
BUDD WATSON
C
1978
Canada Life Assurance
Company
132nd
annual
report

The 132nd Annual Report of The Canada Life Assurance Company

Protection for the family is beautifully symbolized by the photograph of the bird feeding its young nesting safely in a tree.

Protection for the family was one of the reasons that the Canada Life was established in 1847 with the objective of "extending to many the comforting protection of life assurance".

Over the past one hundred and thirty-two years, through times of war and peace, economic hardship and prosperity, the Company has helped a host of people alleviate the financial problems resulting from disability, old age or the passing of the breadwinner.

During 1978 our family of policyholders continued to grow, reflecting the confidence that people place in our representatives and their recommendations for individual and corporate financial planning.

E. H. Crawford

President

A Yellow-Shafted Flicker (Colaptes Auratus) was photographed feeding the young nesting in a cavity in a broken, wild cherry tree by a river. Budd Watson, the photographer, is an Associate of the Royal Photographic Society of Great Britain and has the designation "Excellence" from the Federation Internationale de l'Art Photographique in Berne, Switzerland. He has had one-man shows of his photographs in several leading galleries in Canada and the United States.

THE YEAR AT A GLANCE

Highlights of the Consolidated Annual Report	1978	1977
Payments under Policy Contracts	$288,177,000	$234,608,000
First Year Premiums on New Business	140,437,000	130,673,000
including —		
Individual Insurance	21,266,000	16,458,000
Group Insurance	10,926,000	13,670,000
Guaranteed Annuities	64,248,000	59,888,000
Variable Insurances and Annuities	43,997,000	40,657,000
Life Insurance and Annuities in Force	30,018,988,000	26,238,016,000
Assets	2,668,997,000	2,318,950,000
Net Rate of Interest Earned	8.56%	8.14%

BOARD OF DIRECTORS

E.H. CRAWFORD
President

A.H. LEMMON
Chairman of the Board

J.G. HUNGERFORD, Q.C.
Chairman of the Executive Committee of the Board

BEVERLEY MATTHEWS, C.B.E., Q.C.
Vice-President of the Board
Partner
McCarthy & McCarthy

DAVID W. BARR
Vice-President of the Board
Chairman of the Board
Moore Corporation Limited

ARTHUR J.E. CHILD
President and Chief Executive Officer
Burns Foods Limited
Calgary

E. JACQUES COURTOIS, Q.C.
Courtois, Clarkson
Parsons & Tétrault
Montreal

NATHANAEL V. DAVIS
Chairman of the Board
and Chief Executive Officer
Alcan Aluminium Limited
Montreal

GRAHAM R. DAWSON
Chairman and President
Dawson Construction Limited
Vancouver

GÉRARD FILION, C.C.
Montreal

L. EDWARD GRUBB
Former Chairman and Chief Officer
of Inco Limited

RUSSELL E. HARRISON
Chairman and Chief Executive Officer
Canadian Imperial Bank of Commerce

J.D. LEITCH
President
Upper Lakes Shipping Limited

JOHN L. McCARTHY
Toronto

The Right Honourable
LORD McFADZEAN, K.T.
Honorary President
British Insulated Callender's
Cables Limited
London, England

ELLMORE C. PATTERSON
Former Chairman
J.P. Morgan & Co. Incorporated
New York

MRS. A.F.W. PLUMPTRE
Ottawa

C.E. RITCHIE
Chairman of the Board
President and Chief Executive Officer
The Bank of Nova Scotia

MANAGEMENT OFFICERS

N.A. DALY, C.L.U.
Vice-President and Director
of Canadian Agencies

D.D. DENNIS, O.B.E.
Senior Vice-President and
General Manager
United Kingdom and Ireland

D.I. FRASER, F.L.M.I.
Vice-President Administration and Secretary

J.C. MAYNARD, F.S.A., F.C.I.A.
Senior Vice-President and
Chief Actuary

D.A. NIELD, F.S.A., F.C.I.A.
Vice-President and
Director of Canadian Group

R.D. RADFORD, F.L.M.I.
Vice-President and Treasurer

H.L. SCHULTZ, C.L.U.
Vice-President and Associate Director
United States Division

J.B. WALKER, F.S.A., F.C.I.A.
Executive Vice-President
and
Director United States Division

W.B. WAUGH, F.S.A., F.C.I.A.
Vice-President and Controller

HONORARY DIRECTORS

A.C. ASHFORTH
E.C. GILL
S.M. WEDD

J. GORDON BEATTY, M.C.
J. ROY GORDON

CONSOLIDATED STATEMENT OF INCOME AND UNASSIGNED SURPLUS
(in thousands of dollars)

	1978 (note 1)
Revenues:	
Premiums for insurances and guaranteed annuities	$353,156
Amounts received for segregated annuity funds	92,624
Net investment income	201,213
Gain on currency translation and transactions	6,101
Gain on sale of real estate	1,041
Increase in market value of assets held for variable insurances and segregated annuity funds	20,916
	675,051
Expenses:	
Payments to policyholders and beneficiaries—	
Death benefits	76,172
Disability benefits	39,961
Matured endowments	11,110
Annuities	42,415
Cash surrender options	48,600
Policy dividends allotted	38,675
Payments under segregated annuity funds	31,244
	288,177
Interest on amounts left on deposit	5,010
Increase in actuarial reserves	151,490
Expenses of administration, sales and service	81,973
Income, premium and sundry taxes	11,497
Net increase in segregated annuity funds	116,054
	654,201
Net income for the year	20,850
Unassigned surplus, beginning of year	83,742
	104,592
Less:	
Increase in asset valuation reserve	7,587
Increase in general contingency reserve	5,354
Unassigned surplus, end of year	$ 91,651

(See accompanying notes)

CONSOLIDATED BALANCE SHEET
at December 31, 1978
(in thousands of dollars)

	1978	1977 restated (note 1)
Assets:		
Bonds	$ 816,672	$ 695,881
Mortgage loans	695,072	655,781
Stocks (common and preferred)	212,313	190,533
Real estate	137,532	109,679
Loans on policies	193,717	183,974
Cash and interest bearing deposits	28,293	26,324
Premiums in course of collection	20,587	16,860
Interest and rents due and accrued	34,061	28,818
Other assets	18,678	15,082
Net assets of segregated annuity funds (note 3(b))	512,072	396,018
	$2,668,997	$2,318,950
Liabilities:		
Actuarial reserves (note 4)	$1,668,806	$1,481,725
Benefits in course of payment and provision for unreported claims	61,098	50,977
Policyholders' amounts left on deposit at interest	53,507	49,943
Provision for future policy dividends	49,145	38,811
Funds held for segregated annuity funds	512,072	396,018
Policy benefit liabilities	2,344,628	2,017,474
Miscellaneous liabilities (including unallocated amounts and provision for outstanding taxes and expenses)	49,217	47,174
Total liabilities	2,393,845	2,064,648
Surplus and contingency reserves held as additional protection for policyholders and beneficiaries:		
Asset valuation reserve	47,501	39,914
General contingency reserve	136,000	130,646
Unassigned surplus	91,651	83,742
Total surplus and contingency reserves	275,152	254,302
	$2,668,997	$2,318,950

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1978

1. **Change in accounting policies**

The Company has changed certain of its accounting policies as a result of amendments to the Canadian and British Insurance Companies Act which became effective as of January 1, 1978. The changes have been retroactively applied as if they had been in effect on December 31, 1977, except for certain new accounting policies with respect to reporting of gains or losses on sale of investments which have been adopted as of January 1, 1978. A restated balance sheet is included; comparative figures are not included in the income statement because it was not practicable to restate 1977 operating results.

Note 2 summarizes the present accounting policies of the Company. The major differences resulting from the amended legislation are as follows:

(a) Actuarial reserve bases and methods have been revised as required by the Act. Provisions for severe adverse fluctuations in experience factors and economic conditions previously included as part of actuarial reserves are now included as part of the general contingency reserve and continue to provide additional protection for policyholders.

(b) The method of determining actuarial reserves for Ordinary insurances has been changed from net level premium to modified net premium. The change recognizes that expenses are not incurred uniformly through the life of the policy by redistributing the expense portions of premiums more in accordance with the actual incidence which is heavier in the early years of the policy and lighter thereafter. This results in lower portions of premiums to build reserves and lower reserves throughout the duration of the policy.

(c) Realized gains and losses on sale of bonds, mortgages and stocks (and unrealized gains and losses in the case of stocks) are being deferred and amortized rather than being recognized in the year of sale as was the previous practice.

(d) The carrying value of the Company's investment in bonds has increased because the investment valuation reserve is now reflected as part of an asset valuation reserve appropriated from surplus.

(e) Furniture and fixtures are now being accounted for as assets in the balance sheet and are depreciated rather than being charged against income at date of acquisition. A reserve for these items has been appropriated from surplus as part of an asset valuation reserve.

The impact of the above-noted changes on surplus and contingency reserves as previously reported at December 31, 1977 is summarized below:

	(000's)
Surplus and contingency reserve at December 31, 1977, as previously reported	$121,742
Addition resulting from change in basis of calculating actuarial reserves (net of $9,056,000 transferred to miscellaneous liabilities)	92,646
Increase in asset values reflected as an asset valuation reserve	39,914
Total surplus and contingency reserves at December 31, 1977, as restated	$254,302

2. **Significant accounting policies**

(a) The accounting principles followed for these statements are those prescribed or permitted by the Department of Insurance, Canada, as the Company is subject to regulation under the Canadian and British Insurance Companies Act.

(b) These financial statements consolidate the operating results and financial position of the Company's wholly-owned subsidiaries. If the consolidation had been done using valuations required by the statutory authorities for the subsidiaries, surplus funds would have been reduced by approximately $2,600,000.

(c) Assets held for the life insurance business are valued as follows:

(i) Bonds are carried at amortized cost and mortgage loans at amortized cost less principal repayments, each plus or minus the unamortized balance of losses or gains on sales. The difference between the proceeds on the sale of a bond or mortgage and its book value is considered to be an adjustment of future portfolio yield deferred on the balance sheet and amortized over the lesser of the period to maturity of the security sold or 20 years.

(ii) Investments in stocks are carried at cost plus or minus losses or gains on sale of stocks, and are adjusted toward market value. The market value adjustment each year is 7% of the difference between adjusted book value and year-end market value for the portfolio.

(iii) Real estate investments are carried at cost less accumulated depreciation calculated on the sinking fund basis.

(iv) Policy loans are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(d) Assets held for the health insurance business are carried at amortized cost for bonds and amortized cost less principal repayments for mortgages.

(e) Assets held for variable insurance contracts and segregated annuity funds are included at market value.

(f) Actuarial reserves represent the amount required, in addition to future premiums and interest, to provide for future payments under insurances and guaranteed annuities. The reserves are determined on a modified net premium method using appropriate assumptions and make provision for guaranteed cash values.

(g) The asset valuation reserve required by statute consists of an investment valuation reserve against a market value deficiency of bonds, mortgages, stocks and real estate held for the life and health insurance business, a currency fluctuation reserve and a reserve for furniture and equipment.

(h) The Company, as a multinational life insurer, is subject to complex income tax laws in several countries. Income taxes are provided based on an estimate of the amount currently payable which may not bear a normal relationship to pre-tax income because of timing and other differences in the calculation of taxable income.

(i) These statements include United States currency at $1.00 Canadian to the United States dollar and British and Irish currencies at $2.00 Canadian to the pound for 1978 ($1.70 for 1977).

3. **Analysis of investments at December 31, 1978**

	Bonds	Stocks (000's)	Mortgages	Real estate
(a) Assets held for the life fund (note 2(c))	$796,201	$167,566	$666,649	$137,532
Adjustment for deferral and amortization of gains and losses	1,050	1,373		
Carrying value of life fund assets	797,251	168,939	666,649	137,532
Assets held for the health insurance business (note 2(d))	16,784		28,423	
Assets held for variable insurance contracts carried at market	2,637	43,374		
Carrying value of investments	$816,672	$212,313	$695,072	$137,532
Market value of investments	$744,218	$262,370	$638,208	$206,309
Amortization of gains and (losses) included in net investment income	$ (99)	$ 3,518	Nil	

(b) Net assets held for segregated annuity funds are carried at market value and are analyzed in the following schedule:

	1978 (000's)	1977
Bonds	$227,128	$175,420
Mortgage loans	109,365	85,055
Stocks	167,181	130,738
Cash and interest bearing deposits	3,086	1,382
Interest due and accrued	7,141	5,735
Amounts owed investment dealers and others	(1,829)	(2,312)
	$512,072	$396,018

4. **Actuarial reserves**

Changes during the year were as follows:

	1978 (000's)
Balance, beginning of the year (December 31, 1977 restated)	$1,481,725
Set aside on new and existing business	150,564
Change due to fluctuation in the market value of assets held for variable insurances	926
	151,490
Effect of changes in currency translation rates at January 1, 1978	35,591
Balance, end of the year	$1,668,806

5. **Asset valuation reserve**

The asset valuation reserve consists of:

(a) A minimum investment valuation reserve required by statute for the life insurance business of $23,232,000 increased, if necessary, depending upon the size of the market deficiencies resulting by class of asset when both life and health insurance business investments are valued at market value. Based on 1978 year-end market values the required investment valuation reserve is $25,343,000.

(b) A currency fluctuation reserve required by statute. If current rates of exchange had been used for all currencies in the 1978 balance sheet, surplus would have increased by $17,016,000. As a result the required valuation reserve for 1978 is reduced to $8,327,000.

(c) A statutory reserve of $2,915,000 against the net book value of furniture and equipment.

The additional reserve provides protection against future market and currency fluctuations.

6. **United States assets**

At December 31, 1978, assets included in the accompanying consolidated balance sheet held in trust in the United States by The Canada Life Assurance Company (exclusive of its subsidiaries) for the protection of its United States policyholders totalled more than $251,000,000 which exceeded net liabilities to its United States policyholders at that date.

VALUATION ACTUARY'S REPORT

To the Policyholders and Directors of The Canada Life Assurance Company:

I certify that the valuation of policy benefit liabilities of The Canada Life Assurance Company and its subsidiaries for the consolidated balance sheet at December 31, 1978 and the consolidated statement of income and unassigned surplus for the year then ended has been done under my direction. The valuation included verification of data, and the choice of assumptions and methods appropriate to the circumstances of the Companies and the policies in force.

The value of policy benefit liabilities is not less than is required by the Canadian and British Insurance Companies Act and in my opinion, these liabilities make good and sufficient provision for future payments under the terms of the policies in force.

Toronto, Canada
February 12, 1979.

J.C. Maynard, F.S.A., F.C.I.A.
Senior Vice-President and Chief Actuary

AUDITORS' REPORT

To the Policyholders and Directors of The Canada Life Assurance Company:

We have examined the consolidated balance sheet of The Canada Life Assurance Company as at December 31, 1978 and the consolidated statement of income and unassigned surplus 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; we have relied on the opinion of the Company's Senior Vice-President and Chief Actuary as to the amount of the Company's actuarial reserves.

In our opinion, based on our examination and the opinion of the Senior Vice-President and Chief Actuary, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations for the year then ended in accordance with accounting principles described in notes 1 and 2.

Toronto, Canada
February 12, 1979.

Clarkson, Gordon & Co.
Chartered Accountants

VOTING RIGHTS OF PARTICIPATING POLICYHOLDERS

Every holder of a Canada Life Assurance Company participating policy under which no premiums are due and unpaid is entitled to attend General Meetings of the Company and to vote in person or by proxy. Forms for naming a proxy may be obtained by writing to the Secretary at the Head Office in Toronto. The person named as proxy must himself be a policyholder entitled to vote at meetings of the Company, and to be valid, proxy forms must be filed with the Secretary at the Head Office at least ten days before a meeting at which the proxy is to be used. A policyholder may revoke his proxy at any time. The Annual Meeting of The Canada Life Assurance Company is held at the Head Office of the Company on the first Thursday of March in each year.

CANADA LIFE

Head Office, Toronto, Canada