



# AAFMAA

# Advantage

AMERICAN ARMED FORCES MUTUAL AID ASSOCIATION NEWSLETTER

## The Launch of AAFMAA Mortgage Services LLC

In May, AAFMAA launched our full-service mortgage lender, AAFMAA Mortgage Services LLC (AMS). AMS, a wholly-owned subsidiary of AAFMAA, offering a full spectrum of mortgage products for home purchases and refinancing. Like its parent, AMS exclusively serves active duty, guard, reserve, retirees and honorably discharged veterans and their families.

As part of our vision statement, “AAFMAA 2020,” we identified the need to add mortgage services to our offerings to truly empower financial independence for the military community. Four years ahead of schedule, AAFMAA now provides military families a trustworthy resource for building home equity. Since a person’s home often represents their largest asset, AAFMAA established AMS operating under AAFMAA’s trusted standards and values, to help servicemembers make home ownership possible.

Already, AMS provides residential mortgages to AAFMAA Members in North Carolina and Florida. The AMS team has also applied for mortgage licenses in Virginia, Maryland, South Carolina, Rhode Island, and Connecticut.



Borrowers benefit from working with a mortgage lender that differentiates itself from other lenders. With AMS, homebuyers work with a group of professionals committed to knowing all the complexities of the mortgage industry, as well as applicable local laws.

The AMS team comes with decades of mortgage and military experience. They truly understand the unique challenges and financial circumstances of military service. For example, many servicemembers may assume that VA loans always offer the most advantageous option for military homebuyers. However, the AMS team has the expertise to know when you will benefit more from a different type of loan. AMS always puts the military family first by offering mortgages that best suit the military member’s needs.

*“I’m incredibly proud of our new AAFMAA Mortgage Services team. Already, members have saved an estimated \$1.2 million by using AMS to refinance mortgages at some of the lowest rates in history. We’ll expand mortgage services to members across the country as quickly as possible.”*

**Walter R. Lincoln, CFP® (MAJ, USA, Ret)**  
President and Treasurer

**Help yourself; help your fellow members. Share the launch of AMS with any current or former servicemembers living in or relocating to North Carolina, Florida, or any of the other states where we will soon conduct business.** Please also contact us if you’re planning to purchase a new home or refinance an existing mortgage. Call us directly at 844-4-AAFMAA (844-422-3622) or visit [aafmaa.com/mortgage](http://aafmaa.com/mortgage).

As AMS expands beyond North Carolina and Florida, we will keep you updated on our progress through email and on our website.

CONTACT



**General**

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Fort Myer, VA 22211-1110

E-mail: [info@aafmaa.com](mailto:info@aafmaa.com)

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**Life Insurance**

**Insurance Sales**

Toll-free phone: 1-877-398-2263

E-mail: [membership@aafmaa.com](mailto:membership@aafmaa.com)

**Policy Services**

*Payments, policy loans, beneficiary changes, LTCSO*

Toll-free phone: 1-800-336-4538

E-mail: [policyservices@aafmaa.com](mailto:policyservices@aafmaa.com)

**Member & Survivor Benefits**

*Death claim processing, vault documents, VA representation, benefits counseling, Family Information Report (FIR)*

Toll-free phone: 1-800-522-5221, option 2

E-mail: [memberservices@aafmaa.com](mailto:memberservices@aafmaa.com)

**AAFMAA Wealth Management & Trust LLC**

*Financial Planning, Investment Management, Trust Services*

Toll-free phone: 1-800-927-5127

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# Message to Members



**Walter R. Lincoln, CFP®**  
Major, USA, Retired  
President and Treasurer

Over the past year, you've heard and read a lot about **"AAFMAA 2020."** In 2000, your association laid out a bold strategic plan with a grand vision: to ensure the financial independence and security of the military community. Realizing that such an ambitious goal would require decades of relentless effort, the initial phase focused on building a foundation.

- Preserving and expanding AAFMAA's vital service to members and their survivors so that they received 100% of all the benefits earned through military service: military retirement, VA, social security and Survivor Benefit Program (SBP).
- Expanding insurance options by type and size of policies to all ranks of all branches of service, Guard, Reserve and honorably discharged veterans. We've expanded from one type of whole life policy to eight types of policies to meet members' needs through every stage of life. Since the beginning of 2000, the number of policies has grown from 85,349 to 124,899, or 46%. Insurance in force has grown an astounding 947%.
- Establishing new services focused on creating wealth. AAFMAA Wealth Management & Trust LLC opened in 2012 to provide:
  - Financial Planning
  - Investment Management
  - Trust Services

With over \$270 million assets under management, AAFMAA Wealth Management & Trust has been a great success.

As you read on the front page, in May, AAFMAA Mortgage Services LLC began making it possible for members to obtain mortgages to buy the home of their dreams. Over long periods, home ownership continues to be a source of growing equity and security. Already, AMS has saved members over an estimated \$1.2 million!



Your team has continued to serve each and every member with superlative, personal service...at the same time, implementing all the initial objectives of **"AAFMAA 2020" four years ahead of schedule!** Every member should be so proud of the Association's team that tirelessly serves every member. Congratulations!

# “Why Insure My Child or Grandchild through AAFMAA?”

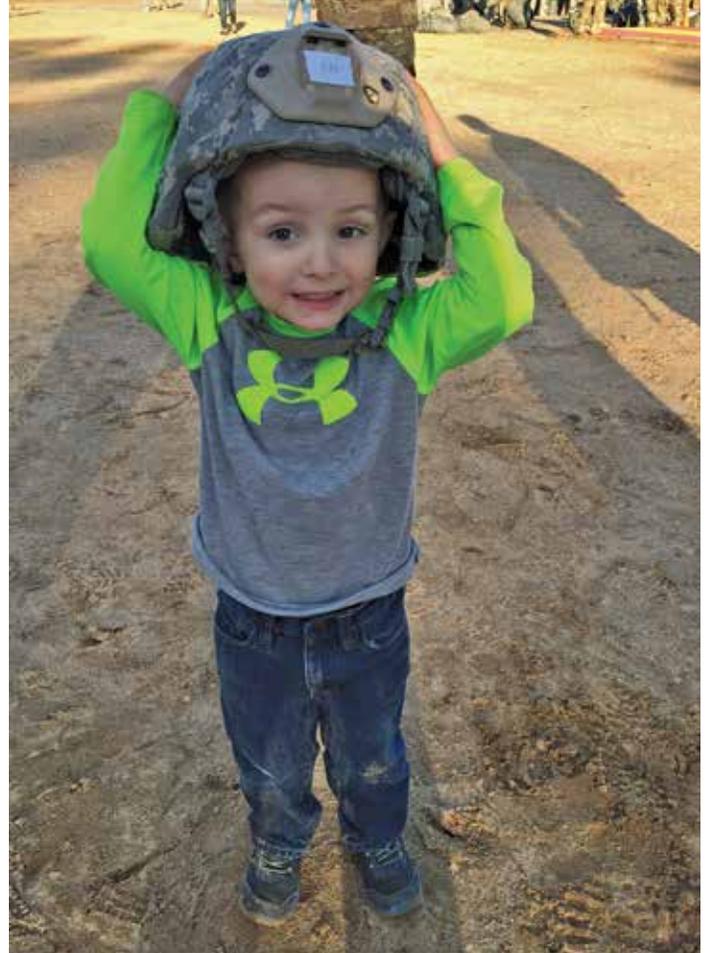
Conventional wisdom dictates that a person doesn't need life insurance if no one else depends on their income. While mostly true, there are many reasons why you should have small life insurance policies for your children and grandchildren.

**Insurability and low premiums.** A young child will likely have lower premiums and greater insurability. For example, a \$10,000 policy for a five year-old costs only \$6.20 per month. Buying a child's policy not only locks in lower premiums, but can also guarantee insurability later in life. For example, a member can obtain a \$10,000 to \$50,000 AAFMAA Generations Plus life insurance policy for their children and grandchildren under 14. You lock in this low rate before the child turns 14 and the coverage amount doubles automatically at age 18 with no premium increase. The policy guarantees the ability to purchase additional insurance with no medical underwriting or physical exams. The child can ultimately purchase AAFMAA insurance totaling 10 times the initial policy. So that inexpensive \$10,000 policy includes the ability to purchase up to \$100,000 of insurance, regardless of future health conditions.

**Cash Value Growth.** A Value-Added Whole Life insurance policy provides attractive cash value growth. Access this cash value at any time using a policy loan. Or, if you cancel the policy, you get a return of all premiums paid, or the cash value—whichever is greater. For example, for a two-year-old granddaughter, you can purchase a \$50,000 Value-Added Whole Life policy for just \$37.65 per month and be fully paid up after just seven years. You can relax and breathe easy knowing you provided permanent insurance protection, cash value growth, and no premiums for the rest of your grandchild's life.

**Funeral and burial expenses.** From a practical perspective, in addition to the emotional devastation, parents also face significant expenses in the event of a child's death. According to the Natural Funeral Directors Association, the median cost of a funeral with burial exceeds \$7,000. However, depending on locality and circumstances, the costs could be much higher. Purchasing insurance for children alleviates the significant financial burden for a family coping with a tragic loss.

**Ability to access AAFMAA.** An AAFMAA policy also entitles the child to take advantage of AAFMAA's other products and services, even much later in life. AAFMAA serves only active military, honorably discharged veterans, and their families. However, if a member purchases a policy for a child or grandchild before they turn 24, that person



**This young son of an AAFMAA member in Fort Bragg, NC, will one day appreciate the benefits of his Value-Added Whole Life insurance policy.**

becomes eligible for all AAFMAA products and services as long as that policy remains force. This includes access to not only best-in-class insurance, but also mortgages, financial planning, wealth management, and trust services. Many parents purchase inexpensive policies for their adult children between the ages of 18 and 23 just to lock in that access to AAFMAA. A \$100,000 Level Term I policy costs just \$5.90 per month, and provides a fixed premium and death benefit to age 50 (age 40 for nicotine users). Then, when the child has their own family and a greater need for insurance, they can purchase their own AAFMAA policies, even if they are not in the military.

Buying a life insurance policy for your child or grandchild provides important financial security to your family for years to come. Call AAFMAA's membership team at 877-398-2263 or get a quote for your child or grandchild today at [aafmaa.com](http://aafmaa.com).

# 137<sup>th</sup> Annual Meeting **Minutes**

*[The Annual Meeting convened at 1200 hours, 14 June 2016, at the Army Navy Country Club, Arlington, VA.]*

Donald M. Babers (LTG, USA, Ret), Chairman of the Board of Directors, called the 137th Annual Meeting to order. LTG Babers recognized three AAFMAA members: CPT David Polonitza, our youngest member in attendance; COL John E. Wagner, our longest tenured member (with over 62 years of loyal membership); and COL Al Romaneski our oldest member in attendance (at age 89)! The AAFMAA Secretary presented each with a gift.

Last year's meeting was on 9 June 2015. The minutes were published and distributed to all members. A motion to waive the reading of the minutes was made, seconded, and the minutes were approved unanimously.

LTG Babers noted that the annual meeting was being simultaneously broadcast to AAFMAA's offices in Fort Myer and Reston, Virginia; Fayetteville, North Carolina; and Winter Park, Florida. LTG Babers described another outstanding year for AAFMAA:

AAFMAA has grown to over \$25.7 billion of insurance. We insure over 103,000 lives of members and their families with nearly 125,000 policies in force. We continue to grow. We also help members plan for their financial future through **AAFMAA Wealth Management & Trust**. They provide financial planning, investment management, and trust services while meeting a fiduciary standard of service. I'm very proud to announce that we added another great service for members this year: **AAFMAA Mortgage Services**. They currently offer residential mortgages in North Carolina and will expand into other states over time. [Subsequent to the meeting mortgages are now also available in Florida.]

Good management and well-led, dedicated employees, remain key to AAFMAA's success. We are proud that 35% of AAFMAA's employees have served, are serving in the reserves or guard, or are married to a servicemember. We understand the military community and are dedicated to taking care of you.



**AAFMAA Chairman Donald M. Babers (LTG, USA, Ret) opens the Annual Meeting.**

Walt Lincoln, our President and Treasurer, keeps the team focused and deserves the credit for our outstanding success. It's my pleasure to turn the meeting over to Walt for his remarks.

Walter R. Lincoln, CFP® (MAJ, USA, Ret) thanked the Chairman and then discussed the 2015 results:

The past 12 months have been another outstanding year for AAFMAA. Let me cover just some of the highlights of 2015. All three insurance metrics are at all-time highs: Insurance in Force at \$25.7 billion, Policies in Force at 124,899, and Lives Insured at 103,117. AAFMAA's total assets, on an admitted value basis, exceed \$1,164,000,000. And as of close of business 10 June, the market value of AAFMAA's assets reached an all-time high of \$1,246,742,034.

Our Net Yield on Assets, that is, interest and dividends only, grew from 4.5% in 2014 to 5.0% in 2015. This success is especially noteworthy in an economy where interest rates are held abnormally low through the government's policy of Financial Repression. The 5.0% Net Yield on Assets allowed the Directors to declare a 6.0% Crediting Rate on members' Cash Values. We are enormously proud of this 6.0% tax-deferred return, which is tax-free if paid as a death benefit.

These and other key financial highlights are included in the 2015 Annual Report which has been provided to members and is made part of this report by reference.

We cannot choose the time or the economic environment in which we invest. We cannot avoid risk, only select the type of risk we assume, and try to ensure that we are appropriately rewarded for the risks taken.

Consider two key challenges we face as an organization. First, the changing U.S. military structure: Today's Active Duty force—Army, Navy, Marines and Air Force, totals about 1.3 million. By 2019 this is projected to total only about 1.2 million, a 6% reduction, taken mostly out of the Army and Marines. The Guard & Reserves—numbering 820,000 now, will drop to 767,000, another 6% cut. And, the number of veterans—today about 23 million, will drop to less than 15 million by 2040, a decrease of about one-third. The conclusions are obvious: US military forces are being reduced significantly and our market is shrinking.

So, what are we doing about this first challenge?

First and foremost, we continue to innovate to create a pipeline of products and services that offer outstanding quality, value and price. Critically, they must meet

military families' future needs. As part of this innovation we are diversifying our core business portfolio from only "best in class" insurance products. In October 2012 we launched AAFMAA Wealth Management & Trust LLC to provide members with financial planning, investment management, and trust services. Just last month we launched AAFMAA Mortgage Services LLC to enable members to buy the home of their dreams and build home equity. And, we're rapidly expanding AAFMAA Property LLC across key growth areas in the US.

Second, we are expanding our locations. We've increased accessibility by now having offices at Fort Myer, VA; Reston, VA; Fayetteville, NC and Winter Park, FL. We anticipate future offices throughout the US.

Third, we are investing in marketing. We've expanded and diversified our efforts by emphasizing digital marketing, social media and the testing of TV ads.

And fourth, we continue to recruit outstanding people. We continue to invest in recruiting individuals that understand the uniqueness of military life, commercial business and have outstanding professional credentials. Examples include our Assistant Secretary, Carlos Perez, an Army Corps of Engineers colonel, West Point class of 1989, with a MBA from Stanford, and Andy May, Managing Director and Chief Operating Officer, AAFMAA Mortgage Services, who graduated Cum Laude from the University of Massachusetts, holds a MBA from Duke and has experience in major financial sector companies such as AIG, JP Morgan, and AllState.

The second key challenge we face is the sluggish and uncertain economic environment.

From 2009 to 2015, US Government debt has increased by 94.3% and now totals more than \$18 trillion. In contrast, total US Private Debt (corporate and personal) has grown by only 7.2%. In the labor market, the Bureau of Labor Statistics reports that the number of unemployed workers declined by 7.2 million. What the Bureau of Labor Statistics does not announce with the same vigor is that the number of workers that have given up looking for a job grew from 83.3 million to 94.1 million – an increase of 10.8 million. So, the 7.2 million who found work is less than the 10.8 million who gave up looking for work. In addition, real median weekly earnings declined by 1.7%. At the same time individual taxes increased by 50.6% and business taxes increased by 72.9%.

The conclusions here are just as obvious: Government debt is growing to a very heavy burden. More workers have left the workforce than ever before. Fewer and fewer workers are supporting more and more non-workers. The economy can grow only very slowly with such burdens.

So, what are we doing about this second challenge?

From an investment perspective, we are avoiding purchases of long US treasury bonds. We are evaluating alternatives to bonds on a relative value basis. We are emphasizing commercial real estate loans. These loans are fully secured by 1st liens against income producing properties. Note that even during the 2008/09 Financial Crisis not one of our loans went delinquent; not one loan defaulted. And, to protect against possible inflation due to excessive government borrowing, we have expanded holdings in directly owned commercial rental real estate.



**President and Treasurer Walter R. Lincoln, CFP® (MAJ, USA, Ret), addresses the 2016 Annual Meeting.**

All of these investment efforts have been significantly assisted by the investment expertise now available in AAFMAA Wealth Management & Trust (AWM&T). Rick Convy, CPA, CFA, leads the trust company as President. [Rick introduced the impressive members of the AWM&T Team.]

I encourage all AAFMAA Members to reach out to the AAFMAA Wealth Management & Trust Team to see how they can help you achieve financial success or ensure that your

assets are prudently managed for your widow or following generations. Remember, their fiduciary standard always puts your interests first.

My comments today have highlighted two key strategic challenges we face as an organization. We will overcome these challenges just as we have overcome every challenge during the past 137 years. At the end of the day AAFMAA exists for a very simple reason: to provide invaluable care, comfort and relief to the American Armed Forces community. How do we do this?

- By protecting through unbeatable insurance and financial services
- By delivering superlative personal service and trusted expert advice, and
- Finally, by compassionately taking care of your survivors and their families.

***“You have lived up to and beyond all the ideas and ideals that we had and have about the care AAFMAA would take of our family.”***

**EXCERPT FROM A LETTER TO AAFMAA,  
WRITTEN BY A MEMBER'S SURVIVING SPOUSE**

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**AAFMAA WEALTH MANAGEMENT & TRUST**

# Market Outlook: Fall 2016



In June, citizens of the United Kingdom shocked financial markets around the world by walking in to their voting booths and with a shout of “I’m mad as hell and I’m not going to take this anymore,” voted 52% to 48% to leave the European Union (EU). Technically, the referendum was not legally binding on the UK Government. Only if the British prime minister invokes Article 50 of the EU’s governing treaty—an irreversible action—the UK will have two years to negotiate terms for a new relationship with the EU. If they do not reach an agreement, the UK will be out anyway.

EU and UK negotiators face a challenge to strike a good balance in the EU’s terms with the UK. If the terms are too favorable, it could start a domino effect with other EU nations wishing to leave including France (Frexit?), Greece (Grexit?) or Italy (Quitally?). If they are too harsh, it could result in a collapse of trade — almost half of UK exports go to the EU.

US markets declined 6% in two days following the news. That was minor compared to international markets, which plunged as much as 10%. As we have repeatedly told our clients, ignore short-term events — what we call “noise” — and concentrate on long-term goals. This event was no different. Within a few days, US markets turned around and climbed to new highs.

**Why did the market reverse itself?** Could it be that US exports to the UK account for less than 0.7% of GDP or that even the EU as a whole only accounts for 2% of GDP? Or, maybe investors came to their senses and realized that for an economy the size of the US, this was a non-event. More importantly, domestic drivers of US growth remain positive, although not spectacular — our “slow growth” scenario remains intact. While you should not act on short-term events, you may possibly see another knee jerk reaction if the UK invokes Article 50.

Investors grow increasingly frustrated with both the bond and equity markets and rightly so. Returns have been subpar. With equity markets in performance purgatory and bonds at historically low yields, some investors have been tempted to reach for yield via long-term maturity bonds. We advise otherwise. With 10-year Treasuries recently yielding 1.6% and 30-year Treasuries 2.6%, this segment of the bond market is near historically low yields.

**Why are bond yields so low?** A flight to quality from international investors. The political uncertainty and negative interest rates in Europe make US fixed assets especially appealing to those investors. Instead, we recommend intermediate maturity corporate debt and higher quality non-investment grade bonds for the fixed income portion of your portfolio as a more appropriate mix.

What are we doing with our clients’ portfolios? Once again, ignore the noise, concentrate on the long term and watch the “investment traffic lights”:



When we boil down our market components to these three indicators, we find the Fed maintaining an accommodative monetary policy (green), market valuations at reasonable levels given the current interest rate environment (green but turning yellow) and the typical individual investor terrified of the market (green).

**What should you do to navigate the volatility of this market and achieve investment success?**

- 1. Have an investment strategy that matches your goals and risk tolerance.** Determine the strategic asset allocation that matches both your time horizon and your ability to tolerate price fluctuations. Most people have goals that span years or even decades. The longer the period of time, the more aggressive your allocations. However, if

you tend to panic every time the market has a down draft, an aggressive allocation might not be suitable. A successful long-term investor matches both time and tolerance.

- 2. Diversify your portfolio.** No one knows what areas of the stock market (large, mid, small) or what style (value, core, growth) or what sector (health care, technology, utilities, etc.) will out-perform or under-perform each year. At AAFMAA Wealth Management & Trust we overweight certain areas based on historical valuation parameters, but we never make big investment bets.
- 3. Don't forget the world.** There are approximately seven billion people in the world, 95% of whom are not American. Businesses and investors outside the US generate a large and growing share of global economic activity. International investments have diversification benefits.
- 4. Manage your portfolio.** Long-term investment success does not come from a select-and-forget strategy. Although market timing does not work, disciplined rebalancing does. We rebalance on a percentage basis rather than a periodic basis. Our research demonstrates that percentage rebalancing adds value over time.

Executing these four pieces of advice is complex. As a chartered trust company, AAFMAA Wealth Management & Trust can help. We hold the highest level of fiduciary duty and care for our clients. Talk with your account administrator, relationship manager and investment officer to make sure they are calibrating your investment risk correctly for your situation so you are able to stay the course through all types of markets.

AAFMAA Wealth Management & Trust LLC is a not-for-profit, wholly-owned subsidiary of AAFMAA. We are here to serve the military and their families. If you need help or a veteran you know needs help, please call 800-927-5127 or email [wealthmanagement@aafmaa.com](mailto:wealthmanagement@aafmaa.com).

## Annual Meeting Minutes

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Let me close by reading an excerpt of a letter from a recent AAFMAA widow.

*Dear Mr. Lincoln,*

*My husband...died March 12, 2016. He had been a member of AAFMAA from his commissioning and you have assisted us during his entire career. By our phone in all the many Army quarters and other homes was always a note that read "in case of my death call AAFMAA," with the number.*

*You have lived up to and beyond all the ideas and ideals that we had and have about the care AAFMAA would take of our family. Sixty-five years later I am the one left standing.*

*The scary part that follows a death is the unknown. You have held my hand through all of this, no panic too great to calm, no job too complicated to fulfill, no bump too large to smooth.*

*Now I must "soldier on."*

*With gratitude and regards, Mrs. Jacquelyn L.*

Mr. Chairman, on behalf of Senior Management and the entire AAFMAA Staff, I am honored to submit this report for approval.

This concluded the President and Treasurer's Report. A motion to approve the report of the President and Treasurer was made, seconded and approved unanimously.

LTG Babers then called on Mike Meese (BG, USA, Ret) to provide the results of the Nominating Committee and proxy balloting. The Nominating Committee consisted of: Rickie McPeak (BG, USA Ret), Chair; Mr. William H. Buck, Member; and Kelly Ward (COL, USA, Ret), Member. The Association thanked the nominating committee for their time and effort. The committee nominated: Wilson A. (Bud) Shatzer, Jr. (COL, USA, Ret), for a second term and John A. Dubia (LTG, USA, Ret) for his first term on the Board of Directors. Proxies were received, duly counted and certified by an independent proxy service. All nominees



**AAFMAA Board Members Janice M. Hamby (RADM, USN, Ret) and Robin H. Boudiette, Jr. (CW3, USA, Ret) enjoy a beautiful day at the Army Navy Country Club in Arlington, Virginia.**

were elected by the membership and their terms will continue until the Annual Meeting in 2020. This concluded the results of the Nominating Committee and proxy balloting. A motion to close the nominations and elect the nominees was made, seconded and the nominees were elected.

Since there was no new business to be brought before the meeting, the 137th Annual Meeting of AAFMAA adjourned at 1245 hours.



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# AAFMAA Advantage

FALL 2016

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**How AAFMAA  
advanced its  
vision of financial  
independence  
for the military  
community**