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annual report 1979

The Mutual Life Assurance Company of Canada

Life is a Mutual affair.

Highlights

		1979	1978*
NEW LIFE INSURANCE SOLD	Individual	$ 2,225,983,000	$ 1,781,747,000
	Group	840,925,000	1,156,130,000
	Total	$ 3,066,908,000	$ 2,937,877,000
NEW PREMIUM INCOME	Life Insurance	$ 21,705,000	$ 20,358,000
	Health Insurance	10,874,000	9,859,000
	Annuities	97,104,000	83,655,000
	Total	$ 129,683,000	$ 113,872,000
LIFE INSURANCE IN FORCE AT DEC. 31	Individual	$11,898,902,000	$10,401,437,000
	Group	8,892,345,000	8,633,362,000
	Total	$20,791,247,000	$19,034,799,000
TOTAL PREMIUM INCOME		$ 462,112,000	$ 415,385,000
TOTAL PAYMENTS TO POLICYHOLDERS AND BENEFICIARIES		$ 327,861,000	$ 280,137,000
DIVIDENDS TO POLICYHOLDERS (included above)		$ 62,473,000	$ 53,233,000
NET INCOME FOR THE YEAR		$ 28,277,000	$ 22,103,000
ASSETS		$ 2,854,941,000	$ 2,527,537,000
NET RATE OF INTEREST EARNED		9.30%	8.77%

* *As restated. See Notes to Financial Statements.*

Report of the Board of Directors

Your Directors are pleased to present the 110th annual report to policyholders, together with the reports of the valuation actuary and the auditors.

The year 1979 was a very successful one for the Company despite the atmosphere of economic stress, intense competition, and political instability. The increase in total premium income indicates clearly that our products and services continue to be well accepted by Canadians.

New individual life insurance sales rose sharply and are largely responsible for the growth in life insurance in force.

The financial results have made possible a further increase in the dividend scales for individual insurance and annuity policyholders. The dividend distribution to such policyholders in 1980 is expected to increase 9% over 1979.

Other benefit payments continued to rise rapidly, reflecting not only the current economic environment but also the increasing number of policyholders and beneficiaries who receive payments to meet particular needs at appropriate times.

Net income for the year increased substantially as a result of higher investment income and favourable mortality. As indicated a year ago, the revised form of statement has greatly increased the volatility of the Company's earnings. In 1979, the results were very positively affected by the performance of the Company's common stock investments. The earnings retained help to ensure the continued financial strength and stability of the Company.

Mr. W. J. Stenason of Montreal was appointed to the Board in April.

It was with profound regret that we learned of the death on May 22, 1979 of Brigadier-General J. P. Carrière who had served as a director since May 1962 and since February 1974 as a member of the Executive Committee.

The Mutual Life of Canada commenced business on March 1, 1870 - almost 110 years ago. The Company has grown and prospered in a united Canada, and serves Canadians in both official languages and in every province and territory. Our future is bound up with that of a united Canada and we will do our utmost to continue to serve Canadians effectively as our country grapples with the challenges of the new decade.

The Board recognizes that the fine results achieved during 1979 were made possible by the continuing confidence of Canadians in the Company, and by the loyal and efficient service given by the staff and field force in all parts of the country.

Respectfully submitted on behalf of the Board.

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

February 27, 1980

JOHN H. PANABAKER, *President*

Statement of Operations

	For the Year 1979	1978
	(in thousands)	
INCOME		
Premiums for		
Life insurance	**$187,151**	$177,828
Health insurance	**84,640**	73,142
Annuities	**190,321**	164,415
	462,112	415,385
Investment income *(note 10)*	**233,887**	195,918
Other income for variable benefit contracts *(note 11)*	**21,353**	13,158
	$717,352	$624,461
THIS INCOME WAS USED FOR		
Payments to policyholders and beneficiaries		
Death and disability benefits	**$ 55,866**	$ 55,359
Health insurance benefits	**63,490**	53,032
Maturity and surrender values	**87,523**	67,237
Annuities	**41,447**	36,726
Interest on amounts on deposit	**17,062**	14,550
Dividends	**62,473**	53,233
	327,861	280,137
Increase in actuarial liability for insurance and annuity contracts *(note 12)*	**212,462**	184,839
Increase in liability for variable benefit contracts	**51,529**	43,100
Increase in provision for dividends to policyholders in the following year	**4,705**	10,921
General expenses and business taxes	**86,198**	77,401
Income and premium taxes	**6,320**	5,960
	$689,075	$602,358
NET INCOME FOR THE YEAR	**$ 28,277**	$ 22,103
ALLOCATED AS FOLLOWS		
Reserves for		
Valuation of investments and other assets	**$ 7,900**	$ 6,207
Contingencies	**5,500**	3,512
Unappropriated retained earnings	**14,877**	12,384
	$ 28,277	$ 22,103

Balance Sheet

	December 31 1979	December 31 1978
	(in thousands)	
ASSETS		
Bonds *(note 3)*	**$ 848,026**	$ 818,316
Common and preferred stocks *(note 4)*	**201,041**	187,669
Mortgage loans *(note 5)*	**1,182,414**	980,232
Real estate held for the production of income	**58,009**	57,405
Office premises and equipment	**31,174**	26,687
Loans on policies	**193,920**	170,735
Cash and callable deposits in banks	**23,646**	29,033
Segregated investments for variable benefit contracts	**255,098**	203,552
Investment in and loans to affiliated corporations *(note 6)*	**5,630**	5,786
Accrued investment income	**37,837**	34,974
Premiums in course of collection	**11,981**	8,811
Other assets	**6,165**	4,336
	$2,854,941	$2,527,536
LIABILITIES		
Actuarial liabilities		
Insurance and annuity contracts *(note 7)*	**$1,952,791**	$1,740,329
Variable benefit contracts	**253,861**	202,332
Policy benefits in course of payment and provision for unreported claims	**28,860**	28,559
Provision for dividends to policyholders in the following year	**69,932**	65,227
	2,305,444	2,036,447
Policy proceeds, dividends, and other amounts on deposit	**223,121**	205,898
Amounts received from mortgagors for property taxes not yet due	**5,725**	3,423
Income and premium taxes payable	**3,892**	1,875
Other liabilities	**27,475**	18,886
	$2,565,657	$2,266,529
RETAINED EARNINGS		
Reserves for		
Valuation of investments and other assets *(note 8)*	**$ 65,500**	$ 57,600
Contingencies	**59,000**	53,500
Unappropriated retained earnings *(note 9)*	**164,784**	149,907
	$ 289,284	$ 261,007
	$2,854,941	$2,527,536

K. R. MacGREGOR
Chairman of the Board

JOHN H. PANABAKER
President

Statement of Reserve for Valuation of Investments and Other Assets

	For the Year 1979	1978 *(in thousands)*
Balance at beginning of year		$ 46,149
Asset adjustments *(note 2)*		5,244
As restated	**$ 57,600**	51,393
Allocation of net income for the year	**7,900**	6,207
Balance at end of year	**$ 65,500**	$ 57,600

Statement of Reserve for Contingencies

	For the Year 1979	1978 *(in thousands)*
Balance at beginning of year	**$ 53,500**	$ 49,988
Allocation of net income for the year	**5,500**	3,512
Balance at end of year	**$ 59,000**	$ 53,500

Statement of Unappropriated Retained Earnings

	For the Year 1979	1978 *(in thousands)*
Balance at beginning of year		$136,387
Adjustment of prior year's income taxes *(note 13)*		1,136
As restated	**$149,907**	137,523
Allocation of net income for the year	**14,877**	12,384
Balance at end of year	**$164,784**	$149,907

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, 1979 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, and (iii) a proper charge on account of those liabilities has been made in the statement of operations.

D. C. MacTAVISH, F.S.A., F.C.I.A., *Chief Actuary*
January 23, 1980

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 a bulk adjustment. This bulk adjustment reflects realized profits or losses 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 minimum basis permitted by the Department of Insurance of Canada is the "1978 Canadian Method" of valuation and this basis has been used except that, if the current cash value of any contract exceeds the actuarial liability so determined, that cash value is substituted. 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*
Throughout the statements, United States currency is included at the rate of $1.00 Canadian to the U.S. dollar.

2. Financial statement presentation

The following changes have been made in the Balance Sheet and Statement of Operations for 1979 with the comparative figures for 1978 being restated on the basis adopted for 1979:

a) Computers are included with office premises and equipment. In prior years, they were included with other assets.

b) Furniture and fixtures, equipment, and leasehold improvements are included with office premises and equipment and are carried at cost less accumulated depreciation with the annual depreciation being a charge against operations. In prior years, these were written off in the year acquired.

c) Amounts paid in advance to agents are included with other assets. In prior years, all such advances were written off.

d) Health insurance premiums receivable but outstanding more than 90 days are now included in health insurance premiums and fully reserved. In prior years, such premiums were excluded from the statement entirely.

Notes to Financial Statements
(continued)

As a result of the changes in accounting practice referred to in this note, net income for 1979 is increased by $794,000, net income for 1978 is increased by $856,000, and the cumulative effect to January 1, 1978 is reflected as an increase in the reserve for valuation of investments and other assets at that date.

3. Bonds
The distribution of bonds is as follows:

	December 31 1979 (in thousands)	December 31 1978 (in thousands)
Government of Canada bonds	$109,685	$ 74,922
Provincial, other government, and municipal bonds	171,319	206,986
Public utility, industrial, and other bonds	567,022	536,408
	$848,026	$818,316

The value of bonds includes $16,347,000 ($8,783,000 in 1978) to reflect unamortized losses on sales.

4. Common and preferred stocks
The value of stocks has been decreased by the bulk adjustment of $795,000 (increased by $2,173,000 in 1978).

5. Mortgage loans
The distribution of mortgage loans is as follows:

	December 31 1979 (in thousands)	December 31 1978 (in thousands)
Government insured loans	$ 307,632	$249,549
Other insured loans	173,317	140,525
Conventional loans	701,465	590,158
	$1,182,414	$980,232

The value of mortgage loans includes $229,000 ($681,000 in 1978) to reflect unamortized losses on sales.

6. Investment in and loans to affiliated corporations
These companies are Harmute Investments Limited (50% owned), Mu-Cana Data Services Ltd., Mu-Cana Investment Counselling Ltd., and RDC Property Services Limited (all wholly owned).

7. Actuarial liability for insurance and annuity contracts
The actuarial liability for insurance and annuity contracts is determined as follows:

	December 31 1979 (in thousands)	December 31 1978 (in thousands)
1978 Canadian Method	$1,897,809	$1,688,326
Substitution of cash values (note 1(g))	54,982	52,003
	$1,952,791	$1,740,329

The valuation method used makes allowance for $69,590,000 of deferred acquisition costs ($68,197,000 in 1978).

8. 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 1979 (in thousands)	December 31 1978 (in thousands)
Reserve for valuation of investments	$33,754	$26,955
Reserve for other assets		
Furniture, fixtures, and equipment	2,632	2,334
Leasehold improvements	694	577
Amounts paid in advance to agents	3,486	2,987
Health insurance premiums outstanding for more than 90 days	82	202
	6,894	6,100
Total required reserve	40,648	33,055
Credit with respect to foreign currency valuation	11,136	11,420
Net required reserve	$29,512	$21,635

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

Notes to Financial Statements
(continued)

9. Unappropriated retained earnings
Included in unappropriated retained earnings is $1,237,000 ($1,220,000 in 1978) in segregated funds for variable benefit contracts.

10. Investment income
Investment income consists of the following:

	December 31	
	1979	1978
	(in thousands)	
Interest, dividends, and net rents	$234,369	$198,877
Gains from stocks	8,596	4,255
Amortized losses from bonds and mortgage loans	(2,129)	(1,200)
Investment expenses	(6,949)	(6,014)
	$233,887	$195,918

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

12. Increase in actuarial liability for insurance and annuity contracts
This amount includes $2,979,000 ($1,321,000 in 1978) to provide for the substitution of cash values as described in note 1(g) and is in excess of the minimum statutory requirement to this extent.

13. Adjustment of prior year's income taxes
At the time the Company determined its income taxes for the year 1977, final regulations affecting the tax determination had not been promulgated. The application of the regulations as finally adopted during 1979 resulted in a reduction in income taxes for 1977. Unappropriated retained earnings at January 1, 1978 have been increased to reflect this change.

14. Staff pension plan
No unfunded liability exists under the staff pension plan.

Auditors' Report to the Directors and Policyholders

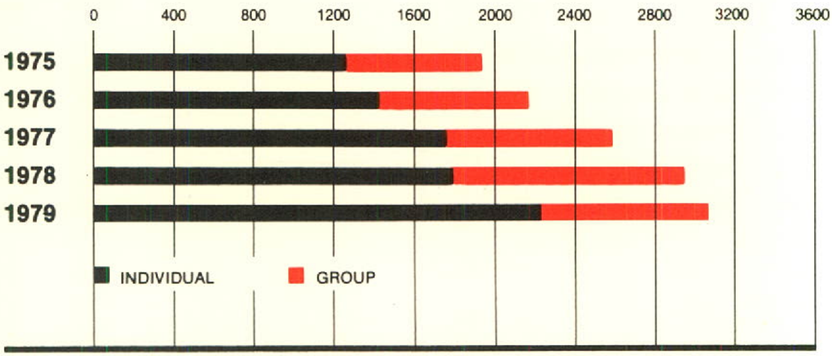
We have examined the balance sheet of The Mutual Life Assurance Company of Canada as at December 31, 1979 and the statements of operations, reserve for valuation of investments and other assets, reserve for contingencies, and unappropriated retained earnings for the year then ended. Our examination was 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, 1979 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 & CO., *Chartered Accountants*
Kitchener, Ontario, January 23, 1980

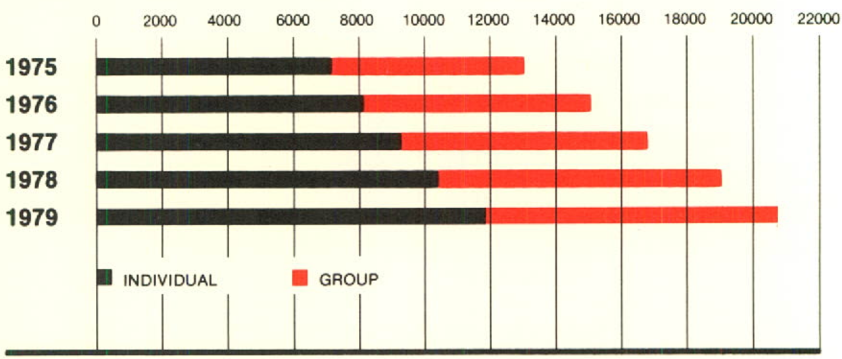
New Life Insurance Sold

IN MILLIONS OF DOLLARS



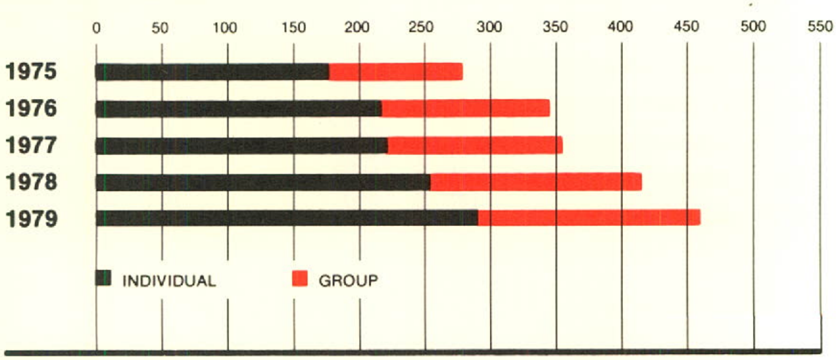
Life Insurance in Force

IN MILLIONS OF DOLLARS



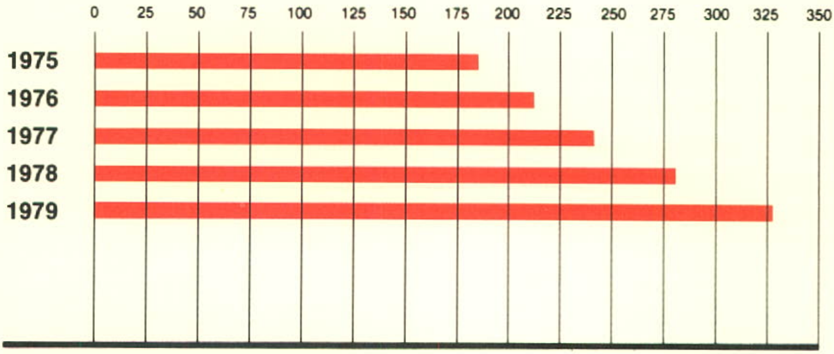
Premium Income

IN MILLIONS OF DOLLARS



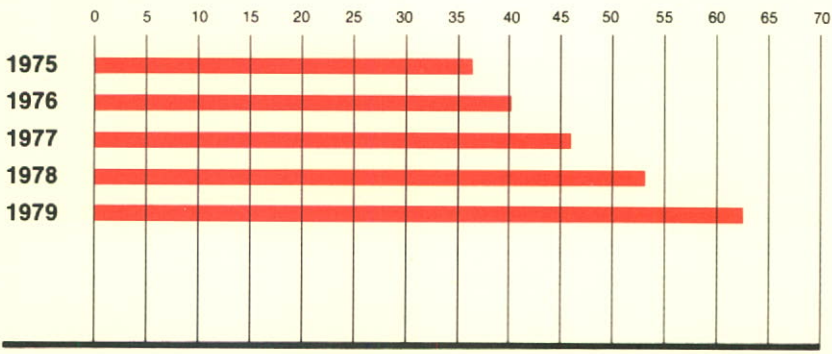
Total Payments to Policyholders and Beneficiaries

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

W. M. ANDERSON, C.A., *Vancouver, B.C.*[2]
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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, P.Q.*[1,3]
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WILLIAM JAMES, *Toronto, Ont.*[3]
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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, P.Q.*

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.*
G. B. GORDON, *Montreal, P.Q.*
H. L. McCULLOCH, *Cambridge, Ont.*
H. M. TURNER, *Toronto, Ont.*

Divisional Officers

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D. R. WINHOLD, F.S.A., F.C.I.A., *Senior Vice-President and Treasurer*
ANDRÉ ANDERSON, *Agency Vice-President*
D. A. MacINTOSH, *Vice-President (Corporate Services)*
D. A. POST, F.L.M.I., *Vice-President (Group Insurance)*

Corporate Staff Officers

J.G. ROSS, M.D., *Vice-President and Medical Director*
F. T. WHITMORE, *Vice-President (Corporate Planning and Development)*
C. GINGRAS, *General Counsel*
D. C. MacTAVISH, F.S.A., F.C.I.A., *Chief Actuary*
D. E. WEAVER, F.L.M.I., *Secretary*