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The Mutual Life Assurance
Company of Canada

annual report 1980



Highlights

		1980	1979*
NEW LIFE INSURANCE SOLD	Individual	\$ 2,387,281,000	\$ 2,225,983,000
	Group	948,625,000	840,925,000
	Total	\$ 3,335,906,000	\$ 3,066,908,000
NEW PREMIUM INCOME	Life Insurance	\$ 23,974,000	\$ 21,705,000
	Health Insurance	11,372,000	10,874,000
	Annuities	232,930,000	124,908,000
	Total	\$ 268,276,000	\$ 157,487,000
LIFE INSURANCE IN FORCE AT DEC. 31	Individual	\$13,381,220,000	\$11,898,902,000
	Group	9,904,151,000	8,892,345,000
	Total	\$23,285,371,000	\$20,791,247,000
TOTAL PREMIUM INCOME		\$ 595,514,000	\$ 462,112,000
TOTAL PAYMENTS TO POLICYHOLDERS AND BENEFICIARIES		\$ 384,379,000	\$ 327,861,000
DIVIDENDS TO POLICYHOLDERS (included above)		\$ 68,464,000	\$ 62,473,000
NET INCOME FOR THE YEAR		\$ 41,246,000	\$ 31,744,000
ASSETS		\$ 3,307,723,000	\$ 2,854,959,000
NET RATE OF INTEREST EARNED		10.26%	9.30%

* As restated. See Notes to Financial Statements.

Report of the Board of Directors

Your Directors are pleased to present the 111th annual report to policyholders, together with the reports of the valuation actuary and the auditors.

The Company had a remarkably successful year in 1980 in an environment marked by intense competition among all financial institutions and by continued economic and political uncertainty.

Insurance protection being provided for Canadians increased significantly. Growth of premium income, especially for annuities, reflects the acceptance, in the market, of the modern products the Company has developed to meet Canadians' needs for personal financial security.

Higher investment income and favourable mortality experience contributed to the excellent financial results achieved. These results have made possible another increase in the dividend scale for individual policyholders in 1981. In addition, the increase in retained earnings helps to ensure the continued financial strength and stability of the Company in a period of extreme financial conditions throughout the world.

Assets of the Company now exceed \$3.3 billion. The nature of the investments made in recent years has changed significantly. In general, more emphasis has been placed on shorter term investments and investments such as revenue-producing real estate. These changes reflect both the changing nature of the Company's business, especially the growth of the new forms of flexible annuities, and the increasing volatility of financial markets.

Mr. J. V. Masterman, Executive Vice-President, was appointed to the Board in May.

It was with profound regret that we learned of the deaths of two of our esteemed Honorary Directors: G. Blair Gordon on April 29, 1980 and Harold M. Turner on September 17, 1980. Mr. Gordon served as a Director from 1936 to 1976; Mr. Turner served as Chairman of the Board from 1966 to 1973 and as a Director from 1954 to 1974.

The fine results achieved during 1980 were made possible by your continuing confidence in the Company, and by the loyal and efficient service given by the staff and field force to Canadians in all parts of the country.

Respectfully submitted on behalf of the Board.

K. R. MacGREGOR, *Chairman of the Board*

JOHN H. PANABAKER, *President*

February 25, 1981

Statement of Operations

For the Year
1980 1979
(in thousands)

INCOME

Premiums for		
Life insurance	\$199,770	\$187,151
Health insurance	93,787	84,640
Annuities	301,957	190,321
	595,514	462,112
Investment income <i>(note 12)</i>	292,215	233,887
Other income for variable benefit contracts <i>(note 13)</i>	32,219	21,353
	<u>\$919,948</u>	<u>\$717,352</u>

THIS INCOME WAS USED FOR

Payments to policyholders and beneficiaries		
Death and disability benefits	\$ 61,278	\$ 55,866
Health insurance benefits	72,169	63,490
Maturity and surrender values	110,922	87,523
Annuities	50,839	41,447
Interest on amounts on deposit	20,707	17,062
Dividends	68,464	62,473
	384,379	327,861
Increase in actuarial liability for insurance and annuity contracts	313,539	208,886
Increase in liability for variable benefit contracts	68,095	51,529
Increase in provision for dividends to policyholders in the following year	4,968	4,705
General expenses and business taxes	99,311	86,198
Income and premium taxes	8,410	6,429
	<u>\$878,702</u>	<u>\$685,608</u>
NET INCOME FOR THE YEAR	<u>\$ 41,246</u>	<u>\$ 31,744</u>

ALLOCATED AS FOLLOWS

Reserves for		
Valuation of investments and other assets	\$ 9,500	\$ 7,900
Contingencies	9,207	6,717
Unappropriated retained earnings	22,539	17,127
	<u>\$ 41,246</u>	<u>\$ 31,744</u>

Balance Sheet

	December 31	
	1980	1979
	(in thousands)	
ASSETS		
Cash and short term investments (note 3)	\$ 132,109	\$ 23,864
Bonds (note 4)	987,355	847,808
Common and preferred stocks (note 5)	156,478	201,041
Mortgage loans (note 6)	1,310,078	1,182,414
Real estate held for the production of income	74,066	58,009
Office premises and equipment	28,819	31,174
Loans on policies	225,326	193,920
Segregated investments for variable benefit contracts	323,285	255,098
Investment in and loans to affiliated corporations (note 7)	11,500	5,630
Accrued investment income	43,228	37,837
Premiums in course of collection	10,603	11,981
Other assets	4,876	6,183
	<u>\$3,307,723</u>	<u>\$2,854,959</u>
LIABILITIES		
Actuarial liabilities		
Insurance and annuity contracts (note 8)	\$2,220,562	\$1,907,023
Variable benefit contracts	321,956	253,861
Policy benefits in course of payment and provision for unreported claims	30,058	28,860
Provision for dividends to policyholders in the following year	74,900	69,932
	<u>2,647,476</u>	<u>2,259,676</u>
Policy proceeds, dividends, and other amounts on deposit	241,097	223,121
Amounts received from mortgagors for property taxes not yet due	5,689	5,725
Income and premium taxes payable	7,985	
Other liabilities	25,268	27,475
	<u>\$2,927,515</u>	<u>\$2,515,997</u>
RETAINED EARNINGS		
Reserves for		
Valuation of investments and other assets (note 9)	\$ 75,000	\$ 65,500
Contingencies (note 10)	104,000	94,793
Unappropriated retained earnings (note 11)	201,208	178,669
	<u>\$ 380,208</u>	<u>\$ 338,962</u>
	<u>\$3,307,723</u>	<u>\$2,854,959</u>

K. R. MacGREGOR
Chairman of the Board

JOHN H. PANABAKER
President

Statement of Reserve for Valuation of Investments and Other Assets

	For the Year	
	1980	1979
	(in thousands)	
Balance at beginning of year	\$ 65,500	\$ 57,600
Allocation of net income for the year	<u>9,500</u>	<u>7,900</u>
Balance at end of year	<u>\$ 75,000</u>	<u>\$ 65,500</u>

Statement of Reserve for Contingencies

	For the Year	
	1980	1979
	(in thousands)	
Balance at beginning of year		\$ 53,500
Adjustment of actuarial liabilities (note 2)		<u>34,576</u>
As restated	\$ 94,793	88,076
Allocation of net income for the year	<u>9,207</u>	<u>6,717</u>
Balance at end of year	<u>\$104,000</u>	<u>\$ 94,793</u>

Statement of Unappropriated Retained Earnings

	For the Year	
	1980	1979
	(in thousands)	
Balance at beginning of year		\$149,907
Adjustment of actuarial liabilities (note 2)		7,144
Adjustment of prior years' income taxes (note 14)		<u>4,491</u>
As restated	\$178,669	161,542
Allocation of net income for the year	<u>22,539</u>	<u>17,127</u>
Balance at end of year	<u>\$201,208</u>	<u>\$178,669</u>

Report of the Valuation Actuary

I have made the valuation of actuarial liabilities of The Mutual Life Assurance Company of Canada for its balance sheet at December 31, 1980 and its statement of operations for the year then ended. In my opinion, (i) the valuation conforms to Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries, (ii) the amount of the actuarial liabilities in the balance sheet makes proper provision for the obligations payable in the future under the Company's contracts, (iii) a proper charge on account of those liabilities has been made in the statement of operations, and (iv) the amount included in the reserve for contingencies to cover the excess of cash surrender values over actuarial liabilities is proper.

D. C. MacTAVISH, F.S.A., F.C.I.A., *Chief Actuary*
January 21, 1981

Notes to Financial Statements

1. Accounting policies

The Company is registered under the Canadian and British Insurance Companies Act and that Act, administered by the Department of Insurance of Canada, governs its financial reporting. Further information in this note pertains to life insurance and annuity operations only. The treatment of some of the items for health insurance operations is different but the financial effect is not material.

a) Bonds and mortgage loans

Investments in bonds and mortgage loans are carried at amortized cost plus or minus the unamortized balance of losses or gains on sales since January 1, 1978 of such securities. The difference between the proceeds on the sale of a bond, debenture, or mortgage and its amortized cost is considered to be an adjustment of future portfolio yield, deferred on the balance sheet and amortized over the lesser of twenty years or the period to maturity of the security sold.

b) Common and preferred stocks

Investments in common and preferred stocks are carried at cost plus or minus a bulk adjustment. This bulk adjustment reflects realized losses or gains since January 1, 1978 and the difference between market value and book value (including previous bulk adjustments) of the stock portfolio. Seven per cent of the outstanding balance of the realized gains or losses plus seven per cent of the difference between market value and book value (including previous bulk adjustments) is taken into income.

c) Real estate held for the production of income

Real estate held for the production of income is carried at cost less accumulated depreciation and less mortgage liabilities. Depreciation on leaseback properties is provided at rates determined by the terms of the leases. Depreciation on other buildings is calculated on the straight line basis at 2½% per annum.

d) Office premises and equipment

Office premises and equipment are carried at cost less accumulated depreciation. Depreciation on office premises is calculated on the straight line basis at 2½% per annum while depreciation on equipment is calculated on the straight line basis at varying rates to amortize the cost of the assets over their estimated useful life.

e) Segregated investments for variable benefit contracts

Segregated investments for variable benefit contracts are carried at market value.

f) Investment in and loans to affiliated corporations

Affiliated corporations include corporations in which the Company has at least a 50% share interest. The shares of affiliated corporations are carried at their equity value.

g) Actuarial liabilities

Actuarial liabilities are the amounts which, together with future premiums and investment income, provide for future obligations under insurance and annuity contracts. The "1978 Canadian Method" of valuation has been used. Within certain limits, the Method spreads the cost of acquiring new business over the premium paying period. It requires actuarial assumptions of interest, mortality, expenses, withdrawal, and other contingencies to be appropriate to the contracts in force.

h) Income taxes

The income tax charge against operations is the amount estimated to be currently payable and does not take into account any deferral of taxes.

i) Currency

United States currency is included at the rate of \$1.00 Canadian to the U.S. dollar except with respect to variable benefit contracts where current exchange rates are used.

2. Financial statement presentation

The following principal changes have been made in the methods and assumptions used in the determination of actuarial liabilities for insurance and annuity policies with the comparative figures for 1979 being restated on the basis used for 1980:

- The 1978 Canadian Method of valuation has been used. In prior years, if the current cash value of any contract exceeded the actuarial liability determined by the 1978 Canadian Method, that cash value was substituted. Such excesses of cash values over actuarial liabilities are now covered by an appropriation in the reserve for contingencies.
- Actuarial liabilities for individual participating insurance and annuity contracts have been reduced to reflect a clarification of the Department of Insurance requirements for the treatment of future dividends on these types of policies.

As a result of the changes referred to above and a number of other less significant changes, net income for 1980 is increased by \$1,321,000, net income for 1979 is increased by \$3,467,000, and the cumulative effect to January 1, 1979 is reflected as increases in the reserve for contingencies and in unappropriated retained earnings.

Notes to Financial Statements

(continued)

3. Cash and short term investments

The distribution of these items is as follows:

	December 31	
	1980	1979
	(in thousands)	
Cash	\$ 3,016	\$10,079
Callable deposits in banks	1,867	13,567
Bankers' acceptances	107,358	
Other short-term instruments	19,868	218
	<u>\$132,109</u>	<u>\$23,864</u>

4. Bonds

The distribution of bonds is as follows:

	December 31	
	1980	1979
	(in thousands)	
Government of Canada bonds	\$170,568	\$109,685
Provincial, other government, and municipal bonds	170,378	171,101
Public utility, industrial, and other bonds	646,409	567,022
	<u>\$987,355</u>	<u>\$847,808</u>

The value of bonds includes \$23,231,000 (\$16,347,000 in 1979) to reflect unamortized losses on sales.

5. Common and preferred stocks

The value of stocks has been decreased by the bulk adjustment of \$29,275,000 (\$795,000 in 1979).

6. Mortgage loans

The distribution of mortgage loans is as follows:

	December 31	
	1980	1979
	(in thousands)	
CMHC insured loans	\$ 301,409	\$ 307,632
Other insured loans	195,597	173,317
Conventional loans	813,072	701,465
	<u>\$1,310,078</u>	<u>\$1,182,414</u>

The value of mortgage loans includes \$3,000 (\$229,000 in 1979) to reflect unamortized losses on sales.

7. Investment in and loans to affiliated corporations

These companies are Harmute Investments Limited, Mississauga Executive Enterprises Limited (both 50% owned), Mu-Cana Data Services Ltd., Mu-Cana Investment Counselling Ltd., and RDC Property Services Limited (all wholly owned).

8. Actuarial liability for insurance and annuity contracts

The valuation method used makes allowance for deferred acquisition costs of \$107,593,000 (\$96,810,000 in 1979).

9. Reserve for valuation of investments and other assets

The Department of Insurance of Canada requires that certain minimum amounts be appropriated from retained earnings as reserves against assets. These are as follows:

	December 31	
	1980	1979
	(in thousands)	
Reserve for valuation of investments	<u>\$39,454</u>	<u>\$33,754</u>
Reserve for other assets		
Furniture, fixtures, and equipment	3,134	2,632
Leasehold improvements	760	694
Amounts paid in advance to agents	3,675	3,486
Health insurance premiums outstanding for more than 90 days	83	82
	<u>7,652</u>	<u>6,894</u>
Total required reserve	47,106	40,648
Credit with respect to foreign currency valuation	11,276	11,136
Net required reserve	<u>\$35,830</u>	<u>\$29,512</u>

Amounts appropriated in excess of the statutory requirements provide additional protection against market and currency fluctuations.

Notes to Financial Statements

(continued)

10. Reserve for contingencies

The Department of Insurance of Canada requires that excesses of current cash values over actuarial liabilities, computed using the 1978 Canadian Method of Valuation, be appropriated from retained earnings. This amounted to \$37,859,000 (\$35,793,000 in 1979). Amounts appropriated in excess of the statutory requirement provide protection against abnormal claims fluctuations.

11. Unappropriated retained earnings

Included in unappropriated retained earnings is \$1,329,000 (\$1,237,000 in 1979) in segregated funds for variable benefit contracts.

12. Investment Income

Investment income consists of the following:

	For the Year	
	1980	1979
	(in thousands)	
Interest, dividends, and net rents	\$289,004	\$234,369
Gains from stocks	13,083	8,596
Amortized losses from bonds and mortgage loans	(2,557)	(2,129)
Investment expenses	(7,315)	(6,949)
	<u>\$292,215</u>	<u>\$233,887</u>

13. Other income for variable benefit contracts

This item represents all realized and unrealized capital gains and losses and sundry income for variable benefit contracts.

14. Adjustment of prior years' income taxes

In 1980, the Company reached agreement concerning reassessments with respect to its income taxes for the years 1972 through 1975 and made readjustments with respect to income taxes for the years 1976 and 1977. Unappropriated retained earnings have been increased to reflect these items.

15. Company pension plans

No unfunded liability exists under the Company's pension plans.

Auditors' Report to the Directors and Policyholders

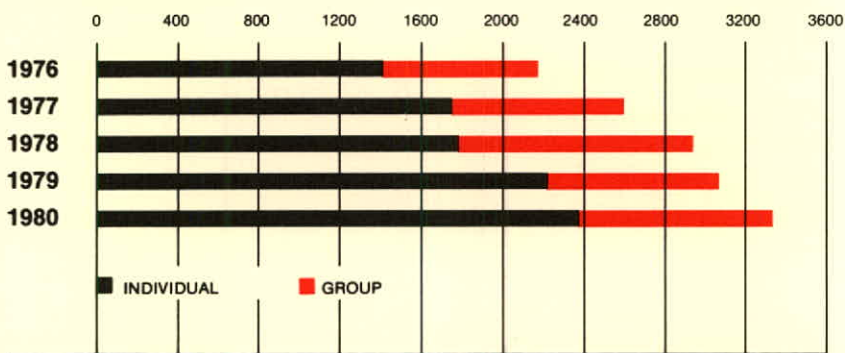
We have examined the balance sheet of The Mutual Life Assurance Company of Canada as at December 31, 1980 and the statements of operations, reserve for valuation of investments and other assets, reserve for contingencies and unappropriated retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Securities representing the company's investments in bonds and stocks were verified by actual inspection or by certificates from the depositaries. We have accepted the actuarial liabilities in the amount determined and certified by the valuation actuary.

In our opinion, based on our examination and our reliance on the report of the valuation actuary, these financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations for the year then ended in accordance with accounting practices as set out in note 1 to the financial statements applied, after giving retroactive effect to the changes in accounting practice as described in note 2, on a basis consistent with that of the preceding year. These accounting practices are acceptable to the Department of Insurance of Canada.

THORNE RIDDELL, *Chartered Accountants*
Kitchener, Ontario, January 21, 1981

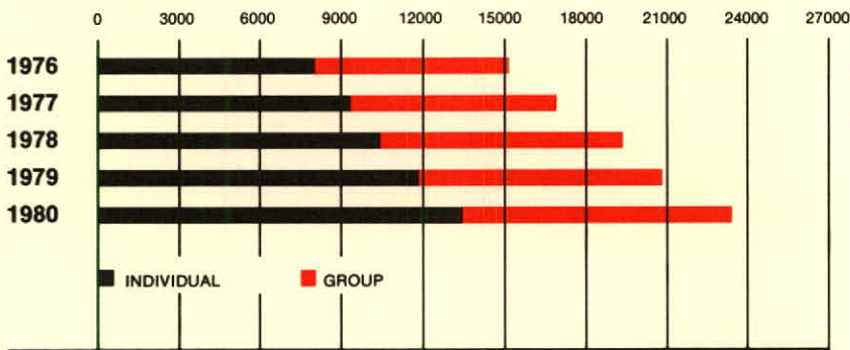
New Life Insurance Sold

IN MILLIONS OF DOLLARS



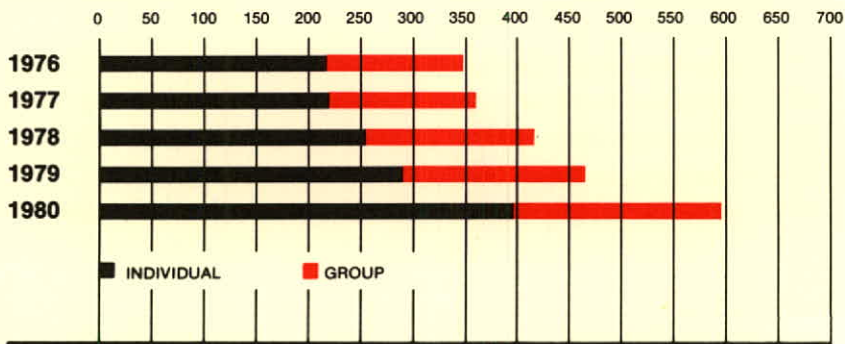
Life Insurance in Force

IN MILLIONS OF DOLLARS



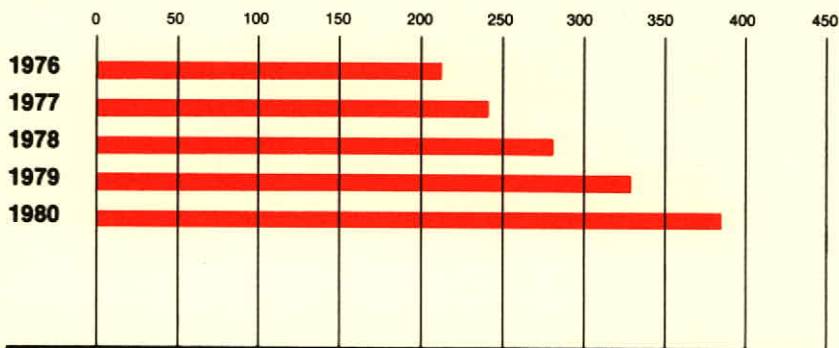
Premium Income

IN MILLIONS OF DOLLARS



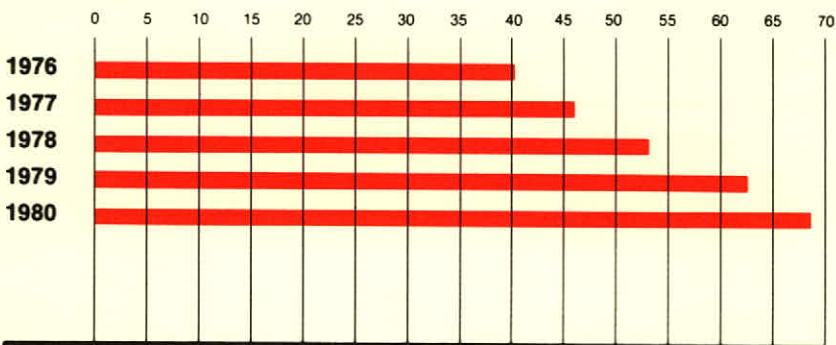
Total Payments to Policyholders and Beneficiaries

IN MILLIONS OF DOLLARS



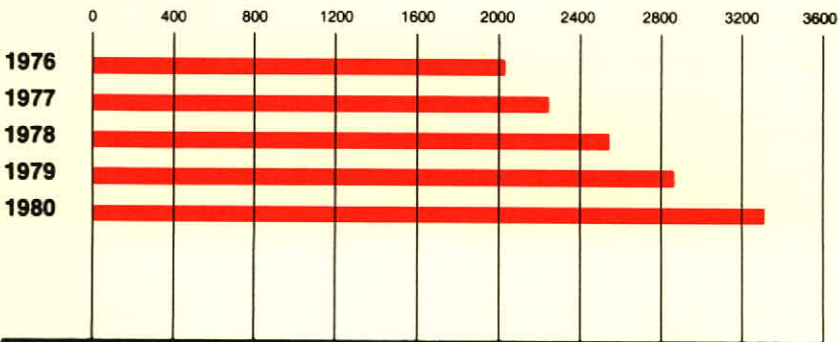
Dividends to Policyholders

IN MILLIONS OF DOLLARS



Assets

IN MILLIONS OF DOLLARS



Board of Directors

K. R. MacGREGOR, F.S.A., F.C.I.A., *Chairman of the Board, Waterloo, Ont.* ¹

JOHN H. PANABAKER, *President, Kitchener, Ont.* ¹

J. V. MASTERMAN, F.S.A., F.C.I.A., *Executive Vice-President, Waterloo, Ont.*

J. S. PROCTOR, LL.D., *Vice-President, Toronto, Ont.* ^{1 2 3}

W. HAROLD REA, C.M., LL.D., F.C.A., *Vice-President, Toronto, Ont.* ¹

W. M. ANDERSON, C.A., *Vancouver, B.C.* ²

W. A. BEAN, C.B.E., *Waterloo, Ont.* ^{1 3}

AGNES M. BENIDICKSON, LL.D., *Ottawa, Ont.*

J. T. BLACK, C.A., *Toronto, Ont.* ³

G. H. BLUMENAUER, *Oakville, Ont.* ²

HON. S. L. BUCKWOLD, *Saskatoon, Sask.*

R. W. COOPER, *Hamilton, Ont.* ^{1 3}

PIERRE CÔTÉ, C.M., *Quebec, Que.* ^{1 3}

EDOUARD FISET, O.C., F.R.A.I.C., *Montreal, Que.*

WILLIAM JAMES, *Toronto, Ont.* ³

J. D. LEISHMAN, M.D., *Vancouver, B.C.* ²

A. H. MINGAY, *Toronto, Ont.* ²

H. J. S. PEARSON, *Edmonton, Alta.* ^{1 3}

G. D. STANFIELD, *Halifax, N.S.* ²

W. J. STENASON, *Montreal, Que.*

¹ Member of the Executive Committee

² Member of the Audit Committee

³ Member of the Compensation Committee

Honorary Directors

N. R. CRUMP, C.C., LL.D., *Calgary, Alta.*

H. L. McCULLOCH, *Cambridge, Ont.*

Divisional Officers

D. R. WINHOLD, F.S.A., F.C.I.A., *Senior Vice-President and Treasurer*

ANDRÉ ANDERSON, *Vice-President (Individual Insurance)*

D. A. MacINTOSH, *Vice-President (Corporate Services)*

D. A. POST, F.L.M.I., *Vice-President (Group Insurance)*

Corporate Staff Officers

C. GINGRAS, *Vice-President and General Counsel*

J. G. ROSS, M.D., *Vice-President and Medical Director*

F. T. WHITMORE, *Vice-President (Corporate Planning and Development)*

D. C. MacTAVISH, F.S.A., F.C.I.A., *Chief Actuary*

D. E. WEAVER, F.L.M.I., *Secretary*

As at December 31, 1980