

Since  
1879



Insurance from a name you can trust<sup>®</sup>... **AAFMAA**

**2009 Annual Report**

*After The Battle of the Little Big Horn, the Army recognized the need to aid the families of the deceased soldiers in a prompt, simple and substantial manner.*

## AAFMAA Board of Directors (AS OF 31 DECEMBER 2009)

### Executive Committee



**DONALD M. BABERS**  
LTG, USA, Retired  
*Chairman of the Board*



**JACK N. MERRITT**  
GEN, USA, Retired  
*Vice Chairman of the Board  
Chairman, Finance Committee*



**DENNIS J. REIMER**  
GEN, USA, Retired  
*Chairman, Membership Committee*



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

### Senior Management

**WALTER R. LINCOLN, CFP®**  
*President and Treasurer*

**TIANA FALLAVOLLITA**  
*Assistant to the President*

**LISA G. MILMAN**  
*Vice President for Marketing and Sales*

**BRADY M. GRULER, FLMI**  
*Vice President for Insurance*

**FLORENCE B. (MAGGIE) WILSON, CPA**  
*Controller*

**TOM E. HARGIS**  
*Secretary*

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

FRONT COVER PHOTO: *Brevet Major General George Armstrong Custer, US Army 1865. General Philip Sheridan appointed Custer a lieutenant colonel of the newly created U.S. 7th Cavalry Regiment, headquartered at Fort Riley, Kansas to fight the Indian Wars.*

*Military photos courtesy of US Air Force.*

### Membership Committee



**JOE R. REEDER**  
MAJ, USAR



**JOHN A. DUBIA**  
LTG, USA, Retired



**DONALD W. SHEPPERD**  
Maj Gen, USAF, Retired



**ELISABETH J. STRINES**  
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**  
CMSgt, USAF, Retired

### Finance Committee



**L. DONNE OLVEY**  
BG, USA, Retired



**GEORGE T. GREILING**  
LTC, USA, Retired



**ROBERT L. SMOLEN**  
Maj Gen, USAF, Retired



**JAMES P. GERSTENLAUER**  
COL, USA, Retired



**MACK C. HILL**  
BG, USA, Retired



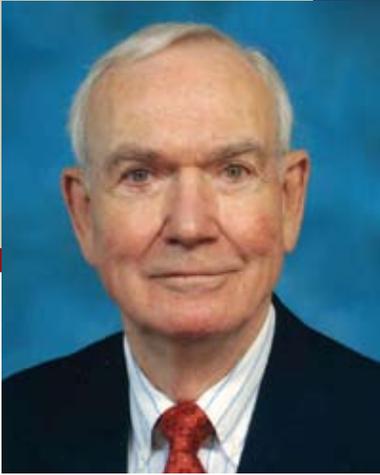
**LARRY O. SPENCER**  
Maj Gen, USAF



**DENNIS D. PORTER**  
COL, USA, Retired



**JOHN T. RIDGE**  
CMSgt, USAF, Retired



## Message from the Chairman

Through innovation, automation and a dedicated management team and staff, your Association is well poised for continued success and future growth.

Since 1879, soldiers have relied upon AAFMAA (then Army Mutual Aid Association) to care for their survivors. It is a tradition we take to heart and work diligently to maintain. Much has happened to allow the Association and membership to expand in the last 131 years and it is my honor to again address the AAFMAA membership as Chairman in this 2009 Annual Report. Membership, insurance in force and policies in force all reached record highs in 2009. AAFMAA continues to thrive. Please see the Message from our President and Treasurer for more details about the previous year.

AAFMAA remains focused on providing life insurance and excellent services to the members and their survivors. The past decade has seen tremendous growth for AAFMAA and the coming decade promises the continuation of that growth and further expansion. AAFMAA will begin to expand offerings to the membership in 2010 and 2011. Current services include the unique Survivor Assistance Services provided to widows/widowers of all deceased AAFMAA members and Living Services, provided to Grandfathered members. We will continue to provide these services which, effective 1 July 2010, will be serviced through our wholly-owned subsidiary, AAFMAA Financial Advisors LLC. AAFMAA Financial Advisors will be one of the avenues which will help us continue to service our members with a talented and dedicated staff. The AAFMAA Financial Advisors office will be located in the AAFMAA Financial Center in Reston, Virginia. 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.

Through innovation, automation, professional management and dedicated staff, your Association is well poised for continued success and future growth. Your Board of Directors is committed to making AAFMAA a success and serves without compensation. With their vision and the staff's dedication, AAFMAA will continue taking care of our military members and their families with low-cost insurance and valuable services.

Respectfully,

A handwritten signature in black ink that reads "Donald M. Babers". The signature is written in a cursive style with a large, prominent "D" and "B".

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



## Message from the President and Treasurer

Maintaining strong sales, along with controlling costs and carefully managing our investments, strengthens AAFMAA's financial foundation.

Dear Fellow AAFMAA Members:

Some view "crisis" as dangers; others view "crisis" as opportunities. Last year has been described as the worst financial "crisis" since the Great Depression. At AAFMAA we viewed 2009 as an opportunity. We achieved strong growth in every metric: insurance in force, policies in force, lives insured and membership. Sales of new life insurance topped \$3.3 billion. Total insurance in force at year end exceeded \$21.1 billion (an 11.6% increase from 2008). Policies in force increased to a new record of 116,192 and total lives insured reached an all-time high of 93,516. Membership grew by a net 3,273 members, a 4% increase.

Equally as important as strong sales are controlling costs and investing wisely. To help control costs we continue to automate as much as possible. Automation allows us to operate in the most efficient manner thereby maintaining a low overhead. However, we always balance automation with the importance of preserving the personal, human service for which AAFMAA is rightfully recognized. By investing wisely, in 2009 total admitted assets grew, on an amortized value basis, to over \$921 million, a \$31 million increase over 2008's year-end total assets. The Net Yield on Assets for 2009 was 4.6%. Again, another solid result during a financial "crisis".

Maintaining strong sales, along with controlling costs and carefully managing our investments, strengthens AAFMAA's financial foundation. Our success allowed AAFMAA to return over \$56 million to our members, policy holders, and their beneficiaries, including:

- \$11 million in cash value increases,
- \$42 million in death benefit payments,
- \$1 million in term insurance partial premium refunds, and
- \$2 million in Living Services and Survivor Assistance Services.

The achievements of 2009 enabled AAFMAA to maintain an impressive crediting rate of 7% for 2010 on Value-Added Whole Life insurance. Recall that, generally, as cash values grow due to the crediting rate, death benefits also grow. The 7% crediting rate also determines the growth of cash value balances in *ANNUITY*Life policies. If you like the stability and reliability of a cash value insurance product now might be the time to consider AAFMAA Value-Added Whole Life or AAFMAA *ANNUITY*Life. These products can be especially beneficial for building security for members' children or grandchildren. To benefit, they must be insured before age 24.

By selling more, controlling costs and investing wisely, AAFMAA expanded and grew even stronger. Your support of AAFMAA is vital. Thank you for your membership and continued trust. We look forward to continuing to offer more products and more services to the membership as we continue to expand.

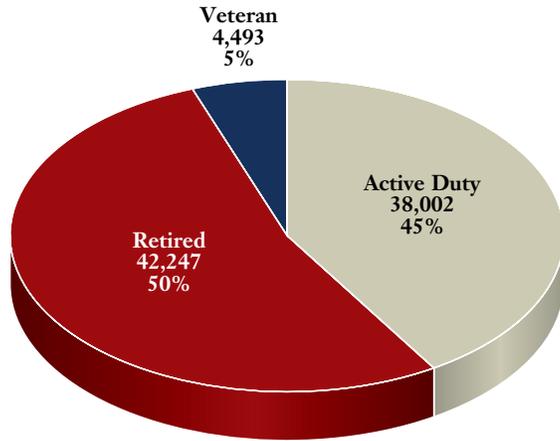
Sincerely,

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



What was the date of the Battle of the Little Big Horn?  
Go to [aafmaa.com](http://aafmaa.com) to find the answer.

## AAFMAA Overview 2009



Member Profile

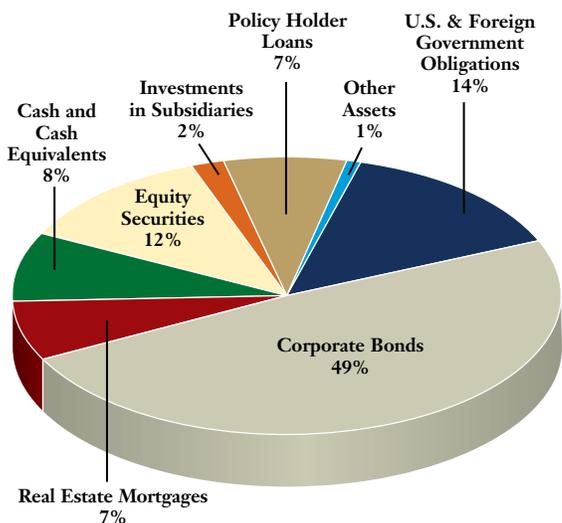
## Comparative Highlights

	Year ended 31 December	
	2009	2008
Insurance in force (\$ billions)	\$21.1	\$18.9
Total reserves (\$ millions)	\$884	\$852
Number of members	84,742	81,469
Number of member deaths	880	945
Death benefits paid (\$ millions)	\$42.5	\$44.7
Net Yield on Assets	4.6%	5.2%

### 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 all current 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.*

## 2009 Assets



Total Assets: \$921 Million

## Summary of Assets

INVESTMENTS	Year ended 31 December	
	ADMITTED ASSET VALUE	MARKET VALUE
U.S. & Foreign Government Obligations	\$ 125,879,774	\$ 124,507,546
Corporate Bonds	450,883,811	465,874,504
Real Estate Mortgages	60,850,201	60,850,201
Cash and Cash Equivalents	74,880,323	74,880,323
Equity Securities*	110,237,972	110,237,972
Investment in Subsidiaries	20,970,051	20,970,051
Accrued Investment Income	8,792,413	8,792,413
<b>TOTAL INVESTMENTS</b>	<b>852,494,545</b>	<b>866,113,010</b>
Policy Holder Loans	67,666,988	67,666,988
Property & Equipment Net of Accumulated Depreciation	416,051	416,051
Other Assets	652,357	652,357
<b>TOTAL ASSETS</b>	<b>\$ 921,229,941</b>	<b>\$ 934,848,406</b>

\*Valued at market

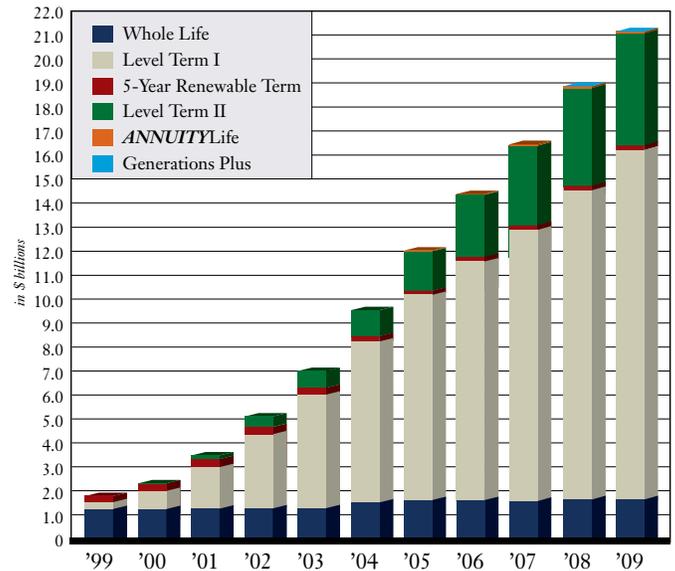


In what year was **AAFMAA** founded?

## Insurance in Force

Insurance in force, beginning of year . . . . .	\$18,905,125,753
Insurance sold. . . . .	\$3,339,667,118
Death benefit growth. . . . .	\$8,768,843
Death benefits incurred . . . . .	(\$42,535,336)
Other terminations. . . . .	(\$1,107,134,072)

**INSURANCE IN FORCE,  
END OF YEAR . . . . . \$21,103,892,306**

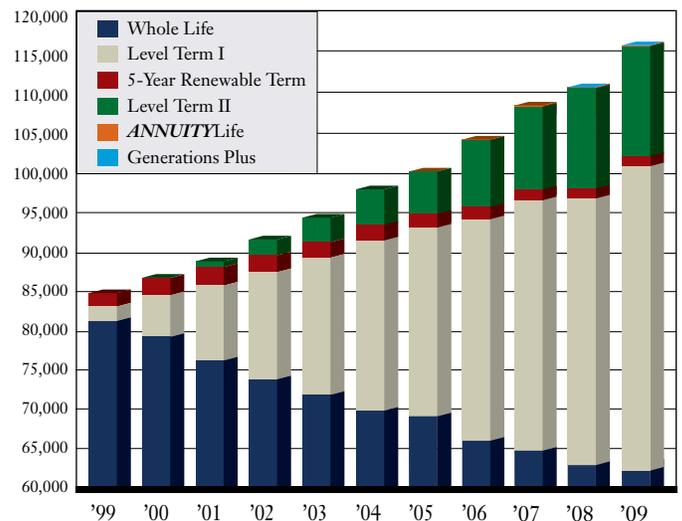


## Policies in Force

Policies in force, beginning of year . . . . .	111,808
New policies issued . . . . .	8,946
Policies matured by death . . . . .	(1,338)
Other policy net terminations . . . . .	(3,224)

**POLICIES IN FORCE, END OF YEAR . . . . . 116,192**

*Note: Beginning balance includes 194 Service Only (SO) policies and ending balance includes 188 SO policies.*



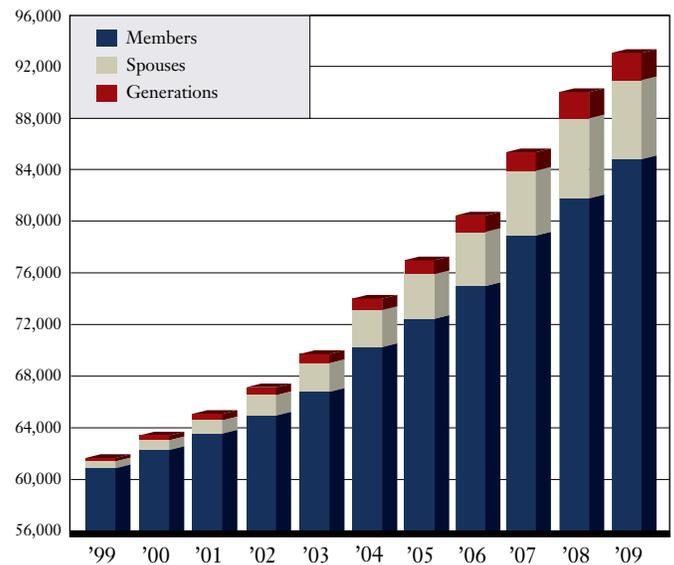
Who was the first President of AAFMAA?



Answers at [www.aafmaa.com](http://www.aafmaa.com).

## Lives Insured

Members, beginning of year . . . . .	81,469
Gains . . . . .	6,056
Losses . . . . .	(2,783)
Members, end of year . . . . .	84,742
Spouses and Generations, beginning of year . . . . .	7,537
Gains . . . . .	1,428
Losses . . . . .	(191)
Spouses and Generations, end of year . . . . .	8,774
<b>LIVES INSURED, END OF YEAR. . . . .</b>	<b>93,516</b>



Our mission is to be the premier provider of insurance and survivor services to the Army and Air Force Communities.



**AAFMAA** member, *LT Frank P. Lahm* stands with *Orville Wright* ready to test the first military flyer in 1908.

*Where did this flight take place?*

## Statement of Assets, Liabilities and Reserves

### STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2009

### Assets

#### BONDS

U.S. and Foreign Government Obligations .....	\$ 125,879,774	
Corporate Bonds .....	450,883,811	
<b>Total Bonds</b> .....		\$ 576,763,585

**REAL ESTATE MORTGAGES** ..... 60,850,201

**EQUITY SECURITIES** ..... 110,237,972

**INVESTMENT IN SUBSIDIARIES** ..... 20,970,051

**POLICY HOLDER LOANS** ..... 67,666,988

**CASH AND CASH EQUIVALENTS** ..... 74,880,323

**ACCRUED INVESTMENT INCOME** ..... 8,792,413

**PROPERTY AND EQUIPMENT, AT COST** (less accumulated depreciation of \$1,168,083) ..... 416,051

**OTHER** ..... 652,357

**TOTAL ASSETS** ..... \$ 921,229,941

### Liabilities and Reserves

#### LIABILITIES

Death Benefits Payable ..... \$ 15,271,710

Accounts Payable ..... 11,270,505

Deferred Revenue ..... 1,688,369

Settlement Options Payable ..... 8,787,076

Accrued Post-Retirement Benefits ..... 23,982

**TOTAL LIABILITIES** ..... \$ 37,041,642

#### RESERVES

Insurance and Other ..... \$ 704,330,618

Interest Maintenance ..... 39,462,809

Contingency Reserve

Asset Valuation ..... \$ 23,769,882

War Risk ..... 49,308,558

General Contingency ..... 67,316,432

**Total Contingency Reserve** ..... 140,394,872

**TOTAL RESERVES** ..... 884,188,299

**TOTAL LIABILITIES AND RESERVES** ..... \$ 921,229,941

See Notes to Financial Statements

General Welch and General Wickham recognize the name change to **AAFMAA** in 1987.

*What was the original name of **AAFMAA**?*



## Statement of Income and Reserves

### STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2009

### Income

Premiums .....	\$	37,771,653	
Dues .....		51,225	
Consideration for supplemental contracts .....		276,408	
Net investment income .....		36,141,774	
Amortization of Interest Maintenance Reserve .....		4,821,604	\$ 79,062,664

### BENEFITS AND EXPENSES

Death benefit claims .....	\$	42,535,336	
less war claims .....		(1,850,000)	
Net death benefit claims .....	\$	40,685,336	
Surrender benefits .....		6,948,137	
Service Benefit .....		2,431,796	
Premium refunds, term insurance .....		1,008,631	
Supplemental contracts payments .....		610,699	
Insurance expense			
Increase in aggregate reserves for life policies .....		2,146,933	
Increase in reserves for supplemental contracts .....		271,872	
Increase in reserves for dues .....		24,848	
General administrative and operation expenses .....		7,650,567	(61,778,819)

### NET INCOME BEFORE EXCESS INTEREST CREDITS

AND INVESTMENT TRANSACTIONS .....			17,283,845
Excess interest credited to policies .....			(8,554,187)

### NET LOSS AFTER EXCESS INTEREST CREDITING

Net realized loss on investments (excluding Interest Maintenance Reserve gains of \$5,320,138) .....			(5,225,440)
--	--	--	-------------

**NET INCOME** .....

**\$ 3,504,218**

### Reserve Transactions

**INSURANCE AND OTHER RESERVES, BEGINNING OF YEAR** .....

**\$ 693,332,778**

Increase in reserves for life policies .....	\$	2,146,933	
Increase in reserves for supplemental contracts .....		271,872	
Increase in reserves for dues .....		24,848	
Excess interest credited .....		8,554,187	
Net change in reserves for the year .....			10,997,840

**INSURANCE AND OTHER RESERVES, END OF YEAR** .....

**\$ 704,330,618**

### General Contingency Reserve

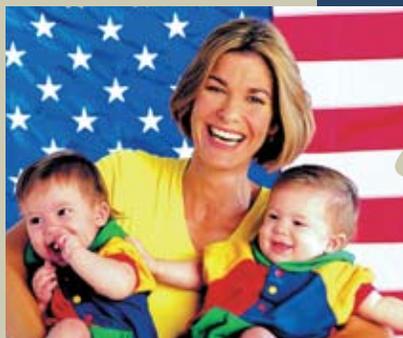
**GENERAL CONTINGENCY RESERVE, BEGINNING OF YEAR** .....

**\$ 50,257,133**

Net Income .....	\$	3,504,218	
Decrease in unrealized depreciation of equity securities .....		20,379,493	
Increase in non-admitted assets .....		(923,362)	
Increase in Asset Valuation Reserve .....		(4,603,932)	
Increase in War Risk Reserve .....		(1,297,118)	
Net change in reserves for the year .....			17,059,299

**GENERAL CONTINGENCY RESERVE, END OF YEAR** .....

**\$ 67,316,432**



*In what year did **AAFMAA** expand life insurance opportunities to spouses, children and grandchildren of members?*

## Statement of Cash Flows

### STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2009

### Cash Flows From Operating Activities

Net Income .....		\$	3,504,218
Adjustments to reconcile net loss to net cash			
Amortization of Interest Maintenance Reserve .....	\$	(4,821,604)	
Equity (Earnings)/Losses in Subsidiaries .....		322,043	
Realized Net Gains from Investments .....		(94,803)	
Realized Net Gains included above transferred to Interest Maintenance Reserves ..		5,320,138	
Amortization/Accretion of Bond Discount/Premiums .....		(988,652)	
Net Increase in Life & Other Reserves .....		9,047,840	
Depreciation expense .....		442,513	
Bad debt expense .....		1,005,419	10,232,894
Changes in operating assets and liabilities			
Decrease in Accrued Investment Income .....	\$	659,029	
Increase in Other Assets .....		(361,627)	
Increase in Death Benefits Payable .....		3,062,450	
Decrease in Accounts Payable .....		(5,972,625)	
Increase in Deferred Revenue .....		94,985	
Increase in Settlement Options Payable .....		1,867,215	
Decrease in Accrued Post-Retirement Benefits .....		(3,872)	(654,445)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES .....</b>			<b>13,082,667</b>

### Cash Flows From Investing Activities

Policy Loans Issued .....	\$	(26,897,218)	
Policy Loan Repayments .....		24,525,116	
Securities Purchased .....		(1,508,507,274)	
Securities Sold/Redeemed .....		1,556,615,300	
Capital Contributions to Subsidiary .....		(21,155,576)	
Capital Distributions from Subsidiary .....		65,000	
Fixed Assets Purchased .....		(50,732)	
Non-admitted Assets Purchased .....		(1,392,889)	
Dispositions of Non-admitted Assets .....		71,848	
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES .....</b>			<b>23,273,575</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS .....</b>			<b>36,356,242</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....</b>			<b>38,524,081</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>			<b>\$ 74,880,323</b>

See Notes to Financial Statements

# Notes to Financial Statements

(AS OF 31 DECEMBER 2009)

## 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 \$1,069,599 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 admitted asset value and market value of each category of investments 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 \$159,492,409 less unrealized losses of \$49,254,437.

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.

AAFMAA has formed two wholly owned subsidiaries, AAFMAA Property LLC and AAFMAA Financial Advisors LLC, both formed in 2009 as single member limited liability companies (LLC). AAFMAA Property LLC was formed to hold the property in Reston, Virginia to be used as redundant space for AAFMAA, space for

AAFMAA Financial Advisors LLC and future expansion. AAFMAA has leased or will lease the space not currently required for use by AAFMAA or AAFMAA Financial Advisors LLC. Renovations to the Reston property will be completed in 2010. AAFMAA's investment as of 31 December 2009 is \$20,579,257. The purchase price was \$16,164,536. Renovations of \$8,300,000 have been authorized. The purchase price plus the renovations, when completed, can reasonably be viewed as the current fair market value at that time. AAFMAA Financial Advisors LLC was formed to provide Living Services and Survivor Assistance Services to AAFMAA members and surviving widow(er)s. The company will begin providing these services effective 1 July 2010. Organization costs through 31 December 2009 were \$361,631.

### 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 2009, \$2,060,687 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 \$442,513.

### 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 2009 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.

# Notes to Financial Statements

## 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, and cadets with ROTC scholarships/contracts and, honorably discharged veterans in Virginia, North Carolina, South Carolina and Maryland. 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 insurance, term life insurance, Living Services for members, and Survivor Assistance Services for surviving widow(er)s of deceased members.

## 3. SECURITIES IMPAIRMENTS

AAFMAA recognizes impairment losses when it is determined that the value of certain fixed maturity securities have other than temporary declines during the applicable reporting period, as well as when there are further declines in the value of securities that were initially written down in a prior period. During 2009, AAFMAA recognized total other than temporary impairment losses of \$4,711,524 on securities issued by CIT Group Funding Co., CIT Group, Inc., Clear Channel Communications, Inc., Cooper-Standard Automotive Inc., Dex Media West LLC, Ford Motor Company, GMAC LLC, Harrah's Operating Company, Inc., Hawaiian Telcom Communications, Inc., Nortel Networks Corp., Nortel Networks Ltd., and Tribune Co. During 2009, AAFMAA recognized recovery gains on impaired securities of \$1,129,987 when certain of these securities were sold.

## 4. RELATED-PARTY TRANSACTIONS

The contract with Armed Forces Services Corporation (AFSC) to provide Living Services and Survivor Assistance Services will terminate 30 June 2010. The 2010 servicing expenses for that period are estimated to be \$1,241,660. Servicing expenses incurred in 2009 were \$2,431,796.

AAFMAA has formed a wholly owned subsidiary, AAFMAA Financial Advisors LLC, to provide these services beginning 1 July 2010. The servicing expenses for the period 1 July through 31 December 2010 are estimated to be \$1,224,080.

## 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 2009 was \$644,383, which includes \$312,125 of AAFMAA contributions and \$332,258 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 AAFMAA 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 2009 were \$2,499. 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 \$23,982.

## 7. COMMITMENTS

AAFMAA has committed \$1,241,660 to AFSC to provide services to AAFMAA's members from 1 January through 30 June 2010 and \$1,224,080 to AAFMAA Financial Advisors LLC to provide services to AAFMAA's members from 1 July through 31 December 2010. As of 31 December 2009, The Association is committed to fund \$1,300,000 for real estate mortgage loans.

## 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.

## 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, 2009, 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, 2009, 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, 2009, 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 2009) 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 15, 2010

# A Tradition of Protecting Army and Air Force Members and Families for 131 Years.



**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 or 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 of all services below age 66, residing in Maryland, North Carolina, South Carolina or Virginia are also eligible.



## 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.





## Generations Plus

*Provides 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 that builds cash value for their future
- Initial coverage amount from \$10,000 to \$30,000
- Initial coverage amount automatically doubles at age 21 with no increase in premium
- 100% Money Back Guaranteed of all premiums paid at any time and no surrender charges
- Guaranteed 4% interest rate
- Available age 15 days–12 years
- Guaranteed Purchase Options at Ages 21, 25 and 28
- Get up to 4 times your initial coverage at each eligible age

### Sample Generations Plus Monthly Premiums

*Coverage automatically doubles at age 21 at no added cost.*

ISSUE AGE	INITIAL COVERAGE AMOUNT				
	\$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 3/1/10. Call for complete list of premium rates.

## 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 monthly payments are calculated to age 100, with an annual “bonus” check if Net Yield on Assets exceeds 4%
- Can be purchased up to age 99

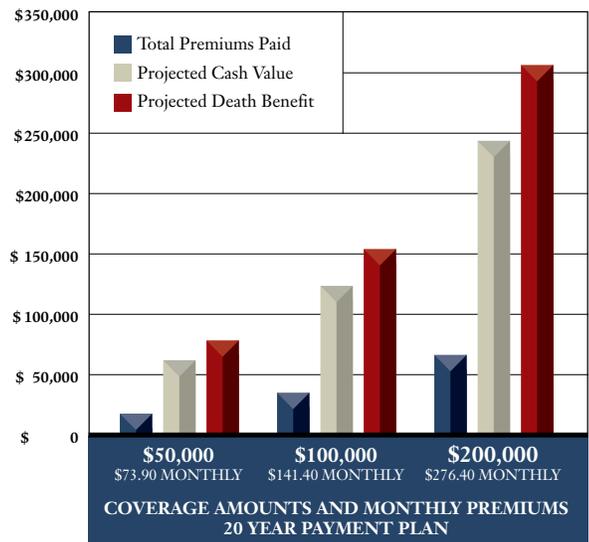
## Value-Added Whole Life

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

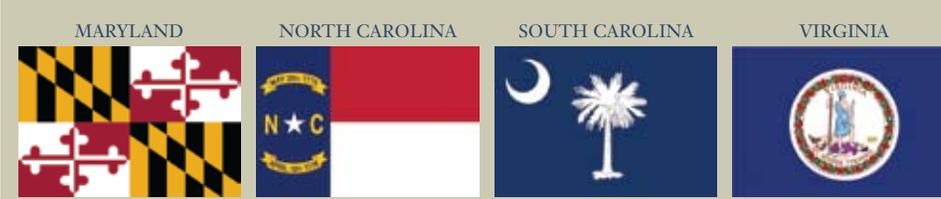
- 100% money back guarantee for life (total premiums paid or cash surrender value, whichever is GREATER)
- Premiums guaranteed to NEVER increase
- Borrow up to 75% of the cash value at 1% above the current crediting rate
- Great crediting rate (7.0% for 2010 — NOT guaranteed, subject to change.) Guaranteed 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.



*In addition to Army and Air Force veterans, honorably discharged veterans from other services living in these states can also join **AAFMAA**.*

## **AAFMAA Survivor Assistance Services**

*At the heart of our 131 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, including:*

- 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



## **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



**AAFMAA**  
*Financial Advisors*

*Advice from a name you can trust*



*AAFMAA Financial Advisors Headquarters in Reston, Virginia*

Effective 1 July 2010, AAFMAA Financial Advisors LLC, a wholly-owned subsidiary of AAFMAA, will be located within the AAFMAA Financial Center located on Old Reston Avenue in Reston, Virginia. This will be the new location from which Living Services for Grandfathered AAFMAA members and Survivor Assistance Services for all surviving widows and widowers of deceased AAFMAA members will be provided.

**AAFMAA**  
*Life Insurance*

**AAFMAA**  
*Financial Advisors*

**AAFMAA**  
*Property*



## **Army and Air Force Mutual Aid Association**

102 Sheridan Avenue | Fort Myer, VA 22211-1110

TOLL FREE: 1-866-4AAFMAA (422-3622)

LOCAL: 703-522-3060 | FAX: 703-522-1336

E-MAIL: [info@aafmaa.com](mailto:info@aafmaa.com) | WEB SITE: [www.aafmaa.com](http://www.aafmaa.com)

MAIN OFFICE HOURS: Monday – Friday, 8:30 am – 4:30 pm ET

INSURANCE SALES TELEPHONE HOURS: Until 7:00 pm ET at 1-877-398-2263



# Yes!

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

<input type="checkbox"/> Army or	<input type="checkbox"/> Active or	<input type="checkbox"/> Guard
<input type="checkbox"/> Air Force	<input type="checkbox"/> Retired	<input type="checkbox"/> Reserve

Veteran (any service—MD, NC, SC and VA 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**

TAPE HERE

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

STABILITY • REPUTATION • LOW COST • SINCE 1879



FOLD HERE

NO POSTAGE  
NECESSARY IF  
MAILED IN THE  
UNITED STATES

**BUSINESS REPLY MAIL**  
FIRST CLASS MAIL PERMIT NO. 682 ARLINGTON, VIRGINIA

POSTAGE WILL BE PAID BY ADDRESSEE

**AAFMAA**  
102 SHERIDAN AVENUE  
FT MYER VA 22211-9987

