



**Pharmacists  
Mutual<sup>®</sup>**  
*phmic.com*



ANNUAL  
REPORT  
**2016**

Protect Tomorrow. Embrace Today.

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# Our Vision, Mission, and Values

Our vision, mission, and values are the guiding ideas and principles upon which we do business. Our vision is our future and represents the spirit of who we are and what we intend to become; while our mission describes the overall purpose of our organization and is a clear depiction of why this company exists. Our values represent our commitment to our members, employees, and community.

## Our Vision

To be the leading provider of insurance and risk management solutions within our select markets by building enduring relationships.

## Our Mission

To help our customers attain peace of mind through specialized insurance products, risk management solutions, and superior personal service.

## Our Values

### Relationships

- » We are dedicated to being a successful mutual insurance company, accountable to and supported by our policy owners.
- » We offer a diverse and rewarding work environment founded on respect, trust, and teamwork.
- » We establish mutually beneficial relationships with associations that support the professional well-being of our customers.
- » We choose business partners who share our core values.

### Integrity

- » We are honest in everything we do.
- » We are committed to high standards of ethical conduct.

### Citizenship

- » We support our communities and professional associations.
- » We advocate for the interests we share with our customers.

### Excellence

- » Our success depends on the talents, skills, and knowledge of our employees.
- » Our products, expertise, and service deliver value to our customers.
- » We are committed to continuous improvement.
- » We manage the company's resources to ensure its profitability and independence in order to honor the promises we have made.

# Message from the CEO and Board Chair

Preparing for Tomorrow is something every business and family should take the time to do. We understand that finding the time is often a challenge with all of the demands that today places upon us. Demands of patients, customers, vendors, regulators, employees, and family members can be overwhelming; but somehow we need to find time to plan and prepare. Plan for the promise that tomorrow holds and prepare for the obstacles that tomorrow unexpectedly puts before us.

You have trusted Pharmacists Mutual to be part of your plans and preparations. We have been busy planning and preparing to ensure we will be ready when you need us most while working to improve our service constantly. It is easier to plan and dream about tomorrow when you know that what matters most to you is protected. Our representatives are ready to help you create and maintain an insurance plan that meets your needs and responds to the evolving risks you encounter.

While our main office remains in Algona, Iowa, our preparation for tomorrow includes our new office in Austin, Texas. Just like you, we are focused on business continuity in the event of a disaster. Our Austin office will be staffed and equipped to maintain service for our members if our Algona location is destroyed or becomes unusable. During normal operations, our Austin coworkers will be part of our workflows. The office opened in January 2017 and we will be adding staff over the coming months to serve you.

Over the past year we have helped members across the country overcome the unexpected. By adding employed field property adjusters – currently located in Colorado, Kansas, Minnesota, Texas, and Pennsylvania, with another soon to be located in Oklahoma – we have improved our ability to help you recover. While we have other adjusters available under contract, our employees provide the best service and are often traveling beyond their home state. For example, one of our Texas employees, Gadiel Caballero, took care of several members in the southeast following Hurricane Matthew this past fall. We plan to continue expanding our network of employed field adjusters dedicated to you and your recovery.

Many insurers focus first on their stock price and achieving record profits. Our approach, however, focuses on member satisfaction and maintaining sufficient capital to withstand severe events. We survey a large proportion of our members each year to understand where we are excelling and where we need to improve. When asked about your overall satisfaction with our policy service, you provided us with an average score of 4.7 in 2016, where 4 indicated 'very good' and 5 indicated 'excellent'. Our score in 2015 was 4.6. Members who had a claim provided an average score of 4.4 in 2016, compared to 4.3 in 2015, for overall claim satisfaction using the same scale.

As was the case in 2015, our survey question that asked if our products are priced competitively produced our "lowest" score, but still high at 4.1. We believe having excellent coverage is critical in protecting your tomorrow. We urge our members to focus on the quality of the coverage since the true cost of insurance is only known following a claim.

Recently, we discovered another insurer's "Druggist Professional Liability" policy excludes coverage for "diagnostic, referral, or similar service, including blood tests, prescribing or administering any drugs, and managing drug therapy." Saving a few dollars today would be a costly lesson if faced with an uncovered million dollar claim.

Our stability and preparedness were reaffirmed in multiple ways over the past year. Pharmacists Mutual was named to Ward's 50 group for the top property-casualty insurance companies. Inclusion in this prestigious group representing the top 2% of insurance companies is an honor. A.M. Best, the nation's oldest rating organization for insurance companies, reaffirmed our "A" (Excellent) rating last summer. Both of these findings recognize the Company's solid capital position which grew to \$115 million by the end of 2016. With the number of policies in force reaching a record level of nearly 88 thousand, our members recognize the value that our security and service provides.

During the past year, our team has been improving our product and service offerings for you. Just a few of the significant accomplishments are noted here:

We added loss of income coverage to our Businessowners Package policy. This coverage is offered to protect you or an employee from an injury that was caused by an assault or robbery while working.

In addition to our "Plus" version, we added an "Elite" option to our Protection endorsement that provides coverage for several ancillary exposures such as accounts receivable, valuable papers and records, fences, signs, and permanent outdoor structures. The "Elite" version increases the limits for many of the coverages and adds additional coverage items.

Recognizing the efficiencies we achieve when you insure multiple policies, we added a discount to the Businessowners Package policy when you also place your Workers' Compensation insurance with us.

We enhanced our Individual Pharmacists Professional Liability policy to maintain its level of unsurpassed protection. This policy now includes the following important added coverage items:

- o Sexual and Physical Abuse Defense Coverage of \$50,000 with higher limits available
- o Defense of Privacy Violations under HIPAA, including coverage for fines and penalties, of \$50,000
- o License Defense Coverage of \$50,000
- o Medical Expense and Loss of Income Coverage of \$25,000 due to assault resulting in bodily injury

In addition to the Dentist Professional Liability "claims-made" policy we introduced a few years ago, we added an "occurrence" policy option.

We introduced professional liability coverage for Dental Hygienists to complement our professional liability policy for Dentists.

We automated our personal insurance rating and underwriting processes in order to keep our premiums as low as possible.

We implemented a redesigned invoice that provides additional information in a format that is easier to understand.

In addition to our 24/7 claims service, we expanded our member service hours. You can now reach one of our team members between 7:30 am and 9:00 pm, central time, Monday through Friday.

(Continued on Page 5)

We put another significant change into place during 2016. For quite some time, we have received member comments indicating that you would prefer to receive the lowest possible premium up front, rather than receive a possible dividend later. As we considered this change over the past few years, the state regulations regarding dividends have become ever more complex and expensive to administer. Also, the rules related to dividends did not allow us to provide higher dividends to longer term members who have contributed to the company through their loyalty. As a result, the Board of Directors decided to suspend the company dividend program and to increase the loyalty discounts under the Businessowners policy. Longer term members in most states can now earn a loyalty discount of up to 15%. (A few states have not yet approved this change. New York's insurance department has informed us that they will not approve loyalty discounts of any amount.) The company's final general dividend distribution occurred in mid-2016. For more information regarding this change, please see FAQ's at this link: [www.phmic.com/dividendFAQ](http://www.phmic.com/dividendFAQ).

Behind the scenes, we started development of a secure member account portal that we plan to introduce in 2017. This account portal will provide members with the option to receive all paper (policies, invoices, auto ID cards) electronically. We plan to begin with personal insurance products and gradually expand availability to commercial and professional liability products. This initiative will make us more efficient, simplify your insurance records, be environmentally friendly, and provide you additional services.

In addition to eliminating paper, the member portal will include a significant advance in our risk management services. We will have a large risk management center full of tools and information that you can use to improve your own operation. Topics will cover employee safety, cyber risks, driving fleet best practices, and employment liability issues. You will have access to tools that you will be able to use such as sample employment forms and templates, employee training assignment and tracking, and OSHA reportable injuries records, just to name a few. Our new risk management center will offer you tremendous value and we are excited to roll it out later this year.

Tomorrow is full of uncertainty. Shifting political winds, an evolving regulatory environment, climate and weather changes, along with continued economic risks may make planning for tomorrow difficult. Protecting tomorrow is easier with our help. We are prepared and we are ready to serve you when you need us most.

Thank you for your membership and trust in us.



**Edward J. Yorty**  
MSFin, FCAS, FSA, MAAA  
President & CEO



**Kirk M. Hayes**  
CPCU, ARM  
Chair, Board of Directors

# Member Survey Results (YTD at 12/31)

Pharmacists Mutual values our members' opinion. Each year we survey our members to receive a Members Satisfaction rating. Please see the chart below for a member satisfaction rating comparison for 2014, 2015, and 2016.

## Overall PhMIC policy service

<b>2016</b>	<b>4.7 out of 5</b>
<b>2015</b>	<b>4.6</b>
<b>2014</b>	<b>4.5</b>

## Overall PhMIC claims service

<b>2016</b>	<b>4.4 out of 5</b>
<b>2015</b>	<b>4.3</b>
<b>2014</b>	<b>4.5</b>



# Financial Highlights

## Balance Sheet

### Assets

	2015	2016
Cash & Short Term Investments	\$5,902,536	\$5,492,276
Bonds	178,187,622	189,052,543
Stocks	20,919,639	22,799,830
Subsidiaries	9,850,333	10,145,980
Real Estate	5,633,677	5,824,190
Other Investments	2,047,558	2,172,044
Premiums Receivable	34,294,777	41,846,592
Deferred Taxes	6,768,000	6,032,000
Other Resources	5,482,952	7,764,373
<b>Total Assets</b>	<b>\$269,087,094</b>	<b>\$291,129,828</b>

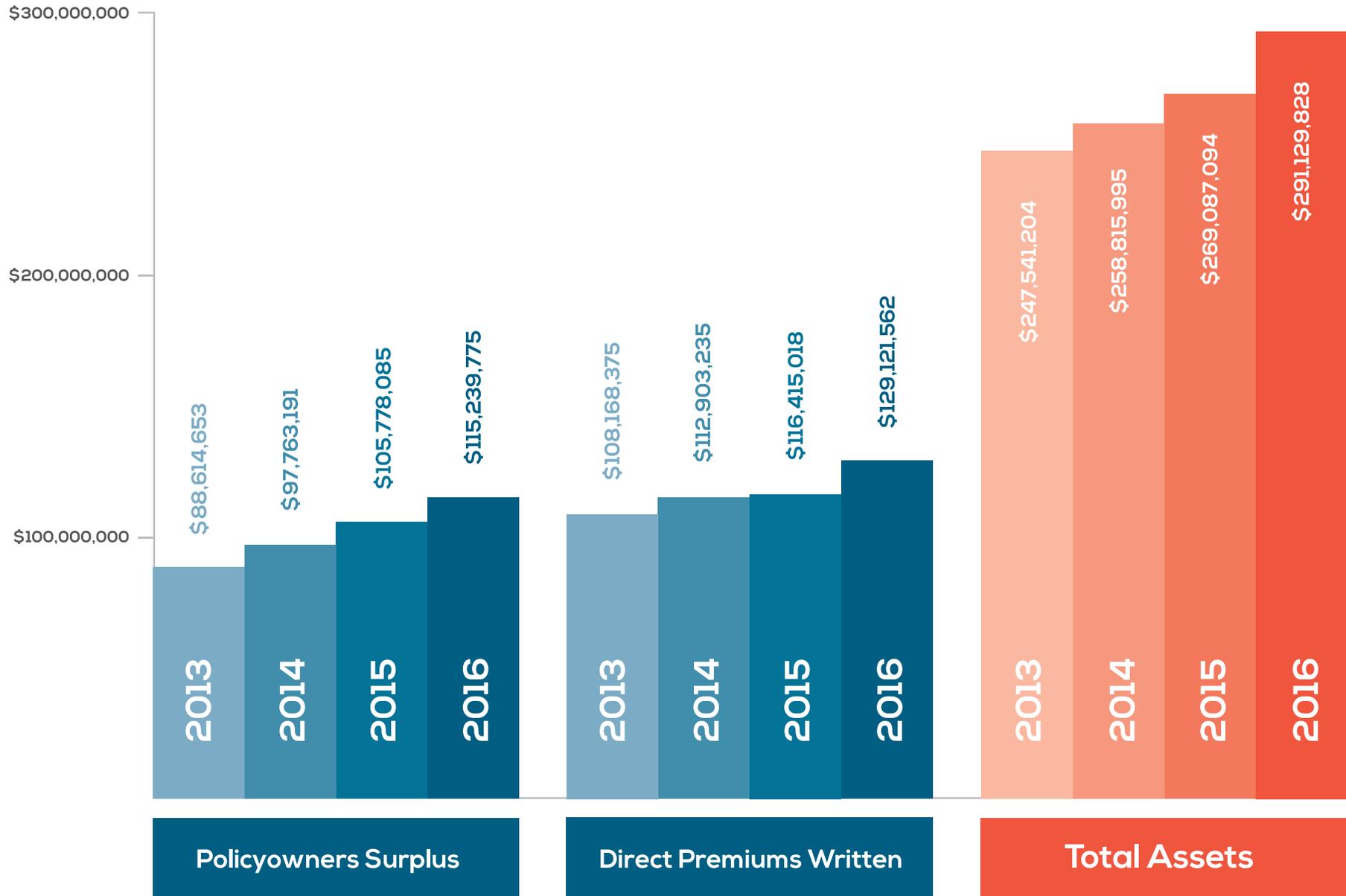
### Liabilities & Policyowners Surplus

Estimate for Losses & Adjusting	95,217,118	100,067,065
Unearned Premiums	51,663,080	59,307,265
Accrued Expenses & Taxes	14,593,456	16,515,723
Dividends Payable	1,835,355	0
<b>Total Liabilities</b>	<b>\$163,309,009</b>	<b>\$ 175,890,053</b>
Policyowners Surplus	105,778,085	115,239,775
<b>Total Liabilities &amp; Policyowners Surplus</b>	<b>\$269,087,094</b>	<b>\$291,129,828</b>

### Income Statement & Change in Surplus

Net Premiums Earned	\$90,566,984	\$99,347,290
Loss & Adjusting Incurred	53,401,787	60,250,664
Underwriting Expenses	30,888,914	34,563,574
<b>Underwriting Income</b>	<b>\$6,276,283</b>	<b>\$4,533,052</b>
Investment Income	5,929,367	6,393,535
Realized Capital Gains (Losses)	1,739,373	139,989
Other Income (Expense)	41,494	(39,876)
Dividends to Policyowners	1,835,293	20
Federal Income Tax	2,689,498	2,565,797
<b>Net Income</b>	<b>\$9,461,726</b>	<b>\$8,460,883</b>
Unrealized Capital Gains (Losses)	(1,963,180)	1,216,603
Other Changes to Surplus	516,348	(215,796)
<b>Change in Surplus</b>	<b>\$8,014,894</b>	<b>\$9,461,690</b>

# Financial Highlights (cont.)



# Board of Directors

The board of directors has overall responsibility for the conduct and health of the organization. The board is empowered to set company policy, objectives, and overall direction. We are thankful for the dedication and commitment of our board, who pushes us to become better at what we do.



**Donnie R. Calhoun**  
R. Ph.



**Jonathan C. Grether**  
MSIM, CPCU, CIC,  
CRM, ARe



**Kirk M. Hayes**  
CPCU, ARM



**Holly Whitcomb  
Henry**  
R.Ph.



**F. Michael James**  
R.Ph.



**Richard B. Moon**  
R.Ph., PharmD



**Randall S. Myers**  
R.Ph.



**Kelly S. Selby**  
R.Ph.



**Steven T. Simenson**  
R.Ph.



**William A. Stuart**  
R.Ph.



**Susan L. Sutter**  
R.Ph.



**Edward J. Yorty**  
MSFin, FCAS, FSA,  
MAAA

# Executive Team



**Kevin C. Banwart**  
CPA, AIAF  
Chief Financial Officer &  
Treasurer



**Richard M. Berke**  
PMP, FLMI, CMA  
Sr. Vice President, Member &  
Corporate Services



**Victor C. Garman**  
MSM, SCLA  
Sr. Vice President, Claims



**Thomas P. Goodrich**  
CPCU, CIC  
Sr. Vice President,  
Corporate Sales



**Jonathan C. Grether**  
MSIM, CPCU, CIC,  
CRM, ARe  
Chief Operating Officer



**Steven M. Hoskins**  
CLU  
Sr. Vice President,  
Agency Operations



**Paul T. Luckman**  
J.D., CPCU  
Sr. Vice President,  
Sales & Marketing



**Don R. McGuire, Jr.**  
R.Ph., J.D.  
General Counsel,  
Secretary, & Sr. Vice  
President, Compliance  
& Risk Management



**Shirley A. Pierson**  
CISR, AU  
Sr. Vice President,  
Underwriting



**Derrick Shannon**  
FCAS, FSA, MAAA,  
CPCU  
Chief Actuary,  
Sr. Vice President,  
Product Development



**William H. Wiebelhaus**  
Chief Information Officer



**Edward J. Yorty**  
MSFin, FCAS, FSA,  
MAAA  
President & Chief  
Executive Officer

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*phmic.com*

808 Hwy 18 West | Algona, IA 50511