



1979 Annual Report





President Roman N. Eller, left, and Board Chairman Elmer R. John.

Message to Policyowners

It is my pleasure to report that 1979 was another satisfactory operating year for MSI Insurance in spite of the roadblocks caused by a very inflationary and unpredictable economy.

Consolidated revenue for the companies reached a record high of \$180,000,000, an increase of 14% over 1978. Premium income was up 11% and investment income up 24%. Earnings for the year were \$3,693,000. Once again Best & Company, the leading national insurance rating organization, awarded all three of our companies a rating of "Excellent." Your insurance companies continue to grow while maintaining their traditional strong financial base.

Late in 1978, Mutual Service Casualty, not unlike the industry, witnessed the beginning of very unfavorable underwriting results, especially in the automobile lines. This adverse trend continued into 1979, and the first quarter of the year produced a substantial underwriting loss. Corrective programs that were undertaken in late 1978 were accelerated. About mid-year improvement occurred and this favorable trend continued during the remainder of the year. In fact, the second half of 1979 produced an overall underwriting gain. However, automobile insurance ended the year heavily in the red and requires further attention. During 1979, there was an increase in property/casualty premium income over the previous year of 8% in spite of deterrents resulting from substantial rate increases and a curtailed auto market.

Mutual Service Life had some very ambitious sales goals for 1979. It is pleasing to report that new sales volume was up 37% over last year. Underwriting results in the life company were good and produced satisfactory earnings. Dividends reached a record high, permitting the life company to again share its good experience with policyowners.

Early in 1980, the life company will reach a significant milestone when it exceeds the Two Billion Dollar mark of life insurance protection for its policyowners. This achievement has been reached by only 12% of the life insurance companies in the United States.

MSI investment results were the best in history marked by a sharp increase in investment income together with record yields. These outstanding investment achievements contributed heavily to our strong earnings of 1979.

All of us were pleased and thrilled last summer when we moved into our new corporate headquarters in Arden Hills, Minnesota. The building and grounds more than meet our expectations, giving us an environment and more efficient facilities with which to better serve the insurance needs of policyowners.

During 1979, we also adopted a new market identifier, "MSI Insurance." Our studies and research indicated that a change in identification was necessary to increase corporate visibility. Even though we are becoming known as MSI Insurance the legal corporate names remain the same.

During 1979, 11 new grants were made from the Mutual Service Fund to assist developing cooperatives and other non-profit institutions. Through this program and others we continue to expand our corporate social responsibilities — a further expression of our "people helping people" philosophy.

We were disappointed when our chairman, Elmer John, decided not to seek reelection to our Board of Directors. Mr. John has served on the MSI Board for 12 years, during which time his contributions and leadership were major factors in the success of our organization. MSI is fortunate to have directors, employees and a field force with qualifications to meet the challenges that lie ahead.

MSI Insurance will continue to find ways to serve you better. Our objectives for better service, increased growth and higher investment returns are not just for cosmetic reasons, but rather, because each of these goals gives us the opportunity to provide quality insurance at the lowest possible cost to an expanded market.

The pioneers who founded our companies would be extremely pleased to see their "Power of an Idea" come true. They had the initiative to pursue an idea and those who followed, the perseverance to attain it. This, then, is our legacy — may it continue to be the guiding light for the future of this organization.



Roman N. Eller
President & Chief Executive Officer

1979 Financial Highlights

Assets	\$ 336,915,000
Surplus	48,289,000
Premium	143,293,000
Net Investment Income	21,097,000
Net Earnings	3,693,000
Life Insurance in Force	1,941,033,000



The Power of an Idea

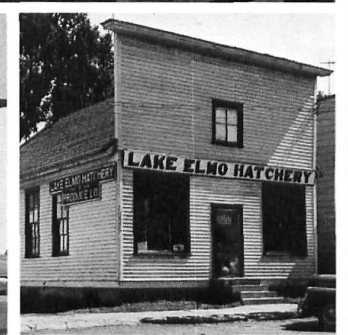
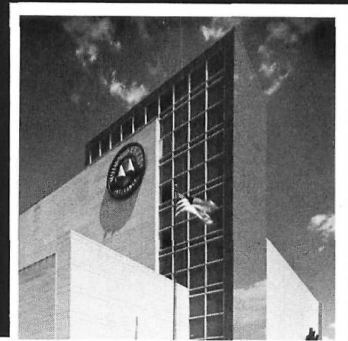
This story begins in the 1930's, when a group of people, most of them farmers, had an idea. That idea would provide hope for economic relief during a period of depression and drought; the idea was to apply cooperative principles to insurance.

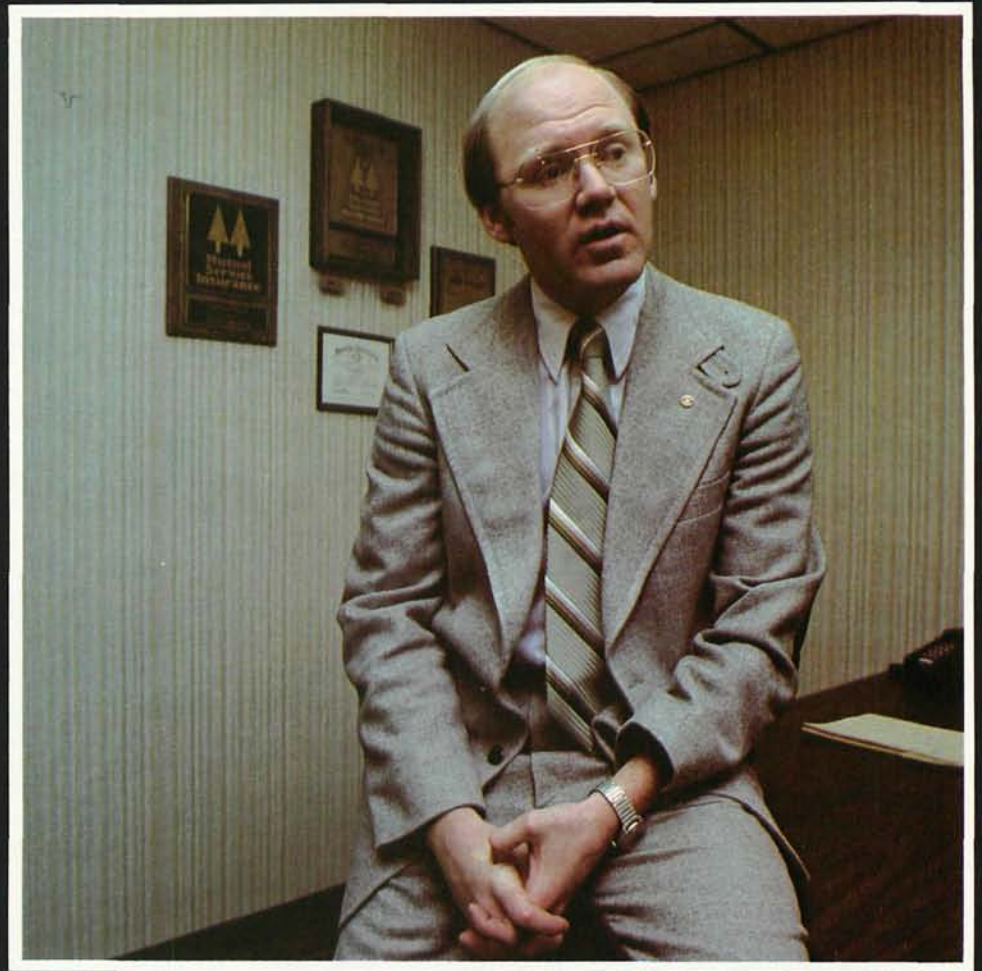
This story has a happy ending because insightful, strong people — individuals with a clear vision — believed in the power of their idea. Five cooperative insurance companies in Minnesota and Wisconsin struggled, debated, argued, and finally came together to form Mutual Service Insurance in the late 1940's. Two visions propelled our founders toward the realization of their dream. They were convinced that through a cooperative government structure they could control costs and provide insurance protection at the lowest rates possible. They also hoped to create an organization which would financially support existing and future cooperative ventures.

Mutual Service Insurance has far exceeded those dreams to become the largest single insurer of cooperatives in the country, an organization committed to cooperative enterprise, with more than 30 million dollars invested in cooperatives of all types.

Our founders and early associates would barely recognize the Mutual Service Insurance of today, at least in the physical sense. Although our philosophy and our government structure have not changed, during the past year we moved into new corporate headquarters and introduced an updated market identifier, MSI Insurance, just two examples of our progress and evolution. Each decision was made after thoughtful planning — to accommodate and better serve our growing enterprise — employees, agents, policyowners. The new corporate identifier simplifies our image, which we learned through studies was sometimes confused with other insurance carriers with similar generic names.

Once you know a bit about where we were yesterday, see where we are today, and hear a bit about what we will be tomorrow, you'll be convinced of one thing: the original idea worked. And although this is not a fairy tale, we have one element in common. A lot of people have "lived happily ever after" because of MSI Insurance.





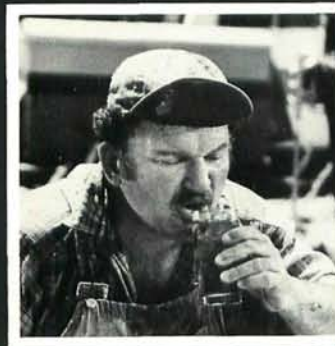
People Make the Difference...

at MSI Insurance. We're a service industry, which means that our primary resources include our more than 900 employees, 550 agents, sales and special account representatives. They are the people who help individuals, families and businessmen solve the problems of everyday living by providing insurance protection for every possible type of loss and financial situation.

You won't see them on the balance sheets, but we'd like you to meet a few of our most valuable assets...the "people helping people" behind MSI Insurance.

Take agent Jack Haugen (pictured on the opposite page), for example. He's successful, and more important, his policyowners are satisfied because he does the best job he can for them, most of whom are in the Prior Lake, Minnesota community. For Jack, the people helping people philosophy translates to providing the right types and amount of insurance coverage to protect financial security. Taking care of people is the most important element of the insurance business, Jack says.

That's the idea behind the forces that built MSI Insurance — and it's what makes the company strong and vital today and poised for tomorrow.

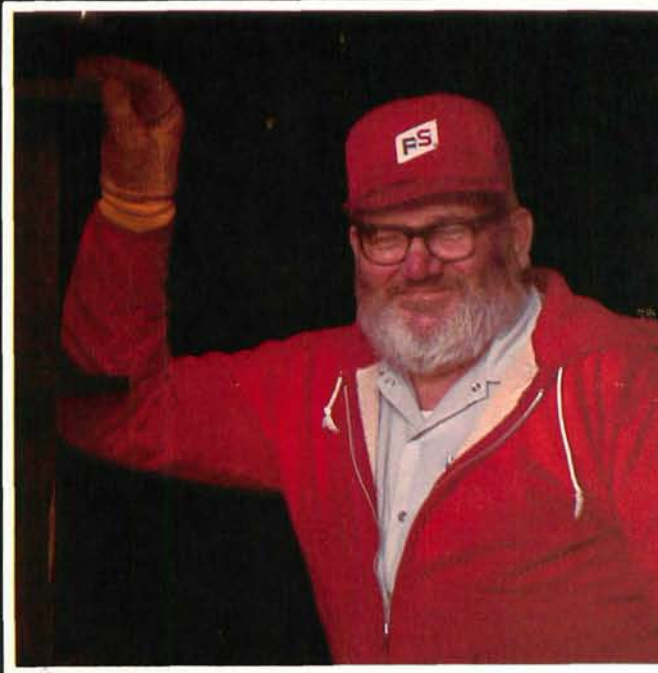




The Idea Grows Bigger

Since its beginnings, the cooperative idea has grown consistently stronger at MSI Insurance. That's what makes us different from other insurers. We more than acknowledge our roots; we are active members in the cooperative community at the corporate and individual levels through local, regional, national and international organizations and through our own Mutual Service Fund. Our governing body is a cooperative; our participative voting system is founded on one member cooperative, one vote; and with our heritage and control, it is easy to understand why MSI has become a leader in the design of products and services tailored to meet the specific insurance needs of cooperatives.

A few of our cooperative members are illustrated in this annual report. Making such choices, however, was not easy. Our ultimate decision was



to present as best as possible the variety of cooperatives and geographic diversity of our 560 member associations. Farmers Supply Co-op, Conrad, Montana; Farmers Cooperative of Lafayette, Minnesota; Oconto County Cooperative, Oconto Falls, Wisconsin; McHenry FS, Inc., Woodstock, Illinois; and the St. Clair-Macomb Consumers Cooperative, Richmond, Michigan, market a variety of products: petroleum, bulk feed,



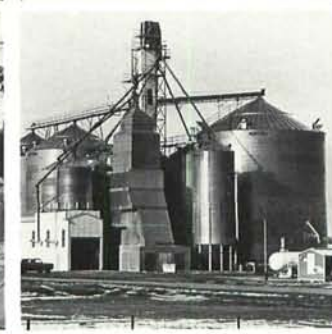


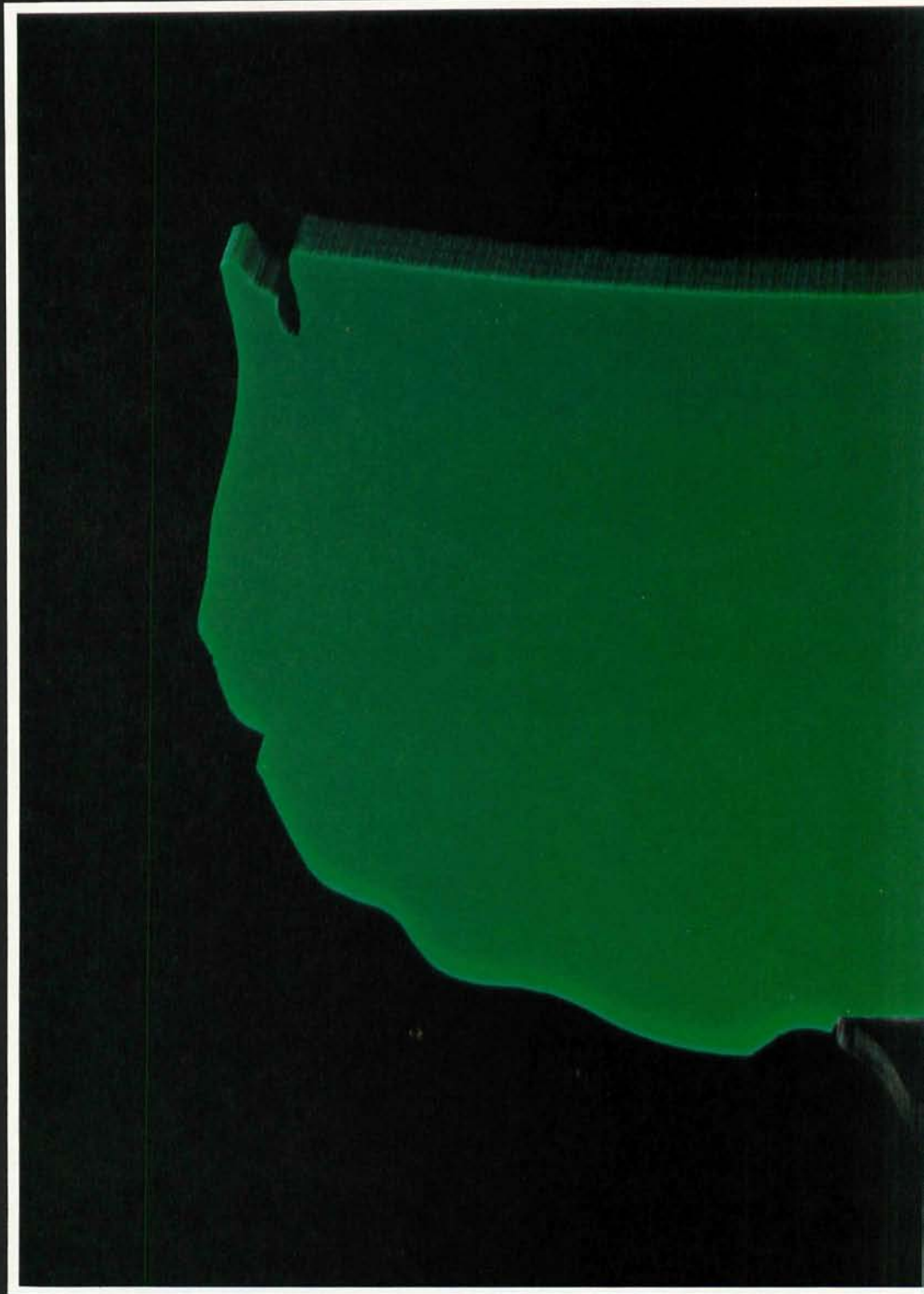
fertilizer, hardware, and consumer goods of all types. These local businesses serve many thousands of people, cooperators and non-cooperators alike. They are assisted in choosing the right kind of insurance coverages by highly trained MSI special account representatives located throughout our operating territory.

MSI also provides complete insurance service for regional cooperatives and other large organizations including Midland Cooperatives, Inc., (their new headquarters are pictured here), Land O'Lakes, Inc., CENEX, GTA, FS Services, Inc., Universal Cooperatives, Inc., Group Health Plan, Citrus World, Farmers Elevator Association of Minnesota, and Mississippi Valley Milk Producers Association.

Quality service, appropriate and comprehensive insurance products and competitive costs have contributed to our excellent growth rate, producing assets of over \$300 million today.

The cooperative idea keeps getting bigger — and better — at MSI Insurance.





One or more of the companies in the MSI Insurance group is licensed to operate in 31 states and the District of Columbia. Total insurance service is provided by more than 550 local agents, and a staff of home office business insurance specialists.

We are licensed in: Arizona, Arkansas, California,

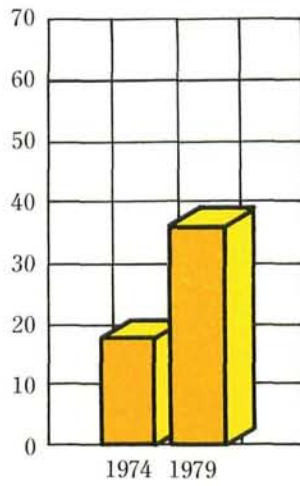
Colorado, Delaware, District of Columbia, Florida, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Tennessee, Utah, Washington, Wisconsin, Wyoming.



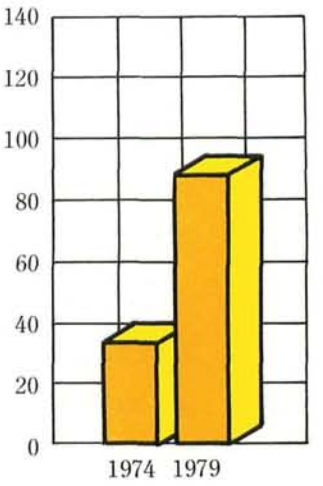
The Three Insurance Companies

Mutual Service Casualty

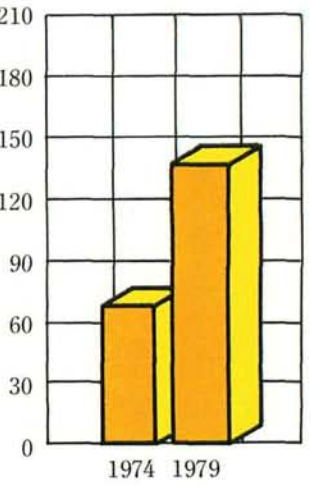
Surplus (millions of dollars)



Premium (millions of dollars)

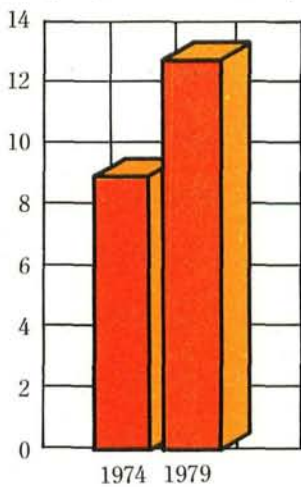


Assets (millions of dollars)

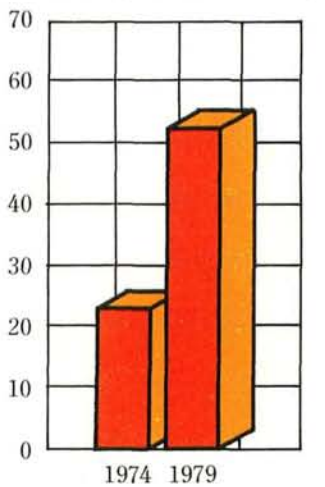


Mutual Service Life

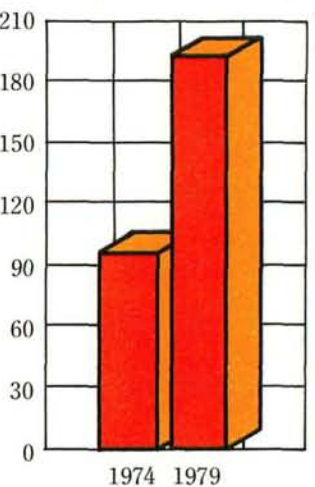
Surplus (millions of dollars)



Premium (millions of dollars)

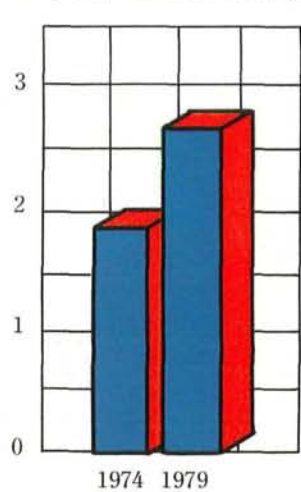


Assets (millions of dollars)

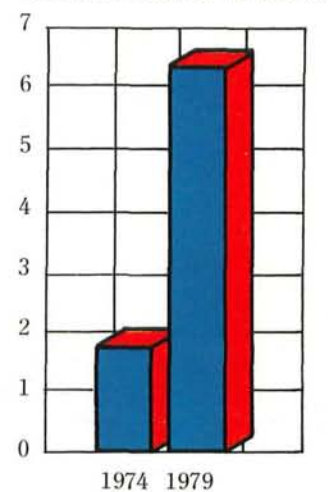


Modern Service

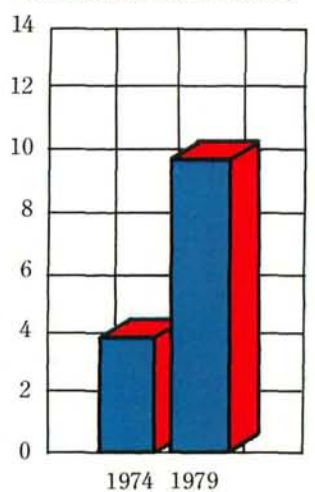
Surplus (millions of dollars)



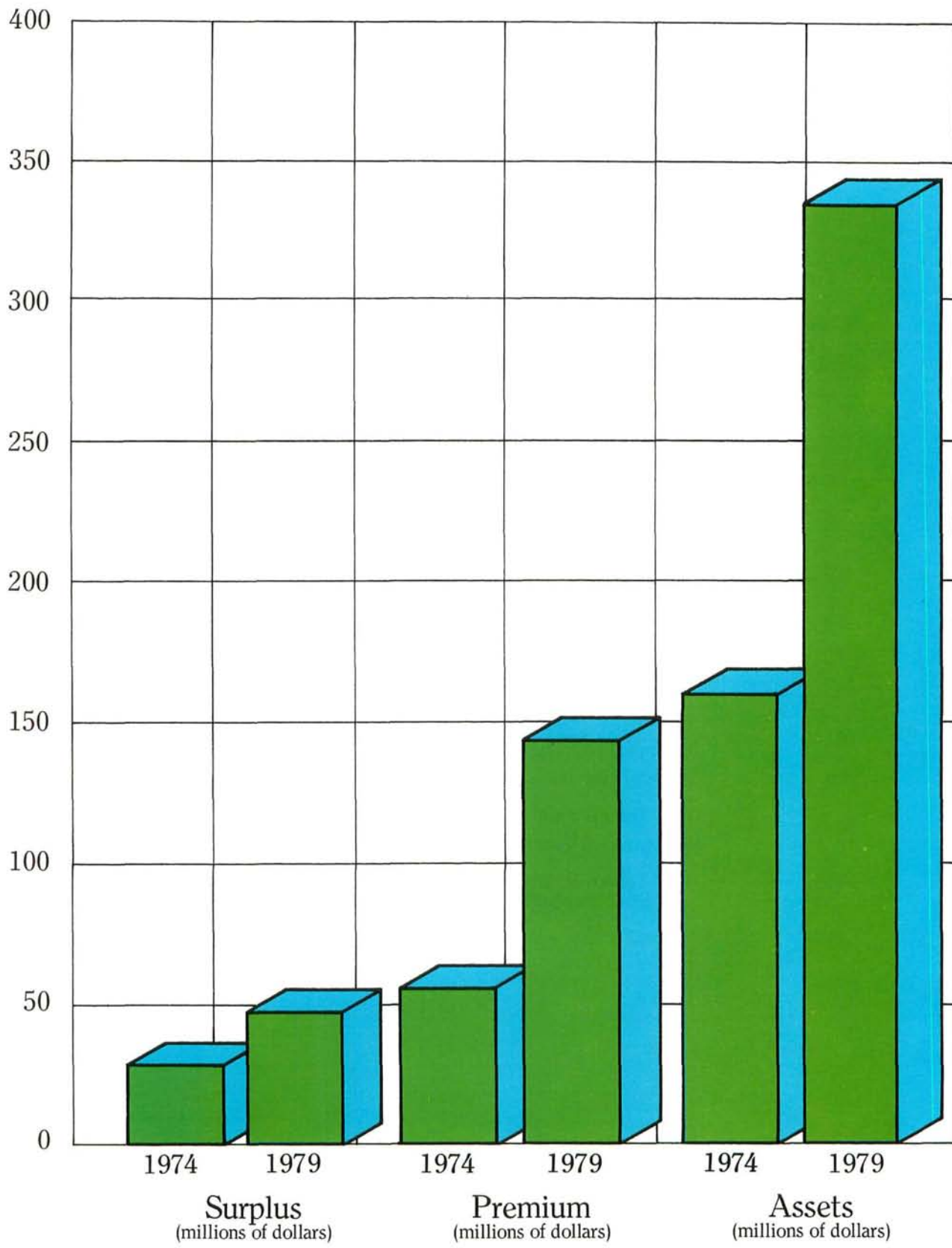
Premium (millions of dollars)



Assets (millions of dollars)



Combined Growth



Mutual Service Casualty Insurance Company

Balance Sheet

Assets	December 31*	1979	1978
Bonds	\$120,213,711	\$104,565,250	
Mortgage Loans	690,548	825,216	
Preferred and Common Stocks	3,508,259	2,081,234	
Real Estate	-0-	1,912	
Investment in Modern Service Insurance Company	1,384,771	1,429,154	
Cash	936,323	(6,558)	
Premiums Due and Other Receivables	4,723,174	4,215,815	
Accrued Interest	2,562,319	2,024,078	
Electronic Data Processing Equipment	-0-	4,525	
Total Assets	\$134,019,105	\$115,140,626	

Liabilities and Policyowners' Surplus

Liabilities:

Reserves for Losses and Loss Expenses	\$66,672,820	\$ 52,130,977
Unearned Premiums	25,076,997	23,549,917
Advance Payments	1,563,740	1,503,465
Unpaid Expenses and Taxes	3,315,903	3,295,889
Other Liabilities	1,721,370	1,720,306
Total Liabilities	98,350,830	82,200,554
Policyowners' Surplus	35,668,275	32,940,072
Total Liabilities and Policyowners' Surplus	\$134,019,105	\$115,140,626

**As filed with the Minnesota Insurance Department*

Statement of Operations and Policyowners' Surplus

	Year ended December 31,	
	1979	1978
Underwriting:		
Premiums Written, Gross	\$ 85,897,018	\$79,417,012
Less Reinsurance Ceded	<u>8,278,649</u>	<u>6,557,061</u>
Premiums Written, Net	77,618,369	72,859,951
Change in Unearned Premiums	<u>(1,527,080)</u>	<u>(3,009,715)</u>
Premiums Earned	<u>76,091,289</u>	<u>69,850,236</u>
Losses and Loss Adjustment Expenses	60,302,440	53,520,546
Commissions and Other Acquisition Expenses	10,790,444	9,488,826
Other Underwriting Expenses	<u>7,825,162</u>	<u>6,554,520</u>
Total Losses and Underwriting Expenses	78,918,046	69,563,892
Gain from Underwriting	(2,826,757)	286,344
Investment Income Less Related Expenses	<u>7,630,304</u>	<u>6,087,892</u>
Gain from Operations Before Federal Income Taxes	4,803,547	6,374,236
Federal Income Taxes	<u>(376,718)</u>	<u>67,075</u>
Gain from Operations	5,180,265	6,307,161
Policyowners' Surplus at Beginning of Year	32,940,072	27,869,693
Increase in Unrealized Appreciation of Investments	167,389	213,361
Other Changes, Net	<u>(2,619,451)</u>	<u>(1,450,143)</u>
Policyowners' Surplus at End of Year	<u>\$ 35,668,275</u>	<u>\$32,940,072</u>

Mutual Service Life Insurance Company

Balance Sheet

Assets	December 31,*	1979	1978
Bonds		\$130,717,760	\$109,488,032
Mortgage Loans		24,732,232	26,061,249
Preferred and Common Stocks		3,616,072	3,034,456
Real Estate		11,766,806	9,904,088
Policy Loans		8,354,818	7,040,231
Investment in Modern Service Insurance Company .		1,381,724	1,426,010
Cash		1,033,334	(40,850)
Due and Deferred Premiums		3,054,272	2,684,892
Accrued Interest		3,337,922	2,742,965
Separate Account Assets		7,814,055	6,206,454
Total Assets		<u>\$195,808,995</u>	<u>\$168,547,527</u>

Liabilities and Policyowners' Surplus

Liabilities:

Reserves for Policy Contracts in Force	\$147,284,362	\$126,196,041
Dividends on Deposit	11,193,203	10,316,278
Advance Premiums and Suspense	1,628,936	1,373,010
Policyowners' Dividends	6,977,950	6,209,294
Pending and Unreported Claims	4,344,650	3,255,314
Unpaid Expenses and Taxes	1,864,358	1,417,452
Securities Valuation Reserve	2,084,211	1,922,686
Separate Account Liabilities	7,814,055	6,206,454
Total Liabilities	<u>183,191,725</u>	<u>156,896,529</u>
Policyowners' Surplus	<u>12,617,270</u>	<u>11,650,998</u>
Total Liabilities and Policyowners' Surplus	<u>\$195,808,995</u>	<u>\$168,547,527</u>

**As filed with the Minnesota Insurance Department*

Statement of Operations and Policyowners' Surplus

Year ended December 31, 1979 1978

Income:

Premiums and Annuity Considerations	\$50,597,803	\$43,062,733
Other Contract Considerations	1,385,250	1,331,554
Investment Income Less Related Expenses	12,779,085	10,377,315
Separate Account Income	<u>1,896,234</u>	<u>1,072,317</u>
Total	66,658,372	55,843,919

Benefits and Expenses:

Death and Other Contract Benefits	18,663,289	14,920,528
Increase in Policy Reserves	22,030,976	19,486,321
Annuities and Cash Value Payments	7,279,865	5,093,551
Commissions and Other Acquisition Expenses	5,845,252	4,880,732
General Expenses and Taxes	4,235,486	3,588,543
Separate Account Benefits	<u>1,896,234</u>	<u>1,072,317</u>
Total	<u>\$59,951,102</u>	<u>\$49,041,992</u>
Gain from Operations Before Dividends and Federal Income Taxes	6,707,270	6,801,927
Dividends to Policyowners	4,466,520	4,308,538
Federal Income Taxes	<u>1,267,000</u>	<u>825,000</u>
Gain from Operations	973,750	1,668,389
Policyowners' Surplus at Beginning of Year	11,650,998	10,237,146
Realized and Unrealized Gain on Investments, Net	866,238	605,365
Change in Securities Valuation Reserve	(161,525)	(749,385)
Other Changes, Net	<u>(712,191)</u>	<u>(110,517)</u>
Policyowners' Surplus at End of Year	<u>\$12,617,270</u>	<u>\$11,650,998</u>

Modern Service Insurance Company

Balance Sheet

Assets	December 31*	1979	1978
Bonds		\$9,090,853	\$8,135,893
Preferred and Common Stocks		268,300	287,941
Cash		25,996	124,953
Premiums Due and Other Receivables		220,460	76,749
Accrued Interest		247,735	164,413
Total Assets		<u>\$9,853,344</u>	<u>\$8,789,949</u>

Liabilities

Reserves for Losses and Loss Expenses	\$5,776,140	\$4,729,767
Unearned Premiums	856,048	743,060
Advance Payments	175,562	187,936
Unpaid Expenses	276,052	270,878
Total Liabilities	<u>\$7,083,802</u>	<u>\$5,931,641</u>

Stockholders' Equity

Common Stock Par Value	\$1,000,000	\$1,000,000
Additional Paid-in Capital	500,000	500,000
Retained Earnings:		
Beginning of Year	1,358,308	1,280,222
Current Year	(88,766)	78,086
End of Year	1,269,542	1,358,308
Total Stockholders' Equity	<u>2,769,542</u>	<u>2,858,308</u>
Total Liabilities and Stockholders' Equity	<u>\$9,853,344</u>	<u>\$8,789,949</u>

**As filed with the Minnesota Insurance Department*

Statement of Operations

	Year ended December 31,	
	1979	1978
Underwriting:		
Premiums Written, Gross	\$6,272,221	\$6,222,215
Less Reinsurance Ceded	<u>60,950</u>	<u>26,981</u>
Premiums Written, Net	6,211,271	6,195,234
Change in Unearned Premiums	<u>(112,988)</u>	<u>(24,315)</u>
Premiums Earned	6,098,283	6,170,919
Losses and Loss Adjustment Expenses	4,962,364	4,885,349
Commissions and Other Acquisition Expenses	917,468	862,572
Other Underwriting Expenses	<u>1,018,493</u>	<u>828,798</u>
Total Losses and Underwriting Expenses	<u>6,898,325</u>	<u>6,576,719</u>
Gain from Underwriting	(800,042)	(405,800)
Investment Income Less Related Expenses	<u>687,486</u>	<u>516,174</u>
Gain from Operations Before Federal Income Taxes	(112,556)	110,374
Federal Income Taxes	<u>-0-</u>	<u>-0-</u>
Gain from Operations	(112,556)	110,374
Increase in Unrealized Appreciation of Investments	(48,279)	(8,171)
Other Changes, Net	<u>72,069</u>	<u>(24,117)</u>
Retained Earnings	<u>\$ (88,766)</u>	<u>\$ 78,086</u>

President's Staff



Pictured left to right: **Roman N. Eller**, President and Chief Executive Officer; **Gordon E. Lindquist, CLU**, Senior Vice President, Operations; **Richard G. Rosel**, Senior Vice President, Finance; **Roger D. Hauck**, Vice President, Controller; **Jerome M. Friedmann**, Vice President, Personnel & Corporate Relations; **Chester A. Zinn**, Vice President, General Counsel and Secretary.

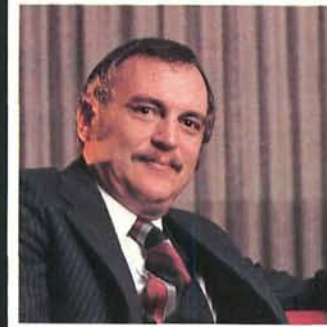
Board of Directors



Elmer R. John, Chairman
President, Elmer R. John
Associates, Inc.
St. Paul, Minnesota



**Francis L. Lair, Vice
Chairman**
Executive Vice President
& General Manager
Universal
Cooperatives, Inc.
Minneapolis, Minnesota



Bruce G. Anderson
General Manager, Albert
City Elevator
Albert City, Iowa



David C. Aspen
Farmer
Menomonie, Wisconsin



Lynn G. Balbach
Farmer
Springfield, Minnesota



Glen E. Gearing
Farmer
Merrillan, Wisconsin



Ralph Hofstad
President, Land O'Lakes,
Inc.
Minneapolis, Minnesota



Gerald M. Rubin
Self-employed
Corte Madera, California



Jerome G. Tvedt
President, CENEX
South St. Paul, Minnesota



Dr. Richard H. Vilstrup
Professor of Agricultural
Economics
Madison, Wisconsin



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