



**ACTIVE, GUARD,
RESERVE, RETIREES**



SPOUSES



**CHILDREN,
GRANDCHILDREN**

AAFMAA 2008 Annual Report



*Insurance from
a name you can trust.®..*



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(AS OF 31 DECEMBER 2008)

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Chairman of the Board



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GEN, USA, Retired
Vice Chairman of the Board
Chairman, Finance Committee



DENNIS J. REIMER
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MAJ, USA, Retired
President and Treasurer

DIRECTOR EMERITUS

GEN JOHN R. GUTHRIE, USA, Retired

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President and Treasurer

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Vice President for Insurance

FLORENCE B. (MAGGIE) WILSON, CPA
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Secretary

(BOARD MEMBERS ARE LISTED IN ORDER OF LONGEVITY ON THE BOARD.)

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MAJ, USAR



JOHN A. DUBIA
LTG, USA, Retired



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Col, USAF, Retired



JOHN A. SHAUD
Gen, USAF, Retired



TYRUS W. COBB
COL, USA, Retired



JOSEPH E. DEFRANCISCO
LTG, USA, Retired



GEORGE L. HORVATH, III
CSM, USA, Retired



LEWIS E. MONROE
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BG, USA, Retired



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MACK C. HILL
BG, USA, Retired



LARRY O. SPENCER
Maj Gen, USAF

Message from the Chairman



It is my honor to again address the AAFMAA membership as Chairman in this 2008 Annual Report. It has been another outstanding year for AAFMAA! In 2008, membership, insurance in force and policies in force all reached record highs...and especially noteworthy, a 3,800 net growth in policies—the largest net growth in policies in AAFMAA's 130 year history! These positive results highlight AAFMAA's strength and demonstrate that even during these turbulent economic times, your Association continues to thrive. Please see the Message from our President and Treasurer to learn more about AAFMAA's economic foundation and the resulting accomplishments.

By remaining focused, we have been successful. We focus on two things: (1) providing low-cost life insurance for our members and their families, and (2) excellent services to the members. Our current services include the unique Survivor Assistance Services provided to surviving families of all deceased members and Living Services, provided to Grandfathered members. We will always provide these critically important services as part of AAFMAA's core business. Accordingly, as with all core functions, these services will soon be provided in-house by AAFMAA. We will continue to expand and offer additional services as AAFMAA evolves into a full service life insurance company. AAFMAA's solid economic foundation enables us to seize investment opportunities and to offer expanded services and enhanced insurance options for our membership as needs change and opportunities arise.

We realize you have a choice when it comes to life insurance. We're glad you have chosen AAFMAA. Every member can rest assured that they are receiving insurance at the lowest possible cost and services unmatched by any other insurance company...and you can sleep soundly every night knowing that your Association is safe. Our careful investment strategy has paved a solid foundation that gives us flexibility to respond without compromising the Association's long-term mission.

With expanding membership, a sound financial structure of NO debt and NO sub-prime mortgages, and a dedicated management team, your Association is well poised for continued success. Also, in these times when there is scrutiny of Director compensation, stock options, jets, etc...your Board of Directors is committed to AAFMAA and serves without compensation. With the Board's vision and the staff's dedication, AAFMAA will continue its important mission of taking care of members and their families with low-cost insurance and expanded services.

Respectfully,

A handwritten signature in black ink that reads "Donald M. Babers". The signature is written in a cursive, slightly slanted style.

DONALD M. BABERS
Lieutenant General, USA, Retired
Chairman, Board of Directors

AAFMAA's Board of Directors receive no compensation or bonuses for serving. They dedicate their time and service freely to all AAFMAA members.

AAFMAA
will always
operate with
its members'
best interests
in mind.

A TRADITION OF PROTECTING ARMY AND AIR FORCE MEMBERS AND FAMILIES FOR 130 YEARS

AAFMAA was established in 1879 by military members for military members to aid the families of deceased soldiers with their final expenses. AAFMAA always puts the members' best interests first, from the purchase of the first policy to the final payout of the death benefit.

Who can be a member? All ranks of Army and Air Force, who are active duty (or within 120 days after separation), retired, National Guard and Reserve below the age of 66, USMA and USAFA cadets, and ROTC contract and scholarship cadets are eligible for membership. Additionally, thanks to recently enacted legislation, honorably discharged veterans below age 66, residing in Virginia, North Carolina or South Carolina are eligible.



AAFMAA Through the Years



		MEMBERS	INSURANCE IN FORCE
2008	AAFMAA achieves all-time highs in insurance in force, membership and policies in force Eligibility expanded to honorably discharged veterans residing in Virginia, North Carolina and South Carolina New policy – Generations Plus introduced	81,469	\$18.9 Billion
2005	New policy— <i>ANNUITY</i> Life introduced	72,804	\$12.1 Billion
2004	Maximum coverage increased to \$800K	70,167	\$9.6 Billion
2000	Eligibility expanded to enlisted personnel	62,637	\$2.5 Billion
1995	NCOs eligible for membership	58,765	\$1.3 Billion
1987	Name changed to Army and Air Force Mutual Aid Association (AAFMAA)	52,812	\$1.2 Billion
1984	Air Force officers eligible for membership	49,913	\$611.8 Million
1965	Vietnam War	33,717	\$238.7 Million
1941	World War II	8,741	\$36.6 Million
1879	Army Mutual Aid Association founded by a committee chaired by LTC Roger Jones, the Association's first member, as a result of the Battle of Little Big Horn. Its purpose was "to aid the families of the deceased members in a prompt, simple and substantial manner."	305	\$0.2 Million

Dear Fellow AAFMAA Members,

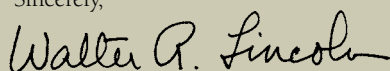
It's great to look back on another successful year at AAFMAA and exciting to look forward to the opportunities ahead. Since 1879 AAFMAA has been privileged to serve each member and surviving spouse. Management and the Board work diligently to safeguard your money, offer low-cost life insurance and provide unique Survivor Assistance Services. Overall for 2008, net policies grew by 3,800, the highest annual net growth in AAFMAA history. We achieved 14% growth in insurance in force, a 4% growth in membership and we generated 5.2% Net Yield on Assets for 2008! These successful results allow us to sustain a crediting rate of 7% for 2009 on Value-Added Whole Life policy cash values. As your cash value grows, your death benefit grows.

While this past year has certainly brought its share of turbulence in the markets, AAFMAA views the volatility as an opportunity to buy bonds of strong companies at distressed levels. This strategy will generate interest income that will benefit members for years to come and, potentially, substantial price appreciation as more rational markets prevail. Remember, we cannot avoid risk; every investment has risk. We can only choose which type of risk to accept and the amount of that risk. Then, through careful evaluation we try to ensure that AAFMAA is sufficiently rewarded for the risks associated with each investment. We're not perfect; we lost on Lehman Bros, AIG and Washington Mutual bonds and when market values have declined for other investments, we have recognized these losses, even though not realized. While relatively unscathed by the market turbulence, we have not been untouched. After all expenses and returning \$44.7 million to survivors in death benefits, returning \$8.2 million in surrender benefits, delivering \$2.4 million in living and survivor services, plus other benefits provided to members, we still had Net Income of \$4.9 million. However, after the market losses and writedowns, we had a Net Loss of \$10.6 million. AAFMAA's Contingency Reserve absorbs these impacts. We expect some of these writedowns to recover as we hold for the long term. All members should feel reassured that our Association has no debt, no sub-prime mortgages, no derivatives, no credit default swaps, no hedge funds, no private equity funds and no securities lending.

Our strength allows us to be patient and consider opportunities. Although 2008 was a turbulent year, it has not deterred us from our long-term plan to become a full service insurance company. In this regard, we recently purchased a 5.2 acre property in Reston, Virginia; Armed Forces Property LLC. As a wholly owned subsidiary of AAFMAA, this location will serve as the home for AAFMAA's new financial services company. As AAFMAA brings the Living Services and Survivor Assistance Services back in-house, these services will be performed from this location. AAFMAA will continue to implement the expansion plan to extend and improve our services and enhance insurance options for our members as needs change and opportunities arise.

AAFMAA focuses on the long-term. We have a dedicated team on board, guided by a long-term vision and a commitment to doing the right thing for the members. We truly appreciate your trust in AAFMAA. Thank you for your membership.

Sincerely,



WALTER R. LINCOLN, CFP®
MAJ, USA, Retired
President and Treasurer

Message from the President and Treasurer



Doing three
things well assures
AAFMAA's success:
Control Costs,
Sell More,
Invest Wisely.

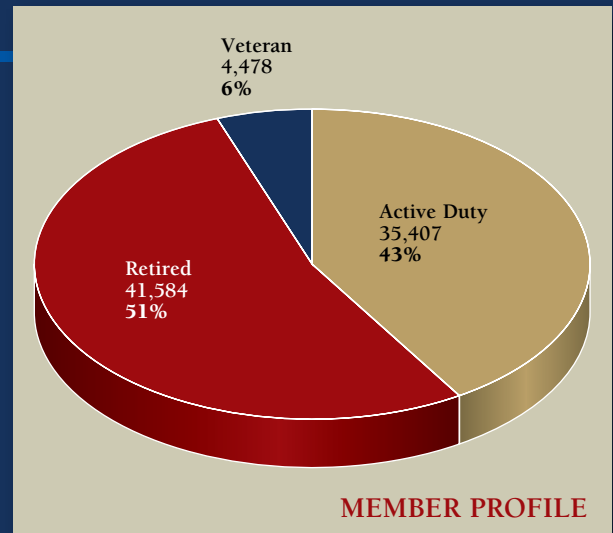
AAFMAA Overview 2008

COMPARATIVE HIGHLIGHTS

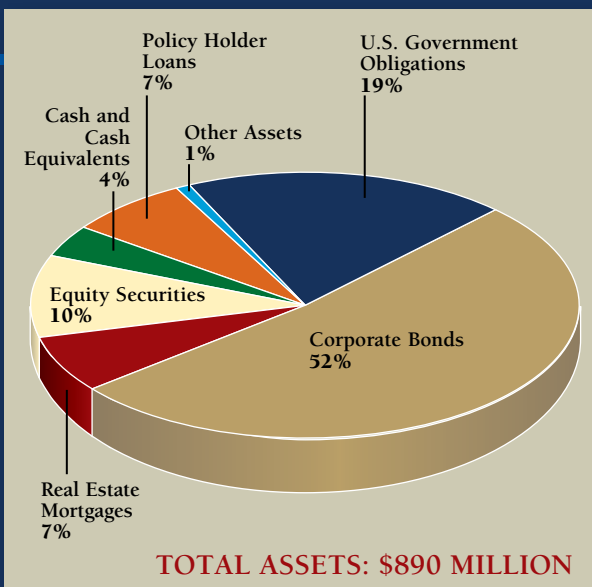
	YEAR ENDED 31 DECEMBER	
	2008	2007
Insurance in force (\$ billions)	\$18.9	\$16.6
Total reserves (\$ millions)	\$852	\$896
Number of members	81,469	78,557
Number of member deaths	945	917
Death benefits paid (\$ millions)	\$44.7	\$42.9
Net Yield on Assets	5.2%	5.4%

STATEMENT OF THE ASSOCIATION ACTUARY A.C. EDDY, INC., NORCROSS, GA

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.



AAFMAA's membership has grown by 30% since 2000.



AAFMAA's assets, at market value, have increased by \$176 M since 2000.

2008 Assets

SUMMARY OF ASSETS

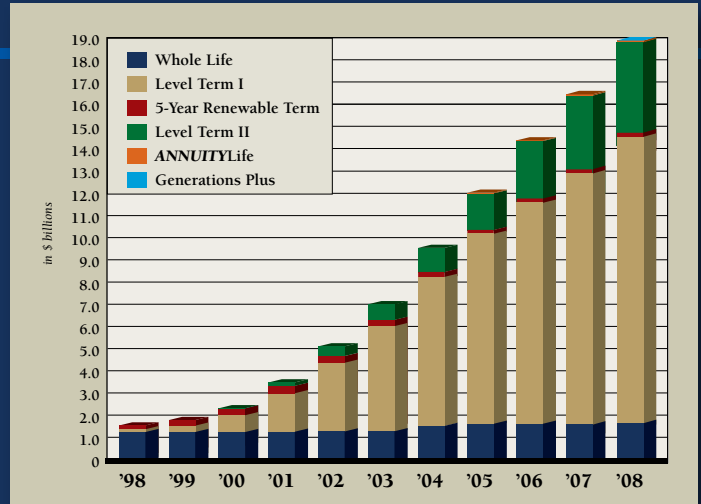
SECURITIES	YEAR ENDED 31 DECEMBER	
	AMORTIZED VALUE	MARKET VALUE
U.S. Government Obligations	\$ 165,482,019	\$ 178,013,036
Corporate Bonds	458,157,295	418,030,264
Real Estate Mortgages	63,065,300	63,065,300
Cash and Cash Equivalents	38,524,081	38,524,366
Equity Securities*	87,792,220	87,792,220
Investment in Subsidiaries	201,519	201,519
Accrued Investment Income	9,451,442	9,451,442
TOTAL SECURITIES	822,673,876	795,078,147
Policy Holder Loans	66,300,304	66,300,304
Property & Equipment		
Net of Accumulated Depreciation	410,154	410,154
Other Assets	290,731	290,731
TOTAL ASSETS	\$ 889,675,065	\$ 862,079,336

*Valued at market

Insurance in Force has Increased from \$2.5 Billion in 2000 to \$18.9 Billion in 2008.

Insurance in Force

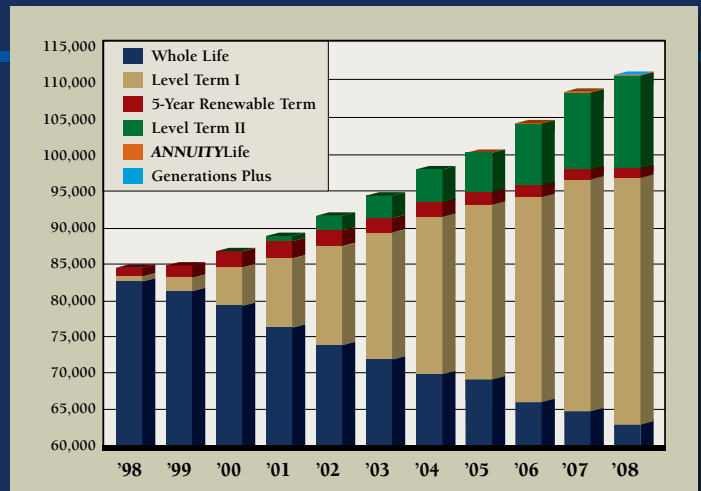
Insurance in force, beginning of year	\$16,602,371,321
Insurance sold.	\$3,361,903,070
Death benefit growth.	\$9,777,701
Death benefits incurred.	(\$44,688,354)
Other terminations	(\$1,024,237,985)
INSURANCE IN FORCE, END OF YEAR	\$18,905,125,753



Policies in Force

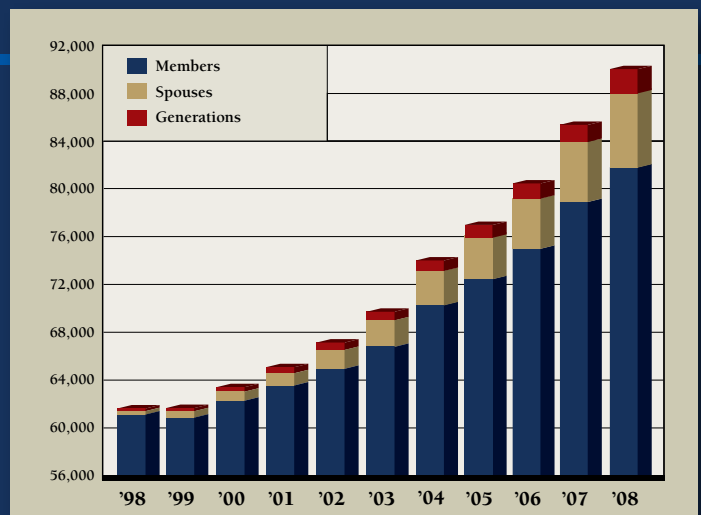
Policies in force, beginning of year	108,008
New policies issued.	8,556
Policies matured by death.	(1,371)
Other policy net terminations	(3,385)
POLICIES IN FORCE, END OF YEAR.	111,808

Note: Beginning balance includes 203 Service Only (SO) policies and ending balance includes 194 SO policies.



Lives Insured

Members, beginning of year	78,557
Gains	5,699
Losses.	(2,787)
Members, end of year	81,469
Spouses and Generations, beginning of year	6,502
Gains	1,248
Losses.	(213)
Spouses and Generations, end of year.	7,537
LIVES INSURED, END OF YEAR	89,006



Statement of Assets, Liabilities and Reserves

STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2008

ASSETS

BONDS

U.S. Government	\$ 165,482,019	
Corporate Bonds	<u>458,157,295</u>	
TOTAL BONDS		\$ 623,639,314

REAL ESTATE MORTGAGES 63,065,300

EQUITY SECURITIES 87,792,220

INVESTMENT IN SUBSIDIARIES 201,519

POLICY HOLDER LOANS 66,300,304

CASH AND CASH EQUIVALENTS 38,524,081

ACCRUED INVESTMENT INCOME 9,451,442

PROPERTY AND EQUIPMENT, AT COST
(less accumulated depreciation of \$1,123,248) 410,154

OTHER 290,731

TOTAL ASSETS \$ 889,675,065

LIABILITIES AND RESERVES

LIABILITIES

Death Benefits Payable	\$ 12,209,260	
Accounts Payable	17,243,130	
Deferred Revenue	1,593,384	
Settlement Options Payable	6,919,861	
Accrued Post-Retirement Benefits	<u>27,854</u>	
TOTAL LIABILITIES		\$ 37,993,489

RESERVES

Insurance and Other	\$ 693,332,778	
Interest Maintenance	38,964,275	
Contingency Reserve		
Asset Valuation	\$ 19,165,950	
War Risk	49,961,440	
General Contingency	<u>50,257,133</u>	
Total Contingency Reserve		<u>119,384,523</u>
TOTAL RESERVES		<u>851,681,576</u>

TOTAL LIABILITIES AND RESERVES \$ 889,675,065

See Notes to Financial Statements

Statement of Income and Reserves

STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2008

INCOME

Premiums	\$	35,455,856	
Dues		53,608	
Consideration for supplemental contracts		647,602	
Net investment income		43,636,300	
Amortization of Interest Maintenance Reserve		<u>2,207,777</u>	\$ 82,001,143

BENEFITS AND EXPENSES

Death benefit claims	\$	44,688,354	
less war claims		<u>(3,200,000)</u>	
Net death benefit claims	\$	41,488,354	
Surrender benefits		8,177,022	
Service Benefits		2,441,498	
Premium refunds, term insurance		945,902	
Supplemental contract payments		476,224	
Insurance expense			
Increase in aggregate reserves for life policies		15,733,012	
Increase in reserves for supplemental contracts		467,497	
Increase in reserves for dues		24,083	
General administrative and operation expenses		<u>7,340,858</u>	<u>(77,094,450)</u>

NET INCOME BEFORE EXCESS INTEREST CREDITS AND INVESTMENT TRANSACTIONS

			4,906,693
Excess interest credited to policies			<u>(7,679,914)</u>

NET LOSS AFTER EXCESS INTEREST CREDITING

Net realized loss on investments (excluding Interest Maintenance Reserve gains of \$2,468,718)			<u>(7,812,949)</u>
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NET LOSS \$ (10,586,170)

RESERVE TRANSACTIONS

INSURANCE AND OTHER RESERVES, BEGINNING OF YEAR \$ 669,428,272

Increase in reserves for life policies	\$	15,733,012	
Increase in reserves for supplemental contracts		467,497	
Increase in reserves for dues		24,083	
Excess interest credited		<u>7,679,914</u>	
Net change in reserves for the year			<u>23,904,506</u>

INSURANCE AND OTHER RESERVES, END OF YEAR \$ 693,332,778

GENERAL CONTINGENCY RESERVE

GENERAL CONTINGENCY RESERVE, BEGINNING OF YEAR \$ 104,951,109

Net Loss	\$	(10,586,170)	
Increase in unrealized depreciation of equity securities		(54,802,487)	
Decrease in non-admitted assets		286,407	
Decrease in Asset Valuation Reserve		6,171,338	
Decrease in War Risk Reserve		<u>4,236,936</u>	
Net change in reserves for the year			<u>(54,693,976)</u>

GENERAL CONTINGENCY RESERVE, END OF YEAR \$ 50,257,133

See Notes to Financial Statements

Statement of Cash Flows

STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Net Loss		\$ (10,586,170)	
Adjustments to reconcile net loss to net cash			
Amortization of Interest Maintenance Reserve	\$ (2,207,777)		
Equity (Earnings)/Losses in Subsidiaries	(6,227)		
Realized Net Losses from Investments	5,345,419		
Realized Net Gains included above transferred			
to Interest Maintenance Reserves	2,468,718		
Amortization/Accretion of Bond Discount/Premiums	(2,566,478)		
Net Increase in Life & Other Reserves	20,704,507		
Depreciation expense	424,100		
Bad debt expense	963,093		25,125,355
Changes in operating assets and liabilities			
Increase in Accrued Investment Income	\$ (589,114)		
Increase in Other Assets	(63,038)		
Increase in Death Benefits Payable	2,180,254		
Increase in Accounts Payable	2,429,684		
Increase in Deferred Revenue	87,534		
Increase in Settlement Options Payable	1,333,532		
Decrease in Accrued Post-Retirement Benefits	(8,995)		5,369,857
NET CASH PROVIDED BY OPERATING ACTIVITIES			19,909,042

CASH FLOWS FROM INVESTING ACTIVITIES

Policy Loans Issued	\$ (22,074,138)		
Policy Loan Repayments	22,358,448		
Securities Purchased	(1,680,317,016)		
Securities Sold/Redeemed	1,655,848,260		
Capital Contributions to Subsidiary	(91,132)		
Non-admitted Assets Purchased	(148,020)		
Dispositions of Non-admitted Assets	54,943		
NET CASH USED BY INVESTING ACTIVITIES			(24,368,655)
Decrease In Cash And Cash Equivalents			(4,459,613)
Cash And Cash Equivalents At Beginning Of Year			42,983,694
CASH AND CASH EQUIVALENTS AT END OF YEAR			\$ 38,524,081

See Notes to Financial Statements

Notes to Financial Statements

(AS OF 31 DECEMBER 2008)

1. SIGNIFICANT ACCOUNTING POLICIES

These notes summarize major accounting policies followed by AAFMAA to prepare our financial statements. The accompanying financial statements conform to statutory accounting practices. Although AAFMAA is not subject to insurance regulation, these financial statements conform to accounting practices used by insurance companies for regulatory reporting purposes. Such accounting practices, referred to as prescribed or permitted practices, are a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). Because a major objective of regulatory authorities is to protect the interests of policyholders, statutory accounting practices are oriented toward demonstrating the solvency of insurance companies and their ability to pay policyholder claims. Management believes statutory accounting practices more conservatively measure AAFMAA's financial position and results of operations. The more significant categories of differences between statutory accounting practices and GAAP are summarized below:

- Valuation of investments in bonds
- Accounting for the costs of acquiring new business
- Calculation of certain reserves for policy contract benefits
- Designation of certain assets as "non-admitted" under statutory accounting practices
- Accounting for investment in subsidiaries
- Recording of an Asset Valuation Reserve (AVR) and Interest Maintenance Reserve (IMR)

Cash and Cash Equivalents

Cash includes currency on hand and demand deposits with banks or other financial institutions. Cash equivalents are short-term highly liquid investments with original maturities of three months or less.

Investments

Investments are reported according to prescribed valuation procedures in accordance with the National Association of Insurance Commissioners (NAIC). Equities are reported at fair market value. Investments in bonds are reported at amortized cost.

Real estate mortgages, policy loans and Career Assistance Program (CAP) loans are reported at unpaid principal balances, or cost. The carrying values of loans are periodically evaluated and adjusted for any perceived impairment in value.

Interest on bonds is recorded as investment income when earned and adjusted for any amortization of premium or accretion of discount. Dividends are recorded as income when earned. Interest income from loans is recorded when earned, except on loans in foreclosure or where collection is uncertain. CAP loans are non-collateralized. CAP loans of \$1,031,695 were written off due to non-performance during the year. This number represents about 3% of total CAP loans outstanding as of year-end.

Realized gains and losses on sales of investment securities are included in the Statement of Income and Reserves, except as noted in the Interest Maintenance Reserve section below. Unrealized gains and losses are included in the Contingency Reserves in the Statement of Assets, Liabilities and Reserves.

The Summary of Assets shows the amortized value and market value of each category of securities held by AAFMAA. Mortgages are private placements for which quoted market values are not available. For mortgages and policy loans, cost is used as the market value. Equity securities are reported at cost of \$160,001,091 less unrealized losses of \$72,208,871.

AAFMAA originates fixed rate commercial real estate mortgages. The loans are first lien mortgages on income producing properties with loan to value ratios of 75% or less. They have characteristics similar to conventional single-family home mortgage loans. If repaid early, there is an additional Prepayment Premium due. The Prepayment Premium is usually a percentage of the outstanding principal balance corresponding to the years left between the prepayment date and the final maturity of the loan.

Property and Depreciation

Under statutory accounting practices, the book values (cost less accumulated depreciation) of certain office equipment, furniture and application software are considered "non-admitted assets". These assets are accorded no value. As non-admitted assets, they reduce the amount in the General Contingency Reserve by the amount of their book value. As of 31 December 2008, \$1,262,988 of assets considered non-admitted have reduced the General Contingency Reserve. The building, land improvements and certain other equipment (admitted assets) are being depreciated on a monthly basis. Total depreciation for the year was \$424,100.

Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Actuarial Reserves

Actuarial reserves for all policies are equal to the sum of the individual benefit plan accumulation values but not less than the minimum cash value for each policy. AAFMAA held certain additional reserves at 31 December 2008 such that the sum of accumulation values and these additional reserves were equal to or greater than minimum reserves for such policies as prescribed by the NAIC for regulated insurers. Excess interest credits, as reflected in the Statement of Income and Reserves, equaled the amount credited to cash value accounts in excess of statutory minimums.

Interest Maintenance Reserve (IMR)/Asset Valuation Reserve (AVR)

An IMR is maintained based upon a formula prescribed by the NAIC for the purpose of capturing the realized gains and losses resulting from changes in the overall level of interest rates. These realized gains and losses are amortized into income over the approximate remaining life of the investments had they not been sold. An AVR is maintained based upon a formula prescribed by the NAIC for the purpose of providing for default and equity risks related to AAFMAA's invested assets.

Concentration of Credit Risk

AAFMAA has a concentration risk. All of its real estate mortgages are in the Washington, DC metropolitan area. AAFMAA maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 through 31 December 2009. In addition, the FDIC Transaction Account Guarantee (TAG) Program guarantees full deposit coverage through 31 December 2009 for all non interest-bearing transaction accounts, regardless of the dollar amount. Coverage under the TAG program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. AAFMAA's account used for daily operations is such an account. In addition, AAFMAA maintains various accounts, containing securities and cash, in trust with a large bank custodian. These accounts are uninsured.

Income Taxes

The Association is a tax-exempt, non-profit association as described in section 501(c)(23) of the Internal Revenue Code.

2. NATURE OF BUSINESS

AAFMAA was formed in 1879. It provides life insurance benefits and Survivor Assistance Services. Members consist of active, retired, reserve, and guard, officers, warrant officers, non-commissioned officers, soldiers and airmen of the US Army and US Air Force, cadets serving at the US Military Academy and US Air Force Academy, cadets with ROTC scholarships/contracts and effective in 2008, honorably discharged veterans in Virginia, North Carolina and South Carolina. AAFMAA also offers insurance to the spouses, children and grandchildren of members. Spouses, children and grandchildren are NOT members unless qualified as such in their own right. AAFMAA provides interest-sensitive whole life and term life insurance and Survivor Assistance Services.

Notes to Financial Statements

3. SECURITIES IMPAIRMENTS

AAFMAA recognizes impairment losses when it determines that the value of certain fixed maturity securities has other than temporarily declined during the applicable reporting period, as well as when there are further declines in the values of fixed maturity securities that were initially written down in a prior period. During 2008, AAFMAA recognized total other than temporary impairment losses of \$9,660,586 on securities issued by Residential Capital, LLC, Washington Mutual, Inc., The Bon-Ton Department Stores, Inc., SemGroup L.P., Lehman Brothers Holdings Inc., and Hawaiian Telcom Communications, Inc.

4. RELATED-PARTY TRANSACTIONS

Armed Forces Services Corporation (AFSC) was created 1 July 2000 to provide Living Services and Survivor Assistance Services under contract to AAFMAA. For the year ending 31 December 2008, AAFMAA incurred servicing expenses of \$2,441,498.

5. EMPLOYEE BENEFITS

Retirement Plan

AAFMAA has a 401(k) and profit-sharing plan that covers all employees who meet certain minimum eligibility requirements. AAFMAA may contribute as a matching contribution up to 6% of employee compensation. In addition, AAFMAA may contribute an amount equal to 4% of compensation. The total retirement plan funding for the year ended 31 December 2008 was \$633,510, which includes \$309,649 of AAFMAA contributions and \$323,861 of employees' elective deferrals.

Life Insurance

AAFMAA self-insures each employee for \$50,000 after one year of employment. Employees may obtain additional life insurance coverage with AAF-

MAA at their own expense if they qualify. Employees are NOT members of AAFMAA unless qualified as such in their own right.

6. POST-RETIREMENT BENEFITS

All retiree benefits have been eliminated except for those retirees and/or surviving spouses of retirees previously covered under the retiree health care plan. There are currently four retirees covered under the retiree health care plan until death. Retiree health care plan costs to AAFMAA in 2008 were \$4,144. The retiree health care plan costs AAFMAA 40% of premiums or a fixed monthly amount for select retirees; the retiree contributes 60%. The projected, cumulative obligations are \$27,854.

7. COMMITMENTS

AAFMAA has committed \$2,456,599 to AFSC to provide services to AAFMAA's members for 2009.

8. LAND LEASE

In December 1998, AAFMAA entered into a 30-year agreement with the Department of the Army to lease the land upon which AAFMAA's building is located at Fort Myer, VA. The current year annual lease payment is \$13,455, which is subject to change based on an evaluation of fair market rental value to be performed every five years.

9. SUBSEQUENT EVENT

In January 2009, AAFMAA formed a wholly owned limited liability company, Armed Forces Property LLC. The LLC will hold a property consisting of three buildings on 5.2 acres in Reston, Virginia. The purchase closed 17 February 2009 at a cost of \$16,093,000. AAFMAA is committed to invest approximately \$5,600,000 in building renovations. This property will be used as redundant space for AAFMAA and for future AAFMAA expansion. AAFMAA intends to lease any space not currently required for use by AAFMAA.

TO THE BOARD OF DIRECTORS, ARMY AND AIR FORCE MUTUAL AID ASSOCIATION

We have audited the accompanying statutory basis statements of assets, liabilities and reserves of Army and Air Force Mutual Aid Association as of December 31, 2008, and the related statutory basis statements of income and reserves and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, the Association prepared these financial statements using accounting practices prescribed or permitted by the National Association of Insurance Commissioners, which practices differ from generally accepted accounting principles (GAAP). The effects on the financial statements of the variances between the statutory basis of accounting and GAAP, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present, and are not intended to present in conformity with GAAP, the financial position of Army and Air Force Mutual Aid Association as of December 31, 2008, or results of its operations or its cash flows for the year then ended.

In our opinion, the statutory basis financial statements referred to above do present fairly, in all material respects, the financial position of Army and Air Force Mutual Aid Association as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information (Summary of Assets – 31 December 2008) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berlin Ramos & Company, P.A.

BERLIN, RAMOS & COMPANY, P.A.

March 20, 2009



Generations Plus

Why Start Their Financial Security Now?



The Younger They Start, the Lower the Premiums.



Generations Plus gives your children and grandchildren the option of having **GUARANTEED INSURABILITY** when they turn 21... at affordable low-cost premiums. **YOU** can help plan their financial security **NOW**.

PERMANENT LIFE INSURANCE STARTS BUILDING CASH VALUE NOW—NEVER ANY RISK

- Generations Plus is whole life insurance which builds cash value for their future
- Select initial coverage amount from \$10,000 up to \$30,000
- 100% Money Back Guaranteed of all premiums paid at any time with no questions asked and no surrender charges
- Guaranteed 4% interest rate
- Available age 15 days–12 years



GUARANTEED PURCHASE OPTIONS AT AGES 21, 25 AND 28

- No additional underwriting or health records required
- Get up to 4 times your initial coverage at each eligible age
- Various premium payment options



COVERAGE DOUBLES AT AGE 21 RATE NEVER CHANGES

- Coverage amount automatically doubles at age 21
- No increase in premium

SAMPLE GENERATIONS PLUS MONTHLY PREMIUMS

Coverage automatically doubles at age 21 at no added cost.

AGE	\$10,000	\$15,000	\$20,000	\$25,000	\$30,000
Under 1*	\$6.40	\$9.60	\$12.80	\$16.00	\$19.20
2	\$6.40	\$9.60	\$12.80	\$16.00	\$19.20
4	\$6.50	\$9.75	\$13.00	\$16.25	\$19.50
6	\$6.90	\$10.35	\$13.80	\$17.25	\$20.70
8	\$7.40	\$11.10	\$14.80	\$18.50	\$22.20
10	\$7.90	\$11.85	\$15.80	\$19.75	\$23.70
12	\$8.50	\$12.75	\$17.00	\$21.25	\$25.50

*Minimum age of 15 days. Premiums subject to change. Rates as of 3/12/09. Call for current rates.

A full list of premiums is online at www.aafmaa.com

More AAFMAA Products

ALL AAFMAA POLICIES OFFER THESE VALUABLE FEATURES:

- NO war clause, NO aviation clause, NO terrorist clause
- Can continue after separation or retirement from the military
- Survivor Assistance Services included with every member's policy
- No coverage limitations based upon rank or deployment status
- Coverage available up to \$800,000



LEVEL TERM I

Inexpensive term life insurance designed for younger members and spouses. A great low-cost supplement or alternative to SGLI.

- Level premium and death benefit to age 50 (40 for nicotine users)
- Annual partial premium refunds for non-nicotine users, NOT guaranteed but paid since inception
- Save up to 34% over SGLI
- Up to \$10,000 coverage, at no additional cost, for eligible children with member's policy
- Same low rates for member and spouse
- Children and grandchildren ages 18–23 are also eligible to purchase coverage up to \$800,000

Compare these rates before you decide.

COVERAGE	AAFMAA*	AFTER REFUND*	SGLI**
\$ 100,000	\$ 5.90	\$ 5.90	\$ 7.00
\$ 250,000	\$ 13.00	\$ 11.70	\$ 17.50
\$ 400,000	\$ 19.00	\$ 17.10	\$ 28.00
\$ 600,000	\$ 27.00	\$ 24.30	N/A
\$ 800,000	\$ 35.00	\$ 31.50	N/A

*Monthly rates. Non-nicotine users receive 10% annual premium refund on policies over \$100,000, NOT guaranteed and subject to change. \$5.90 is non-nicotine rate. Subject to complete terms and conditions of the policy.

**Premium shown does not include \$1.00 charge for TSGLI.

LEVEL TERM II

One of AAFMAA's most flexible, cost-effective types of coverage designed for members and spouses with short and long term needs. A great alternative to VGLI.



- You pick the coverage amount (\$50,000 to \$800,000) and term (5 to 30 years)
- Coverage can last up to age 85
- Low-cost rates
- Rate NEVER increases/death benefit NEVER decreases for the life of the policy
- Must be purchased before age 76

20 Year Level Term II, Non-nicotine user, Super Select* monthly rate

ISSUE AGE	COVERAGE AMOUNT					
	\$100,000		\$400,000		\$600,000	
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
45	\$ 14.00	\$ 12.10	\$ 41.00	\$ 33.40	\$ 59.00	\$ 47.60
50	\$ 19.70	\$ 15.50	\$ 63.80	\$ 47.00	\$ 93.20	\$ 68.00
55	\$ 28.00	\$ 22.60	\$ 97.00	\$ 75.40	\$ 143.00	\$ 110.60
60	\$ 44.60	\$ 33.60	\$ 163.40	\$ 119.40	\$ 242.60	\$ 176.60

*This is our BEST RATE CLASS. Rates may be higher depending on individual health and lifestyle. Subject to complete terms and conditions of the policy.

AAFMAA's
Survivor Assistance Services
have been judged by
many military members
to be the very best.

VALUE-ADDED WHOLE LIFE

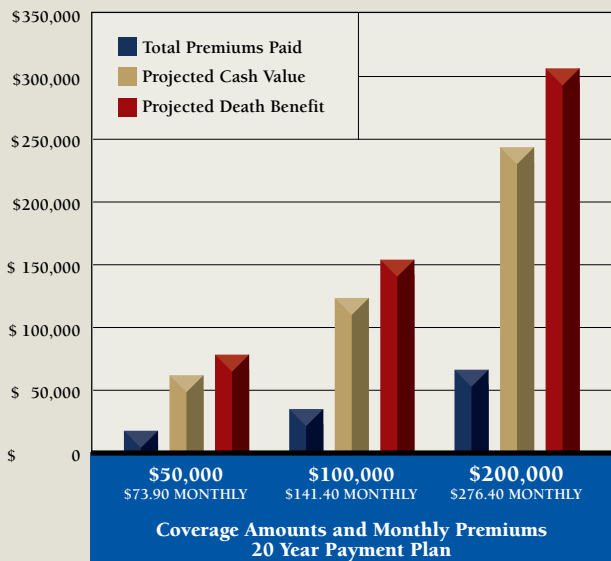
The protection of permanent insurance, plus the cash value growth of interest sensitive life insurance.



- 100% money back guarantee for life (total premiums paid or cash surrender value, whichever is GREATER)
- Premiums guaranteed to NEVER increase
- Borrow up to 75% of the cash value at 1% above the current crediting rate
- Great crediting rate (7.0% for 2009 — NOT guaranteed, subject to change.) Guaranteed 4.5%
- Long Term Care Settlement Option included with policy (restrictions apply)
- Flexible payments — Single Payment, 7, 20, 30 years, or Pay to age 100
- Can be purchased through age 79 for members and spouses, and through age 23 for children and grandchildren

Value-Added Whole Life 35 Year Projection

Issued at age 45, 20 year payment plan, projected crediting rate of 7.0%, NOT guaranteed and subject to change.



Subject to complete terms and conditions of the policy.

ANNUITYLIFE

The benefits of Value-Added Whole Life with minimal underwriting, regardless of age, sex or nicotine use.



- Minimal medical underwriting—only three questions
- Requires payment of single premium
- Option to annuitize the cash value immediately, at a later date, or never
- **IF ANNUITIZED**, guaranteed payments to age 100, with an annual “bonus” check if Net Yield on Assets exceeds 4%
- Can be purchased up to age 99

AAFMAA Survivor Assistance Services

At the heart of our 130 year tradition “to aid the families of the deceased members in a prompt, simple, and substantial manner,” and included with every member’s policy, are AAFMAA’s Survivor Assistance Services.

These include:

- Expeditious payment of the death benefit
- Claims initiation, plus continuous follow-up
- Claims representation, plus follow-up in disputes
- Lifetime individualized benefit notification
- Social Security notification
- Financial Awareness Service
- Annual statement of spouse entitlements



Call **AAFMAA Direct**
Toll-Free,
1-877-398-2263
for more information



ARMY AND AIR FORCE MUTUAL AID ASSOCIATION

102 Sheridan Avenue
Ft Myer, VA 22211-1110

Toll Free: 1-866-4AAFMAA (422-3622)

Local: 703-522-3060

Fax: 703-522-1336

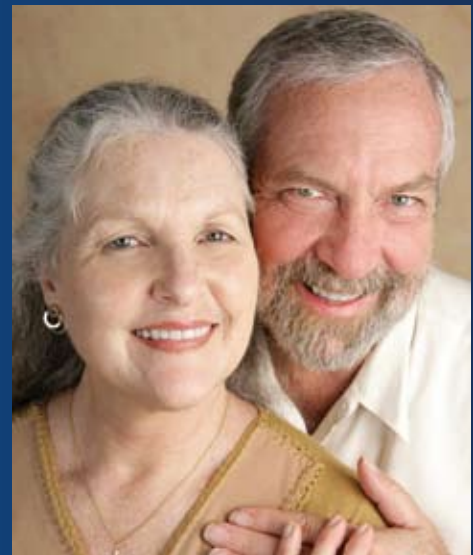
E-mail: info@aafmaa.com

Web Site: www.aafmaa.com

Main Office Hours:

Monday – Friday, 8:30 AM – 4:30 PM ET

Membership and Insurance Sales
Telephone Hours until 7:00 PM ET
at 1-877-398-2263



LIVING SERVICES



SURVIVOR ASSISTANCE
SERVICES



WHOLE LIFE, TERM,
LIFE INSURANCE



Please send me complete information and an application for the insurance policies checked below:

MEMBER SPOUSE

LEVEL TERM I:
Save up to 34% over SGLI. Level coverage to age 50 (40 for nicotine users).

LEVEL TERM II:
Save thousands over VGLI. Ideal for maturing families and retirees—short and long term coverage (5 to 30 years) can last to age 85.

VALUE-ADDED WHOLE LIFE:
Permanent insurance with guaranteed cash value and death benefit. Attractive crediting rate. Long Term Care Settlement Option. Fixed premiums.

ANNUITYLIFE:
Permanent insurance with option to annuitize cash value immediately. Minimal medical underwriting. Single Payments only. Designed for older insureds.

CHILD GRANDCHILD

VALUE-ADDED WHOLE LIFE:
Permanent insurance for children/grandchildren ages 6 months – 23 years.

GENERATIONS PLUS:
Permanent insurance up to \$30,000 for children 15 days through age 12. Coverage automatically doubles at age 21 with no increase in premiums.

LEVEL TERM I:
Term insurance for children/grandchildren ages 18-23. Level coverage to age 50 (40 for nicotine users).

COVERAGE DESIRED:

Member: \$ _____ DOB: _____
(mm/dd/yy)

Spouse: \$ _____ DOB: _____
(mm/dd/yy)

Child/Grandchild \$ _____ DOB: _____
(mm/dd/yy)

Child/Grandchild \$ _____ DOB: _____
(mm/dd/yy)

PERSONAL INFORMATION:

NICOTINE USE:

(last 12 months) **YOU:** Yes No **SPOUSE:** Yes No

Check all that apply

Army or Active or Guard
 Air Force Retired Reserve

Veteran (any service—VA, NC and SC residents only)

NAME: _____

RANK: _____

MEMBER # (IF APPLICABLE) _____

SPOUSE'S NAME: _____

CHILD/GRANDCHILD'S NAME: _____

CHILD/GRANDCHILD'S NAME: _____

MAILING ADDRESS: _____

CITY, STATE, ZIP: _____

EMAIL: _____

PHONE: (recommended) _____ Day Evening

CALL AAFMAA DIRECT: toll-free 1-877-398-2263.

www.aafmaa.com

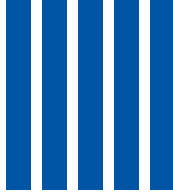


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