

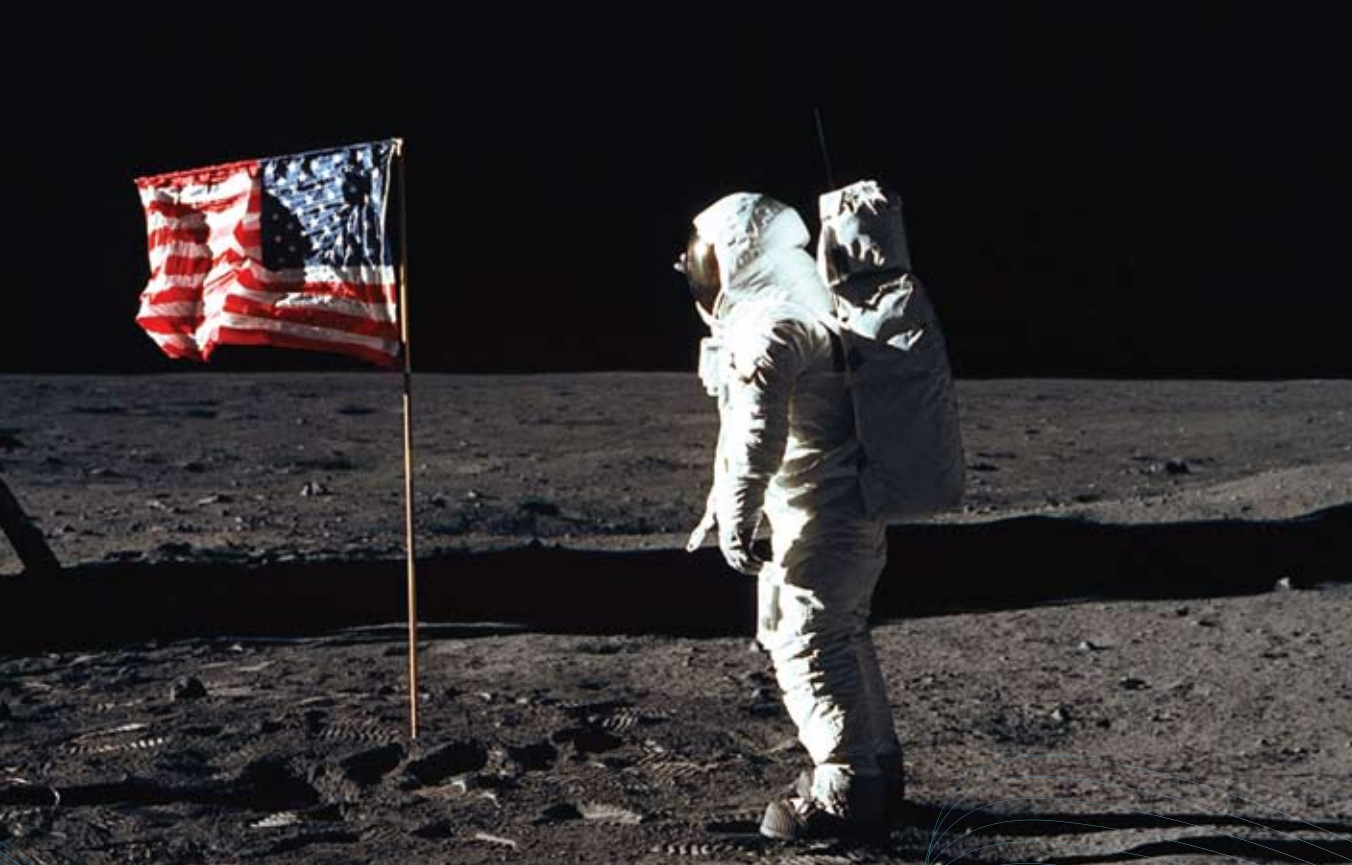
# INSURING **YOU** IS OUR DUTY

2 0 0 7 A N N U A L R E P O R T









When man took his first steps on the moon, **Navy Mutual insured him.**

Since 1879, in times of peace and war, insuring you has been our duty.

**Navy Mutual is with you, every step of the way.**

## IN MEMORY OF



Rear Admiral James R. Ahern, USN, Ret.  
1923 – 2007

Rear Admiral James Ahern, served as Navy Mutual's President from 1979-1987. His dedicated service enhanced Navy Mutual Aid Association's value to its Members and visibility among Sea Service personnel.



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VP, Membership

# A REPORT FROM THE CHAIRMAN AND THE PRESIDENT

At Navy Mutual, we are honored to continue to serve you, our Members and your loved ones. We understand the special needs of the men and women of the Sea Services and their families, and we are committed to providing you with high quality life insurance and devoted service.

**WE TAKE OUR DUTY TO YOU SERIOUSLY.** In 2007, we continued to manage your financial assets to ensure that the benefits our Members and their loved ones depend upon will be there for generations to come.

- Our total insurance in-force grew to \$17.6 billion, or 11%, setting a new record over 2006's record-breaking level.
- Total assets continued to grow, reaching a total of \$2.2 billion.
- We continued to assign our superior crediting rate of 7.4% credited to cash values.
- We returned \$31.6 million to our Members in the form of premium refunds and interest credits.

We are pleased that the independent Fitch Rating Agency continues to rate Navy Mutual as an A+ insurer based upon our solid reserves, prudent investment policies and strong niche position as a provider of low-cost life insurance to the Sea Services. Even when our country is at war, Navy Mutual prudently manages its risks even as it serves active duty Sea Service personnel without military, duty or travel restrictions, war clauses, aviation clauses, or terrorism clauses.

**WE KEEP YOUR ASSETS SAFELY INVESTED.**

While other companies suffered major losses through the sub-prime mortgage debacle, Navy Mutual did not.



*Richard W. Mies*  
Richard W. Mies  
Chairman

*Bruce B. Engelhardt*  
Bruce B. Engelhardt  
President & CEO

Navy Mutual invests your money prudently (primarily in AAA quality bonds) and avoids risky investments like sub-prime mortgages so that we can keep our promises to future generations of Sea Service members for many years to come. Our net investment yield for 2007 was a very healthy 6.6%.

**WE SET SAIL FOR BROADER SEAS.** For the first time in over a decade, the Board of Directors proposed a comprehensive revision of Navy Mutual's bylaws to our Non-Resident Directors. That revision, which was approved by the NRDs in early 2008, permits us to reach out to Sea Service veterans in some states regardless of their eligibility for recall. We have also stepped out with a new, targeted advertising campaign that will make potential Members aware of the benefits of joining Navy Mutual. Our goal is to grow our Navy Mutual family while remaining true to our 129-year-old mission and the very special community we serve.

**WE GIVE BACK TO THE SEA SERVICE**

**COMMUNITY.** In 2007, Navy Mutual representatives criss-crossed the country, educating 29,817 Sea Service members and their families on survivor benefits, survivor financial management, and the replacement value of military benefits. We are proud to be recognized by the Navy, Marine Corps and Coast Guard as an approved provider of financial education, and will continue to provide high-quality education to the Sea Services in the coming year.

**OUR DUTY LIES WITH YOU.** Navy Mutual is proud of its long tradition of service to the men and women of the Sea Services and their loved ones. In the year ahead, we look forward to continuing in this great tradition. It is our honor, and our duty, to serve you.



## Protecting Those Who Matter **MOST**

**YOU WANT TO MAKE SURE YOUR FAMILY IS TAKEN CARE OF, NO MATTER WHAT – THAT'S WHEN YOU TURN TO NAVY MUTUAL AID ASSOCIATION.**

**YOU KNOW THAT REGARDLESS OF WHERE YOU ARE AND WHAT YOU DO, NAVY MUTUAL IS WITH YOU.** With no military service restrictions, you deploy with peace of mind knowing that your policy has no war, terrorism or hazardous duty clauses. Navy Mutual says YES to military members by not charging additional premiums or limiting coverage amounts.

**YOU KNOW THAT NAVY MUTUAL TRULY UNDERSTAND THE NEEDS OF MILITARY MEMBERS AND THEIR FAMILIES.** Navy Mutual has been insuring the men and women who protect this nation since 1879. That's a tradition of service and beneficiary support that has continued longer than most life insurance companies have even existed!

**BECAUSE WHEN OTHERS ARE DEPENDING ON YOU, YOU WANT AN ORGANIZATION YOU CAN TRUST.** Navy Mutual is and always will be your provider. Since we are not brokers for another company, your plans are with us alone. The people you trusted when you made the promise to protect your family are the same people who will be taking care of that family in the years to come, without any extra fees for services.

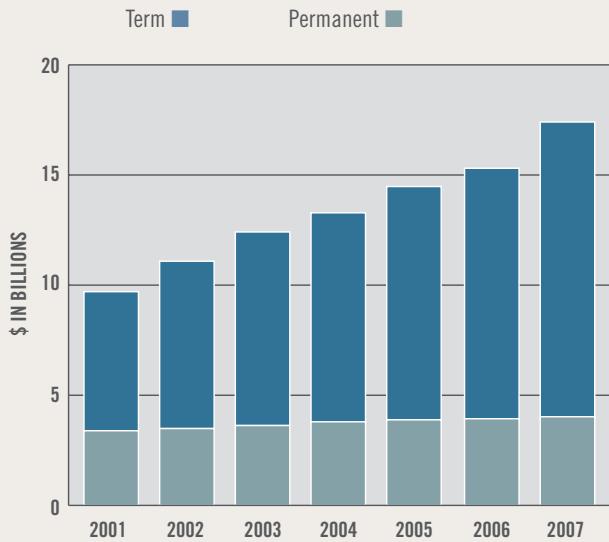
**BUILDING RELATIONSHIPS THAT LAST FOR GENERATIONS.** Navy Mutual Aid Association knows that the best way to serve its Members is to know them, know their needs, understand their goals, and treat them with respect. We listen to you and we learn from you so we can better provide the products and services you need at each stage of your life.

Navy Mutual began operations in 1879 with a fellowship of officers. Today, your Association truly represents the entirety of the Sea Services, with an ever-growing representation among enlisted members of all ranks, and eligibility for membership extended to honorably discharged veterans as authorized by state law.

Insuring you really is our duty.

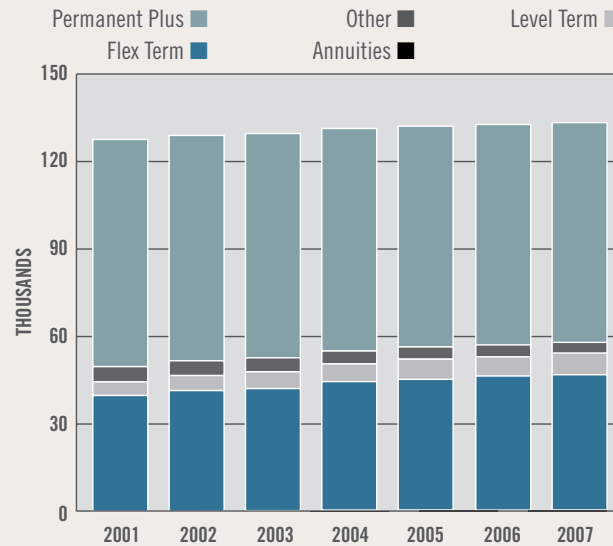


## INSURANCE IN FORCE



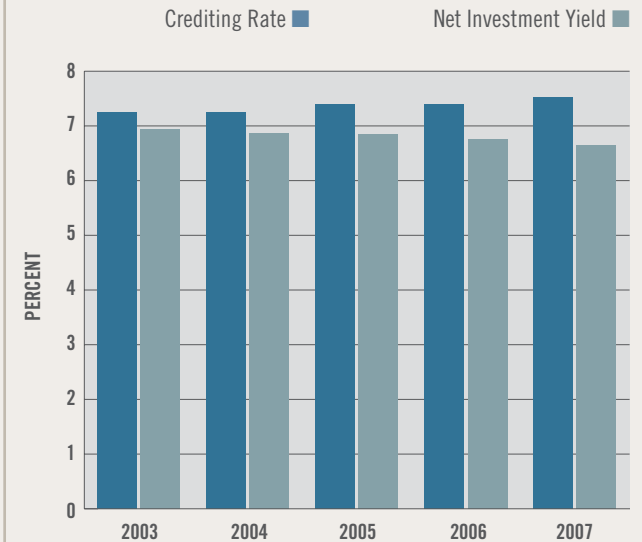
Insurance in force, beginning of year	15,870,561,496
Insurance sold in 2007	2,555,867,042
Death benefits incurred	51,572,171
Terminations and other changes	767,642,438
<b>Insurance in force, end of year</b>	<b>17,607,213,929</b>

## PLANS IN FORCE



Insurance plans in force, beginning of year	134,633
New policies issued	6,717
Policies matured by death	1,033
Other policy net terminations	4,613
<b>Insurance plans in force, end of year</b>	<b>135,704</b>

## CREDITING RATE



Crediting rate: 7.4%  
Net investment yield: 6.6%



## MEMBER LOYALTY

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

- expanding insurance in force by 11%;
- increasing average new plan value to \$402,717;
  - over \$20,000 more per plan than last year; and
- new Member purchases increasing 14% over last year.

# 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.

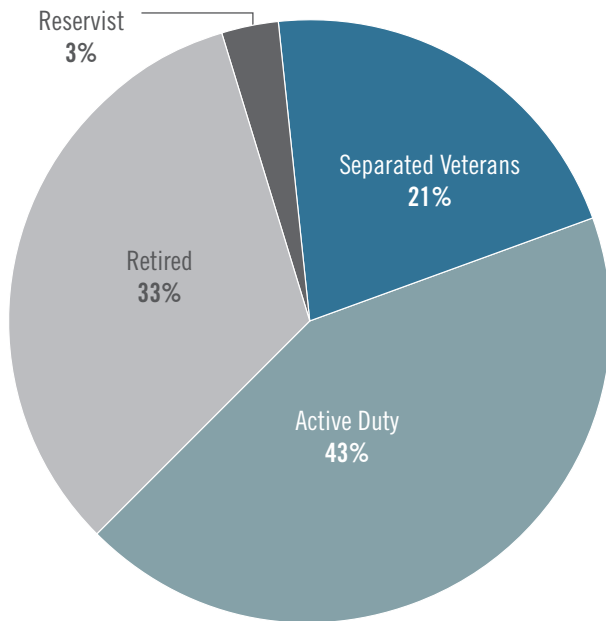
# Our **VISION**

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

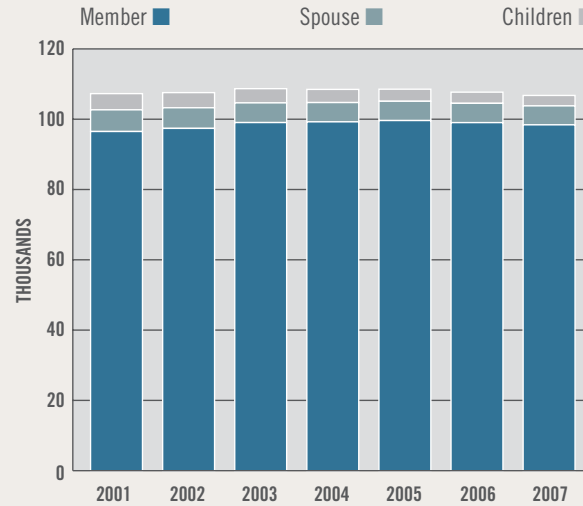




## MEMBER PROFILE



## MEMBERS & FAMILIES



Members, beginning of year	97,455
Gains	1,926
Losses	2,771
<b>Members, end of year</b>	<b>96,610</b>
Spouses & Children, beginning of year	10,138
Increase	595
<b>Spouses &amp; Children, end of year</b>	<b>10,733</b>

“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



## UNIQUE MEMBER SERVICES

- Legal representation to the Department of Veterans Affairs
- Survivor counseling and claims assistance
- Secure vault storage of valuable documents
- Immediate response to Member needs
- Assistance in securing legally entitled federal benefits

## Peace of **MIND**

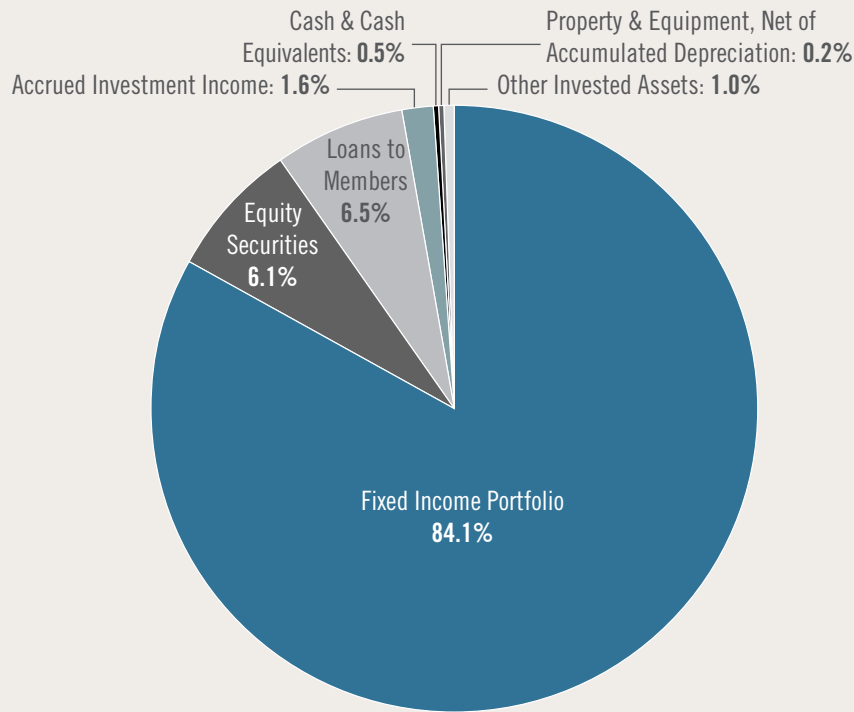
Navy Mutual possesses the disciplined investment approach and operational capacity that is critical to success in today's economic environment. This is why we had no direct exposure to sub-prime mortgage losses and what has allowed us to maintain our solid and reliable rates of return. We are focused on our superior financial strength so that when your beneficiaries need to call on us, we will be here for them in their time of need. That's what it means to provide peace of mind, this year and for years to come. Navy Mutual takes our stewardship of your money seriously; you and your family have earned our care.

Navy Mutual is continually expanding its ability to serve our Members wherever they may be located around the world. Through expanded hours of operation, web accessibility and online benefit centers, Navy Mutual is innovating new methods of support for Members and their families. The security of our portfolio ensures that we will be able to further expand the scope of our quality products and services in the coming years as well.



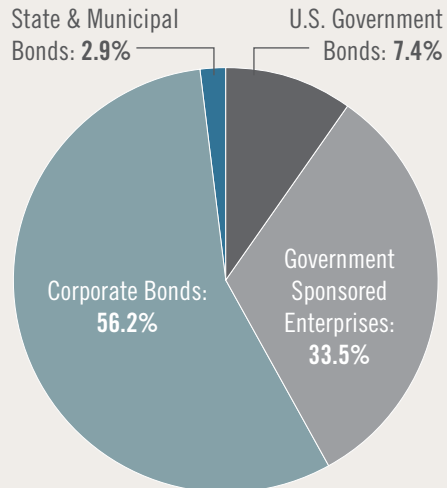


## 2007 ASSETS

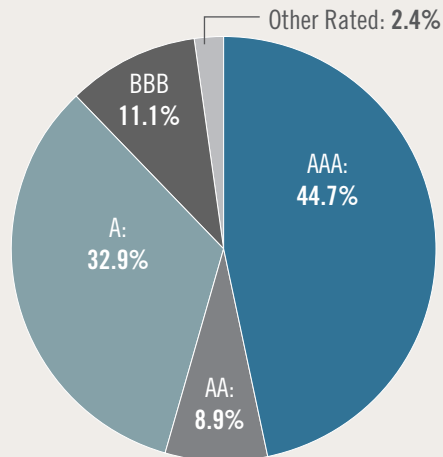


## FIXED INCOME PORTFOLIO

### Security Classes



### Ratings



“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



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

	2007	DECEMBER 31, 2006
<b>ADMITTED ASSETS</b>		
Fixed-maturity securities	\$1,799,068,371	\$1,715,820,729
Equity securities	133,358,402	151,198,039
Mortgage-backed securities	28,162,796	9,075,182
Mortgage loans	4,373,956	3,284,514
Other invested assets	11,719,979	3,709,487
Member loans	136,091,205	130,681,559
Career Assistance Program loans	6,524,365	12,547,536
Cash and short-term investments	11,652,582	8,919,350
Total cash and invested assets	<u>2,130,951,656</u>	<u>2,035,236,396</u>
Investment income due and accrued	36,204,425	34,543,272
Home office building, net of accumulated depreciation of \$1,643,063 and \$1,509,280 for 2006 and 2005, respectively	4,160,929	4,289,572
EDP equipment, net of accumulated depreciation of \$933,720 and \$844,688 for 2006 and 2005, respectively	197,987	207,692
<b>TOTAL ADMITTED ASSETS</b>	<b><u>\$2,171,514,997</u></b>	<b><u>\$2,074,276,932</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Aggregate reserve for life contracts:		
Life insurance	\$1,702,561,228	\$1,632,693,940
War risk and other adverse deviations	73,297,616	66,597,616
Total aggregate reserve for life contracts	<u>1,775,858,844</u>	<u>1,699,291,556</u>
Death benefits payable	16,453,822	12,288,769
Liability for deposit-type contracts	159,286,366	158,995,774
Employee benefit liabilities	3,651,079	3,653,305
Asset valuation reserve	29,600,980	28,349,149
Interest maintenance reserve	6,305,567	6,533,503
Other liabilities and deferred income	1,711,470	1,763,996
Total liabilities	<u>1,992,868,128</u>	<u>1,910,876,052</u>
Net assets	<u>178,646,869</u>	<u>163,400,880</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$2,171,514,997</u></b>	<b><u>\$2,074,276,932</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,	
	2007	2006
<b>INCOME</b>		
Premiums earned, net	\$41,747,018	\$42,458,069
Annuity considerations	8,262,610	8,472,552
Survivor income deposits	616,657	599,003
Net investment income	134,643,050	128,784,525
Amortization of interest maintenance reserve	790,361	702,042
<b>TOTAL INCOME</b>	<b>186,059,696</b>	<b>181,016,191</b>
<b>BENEFITS AND EXPENSES</b>		
Death benefits excluding war claims	55,160,182	49,639,520
Death benefits from war claims	800,000	1,890,000
<b>TOTAL DEATH BENEFITS</b>	<b>55,960,182</b>	<b>51,529,520</b>
Surrender benefits	14,165,891	13,147,461
Annuity benefits	5,667,647	4,611,472
Survivor income	1,105,559	1,056,801
Change in aggregate reserve for life contracts	40,647,984	44,797,596
Change in reserves for war risk and other adverse deviations	6,700,000	5,610,000
Interest on deposit-type contracts	8,830,569	8,481,158
General operating expenses	9,022,441	8,215,035
<b>TOTAL BENEFITS AND EXPENSES</b>	<b>142,100,273</b>	<b>137,449,043</b>
Increase from operations before excess interest credits and term refunds	43,959,423	43,567,148
Excess interest credited to life benefit reserves	(29,219,304)	(28,080,136)
Term refunds	(2,411,953)	(2,496,928)
Increase from operations before realized gains	12,328,166	12,990,084
Net realized gains	8,345,489	665,808
Increase in net assets from operations	20,673,655	13,655,892
Net assets, beginning of period	163,400,880	133,227,642
Change in unrealized appreciation of equity securities and other invested assets	(398,558)	20,179,471
Change in asset valuation reserve	(1,251,831)	(3,706,109)
Change in additional minimum liability for postretirement benefits	(19,760)	(29,938)
Change in non-admitted assets	14,561	73,922
Prior period adjustment	(3,772,078)	0
<b>NET ASSETS, END OF PERIOD</b>	<b>\$178,646,869</b>	<b>\$163,400,880</b>

### 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.



## Keeping Our Promises to You

**AS A VALUED MEMBER OF NAVY MUTUAL, YOU CAN TRUST NAVY MUTUAL TO TAKE CARE OF YOUR LOVED ONES WHEN YOU NO LONGER CAN.**

- As soon as we learn that a Member has passed away, our dedicated Beneficiary Services staff works to efficiently process the beneficiary's claim, and helps the Member's loved ones notify other insurers as well.
- Navy Mutual provides beneficiaries with immediate payments of 10% of total benefits (up to \$10,000) to help defray initial expenses.
- Navy Mutual can provide beneficiaries with information about military survivors' benefits. If the Veterans Administration denies or limits a claim, we have qualified legal assistance available to pursue the claim at no additional cost to the beneficiary.
- If a Member has used Navy Mutual's vault to store a will or other important documents, our Beneficiary Services staff returns those documents to the Member's family immediately, cutting red tape and allowing for more efficient distribution of the Member's estate.
- Navy Mutual furnishes a survivor checklist to beneficiaries, which can make it easier for loved ones to cope in the aftermath of the Member's demise.
- If the Member's family has needs beyond what we can satisfy, our Beneficiary Services staff can put the family in touch with other veteran service organizations that provide special assistance to veterans' families.
- Navy Mutual recognizes that the passing of a Member can be devastating to that Member's family and friends, and our Beneficiary Services staff is trained to handle each and every claim with particular care.



## WE'LL LOOK AFTER YOUR LOVED ONES... THAT'S A PROMISE NAVY MUTUAL IS PROUD TO KEEP.

### 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 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 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

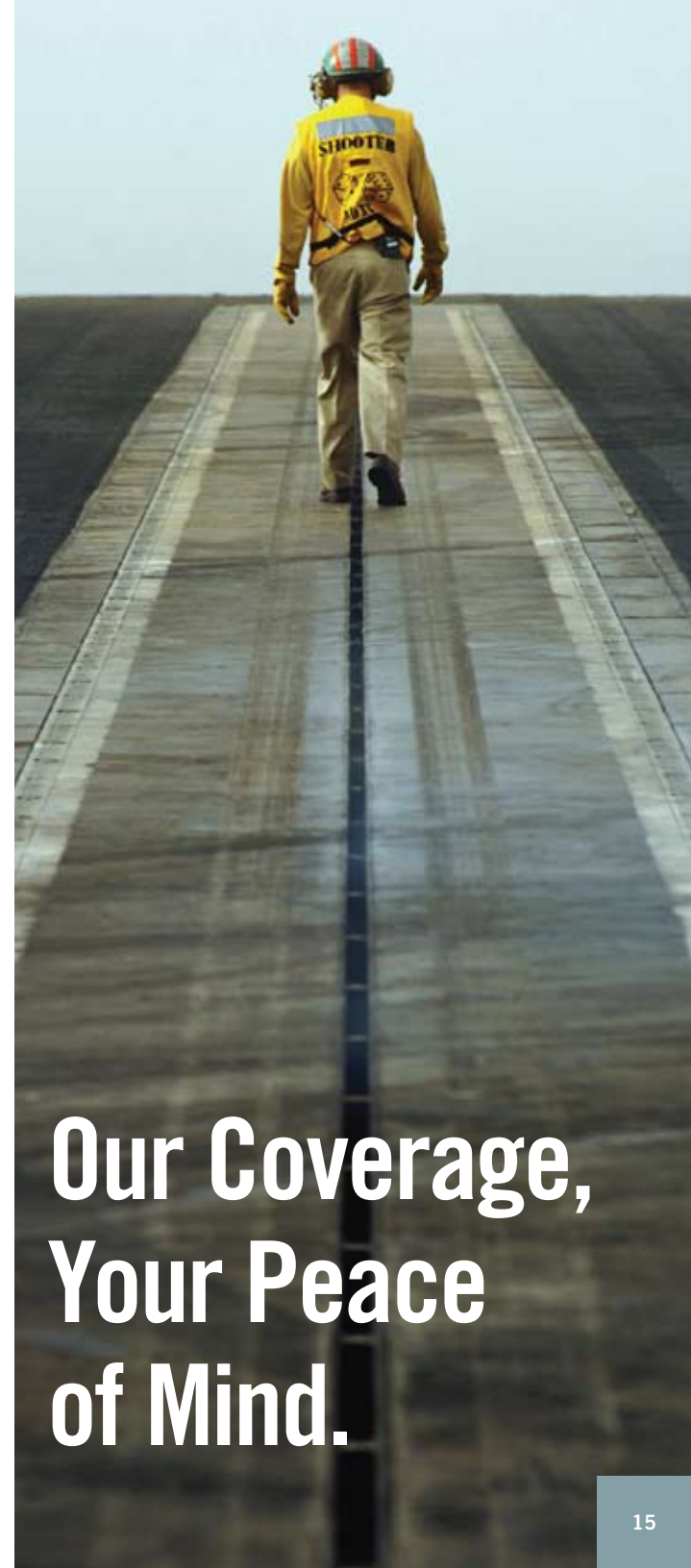
## OUR EDUCATION PROGRAM

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

## Serving the Sea Services

NAVY ■ MARINE CORPS ■ COAST GUARD ■ PUBLIC HEALTH SERVICE  
NOAA COMMISSIONED OFFICER CORPS

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Your Peace  
of Mind.

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