strong credit performance.

## Investments and Liquidity

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. 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. The majority of invested assets are managed internally.

Fitch views the Association's investment performance as good with consistent levels of investment income and strong credit-related performance. The investment yield of 6.6% compared quite favorably with the life industry's average yield of 5.3% at year-end 2009, due in part to its longer-than-average 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.

The Association's bond portfolio is composed of very high credit quality assets. Approximately one-third of the bond portfolio was invested in U.S. Treasury and federal agency securities and government-sponsored enterprise securities at year-end 2009. The investment policy assures that only companies whose bonds are rated 'BBB' or better and with a Stable to Positive Rating Outlook are eligible for purchase, with a limit on investment in bonds rated 'BBB' to be no more than 15% of the bond portfolio.

Navy Mutual's bond portfolio typically exhibits a long duration to better match the life insurance-dominated liability portfolio. The long duration of assets exposes Navy Mutual to interest rate risk and, historically, has been a key driver of excess interest-crediting rate levels. 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.

In addition, Navy Mutual limits its aggregate investment in common stocks, direct mortgages, and private real estate trusts to 6% of total assets. At year-end 2009, common stock investment increased to 4% due mainly to market appreciation. Directly placed mortgage loans accounted for only 0.3% of the Association's investment portfolio and all mortgage loans are in a performing status.

Fitch considers Navy Mutual's asset liability management to be sound. 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

Fitch views the Association's investment performance as strong with consistent levels of investment income and favorable, credit-related performance.

## Investment Portfolio

(\$ Mil.)

	2009	2008	2007	2006	2005
Total Invested Assets	2,141	2,192	2,135	2,039	1,924
% Bonds	85.5	88.2	85.6	84.6	84.6
% Common and Preferred Stock	4.0	3.0	6.2	7.4	6.8
% Mortgage Loans	0.6	0.3	0.2	0.2	0.3
% Real Estate	0.2	0.2	0.2	0.2	0.2
% Policy Loans	6.3	6.5	6.4	6.4	6.5
% Cash and Equivalents	3.0	1.1	0.5	0.4	0.4
% Affiliated Investments	---	---	---	---	---
% Other Invested Assets	0.4	0.8	0.9	0.8	1.2
Below Investment Grade/Total Adjusted Capital (TAC) (%)	19.0	16.5	21.4	19.9	25.1
Troubled Real Estate/Total Adjusted Capital (%)	---	---	---	---	---
Unaffiliated Common Stock/Total Adjusted Capital (%)	47.1	38.8	64.0	78.9	82.6
Schedule BA Other Invested Assets/TAC (%)	5.0	9.1	8.8	8.5	15.3
Risky Assets Ratio (%)	70.1	64.5	54.2	107.3	170.8

Note: Statutory accounting principles.

Source: Navy Mutual Aid Association, Fitch Ratings.

Fitch believes Navy Mutual's liquidity is very good due to the composition of the invested assets and conservative product design features.

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. Under its most severe interest rate scenario, management determined that the composition and distribution of its investment portfolio were more than sufficient to meet its cash flow demands without any undue harm to its financial strength or adverse effect on the cash values of its existing members.

Fitch believes Navy Mutual's liquidity is good due to the composition of the invested assets and conservative product design features. The investment portfolio is composed of more than 92% cash and publicly traded securities. Navy Mutual's product design features high crediting rates on the interest-sensitive whole life policies and various settlement options that pay above-market interest rates, providing added incentive for members to leave their money with the Association. Additionally, good levels of cash flow from operations provide an added level of comfort regarding the protection provided to policyholders.

### Capitalization

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.

Fitch views Navy Mutual's estimated statutory risk-adjusted capital ratio as solid at approximately 360% of the company action level at year-end 2009. 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. When capital was stressed for potential 2010 investment losses under Fitch's core investment stress, Navy Mutual's statutory capital was viewed as solid for the rating.

Fitch views Navy Mutual's estimated statutory risk-adjusted capital ratio as solid at approximately 360% of the company action level at year-end 2009.

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.

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. Fitch believes the Navy Mutual's investment allocation modifications have a favorable effect upon this volatility.

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, 2009, adjusted surplus has grown at a 6.8% 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.

Fitch notes that under its newly introduced total financing and commitment (TFC) ratio, Navy Mutual demonstrates modest reliance on capital markets for funding compared with its peers. At year-end 2009, 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 \$35 million under loan at year-end 2009 versus \$129.8 million under loan at year-end 2008.

## Capitalization

(\$ Mil.)

	2009	2008	2007	2006	2005
Beginning-of-Period Total Adjusted Capital	161	208	192	158	144
Net Operating Gain	78	33	12	13	9
Net Realized Gain/Loss	(10)	151	8	1	18
Change in Unrealized Gain/Loss	73	(58)	-	20	(12)
Change in Reserve Valuation	7	-	-	-	-
Paid-in Capital/Surplus	-	-	-	-	-
Dividends to Stockholders	-	-	-	-	-
Other Changes	(1)	1	(4)	-	-
Total Changes	38	(47)	16	34	14
End-of-Period Total Adjusted Capital	200	161	208	192	158
Statutory Surplus	175	140	179	161	133
Asset Valuation Reserve	25	21	30	28	25
1/2 Policyholders' Dividends	-	-	-	-	-
Regulatory Capital (Total Adjusted Capital)	200	161	208	192	158
Assets/Statutory Surplus (x)	13.6	15.9	12.2	12.7	14.7
Adjusted Liabilities/Statutory Surplus (x)	12.5	14.8	11.0	11.5	13.5

Note: Statutory accounting principles.  
Source: Navy Mutual Aid Association

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# Success is



Navy Mutual  
Annual Report 2009

## Over the Horizon

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.

## Over the Horizon

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

# Serving and

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

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



# protecting.

**Navy**  
**★ Mutual**  
BENEFITS • INSURANCE • SINCE 1879



## A Report from the Chairman and the President

Despite ongoing turmoil in the world's financial markets, 2009 was a great year for Navy Mutual. We continued to prudently manage your assets and expand the Association:

- We protected your interests.** We invested conservatively and carefully controlled our business costs throughout 2009. Our constant vigilance allowed us to provide you with an attractive return on your assets.
- Our total insurance in force grew to above \$20 billion, an increase of approximately 7%.
  - Our total assets grew to a total of almost \$2.3 billion.
  - Our direct premium revenue increased by 35% this year.
  - We returned over \$34 million to our Members in premium refunds and interest credits.

**We guarded your funds.** While other insurers lost money on risky investments, Navy Mutual stayed true to its conservative investment policies. Navy Mutual always invests your money with care, primarily in government-backed or AAA quality bonds. We earned a 6.6% net investment yield in 2009, a full percentage point above industry averages.

**We grew your Association.** In 2009, we expanded our targeted marketing campaign to include Sea Service communities in North and South Carolina and Maryland. We insured over 3500 new Members and Family members, with active duty personnel buying \$1.9 billion in new insurance.

**We educated the Sea Services.** In 2009, Navy Mutual educated approximately 26,000 Sea Service members and their families on survivor benefits, survivor financial management, and the replacement value of military benefits. We are proud that the Sea Services recognize Navy Mutual as an approved provider of financial education, trusting us to help transitioning service members and their families understand important financial matters.

**We assisted your families.** Navy Mutual provided sensitive, personal care and support to the survivors of over 1,000 of our insureds who passed away this year.

**We earned your trust.** Our Members again reported satisfaction levels well above industry averages, and stayed with Navy Mutual throughout this turbulent year.

**Our strength was recognized.** The independent Fitch rating agency, which rates over 100 insurers nationwide, continued our A+ rating, making Navy Mutual one of only 30 Fitch-rated companies to receive an affirmed rating with a stable outlook in 2009.

**We are honored to serve you.** We take great pride in our Members' lasting confidence and trust. We look forward to serving Sea Service members and their families for many years to come.

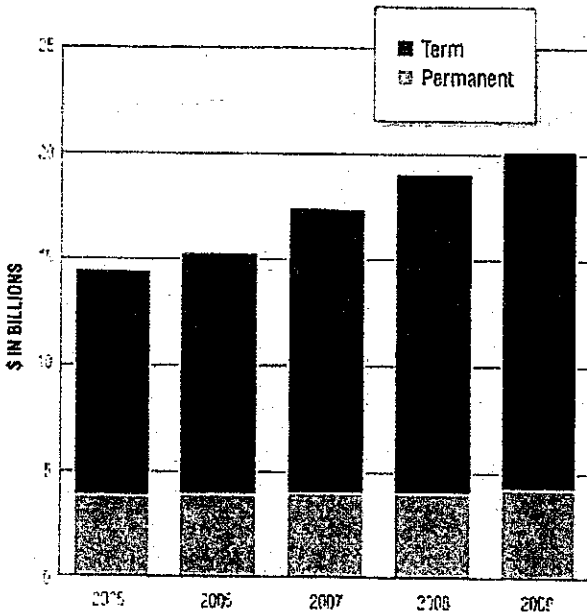


Richard W. Mies  
Chairman of the Board



Bruce B. Engelhardt  
President

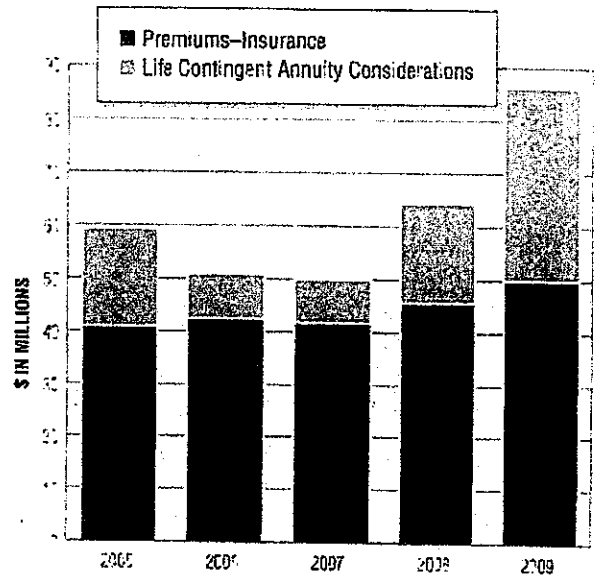
## INSURANCE IN FORCE



Insurance in force, beginning of year	19,125,273,120
Insurance sold in 2009	2,233,162,827
Death benefits incurred	63,833,250
Terminations and other changes	839,872,134
<b>Insurance in force, end of year</b>	<b>\$20,454,730,563</b>

Direct Premium Revenue  
**35%**  
 increase over 2008.

## DIRECT PREMIUMS



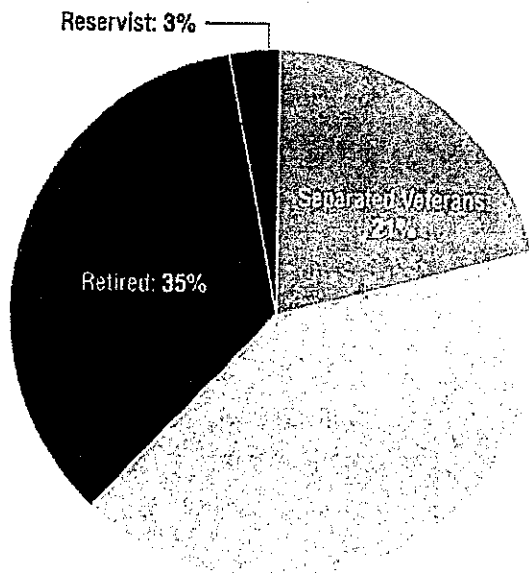
Total direct premiums, end of year **\$87,700,660**

**Success is knowing that, when others are depending on you, Navy Mutual is the organization you trust.**

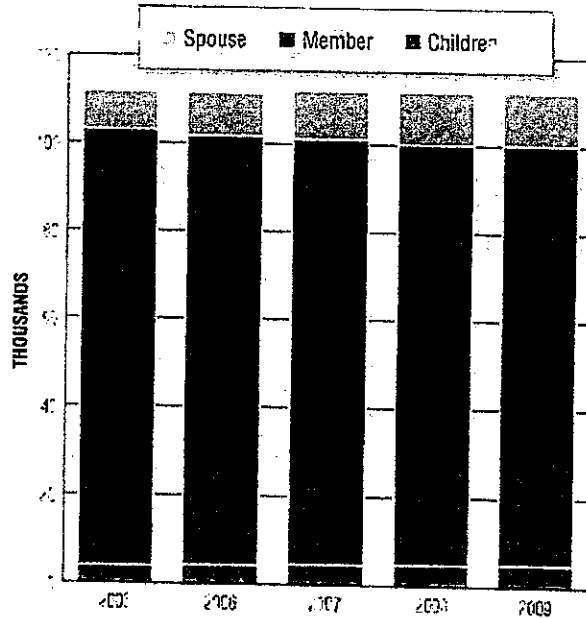
- Total Assets: \$1.2 billion
- Total Premiums: \$1.4 billion
- Total Revenue: \$1.4 billion
- Total Direct Premiums: \$87.7 million

Active Duty Personnel  
took out  
**\$1.9 billion**  
in life insurance

### MEMBER PROFILE



### MEMBERS & FAMILIES



Members, beginning of year	95,457
Gains	1,548
Losses (including deaths)	2,656
<b>Members, end of year</b>	<b>94,349</b>
Spouses & Children, beginning of year	16,838
Increase	996
<b>Spouses &amp; Children, end of year</b>	<b>17,834</b>
<b>Total, end of year</b>	<b>112,183</b>

## Did you know? Your Association...

- ...recycles over 9.5 tons of paper each year.
- ...has taken numerous eco-friendly steps this year, such as:
  - electronic voting for the Board of Directors,
  - delivering our E-News Insider newsletter to your inbox quarterly,
  - using recycled paper and envelopes for all mailings.
- ...participates in over 50 events per year, spreading the word about the benefits of Navy Mutual.
- ...increased staffing, even during the economic downturn, due to Member's increasing activity and product needs.



Success is guarding your security  
with stability and growth.

First select NMAA's program that best suits the pressures of the current economic and financial marketplace as exhibited by market type, sales, capital structure and positive earnings. Make the conservative District and the special profile of the State District a choice by NMAA's solid equity-based Plan's stress sensitive and expanded liability coverage opportunities in order to ensure by your own selection that you have developed a plan to guard your business and family by using the most advanced approach.

—The Highway Program, 1995, 1996

## **Success is Remembering Who We Serve.**

We focus on one thing and one thing only: providing life insurance for those who serve, and we strive to do it better than anyone else.

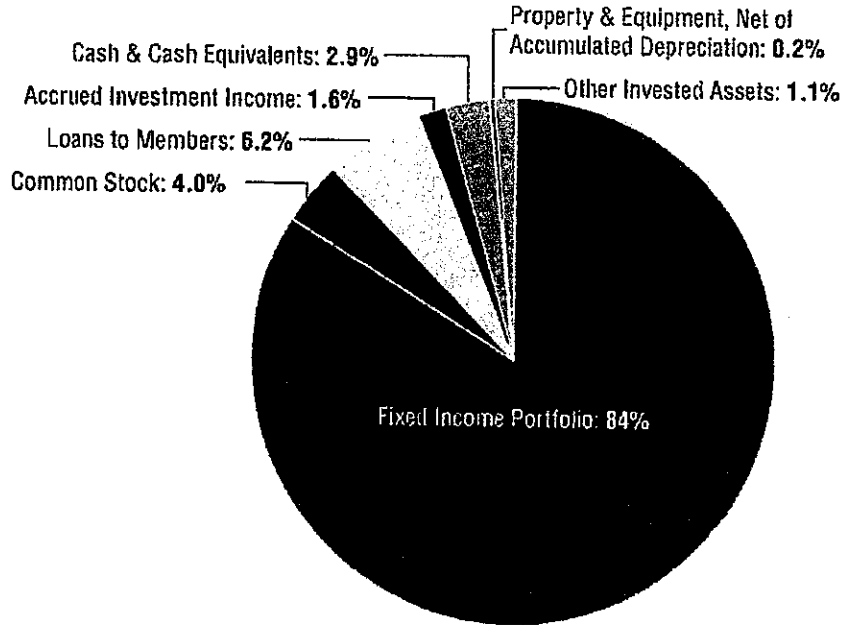
Our Mission is to serve the military – both those who are currently serving, and those who have completed their service. We perform our Mission by focusing on this core group and their specific needs.

When you call Navy Mutual, you are connected directly to a live person in our office whose focus is serving you. Unless our office is closed, you will not be led through a series of menus to reach the person you need, and you do not need an access code.

Each and every Member has been assigned a specific representative whose sole focus is taking care of your needs. This guarantees the personalized customer service you want from us, and that we are proud to provide.



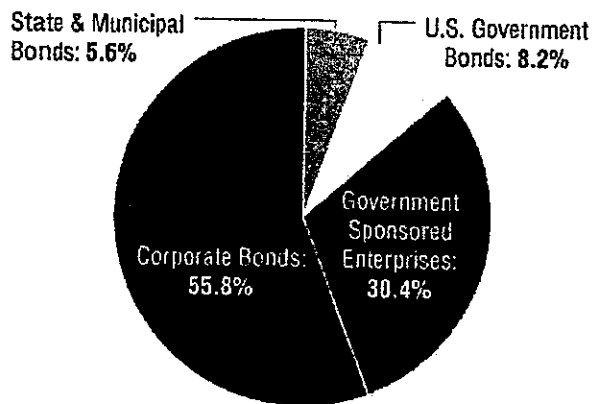
## 2009 ASSETS



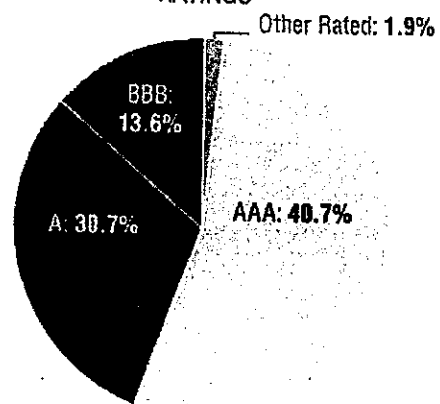
Net Investment  
Yield of  
**6.6%**  
achieved

## FIXED INCOME PORTFOLIO

### SECURITY CLASSES



### RATINGS



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

	December 31,	
	2009	2008
<b>ADMITTED ASSETS</b>		
Fixed-maturity securities	\$1,955,126,184	\$1,889,097,673
Equity securities	94,010,184	65,766,059
Mortgage-backed securities	45,735,566	44,600,213
Mortgage loans	15,087,373	5,610,912
Other invested assets	9,958,173	13,259,331
Member loans	148,036,439	142,361,591
Career Assistance Program loans, net	635,343	2,396,031
Cash and short-term investments	69,567,089	23,775,991
Receivables for securities	-	1,010,575
<b>Total cash and invested assets</b>	<b>2,338,156,351</b>	<b>2,187,878,376</b>
Investment income due and accrued	38,202,386	37,525,758
Home office building, net	3,901,672	4,032,960
EDP equipment, net	153,592	210,950
<b>Total admitted assets</b>	<b>\$2,380,414,001</b>	<b>\$2,229,648,044</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Aggregate reserve for life contracts:		
Life insurance	\$1,886,206,799	\$1,788,246,655
War risk and other adverse deviations	76,197,616	76,197,616
<b>Total aggregate reserve for life contracts</b>	<b>1,962,404,415</b>	<b>1,864,444,271</b>
Death benefits payable	19,263,161	19,862,866
Liability for deposit-type contracts	183,004,499	169,085,517
Employee benefit liabilities	5,770,873	4,532,370
Asset valuation reserve	25,076,482	21,048,003
Interest maintenance reserve	5,939,452	6,351,027
Securities lending reserve	1,461,390	1,653,390
Other liabilities and deferred income	2,855,844	2,819,298
<b>Total liabilities</b>	<b>2,205,776,116</b>	<b>2,089,796,742</b>
Net assets	174,637,885	139,851,302
<b>Total liabilities and net assets</b>	<b>\$2,380,414,001</b>	<b>\$2,229,648,044</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,	
	2009	2008
<b>INCOME</b>		
Premiums earned, net	\$50,086,521	\$45,654,293
Annuity considerations	37,614,139	18,699,482
Survivor income deposits	1,466,078	1,029,459
Net investment income	145,698,979	139,263,753
Amortization of interest maintenance reserve	795,244	766,550
<b>Total income</b>	<b>\$235,660,961</b>	<b>\$205,413,537</b>
<b>BENEFITS AND EXPENSES</b>		
Death benefits, excluding war claims	\$63,383,250	\$57,136,848
Death benefits from war claims	450,000	4,600,000
<b>Total death benefits</b>	<b>63,833,250</b>	<b>61,736,848</b>
Surrender benefits	16,537,360	15,189,765
Annuity benefits	7,320,808	3,514,747
Survivor income	1,170,071	1,153,578
Change in aggregate reserve for life contracts	72,344,552	54,935,786
Change in reserves for war risk and other adverse deviations	-	2,900,000
Interest on deposit-type contracts	9,353,418	9,285,851
General operating expenses	11,141,730	10,702,428
<b>Total benefits and expenses</b>	<b>\$181,701,189</b>	<b>\$159,419,003</b>
Increase from operations before excess interest credits and term refunds	\$53,959,772	\$45,994,534
Excess interest credited to life benefit reserves	(32,416,103)	(30,749,641)
Term refunds	(1,741,159)	(2,352,449)
Increase from operations before realized gains	19,802,510	12,892,444
Net realized gains (losses)	(10,110,483)	(1,022,925)
<b>Increase in net assets from operations</b>	<b>9,692,027</b>	<b>11,869,519</b>
Net assets, beginning of period	139,851,302	178,646,869
Change in accounting estimate - reserve valuation basis	6,800,511	-
Change in unrealized appreciation (depreciation) of equity securities and other invested assets	23,170,333	(57,940,031)
Change in asset valuation reserve	(4,028,479)	8,552,977
Change in additional minimum liability for pension and postretirement benefits	(1,132,230)	(951,675)
Change in non-admitted assets	284,421	(326,357)
<b>Net assets, end of period</b>	<b>\$174,637,885</b>	<b>\$139,851,302</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 22212.



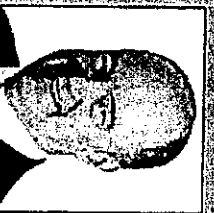
# 2009 Board Members



ADM Richard W. Mass  
USN, Ret. *Chairman*



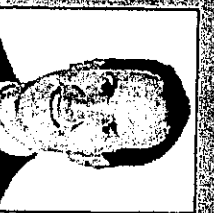
LTJG Jeffrey W. Ostar  
USMC, Ret. *Vice Chair*



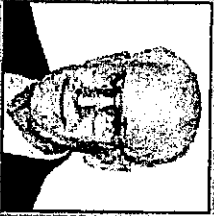
RADM Bruce B. Engelhardt  
USN, Ret. *President*



Mr. Eric J. Candelieri, CFM



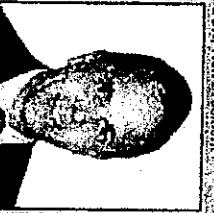
CAPT James A. Gorman  
USN, Ret.



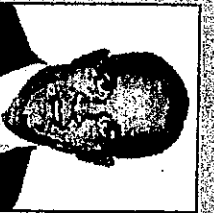
RADM Herbert C. Cobb, USN  
Ret.



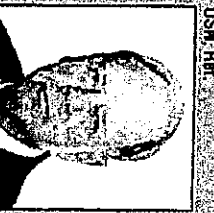
RADM Kent C. Gartin, USN  
Ret.



CAPT Gary L. Ferguson  
USN, Ret.



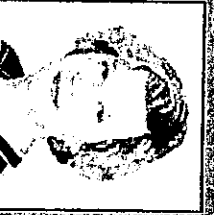
CAPT R. Glenn Limes  
USN, Ret.



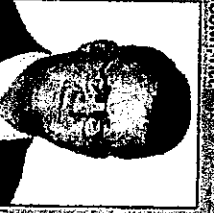
RADM John (Mike) J. J. Libano, USN, Ret.



RADM Kathleen E. Martin  
USN, Ret.



CAPT Michelle M. McAtee  
SC, USN, Ret.



CAPT Michael H. Madanile  
USN



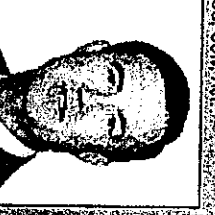
COL John C. Hoops  
USMC, Ret.



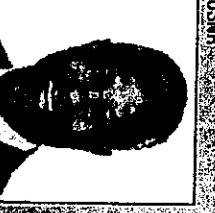
CDR Erica Schwartz  
USCG/USPHS



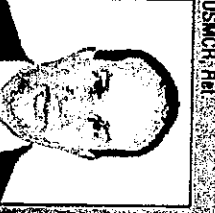
RADM Patrick M. Stipan  
USCG, Ret.



CDR John J. Linton  
USN, Ret.



Mr. Eric Williams, III  
USMC, Ret.



CAPT Matt A. Wilson  
USN, Ret.

## Service Liaisons

- MCPD/C Charles (Skip) W. Bowen, USCG
- RADM Denise S. Cantor, RADM USPHS
- VADM Mark Ferguson, USN
- SM/MC Carlton W. Keel, USMC
- RADM Dennis J. Moynihan, USN
- MCPD/V Rick West, USN

## Officers 2009

- RADM Bruno B. Engelhardt, USN, Ret., CLU, President
- Thomas A. Benton, Vice President, Technology & Systems
- Lauren M. Bloom, Esq., General Counsel & Vice President, Personnel Services & Education
- Michelle L. Brickwerdt, Vice President, HR & Administration
- D. Timothy Erby, FSA, MAAA, Vice President, Risk Management
- Allen M. McCreary, CFA, CLU, Vice President, Investments
- CDR John M. McVeigh, USN, Ret., Vice President, Membership



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**Insuring those who serve.**

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.



May 15, 2000

Deputy Under Secretary of Defense (Program Integration)

Presented to:

General Robert E. O'Rourke  
Department of Defense  
Office of the Under Secretary of Defense  
for Policy and Planning

EXCERPT

Exhibit D

## 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.



## Success is serving you.

At First of America Bank, we know financial success means more than just the money. It means the freedom to live the life you want. That's why we're committed to providing the highest quality financial services and the best financial advice. We know that's the only way to help you reach your financial goals. For more information, call 1-800-368-3636 or visit us online at [www.firstofamerica.com](http://www.firstofamerica.com).



Insurance claim  
benefits paid within  
**14 days**  
on average

## We Protect Your Loved Ones.

You can count on Navy Mutual to help survivors with one-of-a-kind, caring support and service when our Members pass away.

- Our dedicated Beneficiary Services staff are **100% committed** to helping your survivors every step of the way.
- Navy Mutual provides beneficiaries with **immediate payments** of 10% of the total benefits, up to \$10,000, to defray initial expenses.
- Not only do we pay our insurance claims quickly, **we help families notify other insurers**, also.
- Navy Mutual's vault offers **secure storage of wills and other important documents**. We quickly return those documents to Members' loved ones, making it easier to handle each Member's estate.
- **We explain military survivors' benefits** to beneficiaries.
- If families need **legal assistance** when the Veterans Administration denies or limits a claim, Navy Mutual will provide that assistance at no extra charge.
- When a Member's family has needs that we cannot satisfy, our Beneficiary Services staff can connect that family with other veterans service organizations who offer the special assistance they need.

Navy Mutual, and especially our Beneficiary Services staff, knows how painful the loss of a loved one can be. We handle every claim with **compassion, professionalism and personal care**.

## 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 65.

**Permanent 'Plus':** Interest-sensitive whole life insurance that 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 that best meets your needs.

**Single Premium Deferred Annuity:** A tax-deferred wealth accumulation retirement vehicle purchased with a single premium that allows you to lock in an interest rate.

**Flexible Premium Retirement Annuity:** A tax-deferred wealth accumulation retirement vehicle that 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

SBF Decision Assistance

