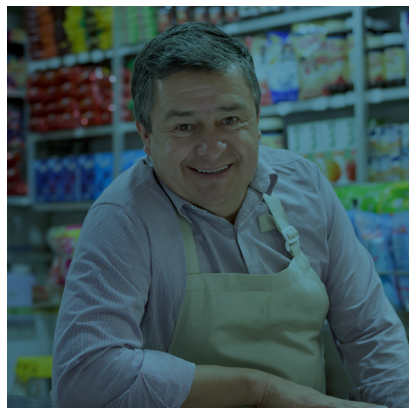


# TOMORROW. IMAGINE THAT.

Annual Report

2018





## Message from the CEO, Edward J. Yorty

*My colleagues and I plan to remain at the top by forging ahead. We have always been and will remain a member focused company.*

When Pharmacists Mutual, then Druggists Mutual Insurance, started offering fire insurance for Iowa pharmacies in 1909, founder Al Falkenhainer wanted to establish a company that could evolve and grow in support of its members. While still insuring against fire, the company now offers coverage for a wide range of perils and businesses in all states, the District of Columbia, and Puerto Rico.

During 2018, Pharmacists Mutual issued more than 87,000 policies for our more than 60,000 members. Policyholders include pharmacists and independent pharmacy owners along with dentists, home health care operations, personal care providers, durable medical equipment providers, care facilities, grocery operations, and gift and card shops. We also launched a strategic alliance with Medmarc, a subsidiary of ProAssurance Corporation, an insurer that specializes in firms developing medical devices and life sciences products. In 2019, we will begin offering coverage to veterinarians.

Due to rate reductions, pharmacy premium declined in 2018 while overall company premium increased by 8%. The growth is attributable to new members added in many of our markets. Our focus will be to honor our promise to provide needed protection and personal service. In 2018, we earned an average score of 4.6 out of 5 on our member service surveys, and we will strive to continue delivering this high level of responsiveness to all our members.

Natural disasters such as hurricanes, tornados, and wild fires affected many of our members in 2018. The company incurred over \$7 million in claims from just three events – Hurricane Florence, Hurricane Michael, and the Camp Fire in Paradise, California. These claims were in addition to higher than normal losses from other weather events. Due to prudent use of reinsurance, the overall impact of the year's severe weather was moderated. Despite the higher number of claims reported, our adjusters made initial contact within 2 business hours 98% of the time.

Despite severe weather and poor investment results on our equity portfolio, we were still able to grow our company surplus – the cushion against unexpected catastrophic claims – by a modest 4.7%.

Pharmacists Mutual has been a longtime supporter of the pharmacy profession, and in 2018 we announced \$1 million in donations to endow scholarships for student pharmacists. The donations were made to the NCPA Foundation, the APhA Foundation, the IACP Foundation, and the ACA Research and Education Foundation. The purpose of the scholarships is to assist student pharmacists who have a desire to practice in an independent or small chain community pharmacy, or an underserved geographic or cultural community, or to serve in the armed forces. These endowments are in addition to the Pharmacists Mutual Scholarship Program that provides awards to 20 students annually.

Support for the profession also included over \$1.3 million to state pharmacy associations and the National Community Pharmacy Association in 2018. We also continued our sponsorship of the Distinguished Young Pharmacists Award across the country. Support for these and other worthy causes is only possible through your membership and partnership with us.

The Pharmacists Mutual team was also busy enhancing products and services over the past year. Highlights include:

- Members are now able to enroll in paperless delivery of documents where state regulations permit. You can now elect to receive policy documents, billing notices, and other communication electronically through our member portal.
- Our Risk Management team published their latest Pharmacy Claims Study and their first ever Home Health Care Claims Study. These publications are available in the member portal in the Risk Management Center.
- We established Chiron Insurance Company, a wholly owned subsidiary that will offer property and casualty products in additional markets. Chiron will begin issuing policies in early 2019.
- We diligently worked to become more efficient in order to reduce the need for rate increases. In fact, for each net premium dollar we spent 2.4 cents less on underwriting expenses and 0.4 cent less on claim adjusting expenses in 2018 compared to the year prior.



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We understand that the need for improvement is continual, and we have a number of projects planned for 2019 to benefit our members. Look for the following in the months to come:

- Our secure member portal will receive enhancements including the ability to submit the first report of a loss where permitted by state regulations.
- We plan to introduce smartphone and tablet apps to provide the functionality found in the member portal.
- We expect to significantly increase the limit and scope of coverage for pharmacist license defense provided by our individual pharmacist professional liability policy.
- Our Risk Management team will continue enhancing the online Risk Management Center to help you avoid and mitigate losses. If you have not enrolled for this service, head to [phmic.com](http://phmic.com) and visit "My Account".
- Pharmacists Mutual has been insuring veterinary specialty pharmacies for years. In 2019, we will expand our product offering to include professional liability for veterinarians.

We take our reputation and position as one of the best insurance companies seriously. Pharmacists Mutual's "A" (Excellent) rating was reaffirmed by A.M. Best. We were also named to Ward's 50, a group representing the top 2% of all insurers in the country, for the third consecutive year. In addition, the Des Moines Register recognized us as a Top Iowa Workplace for the second consecutive year.

My colleagues and I plan to remain at the top by forging ahead. We have always been and will remain a member focused company. You are why we are here; we don't have stockholders to satisfy. We thank you for your confidence and allowing us to help you imagine the tomorrow's unlimited possibilities.

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

## Member Survey Results

### OVERALL PHMIC POLICY SERVICE

2018	4.6 out of 5
2017	4.7
2016	4.7
2015	4.6
2014	4.5

Pharmacists Mutual values our members' opinion. Each year we survey our members to receive a Members Satisfaction rating. Please see the chart below for member satisfaction rating comparison for 2014, 2015, 2016, 2017, and 2018.

### OVERALL PHMIC CLAIMS SERVICE

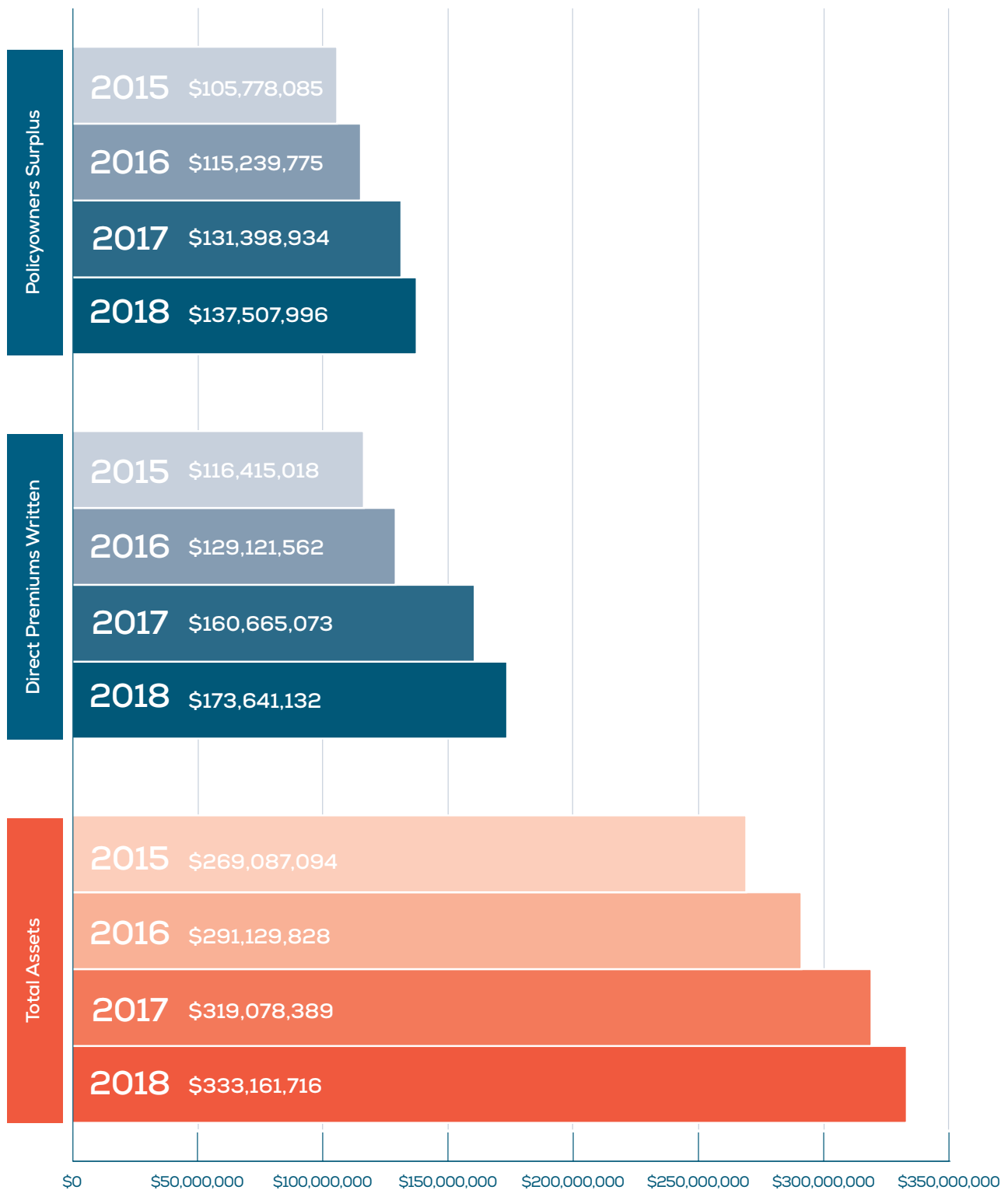
2018	4.6 out of 5
2017	4.2
2016	4.4
2015	4.3
2014	4.5

## Financial Highlights

ASSETS	2017	2018
Cash & Short-Term Investments	6,098,888	5,184,808
Bonds	206,029,406	199,889,093
Stocks	28,746,628	26,322,072
Subsidiaries	2,892,104	17,835,325
Real Estate	5,859,488	6,101,493
Other Investments	2,348,705	2,269,737
Premiums Receivable	54,618,892	59,175,198
Deferred Taxes	3,543,000	5,070,000
Other Resources	8,941,278	11,313,990
<b>Total Assets</b>	<b>319,078,389</b>	<b>333,161,716</b>
<b>LIABILITIES &amp; POLICYOWNERS SURPLUS</b>		
Estimate for Losses & Adjusting	97,756,276	100,130,808
Unearned Premiums	60,962,774	67,356,426
Accrued Expenses & Taxes	28,960,405	28,090,486
Dividends Payable	-	76,000
<b>Total Liabilities</b>	<b>187,679,455</b>	<b>195,653,720</b>
Policyowners Surplus	131,398,934	137,507,996
<b>Total Liabilities &amp; Policyowners Surplus</b>	<b>319,078,389</b>	<b>333,161,716</b>

INCOME STATEMENT & CHANGE IN SURPLUS	2017	2018
Net Premiums Earned	99,606,669	116,671,489
Loss & Adjusting Incurred	65,794,947	72,881,633
Underwriting Expenses	35,271,242	39,874,884
<b>Underwriting Income</b>	<b>(1,459,520)</b>	<b>3,914,972</b>
Investment Income	6,561,209	6,653,034
Realized Capital Gains	10,939,025	53,298
Other Income (Expense)	246,221	(60,244)
Dividends to Policyowners	-	76,000
Federal Income Tax	1,178,408	2,554,117
<b>Net Income</b>	<b>15,108,527</b>	<b>7,930,943</b>
Unrealized Capital Gains (Losses)	4,658,667	(2,230,939)
Other Changes to Surplus	(3,608,035)	409,058
<b>Change in Surplus</b>	<b>16,159,159</b>	<b>6,109,062</b>

## Financial Chart Comparison



## Board of Directors



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



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



**Kirk M. Hayes**  
CPCU



**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.



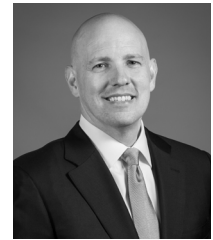
**Steven T. Simenson**  
R.Ph.



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



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



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

## Executive Team



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



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



**Kevin C. Banwart**  
CPA, AIAF  
Chief Financial Officer  
Treasurer  
Sr. Vice President Finance



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



**Richard M. Berke**  
PMP, FLMI, CMA  
Chief Information Officer  
Sr. Vice President Information Technology



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



**Paul T. Luckman**  
JD, MBA, CPCU  
Sr. Vice President Sales & Marketing



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



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



**William H. Wiebelhaus**  
Sr. Vice President Claims

# 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.