



2019

ANNUAL REPORT





Evolution

Message from the CEO, Edward J. Yorty

Pharmacists Mutual has had the fortune of visionary and committed leadership since its founding 110 years ago. The company has successfully evolved over its history as its leaders transitioned to the next phase of their lives. During the next two years, we will be doing so again as Kevin Banwart and Jon Grether plan their retirements.

The growth and development of people is the highest calling of leadership.

- Harvey S. Firestone

COVID-19

After the messages in this report were written, the COVID-19 situation entered the scene.

Pharmacists Mutual has implemented its well-tested business continuity plan that allows nearly all staff to work remotely. The company's conservative investment approach and attention to risk management will be very beneficial during this period of uncertainty.

While the near term future looks to be turbulent and uncertain, we imagine a brighter tomorrow for everyone.

Kevin joined the company nearly 30 years ago and has been the Chief Financial Officer since 2012. The company hired Jon almost 20 years ago, and he has been the Chief Operating Officer for much of that time. Rather than providing my standard annual report message this year, I have asked each of them to reflect on the company, its history, and its future.

Before turning to their comments, I offer a few comments on 2019 and our future. We closed the year with our member service metrics at high levels. Company financial performance was quite good, partially helped by the stock market, and our ability to deliver on the promises made to our members remains strong. Despite rate increases for our personal insurance products, our overall rate level declined by approximately 1% in each of the past two years.

As Jon and Kevin plan for retirement, we have named the individuals to whom they will pass the baton. Shirley Pierson, currently Senior Vice President of Underwriting, will become Chief Operating Officer on March 1, 2021. Shirley has had a successful career with Pharmacists Mutual, including roles as an underwriter, Regional Vice President, and with PMC Advantage. She is passionate about the company's mission and serving our members.

William Hedges, currently Vice President and Controller, will become Chief Financial Officer on January 1, 2021. Bill joined the company last August following a long career in various actuarial and financial functions at Oregon Mutual Insurance Company. Bill has a master's degree in finance from Georgetown University. He is excited to bring his knowledge and experience to help serve our members.

Thank you for trusting us to provide the insurance protection you need. Now, please take a few moments to read the messages that follow from Kevin and Jon.

A handwritten signature in black ink, appearing to read "EJY".

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

Message from Kevin Banwart

When I look back over my career at Pharmacists Mutual, two themes come to mind—Growth and Change.

When thinking about Growth, I looked back at the first annual statement I helped prepare and compared that to our recently filed annual statement.



	1991	2019
Assets	\$35.3 M	\$391.4 M
Loss and Adjusting Reserves	\$7.1 M	\$114.9 M
Surplus	\$12.4 M	\$175.6 M
Premiums Written	\$22.3 M	\$180.5 M
Net Income	\$1.3 M	\$7.8 M
Salaries	\$2.6 M	\$25.0 M
Licensed Jurisdictions	20	52

During my time, the number of employees increased from 120 to 320. We added a second office in Austin, Texas and now have nearly 100 employees working from their homes.

Perhaps more interesting are the Changes that have taken place in the past 28+ years. The company name changed from Druggists Mutual to Pharmacists Mutual, and a new logo and tagline, Tomorrow. Imagine That., were adopted.

In 1991, we communicated in person, phone, and fax and then witnessed the introduction of email, instant messaging, texting, and video conferencing. When I arrived, clerks added up the account cards monthly for premium and accounts receivable purposes. They seemed to end up with miles of 10-key tape. Our field representatives maintained line cards to know what insurance our members carried.

Over the years, we experienced significant technology changes and upgrades within the financial department. Paper ledgers transitioned to computerized general ledgers and investment software. In 1997, we implemented an integrated policy, claim, and accounts receivable system. A few years later, we implemented an imaging system, and paper account files were destroyed.

I have only had two bosses here at Pharmacists Mutual – both named “Ed.” Ed Berg and Ed Yorty both taught me a great deal, encouraging and challenging me along the way. I have been blessed to work with many other wonderful people throughout my career. I doubt I will miss the long hours at year-end preparing annual financial statements, but I will miss the great people here. I am very thankful for my Pharmacists Mutual career.



Message from Jon Grether

While I don't go back as far as Kevin, the changes to our company during my 18-year tenure have been similarly positive and dramatic. When Ed Berg became President in 2001, our board of directors decided to consider both internal and external candidates for Executive Vice President. Although the company had qualified internal candidates, the board looked externally, and I was hired to fill this role. Shortly after being hired, the position expanded to Chief Operating Officer and board member. It has been my honor to serve in this capacity since that time.

Insurance companies often are portrayed by the media as big, impersonal, and greedy organizations that have minimal concern for the consumer. While stock insurance companies have constant pressure to meet the next quarterly profit call and some may deserve that reputation, our company is a mutual insurance company. It has a significantly different take on business. Our view is focused entirely on you, our members, and everything we do is founded on how to best serve you in the long run. We do not answer to Wall Street, we answer to our board of directors, made up of members just like you. Our mission is to develop superior products and services designed with our members in mind, for today and for Tomorrow, Imagine That. It does not mean that we will never disappoint, we are human after all. But I can assure everyone who is reading this report that the employees within our company are all striving to serve you with excellence and integrity every day.

While Kevin and I are leaving with many years of experience and passion for this incredible company, we are leaving a company well prepared for the future. Our CEO, Ed Yorty, along with the executive team and board of directors, has been consistently planning for this company's future. The next leadership group, at every level of the company, is ready and well prepared to take on the challenges ahead. We will miss the daily excitement and energy that goes along with being part of this dynamic team but will watch with great anticipation as the company continues its path forward. It has been our great honor and pleasure to have served you during our time here. A special thank-you goes to our mentor and boss, Ed Yorty, for his support and vision. It has been a joy to have spent my career in such a meaningful industry. To all of those I have had the pleasure to work with along the way; our members, agents, brokers, business partners across the country and abroad, state and national association leadership, peers and fellow employees, many of whom are now my closest friends, thanks for the memories.

Awards & Accolades

WARD'S 50®

In 2019, we were ranked in the Top 50 out of nearly 3,000 Property/Casualty Insurance Companies. Companies are benchmarked against their peers based on overall performance, safety, and consistency over a five-year span. Only the top 50 companies, or the top two percent, become Ward's 50® Top Performers for the year and are granted the Ward's 50® Seal. This marks the fourth consecutive year Pharmacists Mutual has earned this esteemed recognition.



A.M. BEST A (EXCELLENT) RATING*

Pharmacists Mutual has maintained a Best's Financial Strength Rating of A (Excellent) or better for 97 years.



A.M. Best's Financial Strength Rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance, and business profile. The rating reflects Pharmacists Mutual's favorable operating performance, market segment profile as a leading insurer dedicated to the pharmacy industry, and excellent geographic diversification.

TOP IOWA WORKPLACE

The Des Moines Register named Pharmacists Mutual a winner of the Iowa 2019 Top Workplaces Award for the third consecutive year. The list of companies recognized is based solely on an anonymous employee survey that measures several aspects of workplace culture, including alignment, execution, and connection, just to name a few.



"Our research shows organizations that earn the award attract better talent, experience lower turnover, and are better equipped to deliver bottom-line results. Their leaders prioritize and carefully craft a healthy workplace culture that supports employee engagement."

Doug Claffey, CEO of Energage, Top Workplaces third-party survey administrator.

Service Excellence

MEMBER SURVEY RESULTS

Pharmacists Mutual values our members' opinion. Each year we survey our members to receive a Member Satisfaction rating.

Overall PhMIC Policy Service 2019

4.6 out of 5



2018	4.6
2017	4.7
2016	4.7
2015	4.6

Overall PhMIC Claims Service 2019

4.8 out of 5



2018	4.6
2017	4.2
2016	4.4
2015	4.3

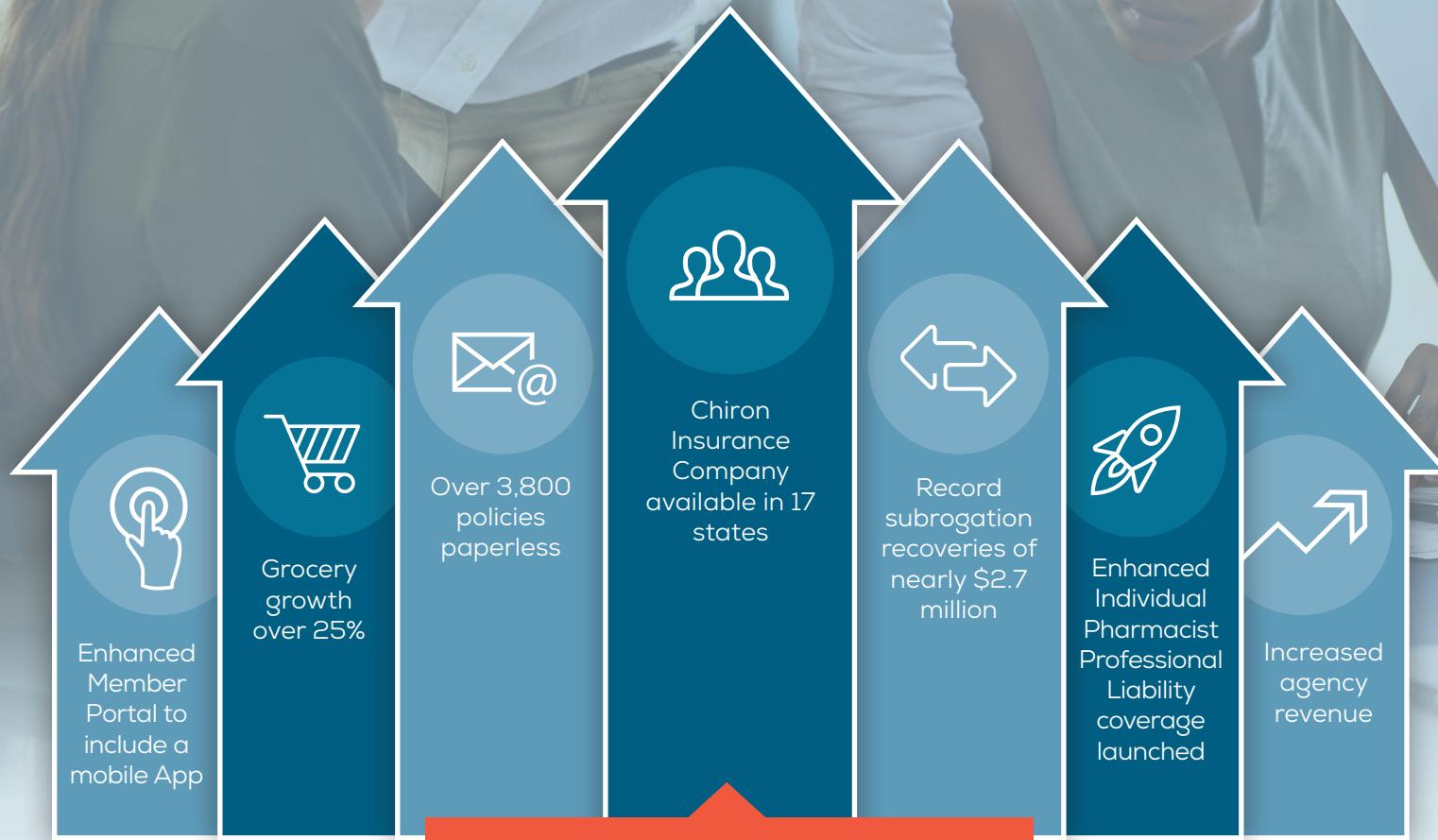


Expanding Market Segments

Over the years, Pharmacists Mutual has expanded beyond pharmacy into other areas of health care and related businesses, writing policies as either part of pharmacy or in addition to pharmacy policies. In 1990, Pharmacists Mutual began writing policies for other specialized market segments beginning with home medical equipment dealers. The company included coverage for home health care professionals in 1995, personal care providers in 2000, dentists in 2012, grocery in 2015, dental hygienists in 2016, and veterinary practices in 2019.

Direct Written Premium (DWP) Composition by Segment

Pharmacy	\$89,986,370
Home Health Care & Personal Care Providers	\$28,876,909
Personal Lines	\$24,966,263
Care Facilities	\$16,659,500
Grocery	\$12,454,305
Home Medical Equipment	\$5,978,738
All Other Commercial	\$1,568,069

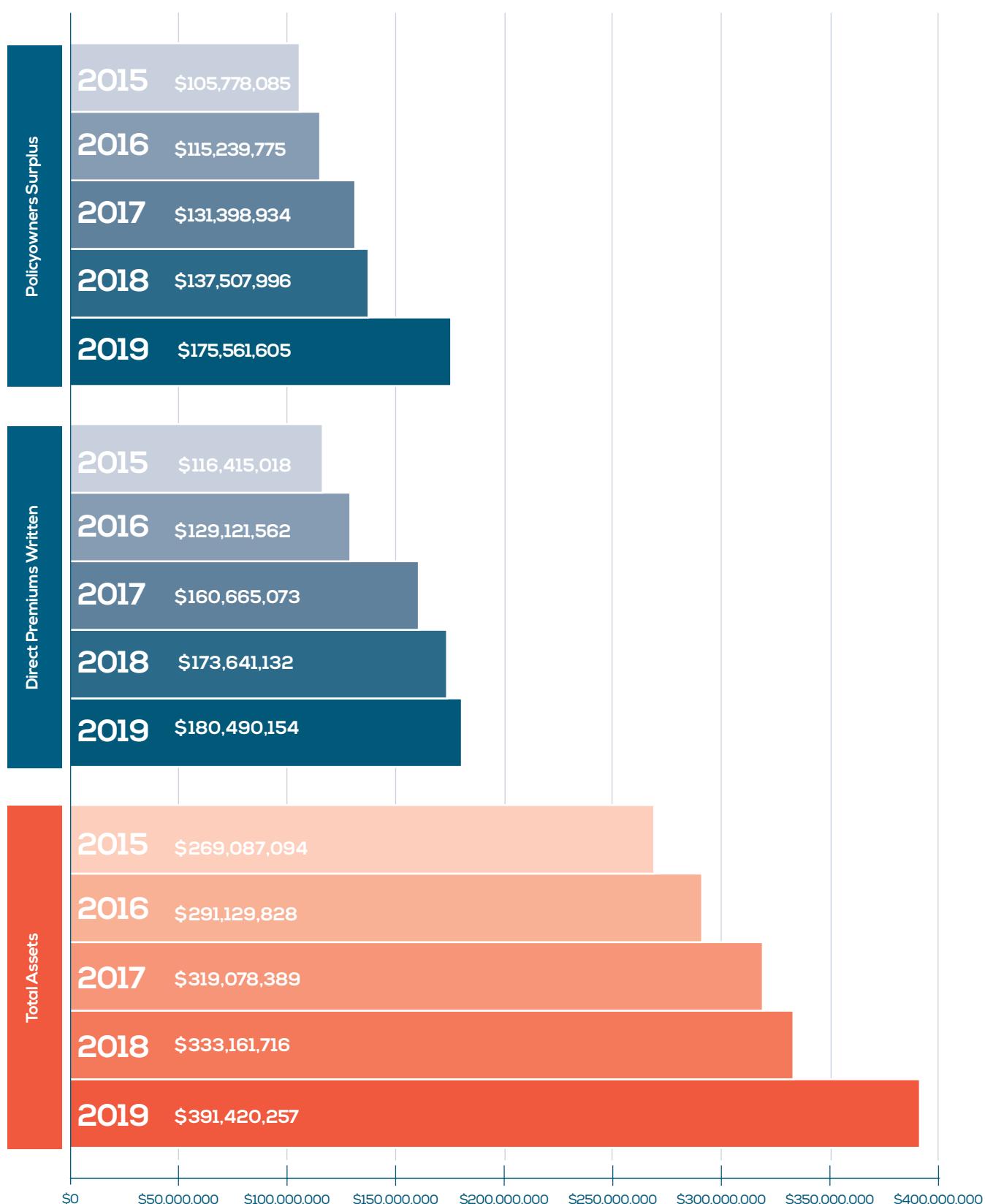


Financial Highlights

Assets	2018	2019
Cash & Short-Term Investments	\$5,184,808	\$37,852,655
Bonds	\$199,889,093	\$217,332,355
Stocks	\$26,322,072	\$31,213,871
Value of Subsidiaries	\$17,835,325	\$18,018,997
Real Estate	\$6,101,493	\$6,696,462
Other Investments	\$2,269,737	\$3,259,928
Premiums Receivable	\$59,175,198	\$58,878,811
Deferred Taxes	\$5,070,000	\$4,986,000
Other Assets	\$11,313,990	\$13,181,178
Total Assets	\$333,161,716	\$391,420,257
LIABILITIES & POLICYOWNERS SURPLUS		
Reserves for Losses & Adjusting Expenses	\$100,130,808	\$114,888,773
Unearned Premiums	\$67,356,426	\$72,225,235
Accrued Expenses & Taxes	\$28,090,486	\$28,400,504
Other Liabilities	\$76,000	\$344,140
Total Liabilities	\$195,653,720	\$215,858,652
Surplus Notes	-	\$25,000,000
Unencumbered Surplus	\$137,507,996	\$150,561,605
Total Policyowners Surplus	\$137,507,996	\$175,561,605
Total Liabilities & Policyowners Surplus	\$333,161,716	\$391,420,257

Income Statement & Change in Surplus	2018	2019
Net Premiums Earned	\$116,671,489	\$133,927,690
Loss & Adjusting Expenses Incurred	\$72,881,633	\$82,100,479
Underwriting Expenses	\$39,874,884	\$47,659,298
Underwriting Income	\$3,914,972	\$4,167,913
Investment Income	\$6,653,034	\$5,975,024
Realized Capital Gains (Losses)	\$53,298	\$1,037,354
Other Income (Expense)	(\$136,244)	(\$711,329)
Federal Income Tax	\$2,554,117	\$2,673,715
Net Income	\$7,930,943	\$7,795,247
Unrealized Capital Gains (Losses)	(\$2,230,939)	\$4,413,754
Surplus Notes	-	\$25,000,000
Other Changes to Surplus	\$409,058	\$844,608
Change in Surplus	\$6,109,062	\$38,053,609

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



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



Steven M. Hoskins
CLU
Sr. Vice President
Agency Operations



Peter E. Lambert
CPCU
Sr. Vice President
Claims



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



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



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

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.